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,

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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

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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 DIVIDENDS DECLARED
	HIGH	LOW	
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	$ 2.43	632,491
	0	0	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

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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.

2012 SUMMARY OVERVIEW:

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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)
Recoveries:					
Commercial	**138**	831	226	601	299
Commercial loans secured by real estate	**245**	331	48	14	39
Real estate-mortgage	**54**	53	42	27	26
Consumer	**47**	159	145	113	82
Total recoveries	**484**	1,374	461	755	446
Net charge-offs	**(1,277)**	(1,567)	(5,170)	(4,375)	(1,267)
Provision (credit) for loan losses	**(775)**	(3,575)	5,250	15,150	2,925
Balance at end of year	**$12,571**	$14,623	$19,765	$19,685	$8,910
Loans and loans held for sale, net of unearned income:					
Average for the year	**$688,736**	$662,746	$701,502	$725,241	$644,896
At December 31	**731,741**	670,847	678,181	722,904	707,108
As a percent of average loans:					
Net charge-offs	**0.19%**	0.24%	0.74%	0.60%	0.20%
Provision (credit) for loan losses	**(0.11)**	(0.54)	0.75	2.09	0.46
Allowance as a percent of each of the following:					
Total loans, net of unearned income	**1.74**	2.20	2.95	2.74	1.26
Total delinquent loans (past due 30 to 89 days)	**363.74**	440.58	708.17	172.55	202.68
Total non-accrual loans	**216.22**	288.14	160.83	115.01	263.84
Total non-performing assets	**174.02**	281.27	137.60	107.35	194.88
Allowance as a multiple of net charge-offs	**9.84x**	9.33x	3.82x	4.50x	7.03x

As a result of the Company s continued good asset quality, we were again able to record a negative provision for loan losses during 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 credit provision of $3.6 million in 2011. Overall, there has been $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. In summary, the allowance for loan losses provided 216% coverage of non-performing loans and was 1.74% of total loans at December 31, 2012, compared to

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288% of non-performing loans and 2.20% of total loans at December 31, 2011. Additionally, the Company currently does not anticipate that it will record any negative loan loss provisions in 2013 since it returned to a more typical positive provision to the allowance for loan losses during the fourth quarter of 2012.

Significant improvements in asset quality evidenced by lower levels of non-performing assets, classified loans and net-charge-offs allowed the Company to reverse a portion of the allowance for loan losses into earnings in 2011 while still increasing the non-performing assets coverage ratio. As a result of this asset quality improvement, the Company recorded a negative provision for loan losses of $3.6 million in 2011 compared to a $5.3 million provision in 2010. For 2011, net charge-offs totaled $1.6 million or 0.24% of total loans which represented a decrease from 2010 when net charge-offs totaled $5.2 million or 0.74% 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 30.2% of the Company s total loan portfolio, only $1.3 million or 10.1% 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.

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, 2012 to cover losses within the Company s loan portfolio.

NON-INTEREST INCOME... 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, resulting from the Federal Reserve s interest rate policies, has 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.

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- 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 income for 2011 totalled $13.6 million, a decrease of $398,000, or 2.8%, from 2010. Factors contributing to this lower level of non-interest income in 2011 included:

- a $358,000 loss realized on the sale of $17 million of investment securities in the first quarter of 2011 compared to a net security gain of $157,000 in 2010. The Company took advantage of a steeper yield curve earlier in the year to position the investment portfolio for better future earnings by selling some of the lower yielding, longer duration securities in the portfolio and replacing them with higher yielding securities with a shorter duration.
- a $342,000, or 27.9%, decrease in revenue from bank owned life insurance as the prior year revenue was enhanced by the receipt of a death benefit. There were no claims within the BOLI program in 2011.
- a $643,000, or 10.2%, increase in trust and investment advisory fees as our wealth management businesses benefitted from the implementation of new fee schedules in 2011.
- a $146,000, or 15.2%, decrease in gains realized on residential mortgage loan sales into the secondary market due to a reduced level of mortgage refinancing in 2011. However, by historical standards 2011 was still a good year for residential mortgage purchase and refinance activity in the Company s primary market area as there were $83 million of new loans originated with $60 million or 72% sold into the secondary market in order to help manage long term interest rate risk.

NON-INTEREST EXPENSE... 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 is having on the discount rate used to calculate the plan liabilities. This increasing pension cost was a key factor causing the Company to implement a soft freeze of its defined benefit pension plan for non-union employees beginning January 1, 2013. This will help the Company gradually reduce its pension costs in future years.
- 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.
- 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.

Non-interest expense for 2011 totalled $40.0 million, a $340,000, or 0.9%, increase from 2010. Factors contributing to the higher non-interest expense in 2011 included:

- a $1.0 million, or 4.7%, increase in salaries and employee benefits expense was due to higher medical insurance costs, increased pension expense, and greater incentive compensation expense in 2011. These costs more than offset the benefit of five fewer full time equivalent employees in 2011.
- a $488,000, or 11.2%, decrease in professional fees was due to reduced legal fees, recruitment fees, and lower consulting expenses in the Trust Company.

- a $269,000 decrease in other expense was due to a reduction in costs associated with the reserve for unfunded loan commitments and lower telephone expense resulting from the implementation of technology enhancements**.**
- a $240,000 prepayment penalty was realized on the early retirement of $5.7 million of FHLB term advances during the fourth quarter of 2011. We elected to utilize our strong liquidity to prepay all FHLB term advances with maturities greater than two years in order to reduce future interest expense.
- a $237,000, or 15.1%, decrease in FDIC insurance expense was due to a change in the calculation methodology in 2011.

