

AMERISERV FINANCIAL INC /PA/

Form 10-K

February 28, 2014

**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, 2013**

**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

Name Of Each Exchange On Which Registered

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

The NASDAQ Stock Market LLC

The NASDAQ Stock Market LLC

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

Title Of Class

**Share Purchase Rights**  
(Title of class)

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 \$51,468,675 as of June 30, 2013.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 18,784,188 shares outstanding as of January 31, 2014.

## **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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TABLE OF CONTENTS

**FORM 10-K INDEX**

	Page No.
PART I	
<u>Item 1.</u>	<u>1</u>
<u>Business</u>	
<u>Item 1A.</u>	<u>12</u>
<u>Risk Factors</u>	
<u>Item 1B.</u>	<u>12</u>
<u>Unresolved Staff Comments</u>	
<u>Item 2.</u>	<u>12</u>
<u>Properties</u>	
<u>Item 3.</u>	<u>12</u>
<u>Legal Proceedings</u>	
<u>Item 4.</u>	<u>12</u>
<u>Mine Safety Disclosures</u>	
PART II	
<u>Item 5.</u>	
<u>Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	<u>13</u>
<u>Item 6.</u>	<u>14</u>
<u>Selected Consolidated Financial Data</u>	
<u>Item 7.</u>	<u>15</u>
<u>Management's Discussion and Analysis of Consolidated Financial Condition and Results of Operations</u>	
<u>Item 7A.</u>	<u>35</u>
<u>Quantitative and Qualitative Disclosures about Market Risk</u>	
<u>Item 8.</u>	<u>37</u>
<u>Financial Statements and Supplementary Data</u>	
<u>Item 9.</u>	<u>95</u>
<u>Changes in and Disagreements With Accountants On Accounting and Financial Disclosure</u>	
<u>Item 9A.</u>	<u>95</u>

<u>Controls and Procedures</u>	
<u>Item 9B.</u>	<u>95</u>
<u>Other Information</u>	
PART III	
<u>Item 10.</u>	<u>96</u>
<u>Directors, Executive Officers, and Corporate Governance</u>	
<u>Item 11.</u>	<u>96</u>
<u>Executive Compensation</u>	
<u>Item 12.</u>	<u>96</u>
<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	
<u>Item 13.</u>	<u>96</u>
<u>Certain Relationships and Related Transactions, and Director Independence</u>	
<u>Item 14.</u>	<u>96</u>
<u>Principal Accountant Fees and Services</u>	
PART IV	
<u>Item 15.</u>	<u>97</u>
<u>Exhibits, Financial Statement Schedules</u>	
<u>Signatures</u>	<u>99</u>

TABLE OF CONTENTS

**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

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

The Company's principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2013, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$1.056 billion, \$855 million, and \$113 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. The Company is also under the jurisdiction of the Securities and Exchange Commission (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. Through 18 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, 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 20 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, Altoona and Harrisburg in Pennsylvania and Hagerstown in Maryland.

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. The significant majority of the Bank's customer base is located within a 150 mile radius of Johnstown, Pennsylvania.



TABLE OF CONTENTS

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking. 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 at December 31, 2013:

Headquarters	Johnstown, PA
Total Assets	<b>\$ 1,027,510</b>
Total Investment Securities	<b>145,968</b>
Total Loans and Loans Held for Sale (net of unearned income)	<b>786,748</b>
Total Deposits	<b>854,722</b>
Total Net Income	<b>5,911</b>
Asset Leverage Ratio	<b>9.46%</b>
Return on Average Assets	<b>0.60</b>
Return on Average Equity	<b>6.01</b>
Total Full-time Equivalent Employees	<b>281</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 managerial and Board oversight. 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 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.

2

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TABLE OF CONTENTS

**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 commercial real estate 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.

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 the AmeriServ Financial 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,		
	2013	2012	2011
	(IN THOUSANDS)		
U.S. Agency	\$ 6,926	\$ 5,848	\$ 10,689
Corporate bonds	11,992	7,992	

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U.S. Agency mortgage-backed securities	<b>121,480</b>	131,425	165,484
Total cost basis of investment securities available for sale	<b>\$ 140,398</b>	\$ 145,265	\$ 176,173
Total fair value of investment securities available for sale	<b>\$ 141,978</b>	\$ 151,538	\$ 182,923

---

3

TABLE OF CONTENTS

Investment securities held to maturity at:

	AT DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
Taxable municipal	\$ 1,521	\$ 410	\$
U.S. Agency mortgage-backed securities	12,671	9,318	9,280
Corporate bonds and other securities	3,995	3,995	3,000
Total cost basis of investment securities held to maturity	\$ 18,187	\$ 13,723	\$ 12,280
Total fair value of investment securities held to maturity	\$ 17,788	\$ 14,266	\$ 12,914

**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,					
	2013		2012		2011	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	\$ 158,169	%	\$ 147,887	%	\$ 135,298	%
Interest bearing	75,126	0.18	60,810	0.19	57,784	0.22
Savings	87,819	0.16	85,112	0.21	81,490	0.31
Money market	212,735	0.35	211,744	0.42	193,536	0.56
Other time	312,741	1.33	327,557	1.62	348,915	1.97
Total deposits	\$ 846,590	0.75%	\$ 833,110	0.95%	\$ 817,023	1.22%

**Loans**

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2013	2012	2011	2010	2009
	(IN THOUSANDS)				
Commercial	\$ 120,120	\$ 102,864	\$ 83,124	\$ 78,322	\$ 96,158
Commercial loans secured by real estate <sup>(1)</sup>	412,254	383,934	350,224	370,375	396,787
Real estate-mortgage <sup>(1)</sup>	235,689	217,584	212,669	203,323	207,221
Consumer	15,864	17,420	18,172	19,233	19,619
Total loans	783,927	721,802	664,189	671,253	719,785
Less: Unearned income	581	637	452	477	671

Total loans, net of unearned income	<b>\$ 783,346</b>	\$ 721,165	\$ 663,737	\$ 670,776	\$ 719,114
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(1) For each of the periods presented beginning with December 31, 2013, real estate-construction loans constituted 3.0%, 2.0%, 1.9%, 3.9% and 6.8% of the Company's total loans, net of unearned income, respectively.

4

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TABLE OF CONTENTS**Secondary Market Activities**

The Residential Lending department of the Company 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, 10-year, 15-year, and bi-weekly mortgages. These loans are usually kept in the Bank's portfolios, although during periods of low interest rates 15-year loans are typically sold into the secondary market as they have been over the last several years.

**Non-performing Assets**

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2013	2012	2011	2010	2009
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial	\$	\$	\$	\$3,679	\$3,375
Commercial loans secured by real estate	<b>1,632</b>	4,623	3,870	6,731	11,716
Real estate-mortgage	<b>1,239</b>	1,191	1,205	1,879	2,025
Total	<b>2,871</b>	5,814	5,075	12,289	17,116
Other real estate owned:					
Commercial loans secured by real estate	<b>344</b>	1,101	20	436	871
Real estate-mortgage	<b>673</b>	127	104	302	350
Total	<b>1,017</b>	1,228	124	738	1,221
Total restructured loans not in non-accrual (TDR)	<b>221</b>	182		1,337	
Total non-performing assets including TDR	<b>\$4,109</b>	\$7,224	\$5,199	\$14,364	\$18,337
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	<b>0.52%</b>	1.00 %	0.78 %	2.14 %	2.55 %

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,				
2013	2012	2011	2010	2009

(IN THOUSANDS)

Interest income due in accordance with original terms	<b>\$ 178</b>	\$ 231	\$ 376	\$ 1,086	\$ 553
Interest income recorded			(167)	(458 )	(75 )
Net reduction in interest income	<b>\$ 178</b>	\$ 231	\$ 209	\$ 628	\$ 478

---

5

## TABLE OF CONTENTS

### **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 45 professionals administers assets valued at approximately \$1.7 billion that are not recognized on the Company's balance sheet at December 31, 2013. 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, 2013, the Trust Company had total assets of \$4.3 million and total stockholder's equity of \$3.8 million. In 2013, the Trust Company contributed earnings to the corporation as its gross revenue amounted to \$7.5 million and the net income contribution was \$1.0 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

#### **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, 2013, AmeriServ Life had total assets of \$427,000.

#### **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**

The Federal Reserve characterizes economic growth as being on a moderate pace. Labor market indicators are mixed, but on balance showing further improvement. Business fixed investment has been growing more quickly in recent months. In December 2013, the Federal Reserve began to modestly reduce monthly asset purchases by \$10 billion per month taking purchases of Treasuries from \$45 billion to \$35 billion and purchases of Mortgage Backed Securities from \$40 billion to \$30 billion. The Federal Open

6

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TABLE OF CONTENTS

Market Committee (FOMC) anticipates further reductions as asset purchases are not on a preset course, and the Committee's decisions about their pace will remain contingent on the Committee's outlook for the labor market and inflation as well as its assessment of the likely efficacy and costs of such purchases.

Even as the Federal Reserve tapers its asset purchases, the Fed is expected to maintain a highly accommodative policy stance with a very low federal funds rate. Guidance from the December 2013 FOMC meeting is that it would be appropriate to keep the target rate at its current level well past the time that the unemployment rate declines below 6.5%. The FOMC recently changed their language from they anticipate inflation moving back toward its 2.0% target to they are monitoring inflation developments carefully for evidence that it will do so. This is a carefully worded shift to bring lower-than-target inflation into focus as a potential reason to add back more accommodation and to keep interest rates from moving sharply higher. Some economists have pushed their first predicted rate hike out into 2016.

The outlook for 2014 as projected by a committee of 13 chief economists at some of the nation's largest banks indicates that we will experience the strongest economic growth since the expansion began in 2009 and the committee's strongest forecast since 2005. This committee attributed the outlook to faster growth in business investment, strong job creation, rebounding consumer confidence and a growing housing market. Short rates on the yield curve are anticipated to remain constant over 2014 while long term rates are expected to slowly rise.

Inflation is likely to remain below 2% in 2014. Economic growth is forecasted to pick up moderately this year. The Consumer Price Index in 2014 is forecasted to increase about 1.8%, measuring from December 2013 to December 2014. Energy prices are likely to continue to decline in 2014, but the size of the drop is likely to be less than 2013.

Increased business spending, growing consumer confidence, the continued housing renaissance and healthy export gains all add up to an increasingly growing economy, which should be able to support net monthly hiring that frequently, if not regularly, tops 200,000 during 2014. Although the unemployment rate dropped in December 2013 to 6.7%, the lowest level since 2008, the decline is the result of individuals leaving the labor force rather than people finding jobs. The labor force participation rate dropped to 62.8%, its lowest level since 1978. It is anticipated that the unemployment rate is likely to stabilize and approximate 6.5%.

The housing market is expected to experience more expansion in 2014, with starts and new-home sales continuing to rise at double-digit rates. But the pace of existing-home sales will moderate. Existing home sales are expected to increase by 4%. Further increases in interest rates are likely to dampen recent strong price gains. In almost all markets across the country, prices rose in 2013. Nevertheless, prices in most regions remain below previous peaks.

The economy in Cambria and Somerset counties, Pennsylvania at the end of 2013 produced seasonally adjusted unemployment rates of 7.8% and 8.4%, respectively, as compared to national and state rates of 6.7% and 6.9%. Local markets continue to be negatively impacted by the slow economic conditions that have existed since the recession began in 2007. Johnstown, Pennsylvania, where AmeriServ Financial, Inc. is headquartered, continues to have a cost of living that is lower than the national average. On an annual average basis, the 2013 job level for the Johnstown Metropolitan Statistical Area of 62,300 declined by 300 over the previous year. This pattern of modest year to year change, dating back to the beginning of 2006-2007, documents the fact that the local economy continues to face a long hard climb back from the recession. The jobless rate in Johnstown MSA averaged 8.8% in 2013 and matched the 2012 average. A relatively static labor force signals the absence of a growing economy. A ranking of the 14 MSAs across Pennsylvania placed Johnstown 13<sup>th</sup> lowest.

Economic conditions are stronger in the State College market and have demonstrated the same modest improvement experienced in the national economy. The unemployment rate for State College MSA averaged 5.8% in 2013, which represents a 0.1% improvement over the 2012 average and remains the lowest of all regions in the Commonwealth.

Seasonally adjusted total nonfarm jobs for the MSA increased by 1,900 since December 2012. 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.

7

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## TABLE OF CONTENTS

The Company also has loan production offices in Harrisburg in Dauphin county, Pennsylvania, Altoona in Blair county, Pennsylvania and in Hagerstown in Washington county, Maryland. Harrisburg is the metropolitan center for some 400 communities. Its economy and more than 6,900 businesses are diversified with a large representation of service-related industries (especially health) and growing technological industry to accompany the dominant government field inherent to being the state's capital. The largest employer, state government, provides stability to the economy and attracts attendant services. Excellent roads and rail transportation contribute to the city's prominence as a center for trade, warehousing, and distribution. The unemployment rate decreased from a 2012 average of 7.2% to 6.7% in 2013 in the Harrisburg-Carlisle MSA region.

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 7.8% average in 2012 to a 7.1% average in 2013.

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 7.2% average in 2012 to a 6.9% average in 2013.

## **EMPLOYEES**

The Company employed 377 people as of December 31, 2013 in full- and part-time positions. Approximately 183 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. In 2013, the Company successfully negotiated a new 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 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 Pennsylvania Department of

Banking. 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, a massive statute over 1,000 pages in length affecting many facets of the financial industry.

8

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## TABLE OF CONTENTS

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, 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.

As of December 31, 2013, 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 Board of Governors of the Federal Reserve System 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 contribution buffer requirements phase in over a three-year period beginning January 1, 2016. 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 Federal Deposit Insurance Act (FDIA) and the regulation of the Pennsylvania Department of Banking 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 Board 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.

9

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## TABLE OF CONTENTS

The terms of the SBLF Preferred Shares impose limits on the ability of the Company to pay dividends and repurchase shares of common stock. Under the terms of the SBLF Preferred Shares, no repurchases may be effected, and no dividends may be declared or paid on preferred shares ranking pari passu with the SBLF Preferred Shares, junior preferred shares, or other junior securities (including the common stock) during the current quarter and for the next three quarters following the failure to declare and pay dividends on the SBLF Preferred Shares, except that, in any such quarter in which the dividend is paid, dividend payments on shares ranking pari passu may be paid to the extent necessary to avoid any resulting material covenant breach.

Under the terms of the SBLF Preferred Shares, the Company may only declare and pay a dividend on the common stock or other stock junior to the SBLF Preferred Shares, or repurchase shares of any such class or series of stock, if, after payment of such dividend, the dollar amount of the Company's Tier 1 Capital would be at least 90% of the Tier 1 Capital as of June 30, 2011, excluding any subsequent net charge-offs and any redemption of the SBLF Preferred Shares (the Tier 1 Dividend Threshold). Beginning on the first day of the eleventh dividend period, the amount of the Tier 1 Dividend Threshold will be reduced by 10% for each one percent increase in qualified small business lending from the baseline level through the ninth dividend period.

The Company commenced paying quarterly cash dividends to common shareholders in 2013.

### **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 Chief Executive Officer and Chief 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 affects 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.

TABLE OF CONTENTS

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

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (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.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations. The due date for many of such regulations is still in the future; consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for years.

Many provisions of the Dodd-Frank Act are already in effect. For example, effective July 21, 2011, 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. Depending on competitive responses, this significant change to prior law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation 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, retroactive to January 1, 2008, and non-interest bearing transaction accounts had unlimited deposit insurance through December 31, 2012.

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

The Dodd-Frank Act also required publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau 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 Consumer Financial Protection Bureau 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.

It is difficult to predict at this time what the total impact the Dodd-Frank Act will have on community banks. However, it is expected that, at a minimum, it will increase our capital requirements, our operating and compliance costs, and could increase our interest expense.

**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.

TABLE OF CONTENTS

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 14 other locations which are owned. Nine additional locations are leased with terms expiring from January 1, 2015 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 31, 2014, the Company had 3,757 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
	HIGH	LOW	DIVIDENDS DECLARED
Year ended December 31, 2013:			
First Quarter	<b>\$3.23</b>	<b>\$ 2.90</b>	<b>\$ 0.00</b>
Second Quarter	<b>3.17</b>	<b>2.74</b>	<b>0.01</b>
Third Quarter	<b>3.29</b>	<b>2.97</b>	<b>0.01</b>
Fourth Quarter	<b>3.26</b>	<b>2.99</b>	<b>0.01</b>
Year ended December 31, 2012			
First Quarter	\$2.80	\$ 1.85	\$ 0.00
Second Quarter	3.07	2.55	0.00
Third Quarter	2.99	2.70	0.00
Fourth Quarter	3.05	2.76	0.00

The declaration of cash dividends on the Company's common stock is at the discretion of the Board of Directors, 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, so accordingly, no shares were repurchased during the fourth quarter.

