AMERISERV FINANCIAL INC /PA/
Form 10-K
February 28, 2014

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

FORM 10-K

(MARK ONE)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934** **FOR THE FISCAL YEAR ENDED DECEMBER 31, 2013**

OR

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	The NASDAQ Stock Market LLC
8.45% Beneficial Unsecured Securities, Series A (AmeriServ Financial Capital Trust I)	The NASDAQ Stock Market LLC

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

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

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. 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 $51,468,675 as of June 30, 2013.

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

DOCUMENTS INCORPORATED BY REFERENCE.

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

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PART I

ITEM 1. BUSINESS

GENERAL

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

The Company s principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2013, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $1.056 billion, $855 million, and $113 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

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

AMERISERV FINANCIAL BANKING SUBSIDIARY

AMERISERV FINANCIAL BANK

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended. Through 18 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland counties, Pennsylvania, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, checking accounts, money market accounts, secured and unsecured consumer loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler s checks; and (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as commercial real estate-mortgage loans, short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 20 automated bank teller machines (ATMs) through its 24-hour banking network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. West Chester Capital Advisors (WCCA), a SEC registered investment advisor, is also a subsidiary of the Bank. The Company also operates loan production offices (LPO s) in Monroeville, Altoona and Harrisburg in Pennsylvania and Hagerstown in Maryland.

We believe that the Bank s deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. The Bank s business is not seasonal, nor does it have any risks attendant to foreign sources. The significant majority of the Bank s customer base is located within a 150 mile radius of Johnstown, Pennsylvania.

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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, 2013:

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

RISK MANAGEMENT OVERVIEW:

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

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

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

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

Commercial Loans

This category includes credit extensions to commercial and industrial borrowers. Business assets, including accounts receivable, inventory and/or equipment, typically secure these credits. In appropriate instances, extensions of credit in this category are subject to collateral advance formulas. Balance sheet strength and profitability are considered when analyzing these credits, with special attention given to historical, current and prospective sources of cash flow, and the ability of the customer to sustain cash flow at acceptable levels. The Bank s policy permits flexibility in determining acceptable debt service coverage ratios, with a minimum level of 1.1 to 1x desired. Personal guarantees are frequently required; however, as the financial strength of the borrower increases, the Bank s ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the strength of the borrower s management, industry risk and portfolio concentration risk each of which are also monitored and considered during the underwriting process.

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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, each of which are monitored and considered in underwriting.

Residential Real Estate Mortgages

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

Consumer Loans

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

INVESTMENTS

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

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

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

Investment securities available for sale at:

	AT DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS)		
U.S. Agency	**$ 6,926**	$ 5,848	$ 10,689
Corporate bonds	**11,992**	7,992	

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

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Investment securities held to maturity at:

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

DEPOSITS AND OTHER SOURCES OF FUNDS

Deposits

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

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

	AT DECEMBER 31,					
	2013		2012		2011	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	**$ 158,169**	**%**	$ 147,887	%	$ 135,298	%
Interest bearing	**75,126**	**0.18**	60,810	0.19	57,784	0.22
Savings	**87,819**	**0.16**	85,112	0.21	81,490	0.31
Money market	**212,735**	**0.35**	211,744	0.42	193,536	0.56
Other time	**312,741**	**1.33**	327,557	1.62	348,915	1.97
Total deposits	**$ 846,590**	**0.75%**	$ 833,110	0.95 %	$ 817,023	1.22 %

Loans

The loan portfolio of the Company consisted of the following:

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

Total loans, net of unearned income	**$ 783,346**	$ 721,165	$ 663,737	$ 670,776	$ 719,114

(1) For each of the periods presented beginning with December 31, 2013, real estate-construction loans constituted 3.0%, 2.0%, 1.9%, 3.9% and 6.8% of the Company s total loans, net of unearned income, respectively.

