

AMERISERV FINANCIAL INC /PA/  
Form 10-Q  
August 09, 2013

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

**FORM 10-Q**

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**  
For the period ended **June 30, 2013**

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.)

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Main & Franklin Streets, P.O. Box 430,  
Johnstown, PA

15907-0430

(Address of principal executive offices)

(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, accelerated filer, non-accelerated filer or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

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

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

Class	Outstanding at August 1, 2013
Common Stock, par value \$0.01	18,784,188

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**AMERISERV FINANCIAL, INC.**  
**CONSOLIDATED BALANCE SHEETS**  
**(In thousands)**  
**(Unaudited)**

	June 30, 2013	December 31, 2012
<b>ASSETS</b>		
Cash and due from depository institutions	\$ 16,364	\$ 17,808
Interest bearing deposits	2,965	1,730
Short-term investments in money market funds	6,326	7,282
Total cash and cash equivalents	25,655	26,820
Investment securities:		
Available for sale	149,656	151,538
Held to maturity (fair value \$18,479 on June 30, 2013 and \$14,266 on December 31, 2012)	18,628	13,723
Loans held for sale	6,625	10,576
Loans	745,516	721,802
Less: Unearned income	619	637
Allowance for loan losses	11,145	12,571
Net loans	733,752	708,594
Premises and equipment, net	12,844	11,798
Accrued interest income receivable	3,242	2,960
Goodwill	12,613	12,613
Bank owned life insurance	36,260	36,214
Net deferred tax asset	11,606	11,467
Federal Home Loan Bank stock	4,866	4,179
Federal Reserve Bank stock	2,125	2,125
Prepaid federal deposit insurance		1,444
Other assets	7,212	6,940
<b>TOTAL ASSETS</b>	<b>\$ 1,025,084</b>	<b>\$ 1,000,991</b>
<b>LIABILITIES</b>		
Non-interest bearing deposits	\$ 159,287	\$ 156,223
Interest bearing deposits	680,985	679,511
Total deposits	840,272	835,734
Short-term borrowings	34,292	15,660
Advances from Federal Home Loan Bank	16,000	13,000
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Total borrowed funds	63,377	41,745
Other liabilities	12,153	13,044
<b>TOTAL LIABILITIES</b>	<b>915,802</b>	<b>890,523</b>

## SHAREHOLDERS' EQUITY

Preferred stock, no par value; \$1,000 per share liquidation preference; 2,000,000 shares authorized; 21,000 shares issued and outstanding on June 30, 2013 and December 31, 2012	21,000	21,000
Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,402,007 shares issued and 18,784,188 outstanding on June 30, 2013; 26,398,540 shares issued and 19,164,721 outstanding on December 31, 2012	264	264
Treasury stock at cost, 7,617,819 and 7,233,819 shares on June 30, 2013 and December 31, 2012, respectively	(74,829 )	(73,658 )
Capital surplus	145,139	145,102
Retained earnings	24,971	23,139
Accumulated other comprehensive loss, net	(7,263 )	(5,379 )
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>109,282</b>	<b>110,468</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 1,025,084</b>	<b>\$ 1,000,991</b>

See accompanying notes to unaudited consolidated financial statements.

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**AMERISERV FINANCIAL, INC.**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
**(In thousands, except per share data)**  
**(Unaudited)**