TABLE OF CONTENTS

**ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA**

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

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.

14

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TABLE OF CONTENTS

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2013, 2012, AND 2011

**2013 SUMMARY OVERVIEW:**

Net income available to common shareholders in the fourth quarter of 2013 was \$1,789,000 or \$0.09 per diluted share. This was 52% above the third quarter of 2013 and more than double the same quarter of 2012. This strong quarter pushed the net income available to common shareholders for the full year 2013 to \$4,984,000 or \$0.26 per share or 23.8% better than the full year of 2012.

About two thirds of our revenue is generated by lending money. While most of our borrowers are good people, both the national and the regional economies have been weak and have caused stress for some borrowers. If we believe it is a serious situation, we will monitor the loan and the borrower closely. We may create a specific loss reserve to protect AmeriServ. The job of our staff is not to repossess an auto, or to foreclose on a mortgage, or to cause a business to fall into bankruptcy. Their job is to help the company, or the consumer to survive, to pay us and to continue to be an AmeriServ customer. Management reviews this monitoring process two times in every quarter so as to understand the current state of the weakened borrowers. We are pleased to report that by working with our weakened borrowers during 2013, a number of them have returned to health or found other funding sources, or even sold assets. Such desirable results permitted AmeriServ to reduce its allowance for loan losses with a \$1 million negative provision in the fourth quarter of 2013. We like to say that this is how the process is supposed to work. It is important to establish a loss reserve for a weak borrower, but also to work vigorously to bring the borrower through the crisis. The result then is a healthier borrower, a stronger balance sheet for AmeriServ and increased net income for the AmeriServ shareholder as the allowance for loan losses can be reduced.

While this strengthening of the loan portfolio was important in 2013, there were other items of note:

As of December 31, 2013, AmeriServ's net loans were at a record year end level,

As of December 31, 2013, AmeriServ's deposits were at a record year end level,

As of December 31, 2013, AmeriServ's non-interest income was at the highest level since the Great Recession of 2009,

As of December 31, 2013, AmeriServ still maintained an allowance for loan losses which provides a 327% coverage ratio of all non-performing loans.

We have also commented previously on the importance of AmeriServ Trust and Financial Services Company during this kind of economy. 2013 was a banner year for equity markets and less so for bond markets, but AmeriServ's Trust Company was able to exceed a very strong 2012 level of after tax net income by 21% in 2013. This marks three consecutive years of double digit increases in the Trust Company bottom line. It is these trends that cause this Board and management team to continue to support the Strategic Plan of this Company. During 2014 the Trust Company will install state of the art software which promises better service for customers, better efficiencies for staff and more product capabilities to help the Company continue to grow.

We believe that AmeriServ is growing stronger day by day. But we know that \$0.26 earnings per share are just not good enough. During the latter half of 2013, management initiated a company-wide cost management effort. We were pleased with the identified improvements in efficiency that will result from this management effort going forward.

However, we intend to do more in 2014. AmeriServ recognizes that we must search out ways to further increase earnings per share. It is encouraging to report record loan and deposit levels and continuing growth in fee income. But the real focus must be on improving net income available to common shareholders. We are reaching across the industry for best practices that may help us. Please remember that the AmeriServ Board of Directors is composed of substantial shareholders who want AmeriServ to be both a strong community bank and a rewarding investment.



TABLE OF CONTENTS

Usually, at about this time, it is our wont to comment on the national and regional economies. In truth, we are less optimistic than the opinions coming from inside the Washington Beltway. We expect 2014 will be a hardscrabble struggle, just as every year has been since 2009. However, the Board and management have positioned AmeriServ for this kind of economy. The balance sheet is strong, asset quality is good, capital is above regulatory requirements, liquidity is deep and we are focusing our energies on efficiency. We do not expect any help from the Federal Reserve, the Congress or the Administration; we are going to have to do it ourselves no matter whether the economy rises or falls. There will be no fancy financial gimmicks, or reduction on monitoring the many risks that abound in these markets.

**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,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	<b>\$5,193</b>	\$5,039	\$6,537
Net income available to common shareholders	<b>4,984</b>	4,211	5,152
Diluted earnings per share	<b>0.26</b>	0.21	0.24
Return on average assets	<b>0.51%</b>	0.51 %	0.68 %
Return on average equity	<b>4.69</b>	4.51	5.90

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% during the past year. Material loan growth occurred in loan categories that qualify for the Small Business Lending Fund (SBLF) through the Company's loan production offices. As a result of this growth in SBLF qualified loans, the Company has locked in the lowest preferred dividend rate available under the program of 1% until the first quarter of 2016. This lower rate has saved the Company \$619,000 in preferred stock dividend payments in 2013 and is a key factor contributing to the earnings per share growth. Additionally, the calculation of earnings per share has 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. Non-interest income also increased by \$801,000 or 5.4% due largely to fee growth within our trust and wealth management businesses as a result of increased assets under management and overall good residential mortgage sales activity for the majority 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.

The Company reported net income available to common shareholders of \$4.2 million or \$0.21 per diluted common share for 2012. This represented a 12.5% decline in earnings per share from 2011 where net income available to common shareholders totalled \$5.2 million or \$0.24 per diluted share. The largest factor causing the reduction in net income available to common shareholders was the provision for loan losses. The Company recorded a negative provision of \$775,000 but this was at a lesser level than the \$3,575,000 negative provision for 2011. The Company's

net interest income decreased for the full year of 2012 by only \$80,000, or 0.2%, when compared to the entire year of 2011. Non-interest income increased by \$1.4 million or 10.1% largely due to increased revenue from residential mortgage banking activities and our Trust Company's wealth management businesses. Continued focus on expense control helped contain the increase in non-interest expense to \$604,000 or 1.5%. Finally, diluted earnings per share were impacted by the \$828,000 dividend requirement on the US Treasury SBLF preferred stock which reduced the amount of net income available to common shareholders. This amount, however, was less than the preferred stock dividend and accelerated preferred stock discount accretion related to the former TARP CPP preferred stock that totalled \$1,385,000 in 2011. The Company has been successful in growing commercial loans in categories that qualify

TABLE OF CONTENTS

for the SBLF. As such, the dividend rate that AmeriServ pays on the SBLF preferred stock dropped in the fourth quarter of 2012 from 5% to 1%.

The Company reported net income available to common shareholders of \$5.2 million or \$0.24 per diluted common share for 2011. This represents an increase of \$5.3 million from the 2010 net income of \$1.3 million or \$0.01 per diluted common share. A significant and sustained improvement in asset quality was an important factor contributing to our financial success in 2011. Specifically, non-performing assets and classified loans declined as a result of our successful problem credit resolution efforts allowing the Company to reverse a portion of the allowance for loan loss into earnings in 2011 while still increasing the non-performing assets coverage ratio. The Company's net interest income performance was relatively stable throughout 2011. It decreased for the full year of 2011 by only \$59,000, or 0.2%, when compared to the entire year of 2010. Non-interest income decreased by \$398,000 or 2.8% largely due to an investment security loss of \$358,000 realized in the first quarter of 2011 that resulted from a portfolio repositioning strategy. Continued focus on expense control helped contain the increase in non-interest expense to \$340,000 or 0.9%.

Income tax expense increased sharply by \$2.8 million in 2011 due to the Company's improved profitability.

**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,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	\$ 39,343	\$ 39,917	\$ 41,964
Interest expense	6,482	7,714	9,681
Net interest income	32,861	32,203	32,283
Net interest margin	3.56%	3.65 %	3.72 %

**2013 NET INTEREST PERFORMANCE OVERVIEW...** The Company's net interest income in 2013 increased by 658,000, or 2.0%, when compared to 2012. The Company's 2013 net interest margin of 3.56% was nine basis points lower than the net interest margin of 3.65% for 2012. The lower net interest margin demonstrates the impact of the Federal Reserve low interest rate policies which have pressured interest revenue. The Company has been able to overcome this net interest margin pressure and increase net interest income by reducing its cost of funds and growing its earning assets, particularly loans. Specifically, these efforts have resulted in total loans averaging \$746 million in 2013, which is \$58 million or 8.4% higher than the \$689 million average for 2012. 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 commercial real estate loans which qualify as SBLF loans, particularly through its loan production offices. Overall, the increase in loans caused the Company's loan to deposit ratio to average 88.2% in 2013 compared to 82.7% in 2012.

Total interest expense for 2013 declined by \$1.2 million from 2012 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 its core deposit base and its ongoing efforts to cross sell new loan customers into deposit products. Specifically, total deposits have averaged \$847 million in 2013, which is \$14 million or 1.6% higher than the \$833 million average in 2012. The Company is pleased that the majority of the deposit growth has occurred in non-interest bearing demand deposit accounts. Overall, the Company expects that it will need to continue to grow earning assets to achieve net interest income growth in 2014 as little net interest margin improvement is expected

given the Federal Reserve's announced plans to keep short term interest rates exceptionally low into 2015. Solid commercial loan pipelines suggest that the Company should be able to again grow the loan portfolio in 2014.

## TABLE OF CONTENTS

**COMPONENT CHANGES IN NET INTEREST INCOME: 2013 VERSUS 2012...** Regarding the separate components of net interest income, the Company's total interest income in 2013 decreased by \$574,000 when compared to 2012. This decrease was due to a 25 basis point decline in the earning asset yield from 4.52% to 4.27%, partially offset by additional interest income from a \$38.3 million increase in average earning assets due to an increase in average loans. Within the earning asset base, the yield on the total loan portfolio decreased by 35 basis points from 5.06% to 4.71%, while the yield on total investment securities dropped by 22 basis points from 2.72% to 2.50%. In the current interest rate environment, new investment securities and loans typically have yields that are below the rate on the maturing instruments that they are replacing. Investment securities interest revenue also declined by \$865,000 in 2013 due to an \$18 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. Interest revenue, however, has benefitted from a \$386,000 reduction in premium amortization on mortgage backed securities due to a slowdown in mortgage prepayment speeds in the second half of 2013.

The Company's total interest expense for 2013 decreased by \$1.2 million, or 16.0%, when compared to 2012. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 21 basis points to 0.88%. 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 \$28.3 million increase in the volume of 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 over the past year. The average balance of FHLB term advances has increased by \$13 million while the average cost of these advances has declined by 60 basis points to 0.84%. Overall, total FHLB borrowings have averaged \$36 million or 3.5% of total assets during 2013.

**2012 NET INTEREST PERFORMANCE OVERVIEW...** The Company's net interest income performance was relatively stable throughout 2012 decreasing by only \$80,000, or 0.2%, when compared to 2011. The Company's 2012 net interest margin of 3.65% was seven basis points lower than the net interest margin of 3.72% for 2011. The decreased net interest margin reflects the challenges of a flatter yield curve and low interest rates which pressured interest revenue in 2012. The Company was able to overcome this net interest margin pressure and keep net interest income relatively constant by reducing its cost of funds and growing its earning assets, particularly loans. Specifically, total loans at December 31, 2012 were \$61 million or 9.1% higher than they were at December 31, 2011. This loan growth reflects the successful results of the Company's more intensive sales calling efforts to generate SBLF loans, particularly through its new loan production offices. Despite this growth in loans, total interest revenue dropped by \$2,047,000 between years and reflects the lower interest rate environment and flatter yield curve. Interest revenue was also negatively impacted by increased premium amortization on mortgage backed securities due to faster mortgage prepayment speeds. However, careful management of funding costs allowed the Company to mitigate a significant portion of this drop in interest revenue in 2012. Specifically, total interest expense for 2012 declined by \$1,967,000 from 2011 due to the Company's proactive efforts to reduce deposit and borrowing costs. Even with this reduction in deposit costs, the Company still experienced solid growth in deposits which increased by \$19 million or 2.4% during 2012.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2012 VERSUS 2011...** Regarding the separate components of net interest income, the Company's total interest income in 2012 decreased by \$2.0 million when compared to 2011. This decrease was due to a 32 basis point decline in the earning asset yield from 4.84% to 4.52%, partially offset by additional interest income from a \$12.5 million increase in average earning assets due to an increase in average loans. Within the earning asset base, the yield on the total loan portfolio decreased by 33 basis points from 5.39% to 5.06%, while the yield on total investment securities dropped by 43 basis points from 3.15% to 2.72%. Due to the lower interest rate environment, new investment securities and loans typically have yields that are below the rate on the maturing instruments that they are replacing. Investment securities interest revenue has also been

negatively impacted by increased premium amortization on mortgage backed securities of \$334,000 due to faster mortgage prepayment speeds. Despite a \$26 million or 3.9% increase in total average loans, total loan interest revenue dropped by \$887,000

TABLE OF CONTENTS

between years and reflects the impact of this lower interest rate environment. Overall, the increase in loans caused the Company's loan to deposit ratio to average 82.7% in 2012 compared to 81.1% in 2011.

The Company's total interest expense for 2012 decreased by \$2.0 million, or 20.3%, when compared to 2011. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 28 basis points to 1.09%. Management's decision to further reduce interest rates paid on all deposit categories has not had a negative impact on deposit growth as consumers and businesses sought the safety and liquidity provided by well-capitalized community banks like AmeriServ Financial. This decrease in funding costs occurred in spite of a \$3.5 million increase in the volume of interest bearing liabilities. Additionally, the Company's funding mix also benefited from a \$12.6 million increase in non-interest bearing demand deposits. Overall, in 2012 the Company was able to fund its net asset growth with core deposits as wholesale borrowings averaged only 1.1% of total assets. The Company also does not use brokered certificates of deposit as a funding source.

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.

TABLE OF CONTENTS

20

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TABLE OF CONTENTS

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.

	2013 vs. 2012			2012 vs. 2011		
	INCREASE (DECREASE)			INCREASE (DECREASE)		
	DUE TO CHANGE IN:			DUE TO CHANGE IN:		
	AVERAGE	RATE	TOTAL	AVERAGE	RATE	TOTAL
	VOLUME			VOLUME		
	(IN THOUSANDS)					
<b>INTEREST EARNED ON:</b>						
Loans, net of unearned income	\$1,730	\$(1,427)	\$303	\$1,580	\$(2,467)	\$(887 )
Deposits with banks	(1)	(3)	(4)	1		1
Federal funds sold				(4 )	(3 )	(7 )
Short-term investments in money market funds	3	(13)	(10)	3	6	9
Investment securities:						
Available for sale	(570)	(363)	(933)	(439 )	(764 )	(1,203)
Held to maturity	107	(39)	68	82	(45 )	37
Total investment securities	(463)	(402)	(865)	(357 )	(809 )	(1,166)
Total interest income	1,269	(1,845)	(576)	1,223	(3,273)	(2,050)
<b>INTEREST PAID ON:</b>						
Interest bearing demand deposits	28	(6)	22	7	(18 )	(11 )
Savings deposits	6	(48)	(42)	12	(87 )	(75 )
Money market	5	(164)	(159)	118	(313 )	(195 )
Other time deposits	(234)	(925)	(1,159)	(398 )	(1,154)	(1,552)
Federal funds purchased and other short-term borrowings	36	(1)	35	5		5
Advances from Federal Home Loan Bank	87	(16)	71	(75 )	(64 )	(139 )
Total interest expense	(72)	(1,160)	(1,232)	(331 )	(1,636)	(1,967)
Change in net interest income	\$1,341	\$(685)	\$656	\$1,554	\$(1,637)	\$(83 )

**LOAN QUALITY...** AmeriServ Financial'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 AmeriServ's loan delinquency and other non-performing assets.



TABLE OF CONTENTS

	AT DECEMBER 31,			
	2013	2012	2011	
	(IN THOUSANDS, EXCEPT PERCENTAGES)			
Total loans past due 30 to 89 days	<b>\$3,264</b>	\$3,456	\$3,319	
Total non-accrual loans	<b>2,871</b>	5,814	5,075	
Total non-performing assets including TDRs <sup>(1)</sup>	<b>4,109</b>	7,224	5,199	
Loan delinquency as a percentage of total loans, net of unearned income	<b>0.42%</b>	0.48 %	0.50	%
Non-accrual loans as a percentage of total loans, net of unearned income	<b>0.37</b>	0.81	0.76	
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	<b>0.52</b>	1.00	0.78	
Non-performing assets as a percentage of total assets	<b>0.39</b>	0.72	0.53	
Total classified loans (loans rated substandard or doubtful)	<b>\$11,779</b>	\$22,717	\$18,542	

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.

As a result of successful ongoing problem credit resolution efforts, the Company realized further asset quality improvements in 2013. These improvements are evidenced by reduced levels of non-accrual loans, non-performing assets, classified loans and low loan delinquency levels that continue to be well below 1% of total loans. We continue to closely monitor the loan portfolio given the slow recovery in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2013, the 25 largest credits represented 28.7% of total loans outstanding.

