

AMERISERV FINANCIAL INC /PA/

Form 10-K

March 07, 2011

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

WASHINGTON, D.C. 20549

**FORM 10-K**

(MARK ONE)

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
**FOR THE FISCAL YEAR ENDED DECEMBER 31, 2010**

OR

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

COMMISSION FILE NUMBER 0-11204

**AMERISERV FINANCIAL, INC.**

(Exact name of registrant as specified in its charter)

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**PENNSYLVANIA**  
(State or other jurisdiction of incorporation or organization)  
**MAIN & FRANKLIN STREETS,**

**25-1424278**  
(I.R.S. Employer Identification No.)

**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:**

<b>Title Of Each Class</b>	<b>Name Of Each Exchange On Which Registered</b>
None	

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

**Common Stock, \$0.01 Par Value**  
(Title of class)

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

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  Yes  No

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

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

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was \$34,170,547 as of June 30, 2010.

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 21,207,670 shares outstanding as of January 31, 2011.

**DOCUMENTS INCORPORATED BY REFERENCE.**

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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) on January 5, 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, 2010, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of \$949 million, \$801 million and \$107 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 insurance 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 offering and sale of its securities. The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. The Company is listed on the NASDAQ Stock Market under the trading symbol ASRV, and 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, AmeriServ Financial Bank conducts a general banking business. It is a full-service Bank offering (i) retail banking services, such as demand, savings and time deposits, money market accounts, secured and unsecured loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler's checks; (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as 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 22 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. On March 7, 2007, the Bank completed the acquisition of West Chester Capital Advisors (WCCA). WCCA is a registered investment advisor and as of December 31, 2010 had \$106 million in assets under management.

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. In addition, the loan portfolio is also diversified so that one industry or group of related industries does not comprise a material portion of the loan portfolio. The Bank's business is not seasonal, nor does it have any risks attendant to foreign sources. The majority of the Bank's customer base is located within a 100 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, 2010:

<b>Headquarters</b>	<b>Johnstown, PA</b>
Total Assets	<b>\$ 924,287</b>
Total Investment Securities	<b>156,251</b>
Total Loans and Loans Held for Sale (net of unearned income)	<b>678,181</b>
Total Deposits	<b>801,416</b>
Total Net Income	<b>2,496</b>
Asset Leverage Ratio	<b>9.13%</b>
Return on Average Assets	<b>0.27</b>
Return on Average Equity	<b>2.59</b>
Total Full-time Equivalent Employees	<b>279</b>

**RISK MANAGEMENT OVERVIEW:**

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, which includes interest rate, credit, and liquidity risk. The Company controls and monitors these risks with policies, procedures, and various levels of managerial and Board oversight.

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

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

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

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

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category is impacted by the strength of the borrower's management and industry risk, which are also considered during the underwriting process.

### **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 Company's credit policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits, and are frequently obtained on mid to smaller commercial real estate loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, which are monitored and considered in underwriting.

### **Real Estate Mortgage**

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

### **Consumer**

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

## **INVESTMENTS**

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

The investment portfolio is primarily made up of AAA rated agency mortgage-backed securities and short maturity agency securities. The purpose of this type of portfolio is to generate adequate cash flow to fund potential loan growth, as the market allows. Management strives to maintain a relatively short duration in the portfolio. All holdings must meet standards documented in the AmeriServ Financial Investment Policy.

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

Investment securities available for sale at:

	AT DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
U.S. Agency	\$ 15,956	\$ 12,342	\$ 10,387
U.S. Agency mortgage-backed securities	145,727	116,088	114,380
Other securities			24
Total cost basis of investment securities available for sale	\$ 161,683	\$ 128,430	\$ 124,791
Total fair value of investment securities available for sale	\$ 164,811	\$ 131,272	\$ 126,781

Investment securities held to maturity at:

	AT DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
U.S. Treasury	\$	\$ 3,009	\$ 3,082
U.S. Agency mortgage-backed securities	6,824	7,602	9,562
Other securities	1,000	1,000	3,250
Total cost basis of investment securities held to maturity	\$ 7,824	\$ 11,611	\$ 15,894
Total fair value of investment securities held to maturity	\$ 8,267	\$ 11,996	\$ 16,323

