AMERISERV FINANCIAL INC /PA/
Form 10-K
March 08, 2013

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

FORM 10-K

(MARK ONE)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

OR

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

COMMISSION FILE NUMBER 0-11204

AMERISERV FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA (State or other jurisdiction of incorporation or organization)	25-1424278 (I.R.S. Employer Identification No.)
MAIN & FRANKLIN STREETS, P.O. BOX 430, JOHNSTOWN, PENNSYLVANIA (Address of principal executive offices)	15907-0430 (Zip Code)

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

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

Title Of Each Class	Name Of Each Exchange On Which Registered
Common Stock, Par Value $0.01 Per Share	NASDAQ

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

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

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

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

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

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

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 o	Accelerated filer o	Non-accelerated filer o	Smaller reporting company þ

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked 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 $54,382,349 as of June 30, 2012.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. There were 19,168,188 shares outstanding as of January 31, 2013.

DOCUMENTS INCORPORATED BY REFERENCE.

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

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PART I

ITEM 1. BUSINESS

GENERAL

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

The Company s principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2012, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $1.0 billion, $836 million, and $110 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 registered investment advisor, is also a subsidiary of the Bank.

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

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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, 2012:

Headquarters	Johnstown, PA
Total Assets	**$ 975,223**
Total Investment Securities	**152,456**
Total Loans and Loans Held for Sale (net of unearned income)	**731,741**
Total Deposits	**835,934**
Total Net Income	**5,804**
Asset Leverage Ratio	**9.55%**
Return on Average Assets	**0.60**
Return on Average Equity	**5.66**
Total Full-time Equivalent Employees	**278**

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, and strategic 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 in 2012 also formed 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. 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. Our policy permits flexibility in determining acceptable debt service coverage ratios, with a minimum level of 1.1 to 1 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 which are also monitored and considered during the underwriting process.

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Commercial Loans Secured by Real Estate

This category includes various types of loans, including acquisition and construction of investment property, owner-occupied property and operating property. Maximum term, minimum cash flow coverage, leasing requirements, maximum amortization and maximum loan to value ratios are controlled by the Bank s credit policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits, and are frequently obtained on mid to smaller commercial real estate loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, 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 exhibit 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 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 to provide ample liquidity 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 portfolios of the Company and its subsidiaries are proactively managed in accordance with federal and state laws and regulations 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. During 2012, the Company did add high quality corporate securities to the portfolio. The purpose of this type of portfolio is to generate adequate cash flow to fund potential loan growth, as the market allows. 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 market value of the Company s investment portfolio as of the periods indicated:

Investment securities available for sale at:

	AT DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS)		
U.S. Agency	**$ 5,848**	$ 10,689	$ 15,956

Corporate bonds	**7,992**		
U.S. Agency mortgage-backed securities	**131,425**	165,484	145,727
Total cost basis of investment securities available for sale	**$ 145,265**	$ 176,173	$ 161,683
Total fair value of investment securities available for sale	**$ 151,538**	$ 182,923	$ 164,811

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Investment securities held to maturity at:

	AT DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS)		
Taxable municipal	**$ 410**	$	$
U.S. Agency mortgage-backed securities	**9,318**	9,280	6,824
Corporate bonds and other securities	**3,995**	3,000	1,000
Total cost basis of investment securities held to maturity	**$ 13,723**	$ 12,280	$ 7,824
Total fair value of investment securities held to maturity	**$ 14,266**	$ 12,914	$ 8,267

DEPOSITS AND OTHER SOURCES OF FUNDS

Deposits

The Bank has a loyal 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 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,					
	2012		2011		2010	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	**$ 147,887**	**%**	$ 135,298	%	$ 122,963	%
Interest bearing	**60,810**	**0.19**	57,784	0.22	58,118	0.30
Savings	**85,112**	**0.21**	81,490	0.31	77,381	0.51
Money market	**211,744**	**0.42**	193,536	0.56	186,560	0.87
Other time	**327,557**	**1.62**	348,915	1.97	358,472	2.44
Total deposits	**$ 833,110**	**0.78**	$ 817,023	1.02	$ 803,494	1.36