TABLE OF CONTENTS

**ALLOWANCE AND PROVISION FOR LOAN LOSSES...** As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, the Company uses a comprehensive methodology and procedural discipline to maintain an allowance for loan losses 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 allowance for loan losses and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,				
	2013	2012	2011	2010	2009
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	<b>\$12,571</b>	\$14,623	\$19,765	\$19,685	\$8,910
Charge-offs:					
Commercial	<b>(50)</b>	(345 )	(953 )	(835 )	(3,810 )
Commercial loans secured by real estate	<b>(1,777)</b>	(796 )	(1,700 )	(4,221 )	(840 )
Real estate-mortgage	<b>(139)</b>	(420 )	(85 )	(293 )	(128 )
Consumer	<b>(154)</b>	(200 )	(203 )	(282 )	(352 )
Total charge-offs	<b>(2,120)</b>	(1,761 )	(2,941 )	(5,631 )	(5,130 )
Recoveries:					
Commercial	<b>80</b>	138	831	226	601
Commercial loans secured by real estate	<b>481</b>	245	331	48	14
Real estate-mortgage	<b>122</b>	54	53	42	27
Consumer	<b>70</b>	47	159	145	113
Total recoveries	<b>753</b>	484	1,374	461	755
Net charge-offs	<b>(1,367)</b>	(1,277 )	(1,567 )	(5,170 )	(4,375 )
Provision (credit) for loan losses	<b>(1,100)</b>	(775 )	(3,575 )	5,250	15,150
Balance at end of year	<b>\$10,104</b>	\$12,571	\$14,623	\$19,765	\$19,685
Loans and loans held for sale, net of unearned income:					
Average for the year	<b>\$746,490</b>	\$688,736	\$662,746	\$701,502	\$725,241
At December 31	<b>786,748</b>	731,741	670,847	678,181	722,904
As a percent of average loans:					
Net charge-offs	<b>0.18%</b>	0.19 %	0.24 %	0.74 %	0.60 %
Provision (credit) for loan losses	<b>(0.15)</b>	(0.11 )	(0.54 )	0.75	2.09
Allowance as a percent of each of the following:					
Total loans, net of unearned income	<b>1.29</b>	1.74	2.20	2.95	2.74
Total delinquent loans (past due 30 to 89 days)	<b>309.56</b>	363.74	440.58	708.17	172.55
Total non-accrual loans	<b>351.93</b>	216.22	288.14	160.83	115.01
Total non-performing assets	<b>245.90</b>	174.02	281.27	137.60	107.35
Allowance as a multiple of net charge-offs	<b>7.39x</b>	9.84x	9.33x	3.82x	4.50x

The Company recorded for the 2013 year a negative loan loss provision of \$1.1 million compared to a \$775,000 negative provision for the 2012 year. There has been \$325,000 more earnings benefit from negative loan loss provisions in 2013. The 2013 negative provision largely resulted from the release of reserves due to the fourth quarter pay-off of the Company's largest classified loan and a continued reduction in the level of criticized loans and non-performing assets. At December 31, 2013, non-performing assets are at their lowest point since the financial crisis

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and totaled \$4.1 million or 0.52% of total loans which is \$3.1 million lower

23

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TABLE OF CONTENTS

than they were at the end of 2012. Net loan charge-offs for 2013 totaled \$1.4 million or 0.18% of total loans which is comparable with 2012 when net charge-offs totaled \$1.3 million or 0.19% of total loans. In summary, the allowance for loan losses provided 327% coverage of non-performing loans, and was 1.29% of total loans, at December 31, 2013, compared to 210% of non-performing loans, and 1.74% of total loans, at December 31, 2012. Given the overall decline in the balance of the allowance for loan losses, the Company's good asset quality and the expected growth of the loan portfolio, we presently do not anticipate that we will record any further negative loan loss provisions in 2014.

As a result of the Company's continued good asset quality, we were again able to record a negative provision for loan losses in 2012; but at a lesser level than 2011. Specifically, the Company recorded a negative provision for loan losses of \$775,000 in 2012 compared to a negative provision of \$3.6 million in 2011. Overall, there was \$2.8 million less earnings benefit from negative loan loss provisions in 2012. We also actively identify and seek prompt resolution to problem credits in order to limit actual losses. For 2012, net charge-offs totaled \$1.3 million or 0.19% of total loans which represents a decrease from 2011 when net charge-offs totaled \$1.6 million or 0.24% of total loans.

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

Even though residential real estate-mortgage loans comprise 30.1% of the Company's total loan portfolio, only \$1.3 million or 12.5% of the total allowance for loan losses 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 meaningful asset quality improvements in this sector.

Based on the Company's allowance for loan loss methodology and the related assessment of the inherent risk factors contained within the Company's loan portfolio, we believe that the allowance for loan losses is adequate at December 31, 2013 to cover losses within the Company's loan portfolio.

**NON-INTEREST INCOME...** Non-interest income for 2013 totaled \$15.7 million, an increase of \$801,000, or 5.4%, from 2012. Factors contributing to this higher level of non-interest income in 2013 included:

a \$544,000, or 7.5%, increase in trust and investment advisory fees due to increased assets under management which reflects both successful new business development efforts and market appreciation of existing assets given the strong equity market performance in 2013.

24

---

TABLE OF CONTENTS

a \$204,000 investment security gain realized on the sale of certain rapidly prepaying mortgage backed securities in 2013. There were only \$12,000 of investment security gains realized in 2012.

- a \$135,000, or 15.6%, increase in Bank Owned Life Insurance due to the receipt of a death claim payment in 2013.

a \$43,000, or 3.8%, decrease in gains realized on residential mortgage loan sales into the secondary market due to a reduced level of mortgage loan production and refinance activity in the second half of 2013. The Company expects to experience a more meaningful drop in residential mortgage banking revenue in 2014 given the higher mortgage rates already in place.

Non-interest income for 2012 totalled \$14.9 million, an increase of \$1.4 million, or 10.1%, from 2011. Factors contributing to this higher level of non-interest income in 2012 included:

a \$354,000, or 5.7%, increase in trust fees as our wealth management businesses benefitted from the implementation of new fee schedules and improved asset values under management in 2012.

a \$320,000, or 39.4%, increase in gains realized on residential mortgage loan sales into the secondary market due to a record level of mortgage loan production in 2012. The lower long term interest rate environment contributed to increased mortgage purchase and refinance activity in 2012. Specifically, the Company sold \$74 million of residential mortgage loans into the secondary market in 2012 compared to \$60 million in 2011.

a \$411,000, or 13.4%, increase in other income again reflecting higher revenue from residential mortgage banking activities such as underwriting and documentation preparation fees. Also, a \$162,000 increase in revenue from financial services (annuity and mutual funds sales) was another item contributing to the higher level of other income in 2012.

a modest \$12,000 investment security gain in 2012 compared to a \$358,000 investment security loss in 2011 that resulted from a portfolio repositioning strategy.

**NON-INTEREST EXPENSE...** Non-interest expense for 2013 totalled \$42.2 million, a \$1.6 million, or 3.9%, increase from 2012. Factors contributing to the higher non-interest expense in 2013 included:

a \$691,000, or 2.8%, increase in salaries and employee benefits expense due to higher salaries expense and pension expense in 2013. The Company expects that its pension costs will decline in 2014 due to the higher interest rate environment in place to begin the year and the impact that a soft freeze of its defined benefit pension plan for both non-union employees (started January 1, 2013) and union employees (started January 1, 2014) will have on reducing pension expense in future periods.

a \$457,000 increase in professional fees due largely to higher legal costs, recruitment fees, and increases in several other professional fee categories which included the cost for outsourcing the computer operations function for part of the year.

- a \$170,000 increase in FDIC insurance expense due largely to the Bank's increased asset size.

Non-interest expense for 2012 totalled \$40.6 million, a \$604,000, or 1.5%, increase from 2011. Factors contributing to the higher non-interest expense in 2012 included:

a \$1.8 million, or 8.0%, increase in salaries and employee benefits expense due to higher salaries expense, incentive compensation, and pension expense in 2012. The 2012 personnel expenses also reflect the staffing costs associated with new loan production offices in Altoona and Harrisburg, Pennsylvania, and Hagerstown, Maryland. Note that pension costs related to the Company's defined benefit pension plan increased by \$429,000 or 24.6% in 2012 due to the impact that the low interest rate environment had on the discount rate used to calculate the plan liabilities.

an \$897,000, or 67.0%, decrease in FDIC insurance expense due to a change in the calculation methodology which took effect in the second half of 2011 and the Company's improved risk profile.

TABLE OF CONTENTS

The Company incurred a \$240,000 prepayment penalty on the early retirement of \$5.7 million of FHLB term advances in the fourth quarter of 2011. There was no such prepayment charge in 2012.

**INCOME TAX EXPENSE...** The Company recorded income tax expense of \$2.3 million for 2013 which was modestly higher than the 2012 tax expense of \$2.2 million due to increased pre-tax earnings in 2013. The 2013 effective tax rate of 30.6% was comparable with the 2012 effective tax rate of 30.8%. The income tax expense recorded in 2011 was \$2.9 million. BOLI is the Company's largest source of tax-free earnings. The Company's deferred tax asset was \$9.6 million at December 31, 2013 and relates primarily to net operating loss carryforwards and the allowance for loan losses. The deferred tax asset declined by \$1.9 million in 2013 primarily due to the utilization of net operating loss carryforwards.

**SEGMENT RESULTS...** Retail banking's net income contribution was \$2.8 million in 2013 compared to \$3.2 million in 2012 and \$2.1 million in 2011. The reduced performance in 2013 was due largely to lower net interest income resulting from the previously discussed net interest margin pressure, modestly lower non-interest income and higher non-interest expense. The decline in non-interest income reflects decreased residential mortgage banking related revenues resulting from the reduced mortgage production in the second half of the year. The increase in non-interest expense is largely due to the previously discussed \$170,000 increase in FDIC deposit insurance expense in 2013. The increased net income in 2012 was due to increased net interest income resulting from a combination of increased deposit balances and lower deposit costs. Net income also benefitted from a \$160,000 negative provision for loan losses and a \$668,000 reduction in non-interest expense due to reduced staffing within the branch network and lower FDIC insurance expense. Non-interest income was higher between years due to increased gains on record residential mortgage loan sales into the secondary market in 2012.

The commercial banking segment reported net income of \$5.0 million in 2013 compared to net income of \$4.7 million in 2012 and \$6.9 million in 2011. Continued improvements in asset quality again resulted in a negative provision for loan losses in 2013. Overall, there has been \$393,000 additional earnings benefit from negative loan loss provisions in this segment in 2013. This segment also benefitted from a \$1.2 million increase in net interest income due to growth in commercial loans in 2013. These positive items were partially offset by a \$1.2 million increase in non-interest expense due to higher personnel costs, the costs associated with all three new loan production offices being operational for the entire year and a \$238,000 increase in the reserve for unfunded commitments due to increased loan approval activity. For the year 2012, sustained improvements in asset quality resulted in a credit provision for loan losses but at a lesser level than 2011. Overall, there was \$2.7 million less earnings benefit from negative loan loss provisions in this segment in 2012. Non-interest expense in this segment was also negatively impacted by higher personnel expense and the costs associated with opening three new loan production offices. These negative factors were partially offset by a \$639,000 increase in net interest income due to growth in commercial loans in 2012.

The trust segment's net income contribution was \$1.2 million in 2013 compared to \$945,000 in 2012 and \$795,000 in 2011. The higher net income contribution in 2013 was due to \$607,000 more revenue from increased assets under management which reflects both successful new business development efforts and market appreciation of existing assets given the strong equity market performance in 2013. This more than offset higher non-interest expense from increased personnel costs and professional fees. The 2012 increase in net income was caused by a \$502,000 increase in revenue as our wealth management businesses benefitted from the implementation of new fee schedules and higher asset values (both bond and equity) in 2012. Additionally, revenue generated from the financial services division (annuity and mutual fund sales) increased by \$162,000 due to successful new business development efforts. These revenue increases more than offset a \$269,000 increase in non-interest expense due primarily to higher personnel costs. Overall, the fair market value of trust assets under management totaled \$1.669 billion at December 31, 2013, an increase of \$156.3 million, or 10.3%, from the December 31, 2012 total of \$1.512 billion.



The investment/parent segment reported a net loss of \$3.8 million in 2013 which was comparable with the net loss of \$3.7 million in 2012 and \$3.3 million in 2011. A reduced level of investment securities and declining yields in the investment securities portfolio due to the continued low interest rate environment had a negative impact on net interest income in this segment. This margin pressure was somewhat offset by \$204,000 of gains realized on the sale of certain rapidly prepaying mortgage backed securities in 2013.

TABLE OF CONTENTS

Declining yields in the investment securities portfolio and the flatter yield curve negatively impacted this segment the most in 2012. Also, this segment was also negatively affected by the decline in the size of the securities portfolio during 2012.

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 \$1.056 billion at December 31, 2013 grew by \$55 million or 5.5% from the \$1.0 billion level at December 31, 2012. This asset growth was due primarily to a \$55.0 million or 7.5% increase in total loans in 2013. 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 commercial real estate loans which qualify as SBLF loans, particularly through its loan production offices.

The Company funded the previously mentioned asset growth with a combination of both increased deposits (\$19 million) and FHLB short-term borrowings and advances (\$38 million). The FHLB term advances, with maturities between 3 and 5 years, now total \$25 million as the Company has utilized these advances to help manage interest rate risk in a rising rate environment. Other liabilities declined by \$4.5 million due to a reduction in the Company's pension liability. Total stockholders' equity increased by \$2.8 million since year-end 2012 mainly due to increased retained earnings as the Company's net income available to common shareholders more than exceeded funds used for a common stock repurchase program and the reinstatement of a common stock cash dividend in 2013. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 15.28%, an asset leverage ratio of 11.45%, and a tangible common equity to tangible assets ratio of 7.64% at December 31, 2013. The Company's book value per common share was \$4.91 and its tangible book value per common share was \$4.24 at December 31, 2013.

**LIQUIDITY...** The Company's liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past three 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 over the past two years. We strive to operate our loan to deposit ratio in a range of 85% to 95%. At December 31, 2013, the Company's loan to deposit ratio was 92.1%. We are optimistic that we can further increase the loan to deposit ratio in 2014 given current commercial loan pipelines, further development of three new loan production offices opened in 2012, and our focus on small business lending.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by \$3.2 million from December 31, 2012, to December 31, 2013, due to \$54.7 million of cash provided by financing activities and \$14.9 of cash provided by operating activities. This was partially offset by \$66.3 million of cash used in investing activities. Within investing activities, cash advanced for new loan fundings and purchases totalled \$219.4 million and was \$64.1 million higher than the \$155.2 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by \$18.7 million, which was used to help fund the overall loan growth experienced in 2013. Total FHLB borrowings increased as advances, both short-term and long term, exceeded pay downs by \$38 million and was also utilized to fund earning asset growth.

The holding company had a total of \$18.6 million of cash, short-term investments, and investment securities at December 31, 2013, which was up \$2.1 million from the year-end 2012 total. Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. As such, the holding company has strong liquidity to meet its trust preferred debt service requirements and preferred and common stock dividends, which should approximate \$2 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 \$30 million at both December 31, 2013 and 2012, respectively.

TABLE OF CONTENTS

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 Federal Home Loan Bank systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company's subsidiary bank is a member of the Federal Home Loan Bank, 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, 2013, the Company had \$318 million of overnight borrowing availability at the FHLB, \$42 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 11.45% and the risk based capital ratio was 15.28% at December 31, 2013. The Company's tangible common equity to tangible assets ratio was 7.64% at December 31, 2013. These ratios reflect the completion of a \$1.2 million common stock buyback program where we repurchased 2% of our outstanding shares during the second quarter of 2013. Since we resumed common stock repurchases in the fourth quarter of 2011, in total we have repurchased 2,429,200 shares or 11.5% of our common stock at a total cost of \$6.2 million or an average price of \$2.54 per share. All previously announced board approved common stock repurchase programs are now completed. We anticipate that we will maintain our strong capital ratios throughout 2014. Capital generated from earnings will be utilized to pay the SBLF preferred dividend, common stock cash dividend and will also support anticipated balance sheet growth.

On July 2, 2013, the Board of Governors of the Federal Reserve System 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 contribution buffer requirements phase in over a three-year period beginning January 1, 2016. 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.

**INTEREST RATE SENSITIVITY...** Asset/liability management involves managing the risks associated with changing interest rates and the resulting impact on the Company's net interest income, net income and capital. The management and measurement of interest rate risk at the Company is performed by using the following tools: 1) simulation modeling, which analyzes the impact of interest rate changes on net interest income, net income and capital levels over specific future time periods. The simulation modeling forecasts earnings under a variety of scenarios that incorporate changes in the absolute level of interest rates, the shape of the yield curve, prepayments and changes in the volumes and rates of various loan and deposit categories. The simulation modeling incorporates assumptions about reinvestment and the repricing characteristics of certain assets and liabilities without stated contractual maturities; 2)

market value of portfolio equity sensitivity analysis, and 3) static GAP analysis, which analyzes the extent to which interest rate sensitive assets and interest rate sensitive liabilities are matched at specific points in time. The overall interest rate risk position and strategies are reviewed by senior management and the Company's Board of Directors on an ongoing basis.