**DEPOSITS AND OTHER SOURCES OF FUNDS****Deposits**

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

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

	AT DECEMBER 31,					
	2010		2009		2008	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	\$ 122,963	%	\$ 114,473	%	\$ 110,601	%
Interest bearing	58,118	0.30	62,494	0.41	64,683	1.01
Savings	77,381	0.51	72,350	0.73	70,255	0.76
Money market	186,560	0.87	169,823	1.44	107,843	2.24
Other time	358,472	2.44	343,841	2.88	341,185	3.54

Total deposits	<b>\$ 803,494</b>	<b>1.61</b>	\$ 762,981	2.02	\$ 694,567	2.69
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Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
Interest bearing demand	\$ 176	\$ 256	\$ 653
Savings	397	530	535
Money market	1,622	2,437	2,417
Certificates of deposit in denominations of \$100,000 or more	834	1,186	1,744
Other time	7,916	8,700	10,331
 Total interest expense	 \$ 10,945	 \$ 13,109	 \$ 15,680

Additionally, the following table provides more detailed maturity information regarding certificates of deposit issued in denominations of \$100,000 or more as of December 31, 2010:

MATURING IN:

	(IN THOUSANDS)
Three months or less	\$ 12,695
Over three through six months	21,695
Over six through twelve months	5,321
Over twelve months	11,097
 Total	 \$ 50,808

**Borrowings**

The Company, when needed, uses both overnight borrowings and term advances from the Federal Home Loan Bank of Pittsburgh for liquidity management purposes. During the past several years the Company has significantly deleveraged its balance sheet and reduced its level of borrowings through investment portfolio cash flow.

The outstanding balances and related information for federal funds purchased and other short-term borrowings are summarized as follows:

	AT DECEMBER 31, 2010	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$	\$ 4,550
Maximum indebtedness at any month end		9,230
Average balance during year	9	3,110
Average rate paid for the year	0.51%	0.71%
Interest rate on year-end balance		0.62

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	AT DECEMBER 31, 2009	
	FEDERAL	SHORT-TERM
	FUNDS PURCHASED	BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$	\$ 25,775
Maximum indebtedness at any month end	5,968	54,649
Average balance during year	1,358	19,670
Average rate paid for the year	0.50%	0.67%
Interest rate on year-end balance		0.62

	AT DECEMBER 31, 2008	
	FEDERAL	OTHER
	FUNDS PURCHASED	SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	\$	\$ 119,920
Maximum indebtedness at any month end	5,685	138,855
Average balance during year	20	71,617
Average rate paid for the year	3.16%	1.96%
Interest rate on year-end balance		0.60

Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances.

These borrowing transactions can range from overnight to one year in maturity. The average maturity was three days at the end of 2010, and two days at the end of 2009 and 2008.

**Loans**

The loan portfolio of the Company consisted of the following:

	2010	2009	AT DECEMBER 31,		
			2008	2007	2006
	(IN THOUSANDS)				
Commercial	\$ 78,322	\$ 96,158	\$ 110,197	\$ 118,936	\$ 91,746
Commercial loans secured by real estate(1)	370,375	396,787	353,870	285,115	269,781
Real estate-mortgage(1)	203,323	207,221	218,928	214,839	209,728
Consumer	19,233	19,619	23,804	16,676	18,336
Loans	671,253	719,785	706,799	635,566	589,591
Less: Unearned income	477	671	691	471	514
Loans, net of unearned income	\$ 670,776	\$ 719,114	\$ 706,108	\$ 635,095	\$ 589,077

- (1) For each of the periods presented beginning with December 31, 2010, real estate-construction loans constituted 3.9%, 6.8%, 6.2%, 5.5% and 4.4% of the Company's total loans, net of unearned income, respectively.

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The following table presents information concerning non-performing assets:

	2010	AT DECEMBER 31,			
		2009	2008	2007	2006
(IN THOUSANDS, EXCEPT PERCENTAGES)					
<b>Non-accrual loans</b>					
Commercial	\$ 3,679	\$ 3,375	\$ 1,128	\$ 3,553	\$ 494
Commercial loans secured by real estate	6,731	11,716	484	225	195
Real estate-mortgage	1,879	2,025	1,765	1,460	1,597
Total	12,289	17,116	3,377	5,238	2,286
<b>Past due 90 days or more and still accruing</b>					
Consumer					3
Total					3
<b>Other real estate owned</b>					
Commercial loans secured by real estate	436	871	701		
Real estate-mortgage	302	350	494	42	3
Total	738	1,221	1,195	42	3
Total restructured loans not in non-accrual (TDR)	1,337				1,302
<b>Total non-performing assets including TDR</b>	<b>\$ 14,364</b>	<b>\$ 18,337</b>	<b>\$ 4,572</b>	<b>\$ 5,280</b>	<b>\$ 3,594</b>
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	2.12%	2.53%	0.65%	0.83%	0.61%

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned is recorded at the lower of (1) fair value minus estimated costs to sell, or (2) carrying cost.