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Secondary Market Activities

The Residential Lending department of the Company continues to originate one-to-four family mortgage loans for customers, the majority of which are sold to outside investors in the secondary market and some of which are retained for the Bank s portfolio. Mortgages sold on the secondary market are sold to investors on a flow basis; mortgages are priced and delivered on a best efforts pricing basis, with servicing released to the investor. Fannie Mae/Freddie Mac guidelines are used in underwriting all mortgages with the exception of a limited amount of CRA loans. Mortgages with longer terms, such as 20-year, 30-year, FHA, and VA loans, are usually sold. The remaining production of the department includes construction, adjustable rate mortgages, 10-year, 15-year, and bi-weekly mortgages. These loans are usually kept in the Bank s portfolios, although during periods of low interest rates 15-year loans are typically sold into the secondary market as they have been over the last several years.

Non-performing Assets

The following table presents information concerning non-performing assets:

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

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

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

	YEAR ENDED DECEMBER 31,				
	2013	2012	2011	2010	2009

	(IN THOUSANDS)				
Interest income due in accordance with original terms	**$ 178**	$ 231	$ 376	$ 1,086	$ 553
Interest income recorded			(167)	(458)	(75)
Net reduction in interest income	**$ 178**	$ 231	$ 209	$ 628	$ 478

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AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AMERISERV TRUST AND FINANCIAL SERVICES COMPANY

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. Its staff of approximately 45 professionals administers assets valued at approximately $1.7 billion that are not recognized on the Company s balance sheet at December 31, 2013. The Trust Company focuses on wealth management. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. This segment also includes financial services which include the sale of mutual funds, annuities, and insurance products. The wealth management business also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The BUILD fund is in the process of liquidation. At December 31, 2013, the Trust Company had total assets of $4.3 million and total stockholder s equity of $3.8 million. In 2013, the Trust Company contributed earnings to the corporation as its gross revenue amounted to $7.5 million and the net income contribution was $1.0 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

AMERISERV LIFE

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company s market area. Operations of AmeriServ Life are conducted in each office of the Company s banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Board of Governors of the Federal Reserve System (the Federal Reserve). At December 31, 2013, AmeriServ Life had total assets of $427,000.

MONETARY POLICIES

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

COMPETITION

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

MARKET AREA & ECONOMY

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

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

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

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

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

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

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

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

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

Seasonally adjusted total nonfarm jobs for the MSA increased by 1,900 since December 2012. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age.

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

Hagerstown and Washington county, Maryland offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It has a workforce of over 400,000 with strengths in manufacturing and technology. It also offers an affordable cost of doing business and living within an hour of the Washington, D.C./Baltimore regions. There are also plenty of facilities and land slated for industrial/commercial development. Hagerstown has become a choice location for manufacturers, financial services, and distribution companies. The Hagerstown, MD-Martinsburg, WV MSA unemployment rate improved from a 7.8% average in 2012 to a 7.1% average in 2013.

Altoona is the business center of Blair County, Pennsylvania with a strong retail, government and manufacturing base. The top field of employment in Altoona and the metro area is healthcare. Its location along I-99 draws from a large trade area over a wide geographic area that extends to State College and Johnstown. It serves as the headquarters for Sheetz Corporation which ranks on Forbes list of the top privately owned companies. In addition to being located adjacent to I-99 and a major highway system, Altoona also has easy access to rail and air transportation. The unemployment rate in the Altoona MSA decreased from a 7.2% average in 2012 to a 6.9% average in 2013.

EMPLOYEES

The Company employed 377 people as of December 31, 2013 in full- and part-time positions. Approximately 183 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. In 2013, the Company successfully negotiated a new four year labor contract with the United Steelworkers Local that will expire on October 15, 2017. The contract calls for annual wage increases of 3.0%. Additionally, effective January 1, 2014, the Company implemented a soft freeze of its defined benefit pension plan for union employees. A soft freeze means that all existing union employees as of December 31, 2013 currently participating will remain in the defined benefit pension plan but any new union employees hired after January 1, 2014 will no longer be part of the defined benefit plan but instead will be offered retirement benefits under an enhanced 401(k) program. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated ten union-represented banks nationwide.