TABLE OF CONTENTS

The following table presents a summary of the Company's static GAP positions at December 31, 2013:

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	\$203,403	\$57,876	\$85,588	\$439,881	\$786,748
Investment securities	25,857	6,305	15,130	112,873	160,165
Short-term assets	9,778				9,778
Regulatory stock	4,677			2,125	6,802
Bank owned life insurance			36,669		36,669
Total rate sensitive assets	\$243,715	\$64,181	\$137,387	\$554,879	\$1,000,162
<b>RATE SENSITIVE LIABILITIES:</b>					
<b>Deposits:</b>					
Non-interest bearing deposits	\$	\$	\$	\$154,002	\$154,002
NOW	4,491			80,435	84,926
Money market	181,469			38,332	219,801
Other savings	21,913			65,742	87,655
Certificates of deposit of \$100,000 or more	7,399	20,763	3,947	15,178	47,287
Other time deposits	68,204	32,703	27,818	132,126	260,851
Total deposits	283,476	53,466	31,765	485,815	854,522
Borrowings	41,555	-	-	38,085	79,640
Total rate sensitive liabilities	\$325,031	\$53,466	\$31,765	\$523,900	\$934,162
<b>INTEREST SENSITIVITY GAP:</b>					
Interval	(81,316)	10,715	105,622	30,979	
Cumulative	\$(81,316)	\$(70,601)	\$35,021	\$66,000	\$66,000
Period GAP ratio	0.75X	1.20X	4.33X	1.06X	
Cumulative GAP ratio	0.75	0.81	1.09	1.07	
Ratio of cumulative GAP to total assets	(7.70)%	(6.69)%	3.32%	6.25%	

When December 31, 2013 is compared to December 31, 2012, the Company's cumulative GAP ratio through one year indicates that the Company's balance sheet is still asset sensitive but to a lesser extent than it was at the end of 2012.

This reflects loan customer preference over the past year for fixed rate loans given the overall low level of interest rates. Also, the cash flow from mortgage backed securities did slow in the second half of 2013. 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.

TABLE OF CONTENTS

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	<b>(0.1)%</b>	<b>6.5%</b>
100 bp increase	<b>0.5</b>	<b>4.8</b>
100 bp decrease	<b>(3.6)</b>	<b>(12.0)</b>

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 variability of net interest income is modestly positive in the 100 basis point upward rate shocks and close to neutral in the 200 basis point upward shock which indicates that the Company's overall interest rate risk position is well controlled. The Company's short duration investment securities portfolio and scheduled repricing of certain loans now tied to LIBOR or prime help us manage the overall interest rate risk position given customer preference for fixed rate loans. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. 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, 2013, 89% of the portfolio is classified as available for sale and 11% 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 60 securities that are temporarily impaired at December 31, 2013. The Company reviews its securities quarterly and has asserted that at December 31, 2013, 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 2013, 58% of all residential mortgage loan production was sold into the secondary market.



TABLE OF CONTENTS

The amount of loans outstanding by category as of December 31, 2013, 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	\$ 24,237	\$ 70,899	\$ 24,966	\$ 120,102
Commercial loans secured by real estate	29,236	182,419	200,036	411,691
Real estate-mortgage	44,595	78,879	115,617	239,091
Consumer	5,322	7,004	3,538	15,864
Total	\$ 103,390	\$ 339,201	\$ 344,157	\$ 786,748
Loans with fixed-rate	\$ 70,510	\$ 181,910	\$ 198,429	\$ 450,849
Loans with floating-rate	32,880	157,291	145,728	335,899
Total	\$ 103,390	\$ 339,201	\$ 344,157	\$ 786,748
Percent composition of maturity	13.1%	43.2%	43.7%	100.0%
Fixed-rate loans as a percentage of total loans				57.3%
Floating-rate loans as a percentage of total loans				42.7%

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, 2013, 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	\$ 546,384	\$	\$	\$	\$ 546,384
Certificates of deposit*	8	162,957	80,456	23,923	52,515	319,851
Borrowed funds*	10	41,696	16,427	9,401		67,524
Guaranteed junior subordinated deferrable interest debentures*	10				26,630	26,630
Pension obligation	14	2,000				2,000
Lease commitments	15	712	1,307	877	1,931	4,827

\* Includes interest based upon interest rates in effect at December 31, 2013. 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

31

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TABLE OF CONTENTS

to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating \$146.0 million and standby letters of credit of \$13.2 million as of December 31, 2013. 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, 2013.

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

ACCOUNT Allowance for Loan Losses

BALANCE SHEET REFERENCE Allowance for Loan Losses

INCOME STATEMENT REFERENCE Provision (Credit) for Loan Losses

DESCRIPTION

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

Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately \$7.7 million, or 76%, of the total allowance for loan losses at December 31, 2013 has been allocated to these two loan categories.

This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit 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

TABLE OF CONTENTS

cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company's core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company's own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company's goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company's ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company's services. As such, goodwill value is supported ultimately by revenue and cash flow contribution 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. As of December 31, 2013, goodwill was not considered impaired; however, deteriorating economic conditions could result in impairment, which could adversely affect earnings in future periods.

ACCOUNT Income Taxes

BALANCE SHEET REFERENCE Net Deferred Tax Asset

INCOME STATEMENT REFERENCE Provision for Income Taxes

DESCRIPTION

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

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2013, 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.

TABLE OF CONTENTS

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, 2013, 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, AmeriServ 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 AmeriServ 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 AmeriServ 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. AmeriServ 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 AmeriServ 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. There will be a particular 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** AmeriServ Financial remains focused on trying to rationalize expenses. This has not been a

program of broad based cuts, but has been targeted so AmeriServ stays strong but spends less. The Company has identified approximately \$1 million of non-interest expense savings for 2014 some of which may be utilized to fund new revenue growth initiatives such as another loan production office or increased technological related investments. 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.

34

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## TABLE OF CONTENTS

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

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

### **ITEM 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.

35

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TABLE OF CONTENTS

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

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

36

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TABLE OF CONTENTS

## ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**AMERISERV FINANCIAL, INC.****CONSOLIDATED BALANCE SHEETS**

	AT DECEMBER 31,	
	2013	2012
	(IN THOUSANDS, EXCEPT SHARE DATA)	
<b>ASSETS</b>		
Cash and due from depository institutions	<b>\$20,288</b>	\$17,808
Interest bearing deposits	<b>2,967</b>	1,730
Short-term investments in money market funds	<b>6,811</b>	7,282
Cash and cash equivalents	<b>30,066</b>	26,820
Investment securities:		
Available for sale	<b>141,978</b>	151,538
Held to maturity (fair value \$17,788 at December 31, 2013 and \$14,266 at December 31, 2012)	<b>18,187</b>	13,723
Loans held for sale	<b>3,402</b>	10,576
Loans	<b>783,927</b>	721,802
Less: Unearned income	<b>581</b>	637
Allowance for loan losses	<b>10,104</b>	12,571
Net loans	<b>773,242</b>	708,594
Premises and equipment, net	<b>13,119</b>	11,798
Accrued interest income receivable	<b>2,908</b>	2,960
Goodwill	<b>12,613</b>	12,613
Bank owned life insurance	<b>36,669</b>	36,214
Net deferred tax asset	<b>9,572</b>	11,467
Federal Home Loan Bank stock	<b>4,677</b>	4,179
Federal Reserve Bank stock	<b>2,125</b>	2,125
Prepaid federal deposit insurance		1,444
Other assets	<b>7,478</b>	6,940
<b>TOTAL ASSETS</b>	<b>\$1,056,036</b>	\$1,000,991
<b>LIABILITIES</b>		
Non-interest bearing deposits	<b>\$154,002</b>	\$156,223
Interest bearing deposits	<b>700,520</b>	679,511
Total deposits	<b>854,522</b>	835,734
Short-term borrowings	<b>41,555</b>	15,660
Advances from Federal Home Loan Bank	<b>25,000</b>	13,000
Guaranteed junior subordinated deferrable interest debentures	<b>13,085</b>	13,085
Total borrowed funds	<b>79,640</b>	41,745
Other liabilities	<b>8,567</b>	13,044

TOTAL LIABILITIES	<b>942,729</b>	890,523
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, 2013 and 2012	<b>21,000</b>	21,000
Common stock, par value \$0.01 per share; 30,000,000 shares authorized: 26,402,007 shares issued and 18,784,188 shares outstanding on December 31, 2013; 26,398,540 shares issued and 19,164,721 shares outstanding on December 31, 2012	<b>264</b>	264
Treasury stock at cost, 7,617,819 shares on December 31, 2013 and 7,233,819 shares on December 31, 2012	<b>(74,829)</b>	(73,658 )
Capital surplus	<b>145,190</b>	145,102
Retained earnings	<b>27,557</b>	23,139
Accumulated other comprehensive loss, net	<b>(5,875)</b>	(5,379 )
TOTAL STOCKHOLDERS EQUITY	<b>113,307</b>	110,468
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	<b>\$1,056,036</b>	\$1,000,991

See accompanying notes to consolidated financial statements.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<b>INTEREST INCOME</b>			
Interest and fees on loans:			
Taxable	<b>\$ 35,063</b>	\$ 34,752	\$ 35,630
Tax exempt	<b>57</b>	63	69
Interest bearing deposits	<b>6</b>	10	9
Short-term investments in money market funds	<b>8</b>	18	9
Federal funds sold			7
Investment securities:			
Available for sale	<b>3,701</b>	4,634	5,837
Held to maturity	<b>508</b>	440	403
Total Interest Income	<b>39,343</b>	39,917	41,964
<b>INTEREST EXPENSE</b>			
Deposits	<b>5,164</b>	6,502	8,335
Short-term borrowings	<b>46</b>	11	6
Advances from Federal Home Loan Bank	<b>152</b>	81	220
Guaranteed junior subordinated deferrable interest debentures	<b>1,120</b>	1,120	1,120
Total Interest Expense	<b>6,482</b>	7,714	9,681
Net Interest Income	<b>32,861</b>	32,203	32,283
Credit provision for loan losses	<b>(1,100)</b>	(775 )	(3,575 )
Net Interest Income after credit provision for Loan Losses	<b>33,961</b>	32,978	35,858
<b>NON-INTEREST INCOME</b>			
Trust fees	<b>6,917</b>	6,527	6,173
Investment advisory fees	<b>895</b>	741	754
Net gains on loans held for sale	<b>1,089</b>	1,132	812
Net realized gains (losses) on investment securities	<b>204</b>	12	(358 )
Service charges on deposit accounts	<b>2,173</b>	2,195	2,241
Bank owned life insurance	<b>998</b>	863	885
Other income	<b>3,468</b>	3,473	3,062
Total Non-Interest Income	<b>15,744</b>	14,943	13,569
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	<b>25,115</b>	24,424	22,616
Net occupancy expense	<b>2,937</b>	2,800	2,900
Equipment expense	<b>1,851</b>	1,764	1,686
Professional fees	<b>4,327</b>	3,870	3,875
Supplies, postage, and freight	<b>810</b>	830	886
Miscellaneous taxes and insurance	<b>1,467</b>	1,439	1,372

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Federal deposit insurance expense	<b>611</b>	441	1,338
Federal Home Loan Bank prepayment penalties			240
Other expense	<b>5,105</b>	5,073	5,124
Total Non-Interest Expense	<b>42,223</b>	40,641	40,037

See accompanying notes to consolidated financial statements.

TABLE OF CONTENTS

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	<b>7,482</b>	7,280	9,390
Provision for income taxes	<b>2,289</b>	2,241	2,853
NET INCOME	<b>5,193</b>	5,039	6,537
Preferred stock dividends and accretion of preferred stock discount	<b>209</b>	828	1,385
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	<b>\$ 4,984</b>	\$ 4,211	\$ 5,152
PER COMMON SHARE DATA:			
Basic:			
Net income	<b>\$ 0.26</b>	\$ 0.21	\$ 0.24
Average number of shares outstanding	<b>18,942</b>	19,685	21,184
Diluted:			
Net income	<b>\$ 0.26</b>	\$ 0.21	\$ 0.24
Average number of shares outstanding	<b>19,034</b>	19,747	21,205
Cash dividends declared	<b>\$ 0.03</b>	\$ 0.00	\$ 0.00

See accompanying notes to consolidated financial statements.



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE  
INCOME**

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
<b>COMPREHENSIVE INCOME</b>			
Net income	<b>\$5,193</b>	\$5,039	\$6,537
Other comprehensive income (loss), before tax:			
Pension obligation change for defined benefit plan	<b>3,942</b>	(2,128)	(1,803 )
Income tax effect	<b>(1,340)</b>	725	613
Unrealized holding gains (losses) on available for sale securities arising during period	<b>(4,489)</b>	(466 )	3,266
Income tax effect	<b>1,526</b>	158	(1,110 )
Reclassification adjustment for losses (gains) on available for sale securities included in net income	<b>(204)</b>	(12 )	358
Income tax effect	<b>69</b>	4	(122 )
Other comprehensive income (loss)	<b>(496)</b>	(1,719)	1,202
Comprehensive income	<b>\$4,697</b>	\$3,320	\$7,739

See accompanying notes to consolidated financial statements.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN  
STOCKHOLDERS EQUITY**

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
<b>PREFERRED STOCK</b>			
Balance at beginning of period	\$ 21,000	\$ 21,000	\$ 20,669
Accretion of preferred stock discount			331
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
Balance at end of period	<b>264</b>	264	264
<b>TREASURY STOCK</b>			
Balance at beginning of period	<b>(73,658)</b>	(69,241 )	(68,659 )
Treasury stock, purchased at cost (384,000, 1,757,800 and 287,400 shares, respectively)	<b>(1,171)</b>	(4,417 )	(582 )
Balance at end of period	<b>(74,829)</b>	(73,658 )	(69,241 )
<b>CAPITAL SURPLUS</b>			
Balance at beginning of period	<b>145,102</b>	145,061	145,045
New common shares issued for exercise of stock options	<b>6</b>	3	1
Stock option expense	<b>82</b>	38	15
Balance at end of period	<b>145,190</b>	145,102	145,061
<b>RETAINED EARNINGS</b>			
Balance at beginning of period	<b>23,139</b>	18,928	14,601
Net income	<b>5,193</b>	5,039	6,537
TARP warrant repurchase (1,312,500 shares)			(825 )
Accretion of preferred stock discount			(331 )
Cash dividend declared on common stock	<b>(566)</b>		
Cash dividend declared on preferred stock	<b>(209)</b>	(828 )	(1,054 )
Balance at end of period	<b>27,557</b>	23,139	18,928
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS, NET</b>			
Balance at beginning of period	<b>(5,379)</b>	(3,660 )	(4,862 )
Other comprehensive income (loss)	<b>(496)</b>	(1,719 )	1,202
Balance at end of period	<b>(5,875)</b>	(5,379 )	(3,660 )
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>\$ 113,307</b>	\$ 110,468	\$ 112,352

See accompanying notes to consolidated financial statements.