	Three months ended		Six months ended	
	June 30,		June 30,	
	2013	2012	2013	2012
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$8,590	\$8,552	\$17,218	\$17,281
Interest bearing deposits	3	5	4	6
Short-term investments in money market funds	4	7	6	10
Investment securities:				
Available for sale	907	1,210	1,863	2,489
Held to maturity	123	111	238	223
Total Interest Income	9,627	9,885	19,329	20,009
<b>INTEREST EXPENSE</b>				
Deposits	1,288	1,668	2,638	3,430
Short-term borrowings	8		13	4
Advances from Federal Home Loan Bank	30	16	55	36
Guaranteed junior subordinated deferrable interest debentures	280	280	560	560
Total Interest Expense	1,606	1,964	3,266	4,030
<b>NET INTEREST INCOME</b>	8,021	7,921	16,063	15,979
Provision (credit) for loan losses	150	(500 )	(100 )	(1,125 )
<b>NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES</b>	7,871	8,421	16,163	17,104
<b>NON-INTEREST INCOME</b>				
Trust fees	1,779	1,628	3,446	3,325
Investment advisory fees	220	177	434	370
Net realized gains on investment securities		12	71	12
Net gains on sale of loans	241	251	627	527
Service charges on deposit accounts	538	517	1,049	1,052
Bank owned life insurance	388	212	589	427
Other income	909	936	1,675	1,694
Total Non-Interest Income	4,075	3,733	7,891	7,407
<b>NON-INTEREST EXPENSE</b>				
Salaries and employee benefits	6,176	5,976	12,507	11,962
Net occupancy expense	751	702	1,524	1,431
Equipment expense	455	473	910	924
Professional fees	1,150	937	2,185	1,860
Supplies, postage and freight	211	200	422	433
Miscellaneous taxes and insurance	365	355	741	710

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Federal deposit insurance expense	151	114	285	243
Other expense	1,183	1,310	2,490	2,618
Total Non-Interest Expense	10,442	10,067	21,064	20,181
PRETAX INCOME	1,504	2,087	2,990	4,330
Provision for income tax expense	434	655	864	1,333
NET INCOME	1,070	1,432	2,126	2,997
Preferred stock dividends	52	262	104	525
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	\$1,018	\$1,170	\$2,022	\$2,472
PER COMMON SHARE DATA:				
Basic:				
Net income	\$0.05	\$0.06	\$0.11	\$0.12
Average number of shares outstanding	19,039	19,584	19,103	20,132
Diluted:				
Net income	\$0.05	\$0.06	\$0.11	\$0.12
Average number of shares outstanding	19,128	19,652	19,192	20,186
Cash dividends declared	\$0.01	\$0.00	\$0.01	\$0.00

See accompanying notes to unaudited consolidated financial statements.

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**AMERISERV FINANCIAL, INC.**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE**  
**INCOME (LOSS)**  
**(In thousands)**  
**(Unaudited)**

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>COMPREHENSIVE INCOME (LOSS)</b>				
Net income	\$1,070	\$1,432	\$2,126	\$2,997
Other comprehensive income (loss), before tax:				
Pension obligation change for defined benefit plan	334	254	823	(148 )
Income tax effect	(114 )	(86 )	(280 )	50
Unrealized holding gains (losses) on available for sale securities arising during period	(3,122)	281	(3,604)	218
Income tax effect	1,062	(97 )	1,224	(74 )
Reclassification adjustment for gains on available for sale securities included in net income		(12 )	(71 )	(12 )
Income tax effect		4	24	4
Other comprehensive income (loss)	(1,840)	344	(1,884)	38
Comprehensive income (loss)	\$(770 )	\$1,776	\$242	\$3,035

See accompanying notes to unaudited consolidated financial statements.