Loans

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2012	2011	2010	2009	2008
	(IN THOUSANDS)				
Commercial	**$ 102,864**	$ 83,124	$ 78,322	$ 96,158	$ 110,197
Commercial loans secured by real estate(1)	**383,934**	350,224	370,375	396,787	353,870
Real estate-mortgage(1)	**217,584**	212,669	203,323	207,221	218,928
Consumer	**17,420**	18,172	19,233	19,619	23,804
Total loans	**721,802**	664,189	671,253	719,785	706,799

Less: Unearned income	**637**	452	477	671	691
Total loans, net of unearned income	**$ 721,165**	$ 663,737	$ 670,776	$ 719,114	$ 706,108

(1) For each of the periods presented beginning with December 31, 2012, real estate-construction loans constituted 2.0%, 1.9%, 3.9%, 6.8% and 6.2% of the Company s total loans, net of unearned income, respectively.

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Non-performing Assets

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2012	2011	2010	2009	2008
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial	**$**	$	$3,679	$3,375	$1,128
Commercial loans secured by real estate	**4,623**	3,870	6,731	11,716	484
Real estate-mortgage	**1,191**	1,205	1,879	2,025	1,765
Total	**5,814**	5,075	12,289	17,116	3,377
Other real estate owned:					
Commercial loans secured by real estate	**1,101**	20	436	871	701
Real estate-mortgage	**127**	104	302	350	494
Total	**1,228**	124	738	1,221	1,195
Total restructured loans not in non-accrual (TDR)	**182**		1,337		
Total non-performing assets including TDR	**$7,224**	$5,199	$14,364	$18,337	$4,572
Total non-performing assets as a percent of loans, net of unearned income, and other real estate owned	**1.00%**	0.78 %	2.14 %	2.55 %	0.65 %

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. OREO is 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,				
	2012	2011	2010	2009	2008
	(IN THOUSANDS)				
Interest income due in accordance with original terms	**$ 231**	$ 376	$ 1,086	$ 553	$ 198
Interest income recorded		(167)	(458)	(75)	
Net reduction in interest income	**$ 231**	$ 209	$ 628	$ 478	$ 198

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.

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AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AMERISERV TRUST AND FINANCIAL SERVICES COMPANY

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. As one of the larger providers of trust and investment management products and services between Pittsburgh and Harrisburg, AmeriServ Trust and Financial Services Company is committed to delivering personalized, professional service to its clients. Its staff of approximately 47 professionals administers assets valued at approximately $1.5 billion that are not recognized on the Company s balance sheet at December 31, 2012. 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 funds are in the process of liquidation. At December 31, 2012, the Trust Company had total assets of $4.0 million and total stockholder s equity of $3.5 million. In 2012, the Trust Company contributed earnings to the corporation as its gross revenue amounted to $7.1 million and the net income contribution was $843,000. 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, 2012, AmeriServ Life had total assets of $411,000.

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

Much of the uncertainty about the economic climate, plus tax and federal spending policies that plagued employers in 2012 continues in 2013. A March 2013 deadline for automatic spending cuts totaling about $1.2 trillion as well as the unresolved debt ceiling debate will result in continued caution by businesses

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pondering investment. A payroll tax hike included in the fiscal cliff deal will take up to one percentage point from GDP this year. This combined with federal spending cuts will likely result in GDP growth of about 2%, roughly the same pace as last year. Modest growth is expected in the second half of the year with consumer confidence, already the highest in five years, likely to continue to improve as home prices and employment rise.

Job growth is anticipated to hold steady in 2013. Job gains in the private sector are being spread widely, including the health care, manufacturing and construction industries. Moreover, growth in housing, exports and business spending are all positives for jobs. The unemployment rate, currently at 7.8% nationally, is expected to improve modestly to approximately 7.5% by the end of 2013. Current and anticipated job growth, however, is too low to give the economy much-needed impetus. Until the current pace of job creation picks up considerably, there will be no reduction in the number of long-term unemployed. Odds are that growth will pick up in the second half of the year. Two major obstacles will cause companies to remain cautious this year and may derail improvement: a Washington showdown over the federal debt ceiling and uncertainty over whether automatic spending cuts will be allowed to take effect.