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

	YEAR ENDED DECEMBER 31		
	2013	2012	2011
	(IN THOUSANDS)		
<b>OPERATING ACTIVITIES</b>			
Net income	<b>\$5,193</b>	\$5,039	\$6,537
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	<b>(1,100)</b>	(775 )	(3,575 )
Depreciation and amortization expense	<b>1,683</b>	1,523	1,477
Net amortization of investment securities	<b>755</b>	1,124	736
Net realized (gains) losses on investment securities available for sale	<b>(204)</b>	(12 )	358
Net gains on loans held for sale	<b>(1,089)</b>	(1,132 )	(812 )
Amortization of deferred loan fees	<b>(304)</b>	(240 )	(231 )
Origination of mortgage loans held for sale	<b>(60,826)</b>	(76,688 )	(58,640 )
Sales of mortgage loans held for sale	<b>69,089</b>	74,354	59,747
Decrease (increase) in accrued interest receivable	<b>52</b>	256	(6 )
Decrease in accrued interest payable	<b>(299)</b>	(440 )	(1,018 )
Earnings on bank-owned life insurance	<b>(811)</b>	(863 )	(885 )
Deferred income taxes	<b>2,150</b>	2,101	2,758
Stock compensation expense	<b>88</b>	41	15
Decrease in prepaid Federal Deposit Insurance	<b>1,444</b>	370	1,259
Other, net	<b>(967)</b>	(1,446 )	3,074
Net cash provided by operating activities	<b>14,854</b>	3,212	10,794
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities available for sale	<b>(50,125)</b>	(34,199 )	(85,352 )
Purchase of investment securities held to maturity	<b>(8,942)</b>	(4,987 )	(6,576 )
Proceeds from maturities of investment securities available for sale	<b>43,307</b>	59,800	53,243
Proceeds from maturities of investment securities held to maturity	<b>4,425</b>	3,518	2,125
Proceeds from sales of investment securities available for sale	<b>11,185</b>	4,221	16,518
Purchase of regulatory stock	<b>(5,865)</b>		
Proceeds from redemption of regulatory stock	<b>5,367</b>	1,712	1,342
Long-term loans originated	<b>(205,549)</b>	(232,685)	(147,864)
Principal collected on long-term loans	<b>146,720</b>	182,245	161,356
Loans purchased or participated	<b>(12,990)</b>	(17,492 )	(8,500 )
Loans sold or participated	<b>8,500</b>	8,500	1,000
Net increase in other short-term loans	<b>(679)</b>	(300 )	(443 )
Purchases of premises and equipment	<b>(3,004)</b>	(2,647 )	(1,666 )

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Proceeds from sale of other real estate owned	<b>993</b>	160	743
Proceeds from insurance policies	<b>356</b>		
Net cash used in investing activities	<b>(66,301)</b>	(32,154 )	(14,074 )
<b>FINANCING ACTIVITIES</b>			
Net increase in deposit balances	<b>18,744</b>	19,329	13,722
Net increase (decrease) in other short-term borrowings	<b>25,895</b>	(105 )	11,215
Principal borrowings on advances from Federal Home Loan Bank	<b>18,000</b>	21,000	2,000
Principal repayments on advances from Federal Home Loan Bank	<b>(6,000)</b>	(14,000 )	(5,750 )
Preferred stock dividend paid	<b>(209)</b>	(828 )	(1,054 )
Common stock dividend paid	<b>(566)</b>		
Warrant repurchase			(825 )
Purchase of treasury stock	<b>(1,171)</b>	(4,417 )	(582 )
Net cash provided by financing activities	<b>54,693</b>	20,979	18,726
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>3,246</b>	(7,963 )	15,446
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<b>26,820</b>	34,783	19,337
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	<b>\$30,066</b>	\$26,820	\$34,783

See accompanying notes to consolidated financial statements.

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**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 18 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 \$1.7 billion that are not recognized on the Company's Consolidated Balance Sheet at December 31, 2013.

**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 18 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 and investment securities.

**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

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**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

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

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.

**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. The specific reserve allocations established for these criticized, classified and impaired loans 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.

45

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TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

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 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 in other liabilities.

**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 annual impairment analysis of goodwill.

**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 and warrant to purchase 103,570, 49,842, and 185,917 shares of common stock were outstanding during 2013, 2012 and 2011, 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 and warrant to purchase common stock outstanding were \$3.05 \$5.75, \$2.80 \$5.75, and \$2.07 \$6.10 during 2013, 2012 and 2011, 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  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

	Year ended December 31,		
	2013	2012	2011
	(In thousands, except per share data)		
Numerator:			
Net income	<b>\$ 5,193</b>	\$ 5,039	\$ 6,537
Preferred stock dividends and accretion of preferred stock discount	<b>209</b>	828	1,385
Net income available to common shareholders	<b>\$ 4,984</b>	\$ 4,211	\$ 5,152
Denominator:			
Weighted average common shares outstanding (basic)	<b>18,942</b>	19,685	21,184
Effect of stock options/warrants	<b>92</b>	62	21
Weighted average common shares outstanding (diluted)	<b>19,034</b>	19,747	21,205
Earnings per common share:			
Basic	<b>\$ 0.26</b>	\$ 0.21	\$ 0.24
Diluted	<b>0.26</b>	0.21	0.24

**STOCK-BASED COMPENSATION:**

The Company uses the modified prospective method for accounting of stock-based compensation. The Company recognized \$82,000, \$38,000 and \$15,000 of pretax compensation expense for the years 2013, 2012 and 2011. 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.

The following table sets forth the components of accumulated other comprehensive loss, net of tax:

AT DECEMBER 31,

	2013	2012
	(IN THOUSANDS)	
Pension obligation for defined benefit plan	\$ (6,918)	\$ (9,520 )
Unrealized holding gains on available for sale securities	1,043	4,141
Total accumulated other comprehensive loss	\$ (5,875)	\$ (5,379 )

**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 \$137,000 in income tax payments in 2013; \$142,000 in 2012; and \$97,000 in 2011. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of \$766,000 in 2013; \$1,266,000 in 2012; and \$169,000 in 2011. The Company made total interest payments of \$6,781,000 in 2013; \$8,154,000 in 2012; and \$10,699,000 in 2011.

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

**INCOME TAXES:**

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

**INTEREST RATE CONTRACTS:**

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

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

**RECENT ACCOUNTING STANDARDS:**

In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss, or a tax credit carryforward is not available at the reporting date under the tax law of the applicable jurisdiction to settle



any additional income taxes that would result from the disallowance of a tax position or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. The assessment of whether a deferred tax asset is available is based on the unrecognized tax benefit and deferred tax asset that exist at the reporting date and should be made presuming disallowance of the tax position at the reporting date. The amendments in this Update are effective for fiscal years, and interim periods within those years, beginning after December 15, 2013. Early adoption is permitted. The amendments should be applied prospectively to all unrecognized tax benefits that exist at the effective date. Retrospective application is permitted. This ASU did not have a significant impact on the Company's financial statements.

In January 2014, the FASB issued ASU 2014-04, *Receivables - Troubled Debt Restructurings by Creditors (Subtopic 310-40): Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans upon Foreclosure*. The amendments in this Update clarify that an in substance repossession or foreclosure occurs, and a creditor is considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan, upon either (1) the creditor obtaining legal title to the

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(continued)**

residential real estate property upon completion of a foreclosure or (2) the borrower conveying all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Additionally, the amendments require interim and annual disclosure of both (1) the amount of foreclosed residential real estate property held by the creditor and (2) the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure according to local requirements of the applicable jurisdiction. The amendments in this Update are effective for public business entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2014. An entity can elect to adopt the amendments in this Update using either a modified retrospective transition method or a prospective transition method. This ASU is not expected to have a significant impact on the Company's financial statements.

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

Included in Cash and due from depository institutions are required federal reserves of \$61,000 and \$0 at December 31, 2013 and 2012, 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, 2013			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	\$6,926	\$ 35	\$ (126)	\$ 6,835
Corporate bonds	11,992	21	(252)	11,761

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U.S. Agency mortgage-backed securities	<b>121,480</b>	<b>3,129</b>	<b>(1,227)</b>	<b>123,382</b>
Total	<b>\$ 140,398</b>	<b>\$ 3,185</b>	<b>\$ (1,605)</b>	<b>\$ 141,978</b>

Investment securities held to maturity:

	AT DECEMBER 31, 2013			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	<b>\$ 12,671</b>	<b>\$ 289</b>	<b>\$ (477)</b>	<b>\$ 12,483</b>
Taxable municipal	<b>1,521</b>		<b>(120)</b>	<b>1,401</b>
Corporate bonds and other securities	<b>3,995</b>		<b>(91)</b>	<b>3,904</b>
Total	<b>\$ 18,187</b>	<b>\$ 289</b>	<b>\$ (688)</b>	<b>\$ 17,788</b>

49

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****3. INVESTMENT SECURITIES (continued)**

Investment securities available for sale:

	AT DECEMBER 31, 2012			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	\$5,848	\$ 70	\$ (7 )	\$ 5,911
Corporate bonds	7,992	3	(103 )	7,892
U.S. Agency mortgage-backed securities	131,425	6,320	(10 )	137,735
Total	\$145,265	\$ 6,393	\$ (120 )	\$ 151,538

Investment securities held to maturity:

	AT DECEMBER 31, 2012			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	\$9,318	\$ 578	\$	\$ 9,896
Taxable municipal	410	6		416
Corporate bonds and other securities	3,995	14	(55 )	3,954
Total	\$13,723	\$ 598	\$ (55 )	\$ 14,266

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, 2013, 89.0% of the portfolio was rated AAA as compared to 92.2% at December 31, 2012. 1.9% of the portfolio was rated below A or unrated on December 31, 2013. 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, 2013.

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 \$110,780,000 at December 31, 2013 and \$94,206,000 at December 31, 2012.

The Company realized \$289,000 of gross investment security gains and \$85,000 of investment security losses in 2013, and \$12,000 of gross investment gains and no investment security losses in 2012, and \$358,000 of gross investment losses and no investment security gains in 2011. On a net basis, the realized gain for 2013 was \$135,000 after factoring in tax expense of \$69,000, the realized gain for 2012 was \$8,000 after factoring in tax expense of \$4,000, the realized loss for 2011 was \$236,000, after factoring the tax benefit of \$122,000. Proceeds from sales of investment securities available for sale were \$11.2 million for 2013, \$4.2 million for 2012, and \$16.5 million during 2011.

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, 2013. 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 3.51 years. The weighted average expected maturity for available for sale

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****3. INVESTMENT SECURITIES (continued)**

securities at December 31, 2013 for U.S. Agency, U.S. Agency Mortgage-Backed and Corporate Bond securities was 3.84, 5.07 and 4.73 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2013 for U.S. Agency Mortgage-Backed and Corporate Bonds/Taxable Municipals and other securities were 6.73 and 5.82 years.

Investment securities available for sale:

AT DECEMBER 31, 2013

	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	\$	%	\$	%	\$	%	\$	%
After 1 year but within 5 years	5,926	1.50	1,813	4.54	7,994	1.56	15,733	1.90
After 5 years but within 10 years	1,000	1.43	12,381	2.88	3,998	1.91	17,379	2.59
After 10 years but within 15 years			64,347	2.74			64,347	2.74
Over 15 years			42,939	2.74			42,939	2.74
Total	\$6,926	1.49	\$121,480	2.78	\$11,992	1.68	\$140,398	2.63
FAIR VALUE								
Within 1 year	\$		\$		\$		\$	
After 1 year but within 5 years	5,898		1,934		7,947		15,779	
After 5 years but within 10 years	937		12,735		3,814		17,486	
After 10 years but within 15 years			64,751				64,751	
Over 15 years			43,962				43,962	
Total	\$6,835		\$123,382		\$11,761		\$141,978	



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****3. INVESTMENT SECURITIES (continued)**

Investment securities held to maturity:

	AT DECEMBER 31, 2013				TOTAL	
	U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER		INVESTMENT SECURITIES HELD TO MATURITY	
	(IN THOUSANDS, EXCEPT YIELDS)					
COST BASIS						
Within 1 year	\$	%	\$	%	\$	%
After 1 year but within 5 years			3,000	1.46	3,000	1.46
After 5 years but within 10 years	1,760	2.10			1,760	2.10
After 10 years but within 15 years			1,011	3.14	1,011	3.14
Over 15 years	10,911	3.49	1,505	4.54	12,416	3.62
Total	\$ 12,671	3.30	\$ 5,516	2.61	\$ 18,187	3.09
FAIR VALUE						
Within 1 year	\$		\$		\$	
After 1 year but within 5 years			2,966		2,966	
After 5 years but within 10 years	1,618				1,618	
After 10 years but within 15 years			891		891	
Over 15 years	10,865		1,448		12,313	
Total	\$ 12,483		\$ 5,305		\$ 17,788	

The following tables present information concerning investments with unrealized losses as of December 31, 2013 (in thousands):

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$3,812	\$ (64)	\$938	\$ (62)	\$4,750	\$ (126)
	43,402	(1,224)	669	(3)	44,071	(1,227)



U.S. Agency mortgage-backed securities

Corporate bonds	<b>6,777</b>	<b>(215)</b>	<b>1,963</b>	<b>(37)</b>	<b>8,740</b>	<b>(252)</b>
Total	<b>\$53,991</b>	<b>\$ (1,503)</b>	<b>\$3,570</b>	<b>\$ (102)</b>	<b>\$57,561</b>	<b>\$ (1,605)</b>

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Corporate bonds/taxable municipals and other securities	<b>\$3,801</b>	<b>\$ (205)</b>	<b>\$994</b>	<b>\$ (6)</b>	<b>\$4,795</b>	<b>\$ (211)</b>
U.S. Agency mortgage-backed securities	<b>8,761</b>	<b>(477)</b>			<b>8,761</b>	<b>(477)</b>
Total	<b>\$12,562</b>	<b>\$ (682)</b>	<b>\$994</b>	<b>\$ (6)</b>	<b>\$13,556</b>	<b>\$ (688)</b>

52

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****3. INVESTMENT SECURITIES (continued)**

The following tables present information concerning investments with unrealized losses as of December 31, 2012 (in thousands):

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$993	\$ (7 )	\$	\$	\$993	\$ (7 )
U.S. Agency mortgage-backed securities	1,140	(8 )	349	(2 )	1,489	(10 )
Corporate bonds	6,898	(103 )			6,898	(103 )
Total	\$9,031	\$ (118 )	\$349	\$ (2 )	\$9,380	\$ (120 )

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Corporate bonds and other securities	\$965	\$ (35 )	\$1,981	\$ (20 )	\$2,946	\$ (55 )
Total	\$965	\$ (35 )	\$1,981	\$ (20 )	\$2,946	\$ (55 )

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 60 positions that are considered temporarily impaired at December 31, 2013. 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,	
	2013	2012
	(IN THOUSANDS)	
Commercial	<b>\$ 120,102</b>	\$ 102,822
Commercial loans secured by real estate	<b>411,691</b>	383,339
Real estate-mortgage	<b>235,689</b>	217,584
Consumer	<b>15,864</b>	17,420
Loans, net of unearned income	<b>\$ 783,346</b>	\$ 721,165

Loan balances at December 31, 2013 and 2012 are net of unearned income of \$581,000 and \$637,000, respectively. Real estate construction loans comprised 3.0% and 2.0% of total loans net of unearned income at December 31, 2013 and 2012, 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, 2013 and 2012, loans to customers engaged in similar activities and having similar economic characteristics, as defined

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****4. LOANS (continued)**

by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company's lending occurs within a 150 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 \$853,000 and \$1.0 million at December 31, 2013 and 2012, 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, 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

	BALANCE AT DECEMBER 31, 2011	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2012
Commercial	\$ 2,365	\$ (345 )	\$ 138	\$ 438	\$ 2,596
Commercial loans secured by real estate	9,400	(796 )	245	(1,053 )	7,796
Real estate-mortgage	1,270	(420 )	54	365	1,269
Consumer	174	(200 )	47	129	150

Allocation for general risk	1,414			(654 )	760
Total	\$ 14,623	\$ (1,761 )	\$ 484	\$ (775 )	\$ 12,571

	BALANCE AT DECEMBER 31, 2010	CHARGE- OFFS	RECOVERIES	PROVISION (CREDIT)	BALANCE AT DECEMBER 31, 2011
Commercial	\$ 3,851	\$ (953 )	\$ 831	\$ (1,364 )	\$ 2,365
Commercial loans secured by real estate	12,717	(1,700 )	331	(1,948 )	9,400
Real estate-mortgage	1,117	(85 )	53	185	1,270
Consumer	206	(203 )	159	12	174
Allocation for general risk	1,874			(460 )	1,414
Total	\$ 19,765	\$ (2,941 )	\$ 1,374	\$ (3,575 )	\$ 14,623

As a result of successful ongoing problem credit resolution efforts, the Company achieved further asset quality improvements in 2013. These improvements are evidenced by reduced levels of non-accrual loans, non-performing assets, classified assets and low loan delinquency levels that continue to be well below 1% of total loans. The higher charge-off in the commercial loans secured by real estate relate primarily to one loan

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****5. ALLOWANCE FOR LOAN LOSSES (continued)**

for which a specific reserve had been previously established. Additionally, the largest portion of the credit provision occurred in commercial loans secured by real-estate as this is the category that experienced the most meaningful improvement in asset quality, particularly in the fourth quarter, which resulted in a reduction of the related qualitative factor.

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

AT DECEMBER 31, 2013  
(IN THOUSANDS)

	COMMERCIAL LOANS SECURED BY REAL ESTATE	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	TOTAL
Loans:					
Individually evaluated for impairment	\$	\$ 3,005	\$	\$ 61	\$3,066
Collectively evaluated for impairment	120,102	408,686	235,689	15,803	780,280
Total loans	\$120,102	\$ 411,691	\$ 235,689	\$ 15,864	\$783,346

AT DECEMBER 31, 2013  
(IN THOUSANDS)

	COMMERCIAL LOANS SECURED BY REAL ESTATE	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Allowance for loan losses:						
Specific reserve allocation	\$	\$ 812	\$	\$ 1	\$	\$ 813
General reserve allocation	2,844	4,073	1,260	135	979	9,291
Total allowance for loan losses	\$2,844	\$ 4,885	\$ 1,260	\$ 136	\$ 979	\$ 10,104

AT DECEMBER 31, 2012  
 (IN THOUSANDS)

	COMMERCIAL LOANS SECURED BY REAL ESTATE	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	TOTAL
--	--	--	-----------------------------	----------	-------

Loans:					
Individually evaluated for impairment	\$	\$ 4,793	\$	\$ 13	\$4,806
Collectively evaluated for impairment	102,822	378,546	217,584	17,407	716,359
Total loans	\$102,822	\$ 383,339	\$ 217,584	\$ 17,420	\$721,165

55

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****5. ALLOWANCE FOR LOAN LOSSES (continued)**

AT DECEMBER 31, 2012  
(IN THOUSANDS)

	COMMERCIAL LOANS COMMERCIAL BY REAL ESTATE	REAL ESTATE- MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Allowance for loan losses:					
Specific reserve allocation	\$ 1,586	\$	\$	\$	\$ 1,586
General reserve allocation	2,596	6,210	1,269	150	760
Total allowance for loan losses	\$2,596	\$ 7,796	\$ 1,269	\$ 150	\$ 760
					\$ 12,571

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 loan segment is 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. 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, 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

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

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.