INCOME TAX EXPENSE... The Company recorded income tax expense of $2.2 million for 2012 which was lower than the 2011 tax expense of $2.9 million due to reduced pre-tax earnings in 2012. The 2012 effective tax rate of 30.8% was comparable with the 2011 effective tax rate of 30.4%. The income tax expense recorded in 2010 was only $80,000 due to the sharply lower pre-tax earnings that year. BOLI is the Company s largest source of tax-free earnings. The Company s deferred tax asset was $11.5 million at December 31, 2012 and relates primarily to net operating loss carryforwards and the allowance for loan losses. The deferred tax asset declined by $1.2 million in 2012 primarily due to the utilization of net operating loss carryforwards.

SEGMENT RESULTS... Retail banking s net income contribution was $3.2 million in 2012 compared to $2.1 million in 2011 and $1.3 million in 2010. The improved performance in 2012 is due to increased non-interest income and net interest income, along with reduced non-interest expense. The improved non-interest income reflects increased residential mortgage banking related revenues resulting from the record mortgage production year in 2012. Net interest income grew due to the growth in deposits along with a lower interest cost for deposits. The favorable decline in non-interest expense is largely due to the previously discussed $897,000 decrease in FDIC deposit insurance expense in 2012. The increased net income in 2011 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 $263,000 negative provision for loan losses and a $436,000 reduction in non-interest expense due to reduced staffing within the branch network and lower FDIC insurance expense. Non-interest income was lower between years as decreased gains on residential mortgage loan sales into the secondary market were compounded by lower BOLI income.

The commercial banking segment reported net income of $4.7 million in 2012 compared to net income of $6.9 million in 2011 and $497,000 in 2010. Sustained improvements in asset quality continued to result in a credit provision for loan losses in 2012 but at a lesser level than 2011. Overall, there has been $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 increased earnings in 2011 were caused primarily by an $8.3 million reduction in the provision for loan losses due to the previously discussed improvements in asset quality. Net interest income also benefited from funding charges decreasing at a faster rate than certain commercial real estate loan yields.

The trust segment s net income contribution was $945,000 in 2012 compared to $795,000 in 2011 and $222,000 in 2010. The 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. The increase in net income in 2011 reflected higher non-interest revenue as our wealth management businesses benefitted from the implementation of new fee schedules. Also, the rate of non-interest expense growth was limited to 1.7% in 2011. Overall, the fair market value of trust assets totaled $1.512 billion at December 31, 2012, an increase of $129.6 million, or 9.4%, from the December 31, 2011 total of $1.383 billion.

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The investment/parent segment reported a net loss of $3.7 million in 2012 compared to net loss of $3.3 million in 2011 and $699,000 in 2010. Declining yields in the investment securities portfolio and the flatter yield curve have 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. The weaker performance in 2011 reflects the previously mentioned $358,000 loss realized on the sale of $17 million of investment securities to position the portfolio for better future earnings. Non-interest expense in 2011 also included a $240,000 prepayment penalty realized on the early retirement of $5.7 million of FHLB term advances.

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 $1.0 billion at December 31, 2012 grew by $22 million or 2.2% from the $979 million level at December 31, 2011. Investment security balances decreased by $30 million demonstrating the Company s ability to generate liquidity to grow the loan portfolio. The Company s loan portfolio grew by $57.4 million or 8.7% and now totals $721 million. 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 new loan production offices. Cash and cash equivalents declined by $8.0 million as these funds were also used to fund loan demand.

The Company s deposits totaled $836 million at December 31, 2012, which was $19.3 million or 2.4% higher than December 31, 2011, due to an increase in both non-interest demand deposits and money market account balances. We believe that uncertainties in the financial markets and the economy have contributed to a fourth consecutive year of growth in our deposits as consumers have looked for safety in well capitalized community banks like AmeriServ Financial Bank. FHLB advances increased by $7 million as the Company elected to match fund some of the previously mentioned loan growth. Total FHLB borrowings, however, only represent 2.8% of total assets. Total stockholders equity has decreased by $1.9 million since year-end 2011 mainly due to the success of the Company s common stock repurchase program and an increase in accumulated other comprehensive loss due to a negative adjustment related to the Company s defined benefit pension plan. During 2012, the Company repurchased 1,758,000 shares or 8.4% of its outstanding common stock at an average price of $2.51. This was a key factor contributing to a 6.6% growth in tangible book value per share to $4.01 since the end of 2011. Even after this large common stock repurchase, the Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 15.92% and an asset leverage ratio of 11.44% at December 31, 2012. The Company s book value per common share was $4.67 and its tangible common equity to tangible assets ratio was 7.78% at December 31, 2012.