INDUSTRY REGULATION

The banking and trust industry, and the operation of bank holding companies, is highly regulated by federal and state law, and by numerous regulations adopted by the federal banking agencies and state banking agencies. Bank regulation affects all aspects of conducting business as a bank, including such major items as minimum capital requirements, limits on types and amounts of investments, loans and other assets, as well as borrowings and other liabilities, and numerous restrictions or requirements on the loan terms and other products made available to customers, particularly consumers. Federal deposit insurance (from the FDIC) is required for all banks in the United States, and maintaining FDIC insurance requires observation of the various rules of the FDIC, as well as payment of deposit premiums. New branches, or acquisitions or mergers, are required to be pre-approved by the responsible agency, which in the case of the Company and the Bank is the Federal Reserve and the Pennsylvania Department of

Banking. The Bank provides detailed financial information to its regulators, including a quarterly call report that is filed pursuant to detailed prescribed instructions to ensure that all U.S. banks report the same way. The U.S. banking laws and regulations are frequently updated and amended, especially in response to crises in the financial industry, such as the global financial crisis of 2008, which resulted in the Dodd-Frank Wall Street Reform and Consumer Protection Act enacted in 2010, a massive statute over 1,000 pages in length affecting many facets of the financial industry.

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

CAPITAL REQUIREMENTS

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

As of December 31, 2013, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. As discussed below, however, the capital requirements for all banks are being increased under the Dodd-Frank Act. Specifically, on July 2, 2013, the Board of Governors of the Federal Reserve System approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered well capitalized) and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered well capitalized); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered well capitalized). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Company is continuing to review the impact of these new rules and currently expects that its capital position will be more than adequate to meet the revised regulatory capital requirements.

DIVIDEND RESTRICTIONS

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

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

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

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

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

SARBANES-OXLEY ACT OF 2002

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

PRIVACY PROVISIONS

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

USA PATRIOT ACT

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United

States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the Company.

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DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

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

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

Many provisions of the Dodd-Frank Act are already in effect. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to prior law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts had unlimited deposit insurance through December 31, 2012.

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

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

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

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

AVAILABLE INFORMATION

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

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

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus twelve floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 14 other locations which are owned. Nine additional locations are leased with terms expiring from January 1, 2015 to August 31, 2030.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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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, 2014, the Company had 3,757 shareholders of record for its common stock. The Company s common stock is traded on the NASDAQ Global Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH
	HIGH	LOW	DIVIDENDS DECLARED
Year ended December 31, 2013:			
First Quarter	**$3.23**	**$ 2.90**	**$ 0.00**
Second Quarter	**3.17**	**2.74**	**0.01**
Third Quarter	**3.29**	**2.97**	**0.01**
Fourth Quarter	**3.26**	**2.99**	**0.01**
Year ended December 31, 2012			
First Quarter	$2.80	$ 1.85	$ 0.00
Second Quarter	3.07	2.55	0.00
Third Quarter	2.99	2.70	0.00
Fourth Quarter	3.05	2.76	0.00

The declaration of cash dividends on the Company's common stock is at the discretion of the Board of Directors, and any decision to declare a dividend is based on a number of factors, including, but not limited to, earnings, prospects, financial condition, regulatory capital levels, applicable covenants under any credit agreements and other contractual restrictions, Pennsylvania law, federal and Pennsylvania bank regulatory law, and other factors deemed relevant. Additionally, the Company s previously announced common stock repurchase programs have been completed, so accordingly, no shares were repurchased during the fourth quarter.

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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, 2013, 2012, AND 2011

2013 SUMMARY OVERVIEW:

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

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

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

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

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

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

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

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

We believe that AmeriServ is growing stronger day by day. But we know that $0.26 earnings per share are just not good enough. During the latter half of 2013, management initiated a company-wide cost management effort. We were pleased with the identified improvements in efficiency that will result from this management effort going forward. However, we intend to do more in 2014. AmeriServ recognizes that we must search out ways to further increase earnings per share. It is encouraging to report record loan and deposit levels and continuing growth in fee income. But the real focus must be on improving net income available to common shareholders. We are reaching across the industry for best practices that may help us. Please remember that the AmeriServ Board of Directors is composed of substantial shareholders who want AmeriServ to be both a strong community bank and a rewarding investment.