Most interest rates, but short-term rates in particular, are expected to change little over 2013. The Federal Reserve indicated it will stand pat on it s near-zero federal funds rate. The Fed Open Market Committee announced for the first time ever the exact conditions under which it will hold interest rates low. As long as unemployment remains above 6.5% and inflation remains less than 0.5% above the committee s long-run goal of 2% the fed funds rate will remain at its current near-zero levels. There is likely to be some increase in long-term rates, though not a lot, as the economy posts more growth in the second half of 2013. That will focus more attention on the potential for rising inflation, nudging long-term rates up a bit. With GDP likely to increase only around 2% for the year, a surge isn t likely.

Inflation is poised to tick a bit higher than expected this year. The Consumer Price Index is anticipated to increase about 2.3% for the 12 months through December. That s up from about 1.7% for 2012. The main culprits are food and gasoline. Core inflation, which does not include prices of food and energy, isn t likely to increase much.

Housing is expected to improve in 2013. With builder optimism growing, mortgage rates near all-time lows and rising prices lifting more homes above water, housing should add about half a percentage point to GDP next year. Historically low mortgage rates will help. With the Federal Reserve continuing to buy mortgage-backed securities and pledging to hold rates down for a prolonged period, there s little reason to expect much of an increase through 2013.

The economy in Cambria and Somerset counties, Pennsylvania at the end of 2012 produced seasonally adjusted unemployment rates of 8.9% and 9.7%, respectively, as compared to national and state rates of 7.8% and 7.9%. Local markets continue to be negatively impacted by the slow economic conditions that exist in the national economy. December 2012 marks five years after the start of the Great Recession. Since that time, total nonfarm jobs in Johnstown MSA have fallen by 2600, split evenly between government and the private sector. Johnstown, PA, where AmeriServ Financial, Inc is headquartered continues to have a cost of living that is lower than the national average. As of November 30, 2012, total nonfarm jobs in Johnstown MSA were 1,000 above the November 2011 level with gains coming primarily from education and health services while all other categories demonstrated little change. The unemployment rate fluctuated between 7.6% and 9.3% during 2012. In the recent past, work on defense projects has contributed to economic growth in the region. However, a change in leadership due to the loss of a local Congressman due to congressional redistricting creates cause for concern about the continued positive impact from the defense industry.

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 reached 5.0% late in 2012, which represents a 0.7% improvement over the 2011 average and remains the lowest of all regions in the Commonwealth. Seasonally adjusted total nonfarm jobs for the MSA increased by 2,900 since December 2011. 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. Overall, opportunities in the State College market are quite different and challenging, providing a promising source of business to profitably grow the Company.

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The Company entered new markets in 2012 with the opening of loan production offices in Harrisburg in Dauphin county, Pennsylvania and Altoona in Blair county, Pennsylvania. The Company also moved outside of Pennsylvania and opened a third loan production office in Hagerstown, 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 2011 average of 7.2% to 7.1% late in 2012 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 ready workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living located an hour from the Washington, D.C./Baltimore regions, but with much lower costs. There is also plenty of facilities and land slated for development of available industrial/commercial space. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. While exhibiting a higher unemployment rate, the Hagerstown, MD-Martinsburg, WV area also improved from a 9.0% average in 2011 to a 7.9% average in 2012.

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. Altoona is the linchpin of the Tri-City Region. 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 interstate 99 and a major highway system, Altoona also has easy access to rail and air transportation. It is also ranked high in Inc. Magazine s best small markets to do business. The unemployment rate in the Altoona MSA decreased from a 7.6% average in 2010 to a 7.0% average in 2011 and was at 6.6% at the end of 2012.

In the near future, the Pennsylvania economy has the opportunity to continue to benefit from the production of shale gas. The Marcellus Shale, which underlies a vast majority of the state, is the largest unconventional natural gas reserve in the world. There is enormous economic potential for Pennsylvania to take advantage of this reserve as new drilling techniques have unlocked vast resources previously impossible to reach. The industry will create jobs in drilling and extraction, trucking and water treatment, gas line construction and maintenance, and in producing the materials for all of these needs. The successful development of natural gas represents one of our best opportunities to reignite Pennsylvania as a center for innovation and economic growth.

EMPLOYEES

The Company employed 374 people as of December 31, 2012, in full- and part-time positions. Approximately 188 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. In 2009, the Company successfully negotiated a new four year labor contract with the United Steelworkers Local that will expire on October 15, 2013. The contract calls for annual wage increases of 1.5% in the first year, 2.0% in each of the second and third years, and 3.0% in the fourth year. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated 10 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.