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 more than adequate to fund the Company s operations. Cash flow from maturities, prepayments and amortization of securities was used to either fund loan growth (2012), paydown borrowings (2010) or reinvested back into the investment securities portfolio (2011). We strive to operate our loan to deposit ratio in a range of 85% to 95%. At December 31, 2012, the Company s loan to deposit ratio was 86.3%. We are hopeful that we can further increase the loan to deposit ratio in 2013 given good commercial loan pipelines, the opening of three new loan production offices in 2012, and our focus on small business lending given our goal of maintaining the lowest rate possible on the SBLF preferred stock.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by $8.0 million from December 31, 2011, to December 31, 2012, due to $32.2 million of cash used by investing activities. This was partially offset by $21.0 million of cash provided by financing activities and $3.2 million of cash provided by operating activities. Within investing activities, cash provided from maturities and sales of investment securities exceeded purchases by $30.1 million. Cash advanced for new loan fundings and purchases totalled $250.5 million and was $59.7 million higher than the $190.7 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by $19.3 million, which was used to help fund the overall loan growth experienced in 2012.

The holding company had a total of $16.7 million of cash, short-term investments, and securities at December 31, 2012, which was up $900,000 from the year-end 2011 total. Additionally, dividend payments

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from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2012, our subsidiary bank had $5.1 million of cash available for immediate dividends to the holding company under the applicable regulatory formulas. As such, the holding company has strong liquidity to meet its trust preferred debt service requirements and preferred stock dividends, which should approximate $1.3 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, 2012 and 2011, respectively. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the 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, 2012, the Company had $307 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 11.44% and the risk based capital ratio was 15.92% at December 31, 2012. The Company s tangible common equity to tangible assets ratio was 7.78% at December 31, 2012. Since the common stock repurchase program began in the fourth quarter of 2011, we repurchased 2,045,000 shares or 9.6% of our common stock at a total cost of $5.0 million or an average price of $2.44 per share. The previously announced board approved common stock repurchase program is now completed. We anticipate that we will maintain our strong capital ratios throughout 2013. Capital generated from earnings will be utilized to pay the SBLF preferred dividend and support anticipated balance sheet growth.

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.

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The following table presents a summary of the Company s static GAP positions at December 31, 2012:

INTEREST SENSITIVITY PERIOD	3 MONTHS OR LESS	OVER 3 MONTHS THROUGH 6 MONTHS	OVER 6 MONTHS THROUGH 1 YEAR	OVER 1 YEAR	TOTAL
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
RATE SENSITIVE ASSETS:					
Loans and loans held for sale	**$214,815**	**$73,043**	**$111,385**	**$332,498**	**$731,741**
Investment securities	**22,861**	**14,913**	**26,917**	**100,570**	**165,261**
Short-term assets	**9,012**				**9,012**
Regulatory stock	**4,179**			**2,125**	**6,304**
Bank owned life insurance			**36,214**		**36,214**
Total rate sensitive assets	**$250,867**	**$87,956**	**$174,516**	**$435,193**	**$948,532**
RATE SENSITIVE LIABILITIES:					
Deposits:					
Non-interest bearing deposits	**$**	**$**	**$**	**$156,223**	**$156,223**
NOW	**4,487**			**57,287**	**61,774**
Money market	**175,712**			**40,158**	**215,870**
Other savings	**21,528**			**64,607**	**86,135**
Certificates of deposit of $100,000 or more	**4,235**	**15,867**	**7,839**	**7,398**	**35,339**
Other time deposits	**71,285**	**38,613**	**41,100**	**129,395**	**280,393**
Total deposits	**277,247**	**54,480**	**48,939**	**455,068**	**835,734**
Borrowings	**15,660**			**26,085**	**41,745**
Total rate sensitive liabilities	**$292,907**	**$54,480**	**$48,939**	**$481,153**	**$877,479**
INTEREST SENSITIVITY GAP:					
Interval	**(42,040)**	**33,476**	**125,577**	**(45,960)**	
Cumulative	**$(42,040)**	**$(8,564)**	**$117,013**	**$71,053**	**$71,053**
Period GAP ratio	**0.86X**	**1.61X**	**3.57X**	**0.90X**	
Cumulative GAP ratio	**0.86**	**0.98**	**1.30**	**1.08**	
Ratio of cumulative GAP to total assets	**(4.20)%**	**(0.86)%**	**11.69%**	**7.10%**	

When December 31, 2012 is compared to December 31, 2011, there has been limited change in the Company s modestly positive cumulative GAP ratio through one year. This reflects the expected continued strong cash flow from short duration mortgage backed securities and ongoing loan pay-offs. The absolute low level of interest rates makes this table more difficult to analyze since there is little room for certain deposit liabilities to reprice downward further.

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

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

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INTEREST RATE SCENARIO	VARIABILITY OF NET INTEREST INCOME	CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY
200 bp increase	**3.8%**	**31.4%**
100 bp increase	**2.9**	**18.8**
100 bp decrease	**(3.5)**	**(12.1)**

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 positive in the upward rate shocks due to the Company s short duration investment securities portfolio and scheduled repricing of certain loans now tied to LIBOR or prime. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The 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, 2012, 92% of the portfolio is classified as available for sale and 8% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 13 securities that are temporarily impaired at December 31, 2012. The Company reviews its securities quarterly and has asserted that at December 31, 2012, 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 2012, 65% of all residential mortgage loan production was sold into the secondary market.