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

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

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income	**$5,193**	$5,039	$6,537
Net income available to common shareholders	**4,984**	4,211	5,152
Diluted earnings per share	**0.26**	0.21	0.24
Return on average assets	**0.51%**	0.51 %	0.68 %
Return on average equity	**4.69**	4.51	5.90

The Company reported net income available to common shareholders of $5.0 million or $0.26 per diluted common share for 2013. This represented a 23.8% increase in earnings per share from 2012 where net income available to common shareholders totalled $4.2 million or $0.21 per diluted share. Growth in total revenue, improved asset quality, and effective capital management caused the increase in earnings per share in 2013. Specifically, a $658,000 increase in net interest income resulted from continued strong growth of our loan portfolio, as total loans grew by $55 million, or 7.5% during the past year. Material loan growth occurred in loan categories that qualify for the Small Business Lending Fund (SBLF) through the Company s loan production offices. As a result of this growth in SBLF qualified loans, the Company has locked in the lowest preferred dividend rate available under the program of 1% until the first quarter of 2016. This lower rate has saved the Company $619,000 in preferred stock dividend payments in 2013 and is a key factor contributing to the earnings per share growth. Additionally, the calculation of earnings per share has benefitted from a 713,000 or 3.6% reduction in average shares outstanding due to the success of the Company s common stock repurchase program that was completed in the second quarter of 2013. Non-interest income also increased by $801,000 or 5.4% due largely to fee growth within our trust and wealth management businesses as a result of increased assets under management and overall good residential mortgage sales activity for the majority of 2013. There was also $325,000 more earnings benefit from negative loan loss provisions in 2013 due to the Company s improved asset quality. These positive items were partially offset by a $1.6 million or 3.9% increase in non-interest expense and slightly higher income tax expense.

The Company reported net income available to common shareholders of $4.2 million or $0.21 per diluted common share for 2012. This represented a 12.5% decline in earnings per share from 2011 where net income available to common shareholders totalled $5.2 million or $0.24 per diluted share. The largest factor causing the reduction in net income available to common shareholders was the provision for loan losses. The Company recorded a negative provision of $775,000 but this was at a lesser level than the $3,575,000 negative provision for 2011. The Company s net interest income decreased for the full year of 2012 by only $80,000, or 0.2%, when compared to the entire year of 2011. Non-interest income increased by $1.4 million or 10.1% largely due to increased revenue from residential mortgage banking activities and our Trust Company s wealth management businesses. Continued focus on expense control helped contain the increase in non-interest expense to $604,000 or 1.5%. Finally, diluted earnings per share were impacted by the $828,000 dividend requirement on the US Treasury SBLF preferred stock which reduced the amount of net income available to common shareholders. This amount, however, was less than the preferred stock dividend and accelerated preferred stock discount accretion related to the former TARP CPP preferred stock that totalled $1,385,000 in 2011. The Company has been successful in growing commercial loans in categories that qualify

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

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

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

	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	**$ 39,343**	$ 39,917	$ 41,964
Interest expense	**6,482**	7,714	9,681
Net interest income	**32,861**	32,203	32,283
Net interest margin	**3.56%**	3.65 %	3.72 %

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

Total interest expense for 2013 declined by $1.2 million from 2012 due to the Company s proactive efforts to reduce deposit costs. Even with this reduction in deposit costs, the Company still experienced growth in deposits which reflects the loyalty of its core deposit base and its ongoing efforts to cross sell new loan customers into deposit products. Specifically, total deposits have averaged $847 million in 2013, which is $14 million or 1.6% higher than the $833 million average in 2012. The Company is pleased that the majority of the deposit growth has occurred in non-interest bearing demand deposit accounts. Overall, the Company expects that it will need to continue to grow earning assets to achieve net interest income growth in 2014 as little net interest margin improvement is expected given the Federal Reserve s announced plans to keep short term interest rates exceptionally low into 2015. Solid commercial loan pipelines suggest that the Company should be able to again grow the loan portfolio in 2014.

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

The Company's total interest expense for 2013 decreased by $1.2 million, or 16.0%, when compared to 2012. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 21 basis points to 0.88%. Management s decision to further reduce interest rates paid on all deposit categories has not had a negative impact on deposit growth and reflects the loyalty of the bank s core deposit base. This decrease in funding costs occurred in spite of a $28.3 million increase in the volume of interest bearing liabilities. The Company has utilized term advances from the FHLB, with maturities ranging between three and five years, to help fund its earning asset growth and manage interest rate risk over the past year. The average balance of FHLB term advances has increased by $13 million while the average cost of these advances has declined by 60 basis points to 0.84%. Overall, total FHLB borrowings have averaged $36 million or 3.5% of total assets during 2013.