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

	2010	YEAR ENDED DECEMBER 31,			
		2009	2008	2007	2006
(IN THOUSANDS)					
Interest income due in accordance with original terms	\$ 1,086	\$ 553	\$ 198	\$ 215	\$ 214
Interest income recorded	(458)	(75)		(24)	(55)
Net reduction in interest income	\$ 628	\$ 478	\$ 198	\$ 191	\$ 159

**Secondary Market Activities**

The Residential Lending department of the Company continues to originate one-to-four family mortgage loans for customers, some 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

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investor. Fannie Mae/Freddie Mac guidelines are used in underwriting all mortgages with the exception of CRA loans. Mortgages with longer terms such as 20-year, 30-year, FHA, and VA loans are usually sold. The remaining

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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.

### **AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES**

#### **AMERISERV TRUST AND FINANCIAL SERVICES COMPANY**

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. As one of the larger providers of trust and investment management products and services between Pittsburgh and Harrisburg, AmeriServ Trust and Financial Services Company is committed to delivering personalized, professional service to its clients. Its staff of approximately 44 professionals administer assets valued at approximately \$1.4 billion that are not recognized on the Company's balance sheet at December 31, 2010. 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. 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, 2010, AmeriServ Trust and Financial Services had total assets of \$3.5 million and total shareholder's equity of \$3.1 million. In 2010, the Trust Company contributed earnings to the corporation as its gross revenue amounted to \$5.6 million and the net income contribution was \$208,000. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

#### **AMERISERV LIFE**

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company's market area. Operations of AmeriServ Life are conducted in each office of the Company's banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Federal Reserve System. At December 31, 2010, AmeriServ Life had total assets of \$705,000 and total stockholders' equity of \$666,000.

#### **MONETARY POLICIES**

Commercial banks are affected by policies of various regulatory authorities including the Federal Reserve System. An important function of the Federal Reserve System is to regulate the national supply of bank credit. Among the instruments of monetary policy used by the Board of Governors 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 Board of Governors have had 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 several 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

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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**

Nationally, the economy is improving gradually, although it may take years to fully emerge from the negative effects of the recent economic downturn. The recovery has gathered more momentum, and will get an extra push in 2011 from a further injection of fiscal stimulus including the extension of the Bush tax cuts for the next two years, the two percentage point cut in the employee payroll tax rate for 2011, and a two-year extension of depreciation incentives for business investment. Business and consumer confidence are improving. The recent good news is suggesting 2011 GDP growth should come in near 3.2%. The Fed will continue to be accommodative. Overall, the economy is getting better, but is still not out-of-the-woods. The economy isn't improving fast enough to make a noticeable reduction in unemployment. Risks, however, still loom, particularly from a weak housing market and spending cuts and layoffs from state and local governments.

There are many mixed factors that will affect future economic growth. Positively impacting economic conditions will be 1.) The extension of the Bush tax cuts for another 2-years and extending jobless benefits and cutting payroll taxes in 2011; 2.) The Federal Reserve's monetary policy continuing to be accommodative as short-term rates will be near 0.0%; 3.) The lower value of the dollar in the world financial markets should increase exports while the flow of goods from overseas will slow; 4.) Consumers are simultaneously saving more and paying down debt. As a result, there should be pent-up demand stemming from the severity of the recession which could result in an increase in spending; 5.) Businesses also should have pent-up demand from a need to incorporate the latest technology to be competitive and cut costs.