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. An undercapitalized bank must develop a capital restoration plan, and its parent holding company must guarantee the bank s compliance with the plan up to the lesser of 5% of the bank s assets at the time it became undercapitalized and the amount needed to comply with the plan.

As of December 31, 2012, 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. As required by that Act, the banking agencies have proposed new capital regulations, but have not yet issued final rules. The Company believes that new capital requirements, significantly increasing the amount of capital required over today s requirements, will be imposed over the next couple of years. A bank s capital category is determined solely for the purpose of applying the prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

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

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

USA PATRIOT ACT

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

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

On July 21, 2010, the President signed into law the Dodd-Frank 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 months or 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 requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs 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.

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, 2013 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.

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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, 2013, the Company had 3,906 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, 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**
Year ended December 31, 2011			
First Quarter	$ 2.37	$ 1.59	$ 0.00
Second Quarter	2.47	1.81	0.00
Third Quarter	2.27	1.57	0.00
Fourth Quarter	2.12	1.78	0.00

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, 2012.

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	398,371 0	$ 2.43 0	632,491 0

Equity compensation plans not approved by security holders			
Total	398,371	$ 2.43	632,491

In November 2011, the Board of Directors authorized a new program to repurchase 1.1 million common shares. The following table summarizes common share repurchase activity for the quarter ended December 31, 2012. This repurchase program is now considered complete.

	Total Number of Shares	Average Price Paid Per Share	Number of Shares that may yet be Purchased
October	5,600	$ 3.03	106,700
November	84,900	$ 2.99	0

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

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

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

The following discussion and analysis of financial condition and results of operations of 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, 2012, 2011, AND 2010

2012 SUMMARY OVERVIEW:

On January 22, 2013, AmeriServ reported its 2012 fourth quarter and full year financial results. Regarding the fourth quarter 2012, net income available to common shareholders was $683,000 or $0.04 per diluted share. This represents a decline from $1,505,000 or $0.07 per diluted share reported for the fourth quarter 2011. The quarter itself was quite positive in the basic blocking and tackling common to today s community banking. For example, lending is now the strongest it has been since 2009, with a growth in net loans of $25.1 million during the fourth quarter. Non-interest income reached a recent high, as the Trust Company and residential mortgage originations continued their growth. Operating expenses increased by $254,000 over the fourth quarter of 2011. This was a result of the necessary expenses needed to develop the new Loan Production Offices in Altoona and Harrisburg, PA and Hagerstown, MD. However, there was another dynamic at work which relates to our decision to make a provision to the allowance for losses during the fourth quarter of 2012.

We believe it is broadly apparent that the national economy continues to struggle. And, the length of this struggle is having an impact on AmeriServ s markets. Small businesses, often family-owned, form a significant segment of AmeriServ s borrowers. These are excellent people, our friends and neighbors, and the source of countless jobs throughout the region. But the length of this economic weakness is taking its toll. Unemployment rates continue to rise, and newspaper headlines are discouraging. We believe that the $1.9 million increase in non-performing assets in the fourth quarter was an indication of this economic pressure. Therefore, the Board and management chose to make the first positive contribution to the allowance for loan losses since the third quarter of 2010. We have learned over the years to carefully react to such trends. AmeriServ has maintained strong asset quality by recognizing weakened borrowers early so we can help them meet their obligations. This was our strategy during the Great Recession of 2008 and 2009. Therefore, this action simply recognizes the realities of the struggling economy, and is the necessary insurance policy needed to protect the franchise and the investment of our shareholders. A bit of research will substantiate that AmeriServ is well reserved for difficult times, and has a long history of helping borrowers help themselves.

For the full year 2012, AmeriServ produced net income available to common shareholders of $4,211,000 or $0.21 per diluted share. The result was $942,000 or $0.03 per share less than 2011.

Once again this performance was aided by strong results in several business lines. Net loans increased by $61 million. Deposits increased by $19 million. Non interest income increased by $1.37 million, and non-interest expenses were held to a 1.51% increase over 2011. However, the ultimate bottom line was impacted by fewer reductions in the allowance for loan losses during the first three quarters of 2012, and the decision to further strengthen that reserve by adding $550,000 in the fourth quarter due to an increase in non-performing loans.