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

COMPONENT CHANGES IN NET INTEREST INCOME: 2012 VERSUS 2011... Regarding the separate components of net interest income, the Company's total interest income in 2012 decreased by $2.0 million when compared to 2011. This decrease was due to a 32 basis point decline in the earning asset yield from 4.84% to 4.52%, partially offset by additional interest income from a $12.5 million increase in average earning assets due to an increase in average loans. Within the earning asset base, the yield on the total loan portfolio decreased by 33 basis points from 5.39% to 5.06%, while the yield on total investment securities dropped by 43 basis points from 3.15% to 2.72%. Due to the lower interest rate environment, new investment securities and loans typically have yields that are below the rate on the maturing instruments that they are replacing. Investment securities interest revenue has also been negatively impacted by increased premium amortization on mortgage backed securities of $334,000 due to faster mortgage prepayment speeds. Despite a $26 million or 3.9% increase in total average loans, total loan interest revenue dropped by $887,000

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

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

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

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

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

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

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

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

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

The Company recorded for the 2013 year a negative loan loss provision of $1.1 million compared to a $775,000 negative provision for the 2012 year. There has been $325,000 more earnings benefit from negative loan loss provisions in 2013. The 2013 negative provision largely resulted from the release of reserves due to the fourth quarter pay-off of the Company s largest classified loan and a continued reduction in the level of criticized loans and non-performing assets. At December 31, 2013, non-performing assets are at their lowest point since the financial crisis and totaled $4.1 million or 0.52% of total loans which is $3.1 million lower

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

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

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

Even though residential real estate-mortgage loans comprise 30.1% of the Company s total loan portfolio, only $1.3 million or 12.5% of the total allowance for loan losses is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company s three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company s historical loss experience in these categories, and other qualitative factors. The large decline in the part of the allowance allocated to commercial loans secured by real estate reflects the meaningful asset quality improvements in this sector.

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

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

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

- a $204,000 investment security gain realized on the sale of certain rapidly prepaying mortgage backed securities in 2013. There were only $12,000 of investment security gains realized in 2012.
- a $135,000, or 15.6%, increase in Bank Owned Life Insurance due to the receipt of a death claim payment in 2013.
- a $43,000, or 3.8%, decrease in gains realized on residential mortgage loan sales into the secondary market due to a reduced level of mortgage loan production and refinance activity in the second half of 2013. The Company expects to experience a more meaningful drop in residential mortgage banking revenue in 2014 given the higher mortgage rates already in place.

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

- a $354,000, or 5.7%, increase in trust fees as our wealth management businesses benefitted from the implementation of new fee schedules and improved asset values under management in 2012.
- a $320,000, or 39.4%, increase in gains realized on residential mortgage loan sales into the secondary market due to a record level of mortgage loan production in 2012. The lower long term interest rate environment contributed to increased mortgage purchase and refinance activity in 2012. Specifically, the Company sold $74 million of residential mortgage loans into the secondary market in 2012 compared to $60 million in 2011.
- a $411,000, or 13.4%, increase in other income again reflecting higher revenue from residential mortgage banking activities such as underwriting and documentation preparation fees. Also, a $162,000 increase in revenue from financial services (annuity and mutual funds sales) was another item contributing to the higher level of other income in 2012.
- a modest $12,000 investment security gain in 2012 compared to a $358,000 investment security loss in 2011 that resulted from a portfolio repositioning strategy.

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

- a $691,000, or 2.8%, increase in salaries and employee benefits expense due to higher salaries expense and pension expense in 2013. The Company expects that its pension costs will decline in 2014 due to the higher interest rate environment in place to begin the year and the impact that a soft freeze of its defined benefit pension plan for both non-union employees (started January 1, 2013) and union employees (started January 1, 2014) will have on reducing pension expense in future periods.
- a $457,000 increase in professional fees due largely to higher legal costs, recruitment fees, and increases in several other professional fee categories which included the cost for outsourcing the computer operations function for part of the year.
- a $170,000 increase in FDIC insurance expense due largely to the Bank s increased asset size.