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.

DECEMBER 31, 2013		
IMPAIRED LOANS WITH SPECIFIC ALLOWANCE	IMPAIRED LOANS WITH NO SPECIFIC	TOTAL IMPAIRED LOANS

	RECORDED		ALLOWANCE		UNPAID PRINCIPAL BALANCE
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	
	(IN THOUSANDS)				
Commercial loans secured by real estate	\$3,005	\$ 812	\$	\$3,005	\$ 3,118
Consumer	61	1		61	61
Total impaired loans	\$3,066	\$ 813	\$	\$3,066	\$ 3,179

57

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****5. ALLOWANCE FOR LOAN LOSSES (continued)**

	DECEMBER 31, 2012				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE	IMPAIRED LOANS WITH TOTAL IMPAIRED NO SPECIFIC LOANS ALLOWANCE	RECORDED INVESTMENT	RECORDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	RELATED ALLOWANCE				
	(IN THOUSANDS)				
Commercial loans secured by real estate	\$4,239	\$ 1,586	\$ 554	\$4,793	\$ 4,850
Consumer			13	13	13
Total impaired loans	\$4,239	\$ 1,586	\$ 567	\$4,806	\$ 4,863

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

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
Average impaired balance:			
Commercial	\$ 13	\$ 13	\$ 503
Commercial loans secured by real estate	2,459	3,754	4,479
Consumer	37	3	
Average investment in impaired loans	\$ 2,509	\$ 3,770	\$ 4,982
Interest income recognized:			
Commercial	\$	\$	\$ 17
Commercial loans secured by real estate	11		150
Consumer	3		
Interest income recognized on a cash basis on impaired loans	\$ 14	\$	\$ 167

Management uses a nine point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five Pass categories are aggregated, while the Pass-6, Special Mention, Substandard and Doubtful categories are disaggregated to separate pools. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk,

but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for loan losses are placed in Substandard or Doubtful.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company's commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****5. ALLOWANCE FOR LOAN LOSSES (continued)**

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 2013 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 bi-weekly 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.

	December 31, 2013				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial	\$108,623	\$ 8,880	\$ 2,599	\$	\$120,102
Commercial loans secured by real estate	396,788	6,961	7,482	460	411,691
Total	\$505,411	\$ 15,841	\$ 10,081	\$ 460	\$531,793

	December 31, 2012				
	PASS	SPECIAL MENTION	SUBSTANDARD	DOUBTFUL	TOTAL
	(IN THOUSANDS)				
Commercial	\$99,886	\$ 28	\$ 2,908	\$	\$102,822
Commercial loans secured by real estate	343,885	20,836	17,010	1,608	383,339
Total	\$443,771	\$ 20,864	\$ 19,918	\$ 1,608	\$486,161

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

	December 31, 2013	
	PERFORMING	NON- PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 234,450	\$ 1,239
Consumer	15,803	61
Total	\$ 250,253	\$ 1,300

59

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****5. ALLOWANCE FOR LOAN LOSSES (continued)**

	December 31, 2012	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 216,393	\$ 1,191
Consumer	17,407	13
Total	\$ 233,800	\$ 1,204

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.

	December 31, 2013								
	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	\$120,102	\$	\$	\$	\$	\$	\$120,102	\$	
Commercial loans secured by real estate	410,619	457			615	1,072	411,691		
Real estate-mortgage	231,740	2,232	670		1,047	3,949	235,689		
Consumer	15,804	33	27			60	15,864		
Total	\$778,265	\$2,722	\$697		\$1,662	\$5,081	\$783,346	\$	

	December 31, 2012								
	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	\$102,775	\$	\$47	\$	\$47	\$102,822	\$
Commercial loans secured by real estate	379,834		2,545	960	3,505	383,339	
Real estate-mortgage	213,300	3,240	303	741	4,284	217,584	
Consumer	17,371	16	33		49	17,420	
Total	\$713,280	\$3,256	\$2,928	\$1,701	\$7,885	\$721,165	\$

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, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

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.

**6. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT  
RESTRUCTURINGS  
(TDR)**

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 troubled debt restructuring and (iv) other real estate owned (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,

	2013	2012
	(IN THOUSANDS, EXCEPT PERCENTAGES)	
Non-accrual loans:		
Commercial	\$	\$
Commercial loans secured by real estate	<b>1,632</b>	4,623
Real estate-mortgage	<b>1,239</b>	1,191
Total	<b>2,871</b>	5,814
Other real estate owned:		
Commercial loans secured by real estate	<b>344</b>	1,101
Real estate-mortgage	<b>673</b>	127
Total	<b>1,017</b>	1,228
Total restructured loans not in non-accrual (TDR)	<b>221</b>	182
Total non-performing assets including TDR	<b>\$4,109</b>	\$ 7,224
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	<b>0.52%</b>	1.00 %

61

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**6. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT  
RESTRUCTURINGS  
(TDR) (continued)**

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 troubled debt restructure 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.

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 TDRs was \$344,000 and \$1.5 million as of December 31, 2013 and 2012, respectively.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****6. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT  
RESTRUCTURINGS  
(TDR) (continued)**

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

The following table details the TDRs at December 31, 2012 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	4	\$ 3,772	Extension of maturity date
Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	\$ 169	Extension of maturity date
Consumer	1	13	Extension of maturity date

The following table details the TDRs at December 31, 2011 (dollars in thousands).

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	5	\$ 2,870	Extension of maturity date

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same.

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

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,		
	2013	2012	2011
<u>Recorded investment of defaults</u>			
Commercial loan secured by real estate	\$ 1,480	\$ 595	\$ 1,312
Total	\$ 1,480	\$ 595	\$ 1,312

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

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****6. NON-PERFORMING ASSETS INCLUDING TROUBLED DEBT  
RESTRUCTURINGS  
(TDR) (continued)**

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 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,		
	2013	2012	2011
	(IN THOUSANDS)		
Interest income due in accordance with original terms	\$ 178	\$ 231	\$ 376
Interest income recorded			(167 )
Net reduction in interest income	\$ 178	\$ 231	\$ 209

**7. PREMISES AND EQUIPMENT**

An analysis of premises and equipment follows:

	AT DECEMBER 31,	
	2013	2012
	(IN THOUSANDS)	
Land	\$ 1,208	\$ 1,208
Premises	25,752	24,430
Furniture and equipment	8,912	7,572
Leasehold improvements	803	690
Total at cost	36,675	33,900
Less: Accumulated depreciation and amortization	23,556	22,102
Net book value	\$ 13,119	\$ 11,798



The Company recorded depreciation expense of \$1.7 million for 2013 and \$1.5 for each of the years 2012 and 2011, respectively.

## 8. DEPOSITS

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

	AT DECEMBER 31,	
	2013	2012
	(IN THOUSANDS)	
Demand:		
Non-interest bearing	<b>\$ 154,002</b>	\$ 156,223
Interest bearing	<b>84,926</b>	61,774
Savings	<b>87,655</b>	86,135
Money market	<b>219,801</b>	215,870
Certificates of deposit in denominations of \$100,000 or more	<b>47,287</b>	35,339
Other time	<b>260,851</b>	280,393
Total deposits	<b>\$ 854,522</b>	\$ 835,734

64

---

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****8. DEPOSITS (continued)**

Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
Interest bearing demand	\$ 138	\$ 116	\$ 153
Savings	139	181	256
Money market	736	895	1,063
Certificates of deposit in denominations of \$100,000 or more	289	435	637
Other time	3,862	4,875	6,226
Total interest expense	\$ 5,164	\$ 6,502	\$ 8,335

The following table sets forth the balance of other time deposits and certificates of deposit of \$100,000 or more as of December 31, 2013 maturing in the periods presented:

YEAR:	OTHER TIME DEPOSITS	CERTIFICATES OF DEPOSIT OF \$100,000 OR MORE
	(IN THOUSANDS)	
2014	\$ 128,725	\$ 32,109
2015	42,497	13,310
2016	20,033	1,551
2017	11,684	217
2018	10,541	
2019 and after	47,371	100
Total	\$ 260,851	\$ 47,287

The maturities on certificates of deposit greater than \$100,000 or more as of December 31, 2013, are as follows:

MATURING IN:	(IN THOUSANDS)
Three months or less	\$ 7,399

Over three through six months	<b>20,763</b>
Over six through twelve months	<b>3,947</b>
Over twelve months	<b>15,178</b>
Total	<b>\$ 47,287</b>

65

---

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****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, 2013	
	FEDERAL FUNDS PURCHASED	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

	AT DECEMBER 31, 2012	
	FEDERAL FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$	\$ 15,660
Maximum indebtedness at any month end		19,755
Average balance during year	117	5,225
Average rate paid for the year	0.34 %	0.20 %
Interest rate on year end balance		0.25

	AT DECEMBER 31, 2011	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS

(IN THOUSANDS, EXCEPT  
RATES)

Balance	\$	\$	15,765
Maximum indebtedness at any month end			15,765
Average balance during year	49		1,167
Average rate paid for the year	0.32 %	0.51	%
Interest rate on year-end balance		0.34	

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 one day at both the end of 2013 and 2012 and three days at the end of 2011.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****10. ADVANCES FROM FEDERAL HOME LOAN BANK AND  
GUARANTEED JUNIOR  
SUBORDINATED DEFERRABLE INTEREST DEBENTURES**

Borrowings and advances from the FHLB consist of the following:

MATURING	AT DECEMBER 31, 2013	
	WEIGHTED AVERAGE BALANCE YIELD	(IN THOUSANDS)
Overnight	0.25%	\$ 41,555
2015	0.52	4,000
2016	0.81	12,000
2017	1.07	7,000
2018	1.47	2,000
Total advances	0.89	25,000
Total FHLB borrowings	0.49%	\$ 66,555

MATURING	AT DECEMBER 31, 2012	
	WEIGHTED AVERAGE BALANCE YIELD	(IN THOUSANDS)
Overnight	0.25 %	\$ 15,660
2015	0.52	4,000
2016	0.74	5,000
2017	0.92	4,000
Total advances	0.73	13,000
Total FHLB borrowings	0.47 %	\$ 28,660

The Company's subsidiary Bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the Company's investment in assets secured by one- to four-family residential real estate and certain types of commercial real estate. 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 commercial real-estate 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, 2013, the Company had immediately available \$318 million of overnight borrowing capability at the FHLB and \$81 million of unsecured federal funds lines with correspondent banks.

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

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

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 AmeriServ Financial, Inc. Unamortized deferred issuance costs associated with the Trust Preferred Securities amounted to \$224,000 as of December 31, 2013 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, 2013 and 2012 was \$13.1 million.

**11. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS**

The following disclosures establish a hierarchal 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.

The fair value of the swap asset is based on an external derivative valuation model using data inputs as of the valuation date and classified Level 2.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****11. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS  
(continued)**

The following table presents the assets reported on the Consolidated Balance Sheets at their fair value as of December 31, 2013 and 2012, 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, 2013 USING			
TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
Assets:			
U.S. Agency securities	\$6,835	\$	\$ 6,835
U.S. Agency mortgage-backed securities	123,382		\$
Corporate bonds	11,761		11,761

FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2012 USING			
TOTAL	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)

## (LEVEL 1)

## Assets:

U.S. Agency securities	\$5,911	\$	\$ 5,911	\$
U.S. Agency mortgage-backed securities	137,735		137,735	
Corporate bonds	7,892		7,892	
Fair value of swap asset	164		164	
Fair value of swap liability	164		164	

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, 2013, impaired loans with a carrying value of \$3.1 million were reduced by specific valuation allowance totaling \$813,000 resulting in a net fair value of \$2.3 million. At December 31, 2012, impaired loans with a carrying value of \$4.8 million were reduced by specific valuation allowance totaling \$1.6 million resulting in a net fair value of \$3.2 million.

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.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****11. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS  
(continued)**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, 2013 USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
TOTAL			
Assets:			
Impaired loans	\$2,253	\$	\$ 2,253
Other real estate owned	1,017		1,017

	FAIR VALUE MEASUREMENTS AT DECEMBER 31, 2012 USING		
	QUOTED PRICES IN ACTIVE MARKETS FOR IDENTICAL ASSETS (LEVEL 1)	SIGNIFICANT OTHER OBSERVABLE INPUTS (LEVEL 2)	SIGNIFICANT UNOBSERVABLE INPUTS (LEVEL 3)
TOTAL			
Assets:			
Impaired loans	\$3,220	\$	\$ 3,220
Other real estate owned	1,228		1,228

December 31, 2013

## Quantitative Information About Level 3 Fair Value Measurements

	Fair Value Estimate	Valuation Techniques		Unobservable Input		Range(Wgtd Ave)
Impaired loans	\$2,253	Appraisal of collateral	(1)	Appraisal adjustments	(2)	0% to 37%(30%)
				Liquidation expenses	(2)	1% to 15%(10%)
Other real estate owned	1,017	Appraisal of collateral <sup>(1),(3)</sup>		Appraisal adjustments	(2)	31% to 48%(38%)
				Liquidation expenses	(2)	1% to 20%(10%)

December 31, 2012

## Quantitative Information About Level 3 Fair Value Measurements

	Fair Value Estimate	Valuation Techniques		Unobservable Input		Range(Wgtd Ave)
Impaired loans	\$3,220	Appraisal of collateral	(1)	Appraisal adjustments	(2)	1% to 35%(20%)
				Liquidation expenses	(2)	1% to 15%(10%)
Other real estate owned	1,228	Appraisal of collateral <sup>(1),(3)</sup>		Appraisal adjustments	(2)	1% to 20%(15%)
				Liquidation expenses	(2)	1% to 20%(10%)

(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.

70

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****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, 2013 and 2012, were as follows:

	At December 31, 2013			
	Carrying Value	Fair Value (Level 1)	(Level 2)	(Level 3)
	(IN THOUSANDS)			
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	\$30,066	\$30,066	\$30,066	\$
Investment securities AFS	141,978	141,978		141,978
Investment securities HTM	18,187	17,788		14,822
Regulatory stock	6,802	6,802	6,802	
Loans held for sale	3,402	3,453	3,453	
Loans, net of allowance for loan loss and unearned income	773,242	771,460		771,460
Accrued interest income receivable	2,908	2,908	2,908	
Bank owned life insurance	36,669	36,669	36,669	
<b>FINANCIAL LIABILITIES:</b>				
Deposits with no stated maturities	\$546,384	\$546,384	\$546,384	\$
Deposits with stated maturities	308,138	313,272		313,272
Short-term borrowings	41,555	41,555	41,555	
All other borrowings	38,085	40,598		40,598
Accrued interest payable	1,784	1,784	1,784	



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL  
INSTRUMENTS (continued)**

	At December 31, 2012			
	Carrying Value	Fair Value (Level 1)	(Level 2)	(Level 3)
	(IN THOUSANDS)			
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	\$26,820	\$26,820	\$26,820	\$
Investment securities AFS	151,538	151,538		151,538
Investment securities HTM	13,723	14,266		11,321
Regulatory stock	6,304	6,304	6,304	
Loans held for sale	10,576	10,722	10,722	
Loans, net of allowance for loan loss and unearned income	708,594	716,756		716,756
Accrued interest income receivable	2,960	2,960	2,960	
Bank owned life insurance	36,214	36,214	36,214	
Fair value swap asset	164	164		164
<b>FINANCIAL LIABILITIES:</b>				
Deposits with no stated maturities	\$520,002	\$520,002	\$520,002	\$
Deposits with stated maturities	315,732	320,930		320,930
Short-term borrowings	15,660	15,660	15,660	
All other borrowings	26,085	30,442		30,442
Accrued interest payable	2,083	2,083	2,083	
Fair value swap liability	164	164		164

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.