We were especially pleased by a few specific areas of strong performance:

The Trust Company increased its bottom line by 18.3% over 2011. Mortgage originations surpassed 2011 by closing $117 million in new mortgages, an increase of 41% over the prior year. The Commercial Lending Division averaged more than 400 calls per month. These calls resulted in more loans to small businesses, and thus, the US Treasury rewarded us with a 4% reduction in the cost of Treasury Preferred Stock provided by the Small Business Loan Fund. This savings totals about $200,000 per quarter.

In normal times, this story of strong loans and deposits, higher levels of non-interest income and careful expense management should be the right recipe for earnings growth. But there is a well-recognized limiting factor at work.

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We are aware that following the Lehman Brothers bankruptcy in September 2008, financial markets were in a free fall. Understandingly, at that time, the Federal Reserve adopted a low interest rate policy in an attempt to keep credit markets functioning. But now, here in 2013, we begin the fifth year of this low interest rate program. This period of easy money has reduced the interest payments on the Federal debt. But this low interest rate policy punishes savers, pension funds, and community banks. Rates on loans are at the lowest level since the 1930s and World War II. This means community bank revenue has shrunk precipitously during this period. But here is the essential paradox. Unfortunately the four plus years of easy money has not reduced unemployment or increased economic activity as expected.

The AmeriServ Board and its management team constantly monitor these trends. We ve learned that weakening economic conditions require action. During 2008 and 2009, AmeriServ created Fortress Johnstown with strong capital, deep liquidity, and realistic loan loss reserves. These actions resulted in a quick recovery in 2010 and 2011. Therefore, we have again taken the necessary actions to continue AmeriServ s position as a strong and disciplined community bank. We believe this is the correct course and we are pleased to maintain the balance sheet strength needed to take swift action.

We are very aware that this is a challenging time for investors. The financial sector has been severely criticized for unwise practices and programs. But AmeriServ s Board and management pledged that this company would return to its community banking roots and not participate in financial gimmicks and fads. The result has been three consecutive profitable years since the Great Recession. On December 31, 2010, AmeriServ common stock closed at $1.58; on December 31, 2011, it closed at $1.95, a gain of 23%; and, on December 31, 2012, our stock closed at $3.01, an additional gain of 54%. In just 24 months our stock price has increased by 91%. These gains, along with the $5 million buyback of common shares from the fourth quarter of 2011 through the end of 2012, has been part of a continuing program to reward the people and companies who are our valued investors.

The United States is involved in a long-term effort to reduce the level of debt at the individual level, the company level and the government level. It is essential for the long term health of our nation. But it has and will continue to produce challenges we all must face. AmeriServ will tackle these times with a continued strong capital base, deep liquidity, and careful expense management. We believe this will create a sound and rewarding investment for our shareholders, a good employer for our staff, and a source of economic strength for our communities.

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,		
	2012	2011	2010
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	**$ 5,039**	$ 6,537	$ 1,282
Net income available to common shareholders	**4,211**	5,152	121
Diluted earnings per share	**0.21**	0.24	0.01
Return on average assets	**0.51%**	0.68 %	0.13 %
Return on average equity	**4.51**	5.90	1.19

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 performance has been relatively stable throughout 2012. It decreased for the full year of 2012 by only $80,000, or 0.2%, when compared to the entire year of 2011. The Company s strong growth in non-interest income has been a financial performance highlight in 2012. 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%.

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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 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 lowest rate available under the SBLF program. This 1% rate, which is now locked in for the first half of 2013, saves the Company approximately $200,000 on a quarterly basis.

The Company reported net income of $6.5 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 again 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. Finally, diluted earnings per share were again impacted by the $1.1 million dividend requirement on preferred stock and the $267,000 accelerated preferred stock discount accretion related to the repayment of the TARP CPP preferred stock which reduced the amount of net income available to common shareholders.

The Company reported net income of $1.3 million or $0.01 per diluted common share for 2010. This represented an increase of $6.2 million from the 2009 net loss of $4.9 million or $0.29 per diluted common share. Improvements in asset quality were a key factor causing our increased earnings in 2010. Proactive monitoring of our loan portfolio and problem credits allowed us to carefully adjust downward the provision for loan losses in each quarter of 2010 while still maintaining good loan loss reserve coverage ratios. Also, there was little change in total revenue in 2010 as both net interest income and non-interest income were comparable with the prior year. Non-interest expenses increased moderately in 2010 as they grew by 1.4%.