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

- a $1.8 million, or 8.0%, increase in salaries and employee benefits expense due to higher salaries expense, incentive compensation, and pension expense in 2012. The 2012 personnel expenses also reflect the staffing costs associated with new loan production offices in Altoona and Harrisburg, Pennsylvania, and Hagerstown, Maryland. Note that pension costs related to the Company s defined benefit pension plan increased by $429,000 or 24.6% in 2012 due to the impact that the low interest rate environment had on the discount rate used to calculate the plan liabilities.
- an $897,000, or 67.0%, decrease in FDIC insurance expense due to a change in the calculation methodology which took effect in the second half of 2011 and the Company s improved risk profile.

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

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

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

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

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

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

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

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

BALANCE SHEET... The Company's total consolidated assets of $1.056 billion at December 31, 2013 grew by $55 million or 5.5% from the $1.0 billion level at December 31, 2012. This asset growth was due primarily to a $55.0 million or 7.5% increase in total loans in 2013. This loan growth reflects the successful results of the Company s more intensive sales calling efforts with an emphasis on generating commercial loans and owner occupied commercial real estate loans which qualify as SBLF loans, particularly through its loan production offices.

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

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

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

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

Financial institutions must maintain liquidity to meet day-to-day requirements of depositors and borrowers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, and short-term investments in money market funds. These assets totaled $30 million at both December 31, 2013 and 2012, respectively.

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Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the Federal Home Loan Bank systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company s subsidiary bank is a member of the Federal Home Loan Bank, which provides the opportunity to obtain short-to longer-term advances based upon the Company s investment in assets secured by one- to four-family residential real estate. At December 31, 2013, the Company had $318 million of overnight borrowing availability at the FHLB, $42 million of short-term borrowing availability at the Federal Reserve Bank and $39 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES... The Company meaningfully exceeds all regulatory capital ratios for each of the periods presented and is considered well capitalized. The asset leverage ratio was 11.45% and the risk based capital ratio was 15.28% at December 31, 2013. The Company s tangible common equity to tangible assets ratio was 7.64% at December 31, 2013. These ratios reflect the completion of a $1.2 million common stock buyback program where we repurchased 2% of our outstanding shares during the second quarter of 2013. Since we resumed common stock repurchases in the fourth quarter of 2011, in total we have repurchased 2,429,200 shares or 11.5% of our common stock at a total cost of $6.2 million or an average price of $2.54 per share. All previously announced board approved common stock repurchase programs are now completed. We anticipate that we will maintain our strong capital ratios throughout 2014. Capital generated from earnings will be utilized to pay the SBLF preferred dividend, common stock cash dividend and will also support anticipated balance sheet growth.

On July 2, 2013, the Board of Governors of the Federal Reserve System approved final rules that substantially amend the regulatory risk-based capital rules applicable to the Company and the Bank. The final rules implement the Basel III regulatory capital reforms, as well as certain changes required by the Dodd-Frank Act. The July 2013 final rules generally implement higher minimum capital requirements, add a new common equity tier 1 capital requirement, and establish criteria that instruments must meet to be considered common equity tier 1 capital, additional tier 1 capital or tier 2 capital. The new minimum capital to risk-adjusted assets requirements are a common equity tier 1 capital ratio of 4.5% (6.5% to be considered well capitalized) and a tier 1 capital ratio of 6.0%, increased from 4.0% (and increased from 6.0% to 8.0% to be considered well capitalized); the total capital ratio remains at 8.0% under the new rules (10.0% to be considered well capitalized). Under the new rules, in order to avoid limitations on capital distributions (including dividend payments and certain discretionary bonus payments to executive officers), a banking organization must hold a capital conservation buffer comprised of common equity tier 1 capital above its minimum risk-based capital requirements in an amount greater than 2.5% of total risk-weighted assets. The new minimum capital requirements are effective on January 1, 2015. The capital contribution buffer requirements phase in over a three-year period beginning January 1, 2016. The Company is continuing to review the impact of these new rules and currently expects that its capital position will be more than adequate to meet the revised regulatory capital requirements.

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

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

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

When December 31, 2013 is compared to December 31, 2012, the Company s cumulative GAP ratio through one year indicates that the Company s balance sheet is still asset sensitive but to a lesser extent than it was at the end of 2012. This reflects loan customer preference over the past year for fixed rate loans given the overall low level of interest rates. Also, the cash flow from mortgage backed securities did slow in the second half of 2013. The absolute low level of short interest rates makes this table more difficult to analyze since there is little room for certain deposit liabilities to reprice downward further.