The amount of loans outstanding by category as of December 31, 2012, 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	**$ 20,683**	**$ 60,016**	**$ 22,123**	**$ 102,822**
Commercial loans secured by real estate	**25,418**	**154,957**	**202,964**	**383,339**
Real estate-mortgage	**69,528**	**76,294**	**82,338**	**228,160**
Consumer	**6,717**	**7,289**	**3,414**	**17,420**
Total	**$ 122,346**	**$ 298,556**	**$ 310,839**	**$ 731,741**

Loans with fixed-rate	**$ 81,854**	**$ 179,767**	**$ 140,956**	**$ 402,577**
Loans with floating-rate	**40,492**	**118,789**	**169,883**	**329,164**
Total	**$ 122,346**	**$ 298,556**	**$ 310,839**	**$ 731,741**
Percent composition of maturity	**16.7%**	**40.8%**	**42.5%**	**100.0%**
Fixed-rate loans as a percentage of total loans				**55.0%**
Floating-rate loans as a percentage of total loans				**45.0%**

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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, 2012, 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.

	PAYMENTS DUE IN					
	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**	**$520,002**	**$**	**$**	**$**	**$520,002**
Certificates of deposit*	**8**	**181,838**	**74,807**	**22,210**	**50,851**	**329,706**
Borrowed funds*	**10**	**15,713**		**13,105**		**28,818**
Guaranteed junior subordinated deferrable interest debentures*	**10**				**27,735**	**27,735**
Pension obligation	**14**	**2,500**				**2,500**
Lease commitments	**15**	**760**	**1,120**	**881**	**1,975**	**4,736**

* Includes interest based upon interest rates in effect at December 31, 2012. Future changes in market interest rates could materially affect contractual amounts to be paid.

OFF BALANCE SHEET ARRANGEMENTS... The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating $132.8 million and standby letters of credit of $11.4 million as of December 31, 2012. 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. As of December 31, 2012, the Company had $18 million in interest rate swaps outstanding.

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

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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 $10.4 million, or 83%, of the total allowance for loan losses at December 31, 2012 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 cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company s core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company s own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. The Company s goodwill relates to value inherent in the banking and wealth management businesses, and the value is dependent upon the Company s ability to provide quality, cost-effective services in the face of free competition from other market participants on a regional basis. This ability relies upon continuing investments in processing systems, the development of value-added service features and the ease of use of the Company s services. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted and the loyalty of the Company s deposit and customer base over a longer time frame. The quality and value of a Company s assets is also an important factor to consider when performing goodwill impairment testing. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective value added services over sustained periods can lead to impairment of goodwill.

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, 2012, goodwill was not considered impaired; however, deteriorating economic conditions could result in impairment, which could adversely affect earnings in future periods.

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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, 2012, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

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

ACCOUNT Investment Securities

BALANCE SHEET REFERENCE Investment Securities

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

DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and the Company s intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2012, 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.

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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 the opening of several loan production offices. There will be a particular focus on small business commercial lending so that we can maintain the interest rate paid on our SBLF preferred stock at its lowest possible level. 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. However, this initiative takes on new importance because 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.

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, anticipat 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

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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.

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.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERISERV FINANCIAL, INC.
CONSOLIDATED BALANCE SHEETS

	AT DECEMBER 31,	
	2012	2011
	(IN THOUSANDS, EXCEPT SHARE DATA)	
ASSETS		
Cash and due from depository institutions	**$17,808**	$26,938
Interest bearing deposits	**1,730**	1,716
Short-term investments in money market funds	**7,282**	6,129
Cash and cash equivalents	**26,820**	34,783
Investment securities:		
Available for sale	**151,538**	182,923
Held to maturity (fair value $14,266 at December 31, 2012 and $12,914 at December 31, 2011)	**13,723**	12,280
Loans held for sale	**10,576**	7,110
Loans	**721,802**	664,189
Less: Unearned income	**637**	452
Allowance for loan losses	**12,571**	14,623
Net loans	**708,594**	649,114
Premises and equipment, net	**11,798**	10,674
Accrued interest income receivable	**2,960**	3,216
Goodwill	**12,613**	12,613
Bank owned life insurance	**36,214**	35,351
Net deferred tax asset	**11,467**	12,681
Federal Home Loan Bank stock	**4,179**	5,891
Federal Reserve Bank stock	**2,125**	2,125
Prepaid federal deposit insurance	**1,444**	1,814
Other assets	**6,940**	8,501
TOTAL ASSETS	**$1,000,991**	$979,076
LIABILITIES		
Non-interest bearing deposits	**$156,223**	$141,982
Interest bearing deposits	**679,511**	674,438
Total deposits	**835,734**	816,420
Short-term borrowings	**15,660**	15,765
Advances from Federal Home Loan Bank	**13,000**	6,000
Guaranteed junior subordinated deferrable interest debentures	**13,085**	13,085
Total borrowed funds	**41,745**	34,850
Other liabilities	**13,044**	15,454
TOTAL LIABILITIES	**890,523**	866,724
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, 2012 and 2011	**21,000**	21,000
Common stock, par value $0.01 per share; 30,000,000 shares authorized: 26,398,540 shares issued and 19,164,721 shares outstanding on December 31, 2012; 26,397,040 shares issued and 20,921,021 shares outstanding on December 31, 2011	**264**	264
Treasury stock at cost, 7,233,819 shares on December 31, 2012 and 5,476,019 shares on December 31, 2011	**(73,658)**	(69,241)
Capital surplus	**145,102**	145,061
Retained earnings	**23,139**	18,928
Accumulated other comprehensive loss, net	**(5,379)**	(3,660)
TOTAL STOCKHOLDERS EQUITY	**110,468**	112,352
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$1,000,991**	$979,076