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,		
	2012	2011	2010
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	**$ 39,917**	$ 41,964	$ 44,831
Interest expense	**7,714**	9,681	12,489
Net interest income	**32,203**	32,283	32,342
Net interest margin	**3.65%**	3.72 %	3.79 %

2012 NET INTEREST PERFORMANCE OVERVIEW... The Company s net interest income performance has again been 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 which has pressured interest revenue in 2012 and demonstrates the impact of the Federal Reserve low interest rate policies. The Company has been 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 outstanding have increased for seven consecutive quarters and now are $61 million or 9.1% higher than they were at December 31, 2011. This loan growth reflects the successful

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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 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 has also been negatively impacted by increased premium amortization on mortgage backed securities due to faster mortgage prepayment speeds. However, careful management of funding costs has allowed the Company to mitigate a significant portion of this drop in interest revenue during the past year. 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% over the past year. Overall, the Company expects that this net interest margin pressure will continue in 2013 given the Federal Reserve s announced plans to continue the Quantitative Easing 3 Program and their pledge to keep short term interest rates exceptionally low into 2015.

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%. 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 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 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. Good commercial loan pipelines suggest that the Company should be able to again grow the loan portfolio in 2013 and further increase the loan to deposit ratio.

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 have 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.

2011 NET INTEREST PERFORMANCE OVERVIEW... The Company s net interest income performance was relatively stable in 2011. For the full year of 2011, it decreased by only $59,000, or 0.2%, when compared to the entire year of 2010. The Company s 2011 net interest margin averaged 3.72%, which was seven basis points lower than the 2010 net interest margin of 3.79%. Reduced loan balances were the primary factor causing the drop in both net interest income and net interest margin in 2011. Specifically, total loans averaged $663 million for the full year 2011, a decrease of $39 million or 5.5% from the 2010 year. The lower balances reflect the results of the Company s focus on reducing its commercial real estate exposure and problem loans, particularly during the first half of 2011. However, total loan balances bottomed out in the first quarter of 2011 and increased by $26 million during the remainder of 2011 due to the Company s more intensive sales calling efforts for commercial loans and growth in home equity loans. The Company strengthened its excellent liquidity position by reinvesting excess cash in high quality investment securities and short-term investments whose average balance increased by $42 million in 2011. Careful management of funding costs allowed the Company to mitigate a significant portion of the drop in interest revenue during 2011. Specifically, interest expense for 2011 decreased by $2.8 million due to reduced deposit costs. This reduction in deposit costs did not negatively impact deposit balances which increased by $15 million or 1.9% since December 31, 2010. The Company is particularly pleased with the growth achieved in non-interest bearing demand deposits in 2011 whose balances on average increased by $12 million or 10.0%.

COMPONENT CHANGES IN NET INTEREST INCOME: 2011 VERSUS 2010... Regarding the separate components of net interest income, the Company s total interest income in 2011 decreased by $2.9 million when compared to 2010. This decrease was due to a 42 basis point decline in the earning asset yield from 5.26% to 4.84%, partially offset by additional interest income from a $2.8 million increase in average earning assets due to an increase in investment securities. Within the earning asset base, the yield on the total loan portfolio decreased by 19 basis points from 5.58% to 5.39% while the yield on total investment securities dropped by 39 basis points from 3.54% to 3.15%. Both of these yield declines reflect the impact of the lower interest rate environment that has been in place for over 3 years. Also the asset mix shift with fewer dollars invested in loans and more dollars invested in lower yielding short duration investment securities also negatively impacts the earning asset yield. Overall, the decline in loans combined with deposit growth caused the Company s loan to deposit ratio to average 81.1% in 2011 compared to 87.3% in 2010.

The Company s total interest expense for 2011 decreased by $2.8 million, or 22.5%, when compared to 2010. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 38 basis points to 1.37%. Management s decision to reduce interest rates paid on all deposit categories has not had any negative impact on deposit growth. This decrease in funding costs was also aided by a drop in interest expense associated with a $9.6 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by $10.8 million, but was partially offset by a $1.2 million increase in interest bearing deposits. Additionally, the Company s funding mix also benefited from a $12.3 million increase in non-interest bearing demand deposits. Overall, in 2011 the Company was able to further reduce its reliance on borrowings as a funding source as wholesale borrowings averaged only 1.1% of total assets.