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

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

INTEREST RATE SCENARIO	VARIABILITY OF NET INTEREST INCOME	CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY
200 bp increase	**(0.1)%**	**6.5%**
100 bp increase	**0.5**	**4.8**
100 bp decrease	**(3.6)**	**(12.0)**

The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The variability of net interest income is modestly positive in the 100 basis point upward rate shocks and close to neutral in the 200 basis point upward shock which indicates that the Company s overall interest rate risk position is well controlled. The Company s short duration investment securities portfolio and scheduled repricing of certain loans now tied to LIBOR or prime help us manage the overall interest rate risk position given customer preference for fixed rate loans. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company s core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

Within the investment portfolio at December 31, 2013, 89% of the portfolio is classified as available for sale and 11% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity, but has no impact on regulatory capital. There are 60 securities that are temporarily impaired at December 31, 2013. The Company reviews its securities quarterly and has asserted that at December 31, 2013, the impaired value of securities represents temporary declines due to movements in interest rates and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery. Furthermore, it is the Company s intent to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market (excluding construction and any jumbo loans). The Company also sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2013, 58% of all residential mortgage loan production was sold into the secondary market.

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The amount of loans outstanding by category as of December 31, 2013, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

	ONE YEAR OR LESS	MORE THAN ONE YEAR THROUGH FIVE YEARS	OVER FIVE YEARS	TOTAL LOANS
	(IN THOUSANDS, EXCEPT RATIOS)			
Commercial	**$ 24,237**	**$ 70,899**	**$ 24,966**	**$ 120,102**
Commercial loans secured by real estate	**29,236**	**182,419**	**200,036**	**411,691**
Real estate-mortgage	**44,595**	**78,879**	**115,617**	**239,091**
Consumer	**5,322**	**7,004**	**3,538**	**15,864**
Total	**$ 103,390**	**$ 339,201**	**$ 344,157**	**$ 786,748**
Loans with fixed-rate	**$ 70,510**	**$ 181,910**	**$ 198,429**	**$ 450,849**
Loans with floating-rate	**32,880**	**157,291**	**145,728**	**335,899**
Total	**$ 103,390**	**$ 339,201**	**$ 344,157**	**$ 786,748**
Percent composition of maturity	**13.1%**	**43.2%**	**43.7%**	**100.0%**
Fixed-rate loans as a percentage of total loans				**57.3%**
Floating-rate loans as a percentage of total loans				**42.7%**

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

CONTRACTUAL OBLIGATIONS... The following table presents, as of December 31, 2013, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

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

* Includes interest based upon interest rates in effect at December 31, 2013. Future changes in market interest rates could materially affect contractual amounts to be paid.

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

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to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating $146.0 million and standby letters of credit of $13.2 million as of December 31, 2013. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The Company had no interest rate contracts outstanding as of December 31, 2013.

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

ACCOUNT Allowance for Loan Losses

BALANCE SHEET REFERENCE Allowance for Loan Losses

INCOME STATEMENT REFERENCE Provision (Credit) for Loan Losses

DESCRIPTION

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

Commercial and commercial real estate loans are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $7.7 million, or 76%, of the total allowance for loan losses at December 31, 2013 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, levels of non-performing and TDR loans, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

ACCOUNT Goodwill

BALANCE SHEET REFERENCE Goodwill

INCOME STATEMENT REFERENCE Goodwill impairment

DESCRIPTION

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

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal

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

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

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. As of December 31, 2013, goodwill was not considered impaired; however, deteriorating economic conditions could result in impairment, which could adversely affect earnings in future periods.

ACCOUNT Income Taxes

BALANCE SHEET REFERENCE Net Deferred Tax Asset

INCOME STATEMENT REFERENCE Provision for Income Taxes

DESCRIPTION

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

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2013, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

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

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ACCOUNT Investment Securities

BALANCE SHEET REFERENCE Investment Securities

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

DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security s performance, the creditworthiness of the issuer and the Company s intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2013, the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies or government sponsored agencies and certain high quality corporate securities. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

FORWARD LOOKING STATEMENTS...