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	**$ 34,752**	$ 35,630	$ 39,020
Tax exempt	**63**	69	76
Interest bearing deposits	**10**	9	1
Short-term investments in money market funds	**18**	9	16
Federal funds sold		7	4
Investment securities:			
Available for sale	**4,634**	5,837	5,281
Held to maturity	**440**	403	433
Total Interest Income	**39,917**	41,964	44,831
INTEREST EXPENSE			
Deposits	**6,502**	8,335	10,945
Short-term borrowings	**11**	6	22
Advances from Federal Home Loan Bank	**81**	220	402
Guaranteed junior subordinated deferrable interest debentures	**1,120**	1,120	1,120
Total Interest Expense	**7,714**	9,681	12,489
Net Interest Income	**32,203**	32,283	32,342
Provision (credit) for loan losses	**(775)**	(3,575)	5,250
Net Interest Income after Provision (Credit) for Loan Losses	**32,978**	35,858	27,092
NON-INTEREST INCOME			
Trust fees	**6,527**	6,173	5,571
Investment advisory fees	**741**	754	713
Net gains on loans held for sale	**1,132**	812	958
Net realized gains (losses) on investment securities	**12**	(358)	157
Service charges on deposit accounts	**2,195**	2,241	2,284
Bank owned life insurance	**863**	885	1,227
Other income	**3,473**	3,062	3,057
Total Non-Interest Income	**14,943**	13,569	13,967
NON-INTEREST EXPENSE			
Salaries and employee benefits	**24,424**	22,616	21,602
Net occupancy expense	**2,800**	2,900	2,691
Equipment expense	**1,764**	1,686	1,680
Professional fees	**3,870**	3,875	4,363
Supplies, postage, and freight	**830**	886	997
Miscellaneous taxes and insurance	**1,439**	1,372	1,396
Federal deposit insurance expense	**441**	1,338	1,575
Federal Home Loan Bank prepayment penalties		240	

Other expense	**5,073**	5,124	5,393
Total Non-Interest Expense	**40,641**	40,037	39,697

See accompanying notes to consolidated financial statements.

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	**7,280**	9,390	1,362
Provision for income taxes	**2,241**	2,853	80
NET INCOME	**5,039**	6,537	1,282
Preferred stock dividends and accretion of preferred stock discount	**828**	1,385	1,161
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	**$ 4,211**	$ 5,152	$ 121
PER COMMON SHARE DATA:			
Basic:			
Net income	**$ 0.21**	$ 0.24	$ 0.01
Average number of shares outstanding	**19,685**	21,184	21,224
Diluted:			
Net income	**$ 0.21**	$ 0.24	$ 0.01
Average number of shares outstanding	**19,747**	21,205	21,226
Cash dividends declared	**$ 0.00**	$ 0.00	$ 0.00

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS)		
COMPREHENSIVE INCOME			
Net income	**$5,039**	$6,537	$1,282
Other comprehensive income (loss), before tax:			
Pension obligation change for defined benefit plan	**(2,128)**	(1,802)	(1,031)
Income tax effect	**725**	612	352
Unrealized holding gains (losses) on available for sale securities arising during period	**(466)**	3,266	446
Income tax effect	**158**	(1,110)	(152)
Reclassification adjustment for losses (gains) on available for sale securities included in net income	**(12)**	358	(157)
Income tax effect	**4**	(122)	53
Other comprehensive income (loss)	**(1,719)**	1,202	(489)
Comprehensive income	**$3,320**	$7,739	$793

See accompanying notes to consolidated financial statements.

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

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS)		
PREFERRED STOCK			
Balance at beginning of period	**$21,000**	$20,669	$20,558
Accretion of preferred stock discount		331	111
Balance at end of period	**21,000**	21,000	20,669
COMMON STOCK			
Balance at beginning of period	**264**	264	264
Balance at end of period	**264**	264	264
TREASURY STOCK			
Balance at beginning of period	**(69,241)**	(68,659)	(68,659)
Treasury stock, purchased at cost (1,757,800 and 287,400 shares, respectively)	**(4,417)**	(582)	
Balance at end of period	**(73,658)**	(69,241)	(68,659)
CAPITAL SURPLUS			
Balance at beginning of period	**145,061**	145,045	144,984
New common shares issued for exercise of stock options	**3**	1	3
Stock option expense	**38**	15	18
Restricted stock			40
Balance at end of period	**145,102**	145,061	145,045
RETAINED EARNINGS			
Balance at beginning of period	**18,928**	14,601	14,480
Net income	**5,039**	6,537	1,282
Warrant repurchase (1,312,500 shares)		(825)	
Accretion of preferred stock discount		(331)	(111)
Cash dividend declared on preferred stock	**(828)**	(1,054)	(1,050)
Balance at end of period	**23,139**	18,928	14,601
ACCUMULATED OTHER COMPREHENSIVE LOSS, NET			
Balance at beginning of period	**(3,660)**	(4,862)	(4,373)
Other comprehensive income (loss)	**(1,719)**	1,202	(489)
Balance at end of period	**(5,379)**	(3,660)	(4,862)
TOTAL STOCKHOLDERS EQUITY	**$110,468**	$112,352	$107,058