Negatively impacting future economic conditions will be: 1.) Anemic employment gains while the few jobs that have been created have tended to be temporary or part time. 2.) Consumers and businesses will most likely not be willing to acquire debt; 3.) The sharp rise in prices of oil and food commodities should continue to reduce peoples buying power; as will the jump in mortgage rates, which has already significantly slowed re-financing; 4.) Capital constrained banks are not as eager to lend as they should be at this stage of a recovery; 5.) Our trading partners around the world have equally poor economies and offset the positive impact of the lower value of the dollar which will constrain exports; 6.) The actions of Washington on the budget deficit could cause people to assume future tax hikes and spending cuts which could cause consumers and businesses to be less willing to spend.

The Consumer Price Index rose 0.5% in December, leaving inflation over the past 12 months at 1.5%. Core inflation, which strips out energy and food prices, should rise a bit in 2011. The core CPI increased 0.1% in December and just 0.8% over the past 12 months. That's the slowest pace since this data set began in 1958, and the chief reason the Federal Reserve remains unconcerned about the prospect of higher inflation. Confidence in the economic expansion remains fragile, but conditions should improve. It is expected that net job growth should be approximately 2.5 million in 2011, following an increase of 1.1 million in 2010. Still, the unemployment rate will remain high. Now at 9.0%, it's likely to decline a bit further over the course of 2011. GDP growth will need to continue to be 3.2% or higher into 2012 to bring the rate significantly lower.

The economy in Cambria and Somerset Counties at the end of 2010 produced seasonally adjusted unemployment rates of 9.5% and 9.3%, respectively, as compared to national and state rates of 9.4% and 8.6%. Local markets have been negatively impacted by the recessionary conditions that exist in the national economy, causing the unemployment rate to increase from last year's average of 9.3%. The increases in unemployment and the difficulties being experienced by small and medium sized businesses nationally are also being experienced locally. Johnstown, PA, where AmeriServ Financial, Inc. is headquartered, is a leader in technology and continues to have a cost of living that is lower than the national average. The local labor force fluctuated in a very narrow range comparing closely to recent year levels. As of December 31, 2010, total nonfarm jobs in the

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Johnstown MSA were 800 below the December 2009 level, with losses coming from the service-providing industry while the goods producing industries have shown little change in their job levels. In the recent past, work on defense projects has contributed to economic growth in the region. However, a change in leadership due to the passing of a long time influential Congressman created cause for concern about the continued positive impact from the defense industry, although current activity in this sector remains good.

Economic conditions are stronger in the State College market, but have also been negatively impacted by the struggling national economy. The unemployment rate for the State College MSA reached 5.5% late in 2010, which represents a 0.8% improvement since last year and remains the lowest of all regions in the Commonwealth. Seasonally adjusted total nonfarm jobs for the MSA increased by 2,100 since December 2009. The Company opened a new branch office in the State College market during 2010 as this area presents the Company with a more vibrant economic market and a much different demographic. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age. Overall, opportunities in the State College market are quite different and challenging, providing a promising source of business to profitably grow the Company.

The expansion of Marcellus Shale gas drilling could provide a meaningful economic opportunity for west-central Pennsylvania. The Marcellus Shale, which underlies a vast majority of the state, is the largest unconventional natural gas reserve in the world. There is enormous economic potential for Pennsylvania to take advantage of this reserve as new drilling techniques have unlocked vast resources previously impossible to reach. Technology developed recently at Penn State now allows drilling companies to reach the gas tucked inside a shale bed as much as two miles beneath the surface. The industry will create jobs in drilling and extraction, trucking and water treatment, gas line construction and maintenance, and in producing the materials for all of these needs. The projection for jobs and economic growth generated by the industry is a point of contention between industrialists and environmentalists. The environmental risks and potential regulation on drilling are key factors that could limit the potential growth and positive impact on the state.

## **EMPLOYEES**

The Company employed 374 people as of December 31, 2010, in full- and part-time positions. Approximately 199 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. In 2009, the Company successfully negotiated a new four year labor contract with the United Steelworkers Local that will expire on October 15, 2013. The contract calls for annual wage increases of 1.5% in the first year, 2.0% in each of the second and third years, and 3.0% in the fourth year. The Company has not experienced a work stoppage since 1979. The Company is one of 13 union-represented banks nationwide.

## **FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT**

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA ), among other things, 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. The FDICIA generally prohibits a bank from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized. An undercapitalized bank must develop a capital restoration plan, and its parent holding company must guarantee the bank's compliance with the plan up to the lesser of 5% of the bank's assets at the time it became undercapitalized and the amount needed to comply with the plan.