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL  
INSTRUMENTS (continued)**

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

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

Commitments to extend credit and standby letters of credit are financial instruments generally not subject to sale, and fair values are not readily available. The carrying value, represented by the net deferred fee arising from the unrecognized commitment, and the fair value, determined by discounting the remaining contractual fee over the term of the commitment using fees currently charged to enter into similar agreements with similar credit risk, 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,		
	2013	2012	2011
	(IN THOUSANDS)		
Current	\$ 139	\$ 140	\$ 95
Deferred	2,150	2,101	2,758
Income tax expense	\$ 2,289	\$ 2,241	\$ 2,853

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

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011

	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Income tax expense based on federal statutory rate	<b>\$2,544</b>	<b>34.0%</b>	\$2,475	34.0%	\$3,193	34.0%
Tax exempt income	<b>(359)</b>	<b>(4.8)</b>	(315 )	(4.3 )	(325 )	(3.5 )
Other	<b>104</b>	<b>1.4</b>	81	1.1	(15 )	(0.1 )
Total expense for income taxes	<b>\$2,289</b>	<b>30.6%</b>	\$2,241	30.8%	\$2,853	30.4%

73

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****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,	
	2013	2012
	(IN THOUSANDS)	
<b>DEFERRED TAX ASSETS:</b>		
Allowance for loan losses	<b>\$ 3,437</b>	\$ 4,274
Unfunded commitment reserve	<b>264</b>	221
Premises and equipment	<b>1,832</b>	1,626
Accrued pension obligation	<b>1,462</b>	2,916
Net operating loss carryforwards	<b>1,307</b>	2,883
Alternative minimum tax credits	<b>1,749</b>	1,635
Other	<b>393</b>	368
Total tax assets	<b>10,444</b>	13,923
<b>DEFERRED TAX LIABILITIES:</b>		
Investment accretion	<b>(18)</b>	(28 )
Unrealized investment security gains	<b>(545)</b>	(2,133 )
Other	<b>(309)</b>	(295 )
Total tax liabilities	<b>(872)</b>	(2,456 )
Net deferred tax asset	<b>\$ 9,572</b>	\$ 11,467

At December 31, 2013 and 2012, 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 AMT tax credits.

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

	YEAR ENDED DECEMBER 31,	
	2013	2012
	(IN THOUSANDS)	
Unrealized gains recognized in comprehensive income	<b>\$1,595</b>	\$ 162
	<b>(1,340)</b>	725

Pension obligation of the defined benefit plan not yet recognized in income

Deferred provision for income taxes (2,150) (2,101)

Net decrease \$(1,895) \$(1,214)

The Company has alternative minimum tax credit carryforwards of approximately \$1.7 million at December 31, 2013.

These credits have an indefinite carryforward period. The Company also has a \$3.8 million net operating loss carryforward that will begin to expire in the year 2025.

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

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****13. INCOME TAXES (continued)**

ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met. The Company has no tax liability for uncertain tax positions. The Company's federal and state income tax returns for taxable years through 2009 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 AmeriServ Financial, Inc. common stock valued at \$631,000 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, 2013.

**PENSION BENEFITS:**

	YEAR ENDED DECEMBER 31,	
	2013	2012
	(IN THOUSANDS)	
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	\$ 29,844	\$ 25,709

Service cost	<b>1,703</b>	1,593
Interest cost	<b>1,189</b>	1,234
Actuarial (gain) loss	<b>(757)</b>	2,882
Benefits paid	<b>(1,730)</b>	(1,574 )
Benefit obligation at end of year	<b>30,249</b>	29,844
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	<b>21,368</b>	18,180
Actual return on plan assets	<b>3,850</b>	2,162
Employer contributions	<b>2,800</b>	2,600
Benefits paid	<b>(1,730)</b>	(1,574 )
Fair value of plan assets at end of year	<b>26,288</b>	21,368
Funded status of the plan    under funded	<b>\$ (3,961)</b>	\$ (8,476 )

75

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****14. EMPLOYEE BENEFIT PLANS (continued)**

YEAR ENDED  
DECEMBER 31,  
2013      2012  
(IN THOUSANDS)

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

Amounts recognized in accumulated other comprehensive loss consists  
of:

Transition asset	\$	\$ (8	)
Prior service cost	(19)	(38	)
Net actuarial loss	10,107	14,315	
Total	\$10,088	\$ 14,269	

YEAR ENDED  
DECEMBER 31,  
2013      2012  
(IN THOUSANDS)

ACCUMULATED BENEFIT OBLIGATION:

Accumulated benefit obligation      **\$ 27,566**      \$ 26,662

The weighted-average assumptions used to determine benefit obligations at December 31, 2013 and 2012 were as follows:

YEAR ENDED  
DECEMBER 31,  
2013      2012  
(PERCENTAGES)

WEIGHTED AVERAGE ASSUMPTIONS:

Discount rate	<b>4.50%</b>	4.00	%
Salary scale	<b>2.50</b>	2.50	

YEAR ENDED DECEMBER 31,



	2013	2012	2011
	(IN THOUSANDS)		
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	\$ 1,703	\$ 1,593	\$ 1,335
Interest cost	1,189	1,234	1,198
Expected return on plan assets	(1,775)	(1,656 )	(1,582 )
Amortization of prior year service cost	(19)	(19 )	7
Amortization of transition asset	(8)	(17 )	(17 )
Recognized net actuarial loss	1,375	1,094	800
Net periodic pension cost	\$ 2,465	\$ 2,229	\$ 1,741

76

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****14. EMPLOYEE BENEFIT PLANS (continued)**

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
OTHER CHANGES IN PLAN ASSETS AND BENEFIT OBLIGATIONS RECOGNIZED IN OTHER COMPREHENSIVE LOSS			
Net (gain) loss	<b>\$(2,832)</b>	\$2,376	\$ 3,090
Recognized loss	<b>(1,375)</b>	(1,094)	(800 )
Recognized prior service cost	<b>19</b>	19	(7 )
Recognized net initial asset	<b>8</b>	17	17
Total recognized in other comprehensive loss before tax effect	<b>\$(4,180)</b>	\$1,318	\$ 2,300
Total recognized in net benefit cost and other comprehensive loss before tax effect	<b>\$(1,715)</b>	\$3,547	\$ 4,041

The estimated net loss and prior service cost for the defined benefit pension plan that will be amortized from accumulated other comprehensive loss into net periodic benefit cost over the next year are \$1,085,000, \$(19,000), respectively.

The weighted-average assumptions used to determine net periodic benefit cost for the years ended December 31, 2013, 2012 and 2011 were as follows:

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(PERCENTAGES)		
WEIGHTED AVERAGE ASSUMPTIONS:			
Discount rate	<b>4.00%</b>	4.75 %	5.25 %
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, 2013. This plan's asset allocations at December 31, 2013 and 2012, by asset category are as follows:

ASSET CATEGORY:	2013	2012
	(PERCENTAGES)	
	%	%
Cash and cash equivalents		
Domestic equities	<b>10</b>	22
Mutual funds/ETFs	<b>79</b>	63
International equities	<b>6</b>	2
Corporate bonds	<b>5</b>	13
Total	<b>100%</b>	100%

77

---

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****14. EMPLOYEE BENEFIT PLANS (continued)**

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,	
	2013	2012
	(IN THOUSANDS)	
Level 1:		
Cash and cash equivalents	\$	\$
Domestic equities	<b>2,741</b>	4,731
International equities	<b>1,478</b>	336
Mutual funds/ETFs	<b>20,744</b>	13,566
Level 2:		
Corporate bonds	<b>1,325</b>	2,735
Total fair value of plan assets	<b>\$ 26,288</b>	\$ 21,368

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 ADRs 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, 2013, 2.4% 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 2014 will be approximately \$2.0 million.

78

---

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**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)
2014	\$ 2,444
2015	2,268
2016	2,752
2017	2,809
2018	2,430
Years 2019 - 2023	14,200

**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%. Contributions by the Company charged to operations were \$327,000 and \$277,000 for the years ended December 31, 2013 and 2012, respectively.

The fair value of plan assets includes \$802,000 pertaining to the value of the Company's common stock and Trust Preferred securities that are held by the plan at December 31, 2013.

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, 2013, is as follows:

YEAR:	FUTURE MINIMUM LEASE PAYMENTS (IN THOUSANDS)
2014	\$ 712
2015	682
2016	625
2017	511
2018	366
2019 and thereafter	1,931

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 \$764,000, \$785,000 and \$665,000, in 2013, 2012, and 2011, respectively.

79

---

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**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, 2013, the Company had various outstanding commitments to extend credit approximating \$146,008,000 and standby letters of credit of \$13,229,000, compared to commitments to extend credit of \$132,804,000 and standby letters of credit of \$11,365,000 at December 31, 2012. Standby letters of credit had terms ranging from 1 to 2 years with annual extension options available. Standby letters of credit of approximately \$3.9 million were secured as of December 31, 2013 and approximately \$4.2 million at December 31, 2012. The carrying amount of the liability for AmeriServ obligations related to unfunded commitments and standby letters of credit was \$776,000 at December 31, 2013 and \$648,000 at December 31, 2012.

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 is a voluntary program sponsored by the US Treasury that encourages small business lending by providing capital to qualified community banks at favorable rates. The initial interest rate on the Series E Preferred Stock has been initially set at 5% per annum and may be decreased to as low as 1% per annum if growth thresholds are met for qualified outstanding small business loans. 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 TARP Capital Purchase Program.

80

---

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****17. PREFERRED STOCK (continued)**

The Series E Preferred Stock has an aggregate liquidation preference of approximately \$21 million and qualifies as Tier 1 Capital for regulatory purposes. The terms of the Series E Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, may fluctuate while the Series E Preferred Stock is outstanding based upon changes in the level of qualified small business lending ( QSBL ) by the Bank from its average level of QSBL at each of the four quarter ends leading up to June 30, 2010 (the Baseline ) as follows:

DIVIDEND PERIOD BEGINNING	ANNUALIZED ENDING	ANNUALIZED DIVIDEND RATE
August 11, 2011	December 31, 2011	5.0%
January 1, 2012	December 31, 2013	1.0% to 5.0%
January 1, 2014	February 7, 2016	1.0% to 7.0% <sup>(1)</sup>
February 8, 2016	Redemption	9.0% <sup>(2)</sup>

(1) Between January 1, 2014 and February 7, 2016, the dividend rate will be fixed at a rate in such range based upon the level of percentage change in QSBL between September 30, 2013 and the Baseline.

(2) Beginning on February 8, 2016, the dividend rate will be fixed at nine percent (9%) per annum.

In addition to the applicable dividend rates described above, beginning on January 1, 2014 and on all dividend payment dates thereafter ending on April 1, 2016, if we fail to increase our level of QSBL compared to the Baseline, we will be required to pay a quarterly lending incentive fee of 0.5% of the liquidation value. As of September 30, 2013, the Company had increased its QSBL to a level that reduced the dividend rate to 1%. Accordingly, this 1% rate will continue through February 7, 2016.

As long as shares of Series E Preferred Stock remain outstanding, we may not pay dividends to our common shareholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series E Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series E Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of June 30, 2011, excluding any charge-offs and redemptions of the Series E Preferred Stock (the Tier 1 Dividend Threshold ). The Tier 1 Dividend Threshold is subject to reduction, beginning January 1, 2014, based upon the extent by which, if at all, the QSBL at September 30, 2013 has increased over the Baseline.

We may redeem the Series E Preferred Stock at any time at our option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, subject to the approval of our federal banking regulator.

## 18. STOCK COMPENSATION PLANS

The Company uses the modified perspective method for accounting for stock-based compensation and recognized \$82,000 of pretax compensation expense for the year 2013, \$38,000 in 2012 and \$15,000 in 2011.

During 2011, the Company's Board of Directors 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 of Directors. 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

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****18. STOCK COMPENSATION PLANS (continued)**

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, 2013, 2012, and 2011, and changes during the years then ended is presented in the table and narrative following:

	YEAR ENDED DECEMBER 31					
	2013		2012		2011	
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	<b>398,371</b>	<b>\$ 2.43</b>	313,612	\$ 3.02	257,287	\$ 3.18
Granted	<b>102,445</b>	<b>3.19</b>	164,241	2.73	58,575	2.25
Exercised	<b>(3,467)</b>	<b>1.81</b>	(1,500 )	1.70	(750 )	1.70
Forfeited	<b>(10,000)</b>	<b>4.25</b>	(77,982 )	5.47	(1,500 )	1.70
Outstanding at end of year	<b>487,349</b>	<b>2.55</b>	398,371	2.43	313,612	3.02
Exercisable at end of year	<b>257,253</b>	<b>2.25</b>	167,624	2.29	179,874	3.81
Weighted average fair value of options granted in current year		<b>\$ 0.83</b>		\$ 0.80		\$ 0.51

A total of 257,253 of the 487,349 options outstanding at December 31, 2013, are exercisable and have exercise prices between \$1.53 and \$5.75, with a weighted average exercise price of \$2.25 and a weighted average remaining contractual life of 6.41 years. All of these options are exercisable. The remaining 230,096 options that are not yet exercisable have exercise prices between \$1.92 and \$3.23, with a weighted average exercise price of \$2.90 and a weighted average remaining contractual life of 8.80 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 2013, 2012, and 2011.

BLACK-SCHOLES ASSUMPTION RANGES	YEAR ENDED DECEMBER 31					
	2013		2012		2011	
Risk-free interest rate	<b>1.82</b>	<b>2.03%</b>	1.66	2.28%	2.19	3.62%
Expected lives in years	<b>10</b>		10		10	
Expected volatility	<b>30.06</b>	<b>32.32%</b>	33.26	35.77%	35.03	35.25%

Expected dividend rate	<b>1.30%</b>	0%	0%
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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****19. ACCUMULATED OTHER COMPREHENSIVE LOSS**

The following table presents the changes in each component of accumulated other comprehensive loss, net of tax, for the period ended December 31, 2013 (in thousands):

	Net Unrealized Gains and Losses on Investment Securities AFS <sup>(1)</sup>	Defined Benefit Pension Items <sup>(1)</sup>	Total
Balance at January 1, 2013	\$ 4,141	\$ (9,520 )	\$ (5,379 )
Other comprehensive income (loss) before reclassifications	(2,963 )	2,161	(802 )
Amounts reclassified from accumulated other comprehensive loss	(135 )	441	306
Net current period other comprehensive income (loss)	(3,098 )	2,602	(496 )
Balance at December 31, 2013	\$ 1,043	\$ (6,918 )	\$ (5,875 )

(1) Amounts in parentheses indicate debits.

The following table presents the amounts reclassified out of each component of accumulated other comprehensive loss for the period ended December 31, 2013 (in thousands):

Details about accumulated other comprehensive loss components	Amount reclassified from accumulated other comprehensive loss <sup>(1)</sup>	Affected line item in the statement of operations
Unrealized gains and losses on sale of securities	\$ (204 )	Net realized gains on investment securities AFS
	(204 )	Total before tax

	69	Provision for income tax expense
	(135 )	Net of tax
Amortization of defined benefit items <sup>(2)</sup>		
Estimated net loss	683	Salaries and employee benefits
Prior service cost	(10 )	Salaries and employee benefits
Transition asset	(4 )	Salaries and employee benefits
	669	Total before tax
	(228 )	Provision for income tax expense
	441	Net of tax
Total reclassifications for the period	\$ 306	Net of tax

(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).

83

---

TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**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 \$12.6 million, \$9.5 million is allocated to the retail banking segment and \$3.1 million relates to the West Chester Capital Advisors (WCCA) acquisition which is included in the trust segment. Goodwill in both of these segments was evaluated for impairment on its annual impairment evaluation date. During the first quarter of 2011, the Company did reduce the goodwill allocated to West Chester Capital Advisors by \$337,000. This reduction resulted from a purchase price adjustment as the principal of WCCA did not fully earn a deferred contingent payment that had been accrued for at the time of acquisition. The Company's intangible goodwill balance at December 31, 2013 and 2012 was \$12.6 million.

**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.

To accommodate a customer need and support the Company's asset/liability positioning, we entered into an interest rate swap with the customer and Pittsburgh National Bank (PNC) in the fourth quarter of 2008. This arrangement involved the exchange of interest payments based on the notional amounts. The Company entered into a floating rate loan and a fixed rate swap with our customer. Simultaneously, the Company entered into an offsetting fixed rate swap with PNC. In connection with each swap transaction, the Company agreed to pay interest to the customer on a notional amount at a variable interest rate and receive interest from the customer on the same notional amount at a fixed interest rate. At the same time, the Company agreed to pay PNC the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. This transaction allowed the Company's customer to effectively convert a variable rate loan to a fixed rate. Because the Company acts as an intermediary for its customer, changes in the fair value of the underlying derivative contracts offset each other and did not significantly impact the Company's results of operations.