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**AMERISERV FINANCIAL, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Six months ended June 30,	
	2013	2012
<b>OPERATING ACTIVITIES</b>		
Net income	\$2,126	\$2,997
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	(100 )	(1,125 )
Depreciation expense	782	766
Net amortization of investment securities	449	533
Net realized gains on investment securities available for sale	(71 )	(12 )
Net gains on loans held for sale	(627 )	(527 )
Amortization of deferred loan fees	(159 )	(86 )
Origination of mortgage loans held for sale	(33,789)	(39,517 )
Sales of mortgage loans held for sale	38,367	41,145
Decrease (increase) in accrued interest income receivable	(282 )	57
Decrease in accrued interest payable	(526 )	(492 )
Earnings on bank owned life insurance	(402 )	(427 )
Deferred income taxes	831	1,247
Stock based compensation expense	37	9
Decrease in prepaid Federal Deposit Insurance	1,444	200
Other, net	683	(621 )
Net cash provided by operating activities	8,763	4,147
<b>INVESTING ACTIVITIES</b>		
Purchases of investment securities available for sale	(30,907)	(27,237 )
Purchases of investment securities held to maturity	(6,432 )	(3,583 )
Proceeds from sales of investment securities available for sale	1,218	4,221
Proceeds from maturities of investment securities available for sale	27,547	28,730
Proceeds from maturities of investment securities held to maturity	1,496	964
Purchases of regulatory stock	(2,316 )	
Proceeds from redemption of regulatory stock	1,629	574
Long-term loans originated	(96,463)	(124,086)
Principal collected on long-term loans	77,971	103,653
Loans purchased or participated	(8,000 )	(10,000 )
Loans sold or participated	1,000	8,500
Proceeds from sale of other real estate owned	173	24
Proceeds from life insurance policy	356	
Purchases of premises and equipment	(1,826 )	(977 )
Net cash used in investing activities	(34,554)	(19,217 )

FINANCING ACTIVITIES		
Net increase in deposit balances	4,459	37,613
Net increase (decrease) in other short-term borrowings	18,632	(15,765 )
Principal borrowings on advances from Federal Home Loan Bank	9,000	
Principal repayments on advances from Federal Home Loan Bank	(6,000 )	(3,000 )
Purchases of treasury stock	(1,171 )	(4,061 )
Common stock dividends	(190 )	
Preferred stock dividends	(104 )	(525 )
Net cash provided by financing activities	24,626	14,262
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,165 )	(808 )
CASH AND CASH EQUIVALENTS AT JANUARY 1	26,820	34,783
CASH AND CASH EQUIVALENTS AT JUNE 30	\$25,655	\$33,975

See accompanying notes to unaudited consolidated financial statements.

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## **AMERISERV FINANCIAL, INC.**

# **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

### **1. Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), AmeriServ Trust and Financial Services Company (the Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a Pennsylvania state-chartered full service bank with 18 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$1.6 billion that are not reported on the Company's balance sheet at June 30, 2013. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

In addition, the Parent Company is an administrative group that provides support in such areas as audit, finance, investments, loan review, general services, and marketing. Significant intercompany accounts and transactions have been eliminated in preparing the consolidated financial statements.

### **2. Basis of Preparation**

The unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information. In the opinion of management, all adjustments consisting of normal recurring entries considered necessary for a fair presentation have been included. They are not, however, necessarily indicative of the results of consolidated operations for a full-year.

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

### **3. Accounting Policies**

In February 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (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. The Company's disclosures reflecting the impact on its financial statements are presented in Note 12.

In July 2013, the FASB issued ASU 2013-10, *Derivatives and Hedging (Topic 815): Inclusion of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate) as a Benchmark Interest Rate for Hedge Accounting Purposes*.

The amendments in this Update permit the Fed Funds Effective Swap Rate (OIS) to be used as a U.S. benchmark interest rate for hedge accounting purposes under Topic 815, in addition to UST and LIBOR. The amendments also remove the restriction on using different benchmark rates for similar hedges. The amendments are effective prospectively for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. This ASU is not expected to have a significant impact on the Company's financial statements.