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As of December 31, 2010, the Company believes that its Bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. A bank's capital category is determined solely for the purpose of applying the prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

### **TEMPORARY LIQUIDITY GUARANTEE PROGRAM**

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLGP). The TLGP was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury, as an initiative to counter the system-wide crisis in the nation's financial sector. Under the TLGP the FDIC will (1) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (2) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdraw (NOW) accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts held at participating FDIC-insured institutions through December 31, 2010. Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding \$250,000. The Company elected to participate in the program that provided full FDIC deposit insurance coverage for all non-interest bearing accounts that became effective on December 31, 2010 and will last until December 31, 2012.

### **SARBANES-OXLEY ACT OF 2002**

The Sarbanes-Oxley Act of 2002 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 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 OF GRAMM-LEACH-BLILEY ACT**

Under the Gramm-Leach-Bliley Act (GLB Act), 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 provision of the GLB Act 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 of the GLB Act.

### **USA PATRIOT ACT OF 2001**

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

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

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

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act ). This new law will significantly change the current bank regulatory structure and affect 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, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. 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 existing law could have an adverse impact on the Company's interest expense.

The Dodd-Frank Act also broadens 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 increases 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 have unlimited deposit insurance through December 31, 2013.

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 will require publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments, and allow greater access by shareholders to the company's proxy material by authorizing the SEC to promulgate rules that would allow stockholders to nominate their own candidates using a company's proxy materials. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act creates 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

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\$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 attorneys general the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what specific impact the Dodd-Frank Act and the yet to be written implementing rules and regulations will have on community banks. However, it is expected that at a minimum they will increase our operating and compliance costs and could increase our interest expense.

**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. Eight additional locations are leased with terms expiring from January 1, 2010 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. (REMOVED AND RESERVED)**

**Table of Contents****PART II****ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES  
COMMON STOCK**

As of January 31, 2011, the Company had 4,069 shareholders of its common stock. AmeriServ Financial, Inc.'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
<b>Year ended December 31, 2010:</b>			
<b>First Quarter</b>	<b>\$ 2.13</b>	<b>\$ 1.42</b>	<b>\$ 0.00</b>
<b>Second Quarter</b>	<b>2.49</b>	<b>1.60</b>	<b>0.00</b>
<b>Third Quarter</b>	<b>1.89</b>	<b>1.40</b>	<b>0.00</b>
<b>Fourth Quarter</b>	<b>1.75</b>	<b>1.51</b>	<b>0.00</b>
Year ended December 31, 2009			
First Quarter	\$ 1.99	\$ 1.43	\$ 0.00
Second Quarter	1.88	1.56	0.00
Third Quarter	2.09	1.54	0.00
Fourth Quarter	1.97	1.46	0.00

Information regarding restrictions on the Company's ability to pay dividends is included in the Management's Discussion and Analysis of Financial Condition and Results of Operations - Capital Resources. Information required by this section is presented in the Equity Compensation Plan Information Table section of the Proxy Statement for the Annual Meeting of Shareholders.

**Table of Contents****ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA****SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA**