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



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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	\$ <b>165,488</b>
12/12/08	09/24/13	FAIR VALUE	9,000,000	2.73	5.25	MONTHLY	<b>(165,488)</b>

\$

The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****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 lending, trust, and investment/parent. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise and lending to both individuals and small businesses. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Commercial banking to businesses includes commercial loans, and commercial real-estate loans. The trust segment contains our wealth management businesses which include the Trust Company, West Chester Capital Advisors, 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, 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)	<b>1,165</b>	<b>2,166</b>	<b>619</b>	<b>(1,661)</b>	<b>2,289</b>
Net income (loss)	<b>\$2,792</b>	<b>\$ 5,023</b>	<b>\$ 1,202</b>	<b>\$ (3,824)</b>	<b>\$ 5,193</b>
Total assets	<b>\$347,823</b>	<b>\$ 545,556</b>	<b>\$ 4,722</b>	<b>\$ 157,935</b>	<b>\$ 1,056,036</b>

---

85

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****22. SEGMENT RESULTS (continued)**

	YEAR ENDED DECEMBER 31, 2012				
	RETAIL BANKING	COMMERCIAL BANKING	TRUST	INVESTMENT/ PARENT	TOTAL
	(IN THOUSANDS)				
Net interest income	\$20,585	\$ 14,499	\$ 35	\$ (2,916 )	\$ 32,203
Credit provision for loan loss	(160 )	(615 )			(775 )
Non-interest income	6,565	585	7,784	9	14,943
Non-interest expense	22,802	8,970	6,387	2,482	40,641
Income (loss) before income taxes	4,508	6,729	1,432	(5,389 )	7,280
Income tax expense (benefit)	1,358	2,044	487	(1,648 )	2,241
Net income (loss)	\$3,150	\$ 4,685	\$ 945	\$ (3,741 )	\$ 5,039
Total assets	\$336,241	\$ 497,331	\$ 4,429	\$ 162,990	\$ 1,000,991

	YEAR ENDED DECEMBER 31, 2011				
	RETAIL BANKING	COMMERCIAL BANKING	TRUST	INVESTMENT/ PARENT	TOTAL
	(IN THOUSANDS)				
Net interest income	\$20,100	\$ 13,860	\$ 41	\$ (1,718 )	\$ 32,283
Credit provision for loan loss	(263 )	(3,312 )			(3,575 )
Non-interest income	6,055	597	7,282	(365 )	13,569
Non-interest expense	23,470	7,833	6,118	2,616	40,037
Income (loss) before income taxes	2,948	9,936	1,205	(4,699 )	9,390
Income tax expense (benefit)	880	2,995	410	(1,432 )	2,853
Net income (loss)	\$2,068	\$ 6,941	\$ 795	\$ (3,267 )	\$ 6,537
Total assets	\$337,869	\$ 442,087	\$ 3,917	\$ 195,203	\$ 979,076

**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, 2013 and 2012, 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 7.64% and 7.78% for 2013 and 2012, respectively.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****23. REGULATORY CAPITAL (continued)**

AS OF DECEMBER 31, 2013

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT (IN THOUSANDS)	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Capital (To Risk Weighted Assets) Consolidated	<b>\$128,469</b>	<b>15.28%</b>	<b>\$67,247</b>	<b>8.00%</b>	<b>\$84,059</b>	<b>10.00%</b>
AmeriServ Financial Bank	<b>103,009</b>	<b>12.39</b>	<b>66,506</b>	<b>8.00</b>	<b>83,132</b>	<b>10.00</b>
Tier 1 Capital (To Risk Weighted Assets) Consolidated	<b>117,957</b>	<b>14.03</b>	<b>33,624</b>	<b>4.00</b>	<b>50,435</b>	<b>6.00</b>
AmeriServ Financial Bank	<b>92,611</b>	<b>11.14</b>	<b>33,253</b>	<b>4.00</b>	<b>49,879</b>	<b>6.00</b>
Tier 1 Capital (To Average Assets) Consolidated	<b>117,957</b>	<b>11.45</b>	<b>41,204</b>	<b>4.00</b>	<b>51,505</b>	<b>5.00</b>
AmeriServ Financial Bank	<b>92,611</b>	<b>9.23</b>	<b>40,124</b>	<b>4.00</b>	<b>50,155</b>	<b>5.00</b>

AS OF DECEMBER 31, 2012

	ACTUAL		FOR CAPITAL ADEQUACY PURPOSES		TO BE WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION PROVISIONS	
	AMOUNT (IN THOUSANDS)	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
Total Capital (To Risk Weighted Assets) Consolidated	<b>\$122,583</b>	<b>15.92%</b>	<b>\$61,588</b>	<b>8.00%</b>	<b>\$76,985</b>	<b>10.00%</b>
AmeriServ Financial Bank	<b>101,786</b>	<b>13.34</b>	<b>61,060</b>	<b>8.00</b>	<b>76,325</b>	<b>10.00</b>
Tier 1 Capital (To Risk Weighted Assets) Consolidated	<b>112,916</b>	<b>14.67</b>	<b>30,794</b>	<b>4.00</b>	<b>46,191</b>	<b>6.00</b>

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AmeriServ Financial Bank	92,200	12.08	30,530	4.00	45,795	6.00
Tier 1 Capital (To Average Assets)	112,916	11.44	39,474	4.00	49,343	5.00
Consolidated						
AmeriServ Financial Bank	92,200	9.55	38,616	4.00	48,269	5.00

On July 2, 2013, the Board of Governors of the Federal Reserve System 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 become 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  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****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,	
	2013	2012
	(IN THOUSANDS)	
<b>ASSETS</b>		
Cash	<b>\$100</b>	\$ 100
Short-term investments in money market funds	<b>6,561</b>	6,085
Investment securities available for sale	<b>11,909</b>	10,534
Equity investment in banking subsidiary	<b>99,250</b>	99,121
Equity investment in non-banking subsidiaries	<b>5,321</b>	5,017
Guaranteed junior subordinated deferrable interest debenture issuance costs	<b>224</b>	240
Other assets	<b>4,352</b>	2,713
<b>TOTAL ASSETS</b>	<b>\$127,717</b>	\$ 123,810
<b>LIABILITIES</b>		
Guaranteed junior subordinated deferrable interest debentures	<b>\$13,085</b>	\$ 13,085
Other liabilities	<b>1,325</b>	257
<b>TOTAL LIABILITIES</b>	<b>14,410</b>	13,342
<b>STOCKHOLDERS' EQUITY</b>		
Total stockholders' equity	<b>113,307</b>	110,468
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$127,717</b>	\$ 123,810



TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****24. PARENT COMPANY FINANCIAL INFORMATION (continued)**

## STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
INCOME			
Inter-entity management and other fees	<b>\$2,355</b>	\$2,355	\$ 2,329
Dividends from banking subsidiary	<b>5,500</b>	8,000	2,500
Dividends from non-banking subsidiaries	<b>675</b>	710	620
Interest and dividend income	<b>243</b>	306	415
TOTAL INCOME	<b>8,773</b>	11,371	5,864
EXPENSE			
Interest expense	<b>1,121</b>	1,121	1,121
Salaries and employee benefits	<b>2,502</b>	2,368	2,394
Other expense	<b>1,608</b>	1,582	1,477
TOTAL EXPENSE	<b>5,231</b>	5,071	4,992
INCOME BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	<b>3,542</b>	6,300	872
Benefit for income taxes	<b>895</b>	819	764
Equity in undistributed earnings of subsidiaries	<b>756</b>	(2,080 )	4,901
NET INCOME	<b>\$5,193</b>	\$5,039	\$ 6,537
COMPREHENSIVE INCOME	<b>\$4,697</b>	\$3,320	\$ 7,739

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****24. PARENT COMPANY FINANCIAL INFORMATION (continued)**

## STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
<b>OPERATING ACTIVITIES</b>			
Net income	<b>\$5,193</b>	\$5,039	\$6,537
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in undistributed earnings of subsidiaries	<b>(756)</b>	2,080	(4,901)
Stock compensation expense	<b>82</b>	38	15
Other net	<b>(718)</b>	(989)	(285)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<b>3,801</b>	6,168	1,366
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities available for sale	<b>(3,885)</b>	(2,077)	(3,049)
Proceeds from maturity of investment securities available for sale	<b>2,506</b>	2,809	5,942
<b>NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES</b>	<b>(1,379)</b>	732	2,893
<b>FINANCING ACTIVITIES</b>			
Purchase of treasury stock	<b>(1,171)</b>	(4,417)	(582)
TARP warrant repurchase			(825)
Preferred stock dividends paid	<b>(209)</b>	(828)	(1,054)
Common stock dividends paid	<b>(566)</b>		
<b>NET CASH USED IN FINANCING ACTIVITIES</b>	<b>(1,946)</b>	(5,245)	(2,461)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>476</b>	1,655	1,798
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<b>6,185</b>	4,530	2,732
<b>CASH AND CASH EQUIVALENTS AT DECEMBER 31</b>	<b>\$6,661</b>	\$6,185	\$4,530

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 \$105,600,000 of restricted surplus and retained earnings at December 31, 2013.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011****25. SELECTED QUARTERLY CONSOLIDATED FINANCIAL  
DATA**

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

	2013 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$10,203	\$9,811	\$9,627	\$9,702
Interest expense	1,605	1,611	1,606	1,660
Net interest income	8,598	8,200	8,021	8,042
Provision (credit) for loan losses	(1,000)		150	(250)
Net interest income after provision (credit) for loan losses	9,598	8,200	7,871	8,292
Non-interest income	3,867	3,986	4,075	3,816
Non-interest expense	10,746	10,413	10,442	10,622
Income before income taxes	2,719	1,773	1,504	1,486
Provision for income taxes	878	547	434	430
Net income	\$1,841	\$1,226	\$1,070	\$1,056
Basic earnings per common share	\$0.10	\$0.06	\$0.05	\$0.05
Diluted earnings per common share	0.09	0.06	0.05	0.05
Cash dividends declared per common share	0.01	0.01	0.01	0.00
	2012 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	\$9,878	\$10,030	\$9,885	\$10,124
Interest expense	1,796	1,888	1,964	2,066
Net interest income	8,082	8,142	7,921	8,058
Provision (credit) for loan losses	550	(200 )	(500 )	(625 )
Net interest income after provision (credit) for loan losses	7,532	8,342	8,421	8,683
Non-interest income	3,887	3,649	3,733	3,674
Non-interest expense	10,373	10,087	10,067	10,114

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Income before income taxes	1,046	1,904	2,087	2,243
Provision for income taxes	311	597	655	678
Net income	\$735	\$1,307	\$1,432	\$1,565
Basic earnings per common share	\$0.04	\$0.05	\$0.06	\$0.06
Diluted earnings per common share	0.04	0.05	0.06	0.06
Cash dividends declared per common share	0.00	0.00	0.00	0.00

91

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TABLE OF CONTENTS

**AMERISERV FINANCIAL, INC.**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
AT AND FOR THE YEARS ENDED  
DECEMBER 31, 2013, 2012 AND 2011**

**25. SELECTED QUARTERLY CONSOLIDATED FINANCIAL  
DATA (continued)**

**REPORT OF INDEPENDENT REGISTERED PUBLIC  
ACCOUNTING FIRM**

Board of Directors and Shareholders  
AmeriServ Financial, Inc.

We have audited the accompanying consolidated balance sheets of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for each of the three years in the year ended December 31, 2013. These consolidated financial statements are the responsibility of AmeriServ Financial, Inc.'s management. Our responsibility is to express an opinion on these 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 financial position of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for each of the three years in the year ended December 31, 2013, in conformity with U.S. generally accepted accounting principles.

/s/ S.R. Snodgrass, P.C.  
Wexford, Pennsylvania  
February 28, 2014



TABLE OF CONTENTS

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

AmeriServ Financial, Inc. is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

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, 2013, in relation to criteria for effective internal control over financial reporting as described in Internal Control - Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission in 1992. Based on this assessment, management concludes that, as of December 31, 2013, its system of internal control over financial reporting is effective and meets the criteria of the 1992 Internal Control - Integrated Framework. This annual report does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to the rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

/s/ GLENN L. WILSON

/s/ JEFFREY A. STOPKO

Glenn L. Wilson  
President & Chief Executive Officer

Jeffrey A. Stopko  
Executive Vice President & Chief Financial Officer  
Johnstown, PA  
February 20, 2014



TABLE OF CONTENTS

# STATEMENT OF MANAGEMENT RESPONSIBILITY

February 20, 2014

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 outside 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/ GLENN L. WILSON

/s/ JEFFREY A. STOPKO

Glenn L. Wilson  
President & Chief Executive Officer

Jeffrey A. Stopko  
Executive Vice President & Chief Financial Officer

TABLE OF CONTENTS

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, 2013, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2013.

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 Securities Exchange Act of 1934, as amended ( Exchange Act ), is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission'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 the 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, 2013 is included in Item 8.

ITEM 9B. OTHER INFORMATION

None.

TABLE OF CONTENTS**PART III****ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE**

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

**ITEM 11. EXECUTIVE COMPENSATION**

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

**ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS**

## Equity Compensation Plan Information

The following table summarizes the number of shares remaining for issuance under ASRV's outstanding stock incentive plans as of December 31, 2013.

## 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	487,349	\$ 2.55	543,513
Equity compensation plans not approved by security holders	0	0	0
Total	487,349	\$ 2.55	543,513

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.

TABLE OF CONTENTS

**PART IV**

ITEM 15. EXHIBITS AND CONSOLIDATED FINANCIAL STATEMENT SCHEDULES

CONSOLIDATED FINANCIAL STATEMENTS FILED:

The consolidated financial statements listed below are from this 2013 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>37</u>
<u>Consolidated Statements of Operations</u>	<u>38</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>40</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>41</u>
<u>Consolidated Statements of Cash Flows</u>	<u>42</u>
<u>Notes to Consolidated Financial Statements</u>	<u>43</u>
<u>Report of Independent Registered Public Accounting Firm</u>	<u>92</u>
<u>Statement of Management Responsibility</u>	<u>94</u>

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:

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

TABLE OF CONTENTS

## 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 on December 17, 2009.	Exhibit 3.2 to Form 8-K Filed on December 23, 2009.
10.1	Agreement, dated July 22, 2009, between AmeriServ Financial, Inc. and Glenn L. Wilson.	Exhibit 10.1 to Form 8-K Filed July 28, 2009.
10.2	Securities Purchase Agreement, dated August 11, 2011, between AmeriServ Financial, Inc. and the Secretary of the Treasury, with respect to the issuance and sale of the SBLF Preferred Stock.	Exhibit 10.1 to Form 8-K filed on August 12, 2011.
10.3	Repurchase Letter Agreement dated August 11, 2011, between AmeriServ Financial, Inc. and the United States Department of the Treasury, with respect to the repurchase and redemption of the TARP Preferred Stock.	Exhibit 10.2 to Form 8-K filed on August 12, 2011.
10.4	Letter Agreement, dated November 2, 2011, between AmeriServ Financial, Inc. and the United States Department of the Treasury, with respect to the repurchase of the Warrant.	Exhibit 10.1 to Form 8-K filed on November 2, 2011.
10.5	AmeriServ Financial Inc. 2011 Stock Incentive Plan.	Appendix A to the Definitive Proxy Statement, filed under Schedule 14A, filed on March 21, 2011.
21.1	Subsidiaries of the Registrant.	Below
23.1	Consent of Independent Registered Public Accounting Firm Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.	Below
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.	Below
31.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Below
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Below
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Below
101	The following information from AMERISERV FINANCIAL, INC.'s Annual Report on Form 10-K for the year ended December 31, 2013, formatted in XBRL (eTensible Business Reporting Language): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations,	Below

(iii) Consolidated Statements of Cash Flows, and (iv) Notes to the Consolidated Financial Statements.

98

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TABLE OF CONTENTS

**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/ Glenn L. Wilson

By:

Glenn L. Wilson  
President & CEO

Date: February 20, 2014

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 20, 2014:

/s/ Craig G. Ford	Chairman Director		
Craig G. Ford			
/s/ Glenn L. Wilson	President, CEO & Director	/s/ Jeffrey A. Stopko	EVP & CFO
Glenn L. Wilson		Jeffrey A. Stopko	
/s/ J. Michael Adams, Jr.	Director	/s/ Very Rev. Christian R. Oravec	Director
J. Michael Adams, Jr.		Very Rev. Christian R. Oravec	
/s/ Allan R. Dennison	Director	/s/ Mark E. Pasquerilla	Director
Allan R. Dennison		Mark E. Pasquerilla	
/s/ Daniel R. DeVos	Director	/s/ Howard M. Picking, III	Director
Daniel R. DeVos		Howard M. Picking, III	
/s/ James C. Dewar	Director	/s/ Sara A. Sargent	Director
James C. Dewar		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			
/s/ Margaret A. O Malley	Director		



Margaret A. O Malley

99

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TABLE OF CONTENTS

# 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
*	West End Office 163 Fairfield Avenue Johnstown, PA 15906-2392
*	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

Harrisburg Office  
2080 Linglestown Road  
Suite 107

Harrisburg, PA 17110-9693

Hagerstown Office  
1829 Howell Road  
Suite 3  
Hagerstown, MD 21740-6606

Pittsburgh Loan Center  
300 Penn Center Boulevard  
Suite 402  
Pittsburgh, PA 15235-5507

100

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TABLE OF CONTENTS

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, Executive Vice President & Chief Financial 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.