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2012	2011	2010
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income	**$5,039**	$6,537	$1,282
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision (credit) for loan losses	**(775)**	(3,575)	5,250
Depreciation and amortization expense	**1,523**	1,477	1,496
Net amortization of investment securities	**1,124**	736	467
Net realized (gains) losses on investment securities available for sale	**(12)**	358	(157)
Net gains on loans held for sale	**(1,132)**	(812)	(958)
Amortization of deferred loan fees	**(240)**	(231)	(407)
Origination of mortgage loans held for sale	**(76,688)**	(58,640)	(71,643)
Sales of mortgage loans held for sale	**74,354**	59,747	68,986
Decrease (increase) in accrued interest receivable	**256**	(6)	379
Decrease in accrued interest payable	**(440)**	(1,018)	(595)
Earnings on bank-owned life insurance	**(863)**	(885)	(1,032)
Deferred income taxes	**2,101**	2,758	(126)
Stock compensation expense	**41**	15	61
Decrease in prepaid Federal Deposit Insurance	**370**	1,259	1,465
Other, net	**(1,446)**	3,074	(1,738)
Net cash provided by operating activities	**3,212**	10,794	2,730
INVESTING ACTIVITIES			
Purchase of investment securities available for sale	**(34,199)**	(85,352)	(97,789)
Purchase of investment securities held to maturity	**(4,987)**	(6,576)	(1,123)
Proceeds from maturities of investment securities available for sale	**59,800**	53,243	61,483
Proceeds from maturities of investment securities held to maturity	**3,518**	2,125	4,914
Proceeds from sales of investment securities available for sale	**4,221**	16,518	2,742
Proceeds from redemption of regulatory stock	**1,712**	1,342	381
Long-term loans originated	**(232,685)**	(147,864)	(82,922)
Principal collected on long-term loans	**182,245**	161,356	129,655
Loans purchased or participated	**(17,492)**	(8,500)	(3,845)
Loans sold or participated	**8,500**	1,000	
Net increase in other short-term loans	**(300)**	(443)	(134)
Purchases of premises and equipment	**(2,647)**	(1,666)	(2,762)
Proceeds from sale of other real estate owned	**160**	743	1,300
Proceeds from insurance policies			451
Net cash (used in) provided by investing activities	**(32,154)**	(14,074)	12,351
FINANCING ACTIVITIES			

Net increase in deposit balances	**19,329**	13,722	16,277
Net (decrease) increase in other short-term borrowings	**(105)**	11,215	(21,225)
Principal borrowings on advances from Federal Home Loan Bank	**21,000**	2,000	34,000
Principal repayments on advances from Federal Home Loan Bank	**(14,000)**	(5,750)	(50,054)
Preferred stock dividend paid	**(828)**	(1,054)	(1,050)
Warrant repurchase		(825)	
Purchase of treasury stock	**(4,417)**	(582)	
Net cash provided by (used in) financing activities	**20,979**	18,726	(22,052)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(7,963)**	15,446	(6,971)
CASH AND CASH EQUIVALENTS AT JANUARY 1	**34,783**	19,337	26,308
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**$26,820**	$34,783	$19,337

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

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 $1.5 billion that are not recognized on the Company s Balance Sheet at December 31, 2012.

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 are the allowance for loan losses, goodwill, income taxes and on 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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

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 this 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.

PREMISES AND EQUIPMENT:

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

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:

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

- Review of all criticized, classified and impaired loans with aggregate balances over $250,000 ($100,000 for loans classified as doubtful or worse) 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 is based on careful analysis of the loan s performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan s effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.
- The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.
- The application of formula driven reserve allocations to consumer and residential mortgage loans which are based upon historical net charge-off experience for those loan types. The residential mortgage loan and consumer loan allocations are based upon the Company s three-year historical average of actual loan net charge-offs experienced in each of those categories.
- The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, levels of non-accrual and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions.
- Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company believes that there is estimation risk associated with the use of specific and formula driven allowances.

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

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

The Company s policy is to individually review, as circumstances warrant, its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 49,842, 185,917, and 1,467,142 shares of common stock were outstanding during 2012, 2011 and 2010, 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 $2.80 $5.75, $2.07 $6.10, and $1.73 $6.10 during 2012, 2011 and 2010, respectively. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

	Twelve months ended December 31,		
	2012	2011	2010
	(In thousands, except per share data)		
Numerator:			
Net income	**$5,039**	$ 6,537	$ 1,282
Preferred stock dividends and accretion of preferred stock discount	**828**	1,385	1,161
Net income available to common shareholders	**$4,211**	$ 5,152	$ 121
Denominator:			
Weighted average common shares outstanding (basic)	**19,685**	21,184	21,224
Effect of stock options/warrants	**62**	21	2
Weighted average common shares outstanding (diluted)	**19,747**	21,205	21,226
Earnings per common share:			
Basic	**$0.21**	$ 0.24	$ 0.01
Diluted	**0.21**	0.24	0.01

STOCK-BASED COMPENSATION:

The Company uses the modified prospective method for accounting of stock-based compensation. The Company recognized $38,000, $15,000 and $18,000 of pretax compensation expense for the year 2012, 2011 and 2010. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for the grants: risk-free interest rates ranging from 1.66% to 3.83%; expected lives of 10 years; expected volatility ranging from 33.26% to 35.77% and expected dividend yields of 0%.