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2010	2009	2008	2007	2006
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
<b>SUMMARY OF INCOME STATEMENT DATA:</b>					
Total interest income	\$ 44,831	\$ 47,455	\$ 47,819	\$ 49,379	\$ 46,565
Total interest expense	12,489	15,021	18,702	25,156	22,087
Net interest income	32,342	32,434	29,117	24,223	24,478
Provision for loan losses	5,250	15,150	2,925	300	(125)
Net interest income after provision for loan losses	27,092	17,284	26,192	23,923	24,603
Total non-interest income	13,967	13,928	16,424	14,707	12,841
Total non-interest expense	39,697	39,157	35,637	34,672	34,692
Income (loss) before income taxes	1,362	(7,945)	6,979	3,958	2,752
Provision (benefit) for income taxes	80	(3,050)	1,470	924	420
Net income (loss)	\$ 1,282	\$ (4,895)	\$ 5,509	\$ 3,034	\$ 2,332
<b>PER COMMON SHARE DATA:</b>					
Basic earnings (loss) per share	\$ 0.01	\$ (0.29)	\$ 0.25	\$ 0.14	\$ 0.11
Diluted earnings (loss) per share	0.01	(0.29)	0.25	0.14	0.11
Cash dividends declared	0.00	0.00	0.025	0.00	0.00
Book value at period end	4.07	4.09	4.39	4.07	3.82
<b>BALANCE SHEET AND OTHER DATA:</b>					
Total assets	\$ 948,974	\$ 970,026	\$ 966,929	\$ 904,878	\$ 895,992
Loans and loans held for sale, net of unearned income	678,181	722,904	707,108	636,155	589,435
Allowance for loan losses	19,765	19,685	8,910	7,252	8,092
Investment securities available for sale	164,811	131,272	126,781	140,582	172,223
Investment securities held to maturity	7,824	11,611	15,894	18,533	20,657
Deposits	801,216	786,011	694,956	710,439	741,755
Total borrowings	27,385	64,664	146,863	95,200	63,122
Stockholders' equity	107,058	107,254	113,252	90,294	84,684
Full-time equivalent employees	348	345	353	351	369
<b>SELECTED FINANCIAL RATIOS:</b>					
Return on average total equity	1.19%	(4.33)%	5.93%	3.51%	2.74%
Return on average assets	0.13	(0.51)	0.62	0.34	0.27
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	84.64	91.97	101.75	89.54	79.46
Ratio of average total equity to average assets	11.25	11.72	10.40	9.79	9.73
Common stock cash dividends as a percent of net income available to common shareholders			9.92		
Interest rate spread	3.51	3.37	3.21	2.54	2.67
Net interest margin	3.79	3.72	3.64	3.06	3.12
Allowance for loan losses as a percentage of loans and loans held for sale, net of unearned income, at period end	2.91	2.72	1.26	1.14	1.37
Non-performing assets as a percentage of loans, loans held for sale and other real estate owned, at period end	2.12	2.53	0.65	0.83	0.39
Net charge-offs as a percentage of average loans and loans held for sale	0.74	0.60	0.20	0.19	0.16
Ratio of earnings to fixed charges and preferred dividends:(1)					

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Excluding interest on deposits	<b>1.49X</b>	(1.12)X	3.17X	2.60X	1.93X
Including interest on deposits	<b>1.10</b>	0.53	1.37	1.16	1.12
Cumulative one year interest rate sensitivity gap ratio, at period end	<b>1.13</b>	1.08	1.10	0.90	0.85

- (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, 2010, 2009, AND 2008**

**2010 SUMMARY OVERVIEW:**

On January 25, 2011, AmeriServ Financial, Inc. (ASRV) released its financial results for the fourth quarter of 2010 and for the full year of 2010. Net income for the fourth quarter was reported at \$1,114,000 or \$0.04 per share. This represents the fifth consecutive quarter of improved financial performance for ASRV and is an 83% increase over the third quarter of 2010 and a \$2,793,000 increase in absolute dollars over the fourth quarter of 2009. These fourth quarter improved results enabled AmeriServ to record net income for the full year of 2010 of \$1,282,000 or \$0.01 per share. This performance produced a net income improvement of \$6,177,000 over 2009, as each of the last three quarters of 2010 surpassed the same quarters of 2009 by a wide margin.

This improvement cannot be attributed to a strong recovery of the national or regional economy as regional loan demand remains weak and regional unemployment remained well above 9% during the entire year. Rather, we believe that the improvement at ASRV is the result of Board and management actions recognizing that in a troubled economy it is important to introduce special monitoring activities to protect the franchise. The Asset Quality Task Force continues to meet weekly so as to recognize any weakness in specific loans. This vigilance provides an opportunity to both assist the borrower where possible and also to take the necessary steps to keep ASRV strong. The Asset Liability Management Committee also convenes regularly to measure the strength of capital and the necessary depth of liquidity. But perhaps most important of all is that those ASRV community bankers, who meet with customers regularly, continue to provide competitive banking products as well as helpful counsel. We understand that it is our responsibility to always provide our customers with a strong company, but side-by-side with friendly personal service. This has been the formula that has produced our improved performance in 2010.

A few years ago we promised that ASRV was going to return to its old fashioned community banking roots. That promise lies behind many of our activities in 2010. Specifically,

During 2010 ASRV provided \$96 million for residential mortgages to our neighbors in this region. It was a record year for the ASRV mortgage bankers, and we and the local families they have helped salute their efforts.

During 2010 ASRV opened a new branch bank on busy North Atherton Street in State College, Pennsylvania. This full service bank is already welcoming many new customers who have been attracted to a well located bank eager to serve them.