In July 2013, the FASB issued ASU 2013-11, *Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists*. This Update applies to all entities that have unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists at the reporting date. An unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, except as follows. To the extent a net operating loss carryforward, a similar tax loss,

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

**4. 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 warrants to purchase 101,070 common shares, at exercise prices ranging from \$3.23 to \$5.75, and 244,083 common shares, at exercise prices ranging from \$2.75 to \$6.10, were outstanding as of June 30, 2013 and 2012, respectively, but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

	Three months ended June 30,		Six months ended June 30,	
	2013	2012	2013	2012
	(In thousands, except per share data)			
Numerator:				
Net income	\$ 1,070	\$ 1,432	\$ 2,126	\$ 2,997
Preferred stock dividends	52	262	104	525
Net income available to common shareholders	\$ 1,018	\$ 1,170	\$ 2,022	\$ 2,472
Denominator:				
Weighted average common shares outstanding (basic)	19,039	19,584	19,103	20,132
Effect of stock options	89	68	89	54
Weighted average common shares outstanding	19,128	19,652	19,192	20,186

(diluted)

Earnings per common share:

Basic	\$ 0.05	\$ 0.06	\$ 0.11	\$ 0.12
Diluted	0.05	0.06	0.11	0.12

## 5. Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits, federal funds sold and short-term investments in money market funds. The Company made \$34,000 in income tax payments in the first six months of 2013 as compared to \$35,000 for the first six months of 2012. The Company made total interest payments of \$3,792,000 in the first six months of 2013 compared to \$4,522,000 in the same 2012 period. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of \$593,000 and \$770,000 in the first six months of 2013 and 2012, respectively.

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

**Investment securities available for sale (AFS):**

	June 30, 2013			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	\$ 8,049	\$ 39	\$ (164 )	\$ 7,924
US Agency mortgage-backed securities	127,018	3,881	(928 )	129,971
Corporate bonds	11,991	30	(260 )	11,761
Total	\$ 147,058	\$ 3,950	\$ (1,352 )	\$ 149,656

**Investment securities held to maturity (HTM):**

	June 30, 2013			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency mortgage-backed securities	\$ 13,621	\$ 325	\$ (330 )	\$ 13,616
Taxable municipal	1,012		(61 )	951
Corporate bonds and other securities	3,995		(83 )	3,912
Total	\$ 18,628	\$ 325	\$ (474 )	\$ 18,479

**Investment securities available for sale (AFS):**

	December 31, 2012			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency	\$ 5,848	\$ 70	\$ (7 )	\$ 5,911
US Agency mortgage-backed securities	131,425	6,320	(10 )	137,735
Corporate bonds	7,992	3	(103 )	7,892
Total	\$ 145,265	\$ 6,393	\$ (120 )	\$ 151,538

**Investment securities held to maturity (HTM):**

	December 31, 2012			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Agency mortgage-backed securities	\$ 9,318	\$ 578	\$	\$ 9,896
Taxable municipal	410	6		416
Corporate bonds and other securities	3,995	14	(55 )	3,954
Total	\$ 13,723	\$ 598	\$ (55 )	\$ 14,266

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of A. At June 30, 2013, 89.7% of the portfolio was rated AAA as compared to 92.2% at December 31, 2012. 1.2% of the portfolio was either rated below A or unrated at June 30, 2013. The Company has no exposure to subprime mortgage loans in the investment portfolio. At June 30, 2013, the Company's consolidated investment securities portfolio had a modified duration of approximately 2.89 years.

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Total proceeds from the sale of AFS securities for the first six months of 2013 were \$1.2 million resulting in \$71,000 of gross investment security gains. There were no sales of investment securities in the three months ended June 30, 2013. Total proceeds from the sale of AFS securities for the first six months of 2012 were \$4.2 million resulting in \$59,000 of gross investment security gains and \$47,000 of gross investment security losses. All of the investment security sales activity for 2012 occurred in the second quarter.

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 \$95,910,000 at June 30, 2013 and \$94,206,000 at December 31, 2012.