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,	
	2012	2011
	(IN THOUSANDS)	
Pension obligation for defined benefit plan	**$ (9,520)**	$ (8,116)
Unrealized holding gains on available for sale securities	**4,141**	4,456
Total accumulated other comprehensive loss	**$ (5,379)**	$ (3,660)

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 $142,000 in income tax payments in 2012; $97,000 in 2011; and $174,000 in 2010. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of $1,266,000 in 2012; $169,000 in 2011; and $788,000 in 2010. The Company made total interest payments of $8,154,000 in 2012; $10,699,000 in 2011; and $13,084,000 in 2010.

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

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 typically 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, 2012, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2012-02, *Intangibles Goodwill and Other (Topic 350) Testing Indefinite-Lived Intangible Assets for Impairment*. ASU 2012-02 give entities the option to first assess qualitative factors to determine whether the existence of events or circumstances leads to a determination that it is more likely than not that an indefinite-lived intangible asset is impaired. If, after assessing the totality of events or circumstances, an entity determines it is more likely than not that an indefinite-lived intangible asset is impaired, then the entity must perform the quantitative impairment test. If, under the quantitative impairment test, the carrying amount of the intangible asset exceeds its fair value, an entity should recognize an impairment loss in the amount of that excess. Permitting an entity to assess qualitative factors when testing indefinite-lived intangible assets for impairment results in guidance that is similar to the goodwill impairment testing guidance in ASU 2011-08. ASU 2012-02 is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012 (early adoption permitted). This ASU did not have a significant impact on the Company s financial statements.

In February 2013, the FASB issued ASU 2013-02, *Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. The amendments in this Update require an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. generally accepted accounting principles (GAAP) to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. For public entities, the amendments are effective prospectively for reporting periods beginning after December 15, 2012. Early adoption is permitted. The Company is currently evaluating the impact that these disclosures will have on its financial statements.

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

2. CASH AND DUE FROM DEPOSITORY INSTITUTIONS

Included in Cash and due from depository institutions are required federal reserves of $0 and $150,000 at December 31, 2012 and 2011, 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, 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**

Investment securities available for sale:

	AT DECEMBER 31, 2011			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency	$ 10,689	$ 48	$ (28)	$ 10,709
U.S. Agency mortgage-backed securities	165,484	6,737	(7)	172,214
Total	$ 176,173	$ 6,785	$ (35)	$ 182,923

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

3. INVESTMENT SECURITIES (continued)

Investment securities held to maturity:

	AT DECEMBER 31, 2011			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Agency mortgage-backed securities	$ 9,280	$ 643	$	$ 9,923
Other securities	3,000		(9)	2,991
Total	$ 12,280	$ 643	$ (9)	$ 12,914

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, 2012, 92.2% of the portfolio was rated AAA as compared to 98.4% at December 31, 2011. 1.3% of the portfolio was rated below A or unrated on December 31, 2012. 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, 2012.

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 $94,206,000 at December 31, 2012 and $83,235,000 at December 31, 2011.

The Company realized $12,000 of gross investment security gains and no investment security losses in 2012, and $358,000 of gross investment losses and no investment security gains in 2011, and $157,000 of gross investment gains and no investment security losses in 2010. On a net basis, 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, and the realized gain for 2010 was $104,000, after factoring the tax expense of $53,000. Proceeds from sales of investment securities available for sale were $4.2 million for 2012, $16.5 million for 2011, and $2.7 million during 2010.

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, 2012. 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 a modified duration of approximately 1.73 years. The weighted average expected maturity for available for sale securities at December 31, 2012 for U.S. Agency, U.S. Agency Mortgage-Backed and Corporate bond securities was 4.29, 2.81 and 3.92 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2012 for U.S. Agency Mortgage-Backed and Corporate bonds and other securities were 3.10 and 4.88 years.

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

3. INVESTMENT SECURITIES (continued)

Investment securities available for sale:

	AT DECEMBER 31, 2012							
	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	**4,848**	**1.42**			**7,992**	**3.55**	**12,840**	**2.73**
After 5 years but within 10 years	**1,000**	**1.43**	**14,347**	**3.30**			**15,347**	**3.18**
After 10 years but within 15 years			**58,603**	**2.90**			**58,603**	**2.90**
Over 15 years			**58,475**	**2.89**			**58,475**	**2.89**
Total	**$5,848**	**1.42**	**$131,425**	**2.94**	**$7,992**	**3.55**	**$145,265**	**2.91**
FAIR VALUE								
Within 1 year	**$**		**$**		**$**		**$**	
After 1 year but within 5 years	**4,918**				**7,892**		**12,810**	
After 5 years but within 10 years	**993**		**15,134**				**16,127**	
After 10 years but within 15 years			**61,404**				**61,404**	
Over 15 years			**61,197**				**61,197**	
Total	**$5,911**		**$137,735**		**$7,892**		**$151,538**	

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AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

3. INVESTMENT SECURITIES (continued)

Investment securities held to maturity:

	AT DECEMBER 31, 2012					
	U.S. AGENCY MORTGAGE-BACKED SECURITIES		CORPORATE BONDS AND OTHER		TOTAL INVESTMENT SECURITIES HELD TO MATURITY	
	(IN THOUSANDS, EXCEPT YIELDS)					
COST BASIS						
Within 1 year	$	%	$ 2,000	1.46%	$ 2,000	1.46%
After 1 year but within 5 years			1,000	1.44	1,000	1.44
After 5 years but within 10 years						
After 10 years but within 15 years			410	2.92	410	2.92
Over 15 years	9,318	3.65	995	4.04	10,313	3.69
Total	$ 9,318	3.65	$ 4,405	2.17	$ 13,723	3.18
FAIR VALUE						
Within 1 year	$		$ 1,981		$ 1,981	
After 1 year but within 5 years			965		965	
After 5 years but within 10 years						
After 10 years but within 15 years			416		416	
Over 15 years	9,896		1,008		10,904	
Total	$ 9,896		$ 4,370		$ 14,266	

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)
	1,140	(8)	349	(2)	1,489	(10)

U.S. Agency mortgage-backed securities						
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)**

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

3. INVESTMENT SECURITIES (continued)

The following tables present information concerning investments with unrealized losses as of December 31, 2011 (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	$3,161	$ (28)	$	$	$3,161	$ (28)
U.S. Agency mortgage-backed securities	613	(7)			613	(7)
Total	$3,774	$ (35)	$	$	$3,774	$ (35)

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
Other securities	$1,991	$ (9)	$	$	$1,991	$ (9)
Total	$1,991	$ (9)	$	$	$1,991	$ (9)

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 13 positions that are considered temporarily impaired at December 31, 2012. 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,	
	2012	2011
	(IN THOUSANDS)	
Commercial	**$ 102,822**	$ 83,124
Commercial loans secured by real estate	**383,339**	349,778
Real estate-mortgage	**217,584**	212,663
Consumer	**17,420**	18,172
Loans, net of unearned income	**$ 721,165**	$ 663,737

Loan balances at December 31, 2012 and 2011 are net of unearned income of $637,000 and $452,000, respectively. Real estate construction loans comprised 2.0% and 1.9% of total loans net of unearned income at December 31, 2012 and 2011, 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, 2012 and 2011, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company s lending occurs within a 150 mile radius of the Johnstown market.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

4. LOANS (continued)

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 $1.0 million and $612,000 at December 31, 2012 and 2011, 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, 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

An analysis of the changes in the allowance for loan losses follows:

	YEAR ENDED DECEMBER 31, 2010 (IN THOUSANDS)
Balance January 1	$ 19,685
Provision (credit) for loan losses	5,250
Recoveries on loans previously charged-off	461
Loans charged-off	(5,631)
Balance December 31	$ 19,765

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

5. ALLOWANCE FOR LOAN LOSSES (continued)

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

AT DECEMBER 31, 2012 (IN THOUSANDS)

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

AT DECEMBER 31, 2012 (IN THOUSANDS)

	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Specific reserve allocation	**$**	**$ 1,586**	**$**	**$**	**$**	**$ 1,586**
General reserve allocation	**2,596**	**6,210**	**1,269**	**150**	**760**	**10,985**
Total allowance for loan losses	**$2,596**	**$ 7,796**	**$ 1,269**	**$ 150**	**$ 760**	**$ 12,571**

AT DECEMBER 31, 2011 (IN THOUSANDS)

	COMMERCIAL	COMMERCIAL LOANS SECURED BY	REAL ESTATE-MORTGAGE	CONSUMER	TOTAL

		REAL ESTATE			
Individually evaluated for impairment	$	$ 3,870	$	$	$3,870
Collectively evaluated for impairment	83,124	345,908	212,663	18,172	659,867
Total loans	$83,124	$ 349,778	$ 212,663	$ 18,172	$663,737

	AT DECEMBER 31, 2011 (IN THOUSANDS)					
	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE-MORTGAGE	CONSUMER	ALLOCATION FOR GENERAL RISK	TOTAL
Specific reserve allocation	$	$ 968	$	$	$	$ 968
General reserve allocation	2,365	8,432	1,270	174	1,414	13,655
Total allowance for loan losses	$2,365	$ 9,400	$ 1,270	$ 174	$ 1,414	$ 14,623

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

5. ALLOWANCE FOR LOAN LOSSES (continued)

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 driven by non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as a meaningful 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 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 dependant loans. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company s policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

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

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

5. ALLOWANCE FOR LOAN LOSSES (continued)

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, 2012				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECOREDED INVESTMENT	RECOREDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(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

DECEMBER 31, 2011

	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECOREDED INVESTMENT	RECOREDED INVESTMENT	UNPAID PRINCIPAL BALANCE
	(IN THOUSANDS)				
Commercial loans secured by real estate	$2,836	$ 968	$ 1,034	$3,870	$ 4,844
Total impaired loans	$2,836	$ 968	$ 1,034	$3,870	$ 4,844

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

5. ALLOWANCE FOR LOAN LOSSES (continued)

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

	YEAR ENDED DECEMBER 31,		
	2012	2011	2010
	(IN THOUSANDS)		
Average impaired balance:			
Commercial	**$ 13**	$ 503	$ 3,591
Commercial loans secured by real estate	**3,754**	4,479	14,611
Consumer	**3**		
Average investment in impaired loans	**$ 3,770**	$ 4,982	$ 18,202
Interest income recognized:			
Commercial	**$**	$ 17	$ 90
Commercial loans secured by real estate		150	368
Interest income recognized on a cash basis on impaired loans	**$**	$ 167	$ 458

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company s commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review 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 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 2012 requires review of a minimum 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.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

5. ALLOWANCE FOR LOAN LOSSES (continued)

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, 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**		