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

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

	2012 vs. 2011 INCREASE (DECREASE) DUE TO CHANGE IN:			2011 vs. 2010 INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL	AVERAGE VOLUME	RATE	TOTAL
	(IN THOUSANDS)					
INTEREST EARNED ON:						
Loans, net of unearned income	**$1,580**	**$(2,467)**	**$(887)**	$(2,104)	$(1,296)	$(3,400)
Deposits with banks	**1**		**1**	6	2	8
Federal funds sold	**(4)**	**(3)**	**(7)**	3		3
Short-term investments in money market funds	**3**	**6**	**9**	(15)	8	(7)
Investment securities:						
Available for sale	**(439)**	**(764)**	**(1,203)**	1,003	(447)	556
Held to maturity	**82**	**(45)**	**37**	24	(54)	(30)
Total investment securities	**(357)**	**(809)**	**(1,166)**	1,027	(501)	526
Total interest income	**1,223**	**(3,273)**	**(2,050)**	(1,083)	(1,787)	(2,870)
INTEREST PAID ON:						
Interest bearing demand deposits	**7**	**(18)**	**(11)**	(1)	(48)	(49)
Savings deposits	**12**	**(87)**	**(75)**	22	(163)	(141)
Money market	**118**	**(313)**	**(195)**	35	(567)	(532)
Other time deposits	**(398)**	**(1,154)**	**(1,552)**	(230)	(1,658)	(1,888)
Federal funds purchased and other short-term borrowings	**5**		**5**	(9)	(7)	(16)
Advances from Federal Home Loan Bank	**(75)**	**(64)**	**(139)**	(202)	20	(182)
Total interest expense	**(331)**	**(1,636)**	**(1,967)**	(385)	(2,423)	(2,808)
Change in net interest income	**$1,554**	**$(1,637)**	**$(83)**	$(698)	$636	$(62)

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.

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	AT DECEMBER 31, 2012	2011	2010
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total loans past due 30 to 89 days	**$3,456**	$3,319	$2,791
Total non-accrual loans	**5,814**	5,075	12,289
Total non-performing assets including TDRs[1]	**7,224**	5,199	14,364
Loan delinquency as a percentage of total loans, net of unearned income	**0.48%**	0.50 %	0.42 %
Non-accrual loans as a percentage of total loans, net of unearned income	**0.81**	0.76	1.83
Non-performing assets as a percentage of total loans, net of unearned income, and other real estate owned	**1.00**	0.78	2.14
Non-performing assets as a percentage of total assets	**0.72**	0.53	1.51
Total classified loans (loans rated substandard or doubtful)	**$22,717**	$18,542	$39,627

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

As a result of successful ongoing problem credit resolution efforts, the Company realized significant asset quality improvements in 2011. The Company sustained these asset quality improvements throughout the first nine months of 2012 but did experience a $1.9 million increase in non-performing assets during the fourth quarter. This increase largely relates to one problem commercial real estate loan which had been on our watch list and reflects the Company s consistent practice of quickly identifying and managing problem credits in order to minimize losses during the workout process. Even with this uptick, non-performing assets are still at a very manageable level of 1.0% of total loans at December 31, 2012. Additionally, loan delinquency levels have been relatively consistent at a low level over the past 3 years averaging approximately 0.50% of total loans. We continue to closely monitor the loan portfolio given the uncertainty in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2012, the 25 largest credits represented 28.0% of total loans outstanding.

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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,				
	2012	2011	2010	2009	2008
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	**$ 14,623**	$ 19,765	$ 19,685	$ 8,910	$ 7,252
Charge-offs:					
Commercial	**(345)**	(953)	(835)	(3,810)	(405)
Commercial loans secured by real estate	**(796)**	(1,700)	(4,221)	(840)	(811)
Real estate-mortgage	**(420)**	(85)	(293)	(128)	(132)
Consumer	**(200)**	(203)	(282)	(352)	(365)
Total charge-offs	**(1,761)**	(2,941)	(5,631)	(5,130)	(1,713