The following tables present information concerning investments with unrealized losses as of June 30, 2013 and December 31, 2012 (in thousands):

**Investment securities available for sale:**

	June 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Agency	\$5,885	\$(164 )	\$	\$	\$5,885	\$(164 )
US Agency mortgage-backed securities	35,465	(928 )			35,465	(928 )
Corporate bonds	6,796	(195 )	2,935	(65 )	9,731	(260 )
Total	\$48,146	\$(1,287 )	\$2,935	\$(65 )	\$51,081	\$(1,352 )

**Investment securities held to maturity:**

	June 30, 2013					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Agency mortgage-backed securities	\$7,594	\$(330 )	\$	\$	\$7,594	\$(330 )
Taxable municipal	951	(61 )			951	(61 )
Corporate bonds and other securities	919	(76 )	2,993	(7 )	3,912	(83 )
Total	\$9,464	\$(467 )	\$2,993	\$(7 )	\$12,457	\$(474 )

**Investment securities available for sale:**

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Agency	\$993	\$ (7 )	\$	\$	\$993	\$ (7 )
US Agency mortgage-backed securities	1,140	(8 )	349	(2 )	1,489	(10 )
Corporate bonds	6,898	(103 )			6,898	(103 )
Total	\$9,031	\$ (118 )	\$349	\$ (2 )	\$9,380	\$ (120 )

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TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****6. Investment Securities (continued)****Investment securities held to maturity:**

	December 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds and other securities	\$ 965	\$ (35 )	\$ 1,981	\$ (20 )	\$ 2,946	\$ (55 )
Total	\$ 965	\$ (35 )	\$ 1,981	\$ (20 )	\$ 2,946	\$ (55 )

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase.

There are 53 positions that are considered temporarily impaired at June 30, 2013. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

Contractual maturities of securities at June 30, 2013 are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

**Investment securities available for sale:**

Cost Basis	June 30, 2013			Total Investment Securities Available For Sale
	US Agency	US Agency Mortgage-Backed Securities	Corporate Bonds	
After 1 year but within 5 years	\$ 7,049	\$ 1,159	\$ 7,993	\$ 16,201
After 5 years but within 10 years	1,000	14,051	3,998	19,049
After 10 years but within 15 years		60,386		60,386
Over 15 years		51,422		51,422
Total	\$ 8,049	\$ 127,018	\$ 11,991	\$ 147,058

Fair Value	June 30, 2013			Total Investment Securities Available For Sale
	US Agency	US Agency Mortgage-Backed Securities	Corporate Bonds	
After 1 year but within 5 years	\$ 6,970	\$ 1,235	\$ 7,900	\$ 16,105
After 5 years but within 10 years	954	14,501	3,861	19,316
After 10 years but within 15 years		61,233		61,233
Over 15 years		53,002		53,002
Total	\$ 7,924	\$ 129,971	\$ 11,761	\$ 149,656

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	June 30, 2013		Total
Cost Basis	US Agency Mortgage-Backed Securities	Corporate Bonds and Other Securities	Investment Securities Held To Maturity
Within 1 year	\$	\$ 2,000	\$ 2,000
After 1 year but within 5 years		1,000	1,000
After 5 years but within 10 years	1,777		1,777
After 10 years but within 15 years		1,012	1,012
Over 15 years	11,844	995	12,839
Total	\$ 13,621	\$ 5,007	\$ 18,628

	June 30, 2013		Total
Fair Value	US Agency Mortgage-Backed Securities	Corporate Bonds and Other Securities	Investment Securities Held To Maturity
Within 1 year	\$	\$ 2,000	\$ 2,000
After 1 year but within 5 years		993	993
After 5 years but within 10 years	1,662		1,662
After 10 years but within 15 years		950	950
Over 15 years	11,954	920	12,874
Total	\$ 13,616	\$ 4,863	\$ 18,479

**7. Loans**

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

June 30, 2013	December 31, 2012
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Commercial	\$ 116,153	\$ 102,822
Commercial loans secured by real estate	390,044	383,339
Real estate mortgage	221,736	217,584
Consumer	16,964	17,420
Loans, net of unearned income	\$ 744,897	\$ 721,165

Loan balances at June 30, 2013 and December 31, 2012 are net of unearned income of \$619,000 and \$637,000, respectively. Real estate-construction loans comprised 2.6%, and 2.0% of total loans, net of unearned income, at June 30, 2013 and December 31, 2012, respectively. The Company has no exposure to subprime mortgage loans in the loan portfolio.