THE STRATEGIC FOCUS:

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

Customer Service it is the existing and prospective customer that AmeriServ must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy problem resolution and a minimizing of bureaucratic frustrations. AmeriServ is training and motivating its staff to meet these standards while providing customers with more banking options that involve leading technologies such as computers, smartphones, and tablets to conduct business.

Revenue Growth It is necessary for AmeriServ to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so as many revenue producing products as possible can be presented to existing and prospective customers. The Company s Strategic Plan contains action plans in each of these areas particularly on increasing loans through several loan production offices. There will be a particular focus on small business commercial lending. An examination of the peer bank database provides ample proof that a well-executed community banking business model can generate a reliable and rewarding revenue stream.

Expense Rationalization AmeriServ Financial remains focused on trying to rationalize expenses. This has not been a program of broad based cuts, but has been targeted so AmeriServ stays strong but spends less. The Company has identified approximately $1 million of non-interest expense savings for 2014 some of which may be utilized to fund new revenue growth initiatives such as another loan production office or increased technological related investments. It is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues.

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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 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.

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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.

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ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

AMERISERV FINANCIAL, INC.

CONSOLIDATED BALANCE SHEETS

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

TOTAL LIABILITIES	**942,729**	890,523
STOCKHOLDERS EQUITY		
Preferred stock, no par value; $1,000 per share liquidation preference; 2,000,000 shares authorized; there were 21,000 shares issued and outstanding on December 31, 2013 and 2012	**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 shares outstanding on December 31, 2013; 26,398,540 shares issued and 19,164,721 shares outstanding on December 31, 2012	**264**	264
Treasury stock at cost, 7,617,819 shares on December 31, 2013 and 7,233,819 shares on December 31, 2012	**(74,829)**	(73,658)
Capital surplus	**145,190**	145,102
Retained earnings	**27,557**	23,139
Accumulated other comprehensive loss, net	**(5,875)**	(5,379)
TOTAL STOCKHOLDERS EQUITY	**113,307**	110,468
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$1,056,036**	$1,000,991

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

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

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

See accompanying notes to consolidated financial statements.

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	YEAR ENDED DECEMBER 31,		
	2013	2012	2011
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
PRETAX INCOME	**7,482**	7,280	9,390
Provision for income taxes	**2,289**	2,241	2,853
NET INCOME	**5,193**	5,039	6,537
Preferred stock dividends and accretion of preferred stock discount	**209**	828	1,385
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	**$ 4,984**	$ 4,211	$ 5,152
PER COMMON SHARE DATA:			
Basic:			
Net income	**$ 0.26**	$ 0.21	$ 0.24
Average number of shares outstanding	**18,942**	19,685	21,184
Diluted:			
Net income	**$ 0.26**	$ 0.21	$ 0.24
Average number of shares outstanding	**19,034**	19,747	21,205
Cash dividends declared	**$ 0.03**	$ 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,		
	2013	2012	2011
	(IN THOUSANDS)		
COMPREHENSIVE INCOME			
Net income	**$5,193**	$5,039	$6,537
Other comprehensive income (loss), before tax:			
Pension obligation change for defined benefit plan	**3,942**	(2,128)	(1,803)
Income tax effect	**(1,340)**	725	613
Unrealized holding gains (losses) on available for sale securities arising during period	**(4,489)**	(466)	3,266
Income tax effect	**1,526**	158	(1,110)
Reclassification adjustment for losses (gains) on available for sale securities included in net income	**(204)**	(12)	358
Income tax effect	**69**	4	(122)
Other comprehensive income (loss)	**(496)**	(1,719)	1,202
Comprehensive income	**$4,697**	$3,320	$7,739

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

See accompanying notes to consolidated financial statements.

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AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

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

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

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, 2013, 2012 AND 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND NATURE OF OPERATIONS:

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary the Company operates 18 banking locations in five southwestern Pennsylvania counties. These branches provide a full range of consumer, mortgage, and commercial financial products. The AmeriServ Trust and Financial Services Company (Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately $1.7 billion that are not recognized on the Company s Consolidated Balance Sheet at December 31, 2013.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 18 locations in Pennsylvania. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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