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The following tables summarize the rollforward of the allowance for loan losses by portfolio segment for the three and six month periods ending June 30, 2013 and 2012 (in thousands).

	Balance at March 31, 2013	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2013
Commercial	\$ 2,667	\$	\$ 20	\$ 93	\$ 2,780
Commercial loans secured by real estate	5,989		34	(40 )	5,983
Real estate-mortgage	1,267	(18 )	12	18	1,279
Consumer	147	(41 )	28	12	146
Allocation for general risk	890			67	957
Total	\$ 10,960	\$ (59 )	\$ 94	\$ 150	\$ 11,145

	Balance at March 31, 2012	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2012
Commercial	\$ 2,483	\$	\$ 90	\$ (221 )	\$ 2,352
Commercial loans secured by real estate	8,555	(31 )	170	(316 )	8,378
Real estate-mortgage	1,250	(99 )	5	50	1,206
Consumer	166	(107 )	11	85	155
Allocation for general risk	1,324			(98 )	1,226
Total	\$ 13,778	\$ (237 )	\$ 276	\$ (500 )	\$ 13,317

	Balance at December 31, 2012	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2013
Commercial	\$ 2,596	\$	\$ 31	\$ 153	\$ 2,780
Commercial loans secured by real estate	7,796	(1,480 )	142	(475 )	5,983
Real estate-mortgage	1,269	(47 )	67	(10 )	1,279
Consumer	150	(79 )	40	35	146
Allocation for general risk	760			197	957
Total	\$ 12,571	\$ (1,606 )	\$ 280	\$ (100 )	\$ 11,145

	Balance at December 31, 2011	Charge-Offs	Recoveries	Provision (Credit)	Balance at June 30, 2012
Commercial	\$ 2,365	\$ (99 )	\$ 112	\$(26 )	\$ 2,352
Commercial loans secured by real estate	9,400	(172 )	200	(1,050)	8,378
Real estate-mortgage	1,270	(139 )	29	46	1,206
Consumer	174	(134 )	22	93	155
Allocation for general risk	1,414			(188 )	1,226
Total	\$ 14,623	\$ (544 )	\$ 363	\$(1,125)	\$ 13,317

As a result of successful ongoing problem credit resolution efforts, the Company achieved further asset quality improvements in the first six months of 2013. These improvements are evidenced by reduced levels of non-accrual loans, non-performing assets, classified assets and low loan delinquency levels that continue to be well below 1% of total loans. The higher charge-off in the commercial loans secured by real estate relate primarily to one loan for which a specific reserve had been previously established. The largest portion of the credit provision occurred in commercial loans secured by real-estate as this is the category that experienced the most meaningful improvement in asset quality.

TABLE OF CONTENTS**AMERISERV FINANCIAL, INC.****NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****8. 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 (in thousands).

	At June 30, 2013				
	Commercial	Commercial Loans Secured by Real Estate	Real Estate- Mortgage	Consumer	Total
Individually evaluated for impairment	\$	\$ 2,238	\$	\$ 12	\$ 2,250
Collectively evaluated for impairment	116,153	387,806	221,736	16,952	742,647
Total loans	\$ 116,153	\$ 390,044	\$ 221,736	\$ 16,964	\$ 744,897

	At June 30, 2013					
	Commercial	Commercial Loans Secured by Real Estate	Real Estate- Mortgage	Consumer	Allocation for General Risk	Total
Specific reserve allocation	\$	\$ 747	\$	\$	\$	\$ 747
General reserve allocation	2,780	5,236	1,279	146	957	10,398
Total allowance for loan losses	\$ 2,780	\$ 5,983	\$ 1,279	\$ 146		