During 2010 our Commercial Banking Division was completely reorganized so as to provide the small and medium sized businesses in our region with quick access to responsive and professional relationship managers. We want every business in our market to know that we want their business and that our professionals will go the extra mile to get it, and keep it.

While working to push this positive agenda ahead, ASRV has also been rebuilding internally. During 2010 ASRV conducted nationwide executive searches to find new leadership for AmeriServ's Trust Company and the Commercial Banking Division of AmeriServ Financial Bank. We were pleased with the quality of

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the new executives we hired. Each of these executives has a strong record of achievement in previous assignments and is already focusing on a productive and profitable future for both of these key activities.

It is especially important that we call to your attention our continuing plan to provide resources to AmeriServ's Trust Company in support of its new strategic direction. The size and scope of this wholly owned subsidiary provides the corporation with more customer service wealth management opportunities than many of our peers enjoy.

We do want you to know that we are quite aware of the economic challenges faced by our region and by America itself. It is this realistic view of conditions that has caused us to emphasize the need to make ASRV strong and safe. The capital levels at ASRV have been, and continue to be, well above any requirement of the Pennsylvania Department of Banking or the Federal Reserve Bank of Philadelphia. Additionally, ASRV has been careful to build and maintain a high level of liquidity during these volatile times when even the safety of the debt instruments of sovereign nations has been called into question. We have also consistently maintained a strong loan loss reserve to provide a buffer against the recession driven problems which have beset many struggling individuals and commercial enterprises. As of December 31, 2010, our allowance for loan losses was 138% of our total of non-performing assets irrespective of any collateral pledged to secure such loans.

It is when we consider the nature of the challenges of the economy that we are determined to not relax our vigilance. We believe that the steady improvement in our financial performance over the last year is proof positive that vigilance is important but must also be supported by strong capital and strong liquidity. We are also taking the time to position AmeriServ to have the talent and the energy to be a force in this region as the economy improves. Our motto has become strength for today with a deep reservoir of energy for tomorrow as we work to assist the communities we serve.

**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,		
	2010	2009	2008
(IN THOUSANDS, EXCEPT			
PER SHARE DATA AND RATIOS)			
Net income (loss)	\$ 1,282	\$ (4,895)	\$ 5,509
Diluted earnings (loss) per share	0.01	(0.29)	0.25
Return on average assets	0.13%	(0.51)%	0.62%
Return on average equity	1.19	(4.33)	5.93

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

The Company reported a net loss of \$4.9 million or \$0.29 loss per diluted common share for 2009. This represented a decrease of \$10.4 million from the 2008 net income of \$5.5 million or \$0.25 per diluted common share. An increased provision for loan losses, reduced non-interest income, and higher non-interest expenses were the main factors causing the decrease in net income in 2009. These negative items more than offset good

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growth in net interest income that resulted from solid loan and deposit growth within our retail Bank in 2009 and effective balance sheet management in a declining interest rate environment.

**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,		
	2010	2009	2008
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	\$ 44,831	\$ 47,455	\$ 47,819
Interest expense	12,489	15,021	18,702
Net interest income	32,342	32,434	29,117
Net interest margin	3.79%	3.72%	3.64%

**2010 NET INTEREST PERFORMANCE OVERVIEW** The Company's net interest income declined modestly in 2010 by only \$92,000 or 0.28% when compared to 2009. Careful management of funding costs during a period when interest revenues declined and the balance sheet contracted allowed the Company to increase its net interest margin by seven basis points to average 3.79% for the full year of 2010. This solid net interest margin performance is reflective of the Company's strong liquidity position and its ability to reduce its funding costs during a period of deposit growth. Specifically, total deposits averaged \$803 million for the full year of 2010, an increase of \$41 million or 5.3% over 2009. Growth in non-interest bearing demand deposits was even greater at 7.4%. The Company believes that uncertainties in the economy have contributed to growth in money market accounts, certificates of deposit and demand deposits as consumers and businesses have looked for safety in well capitalized community banks like AmeriServ Financial. Overall, total loans and loans held for sale have declined by \$45 million or 6.2% since December 31, 2009 as the Company has successfully focused on reducing its commercial real estate exposure and non-performing assets during this period of economic weakness. We expect the declining commercial real estate trend to continue during the first half of 2011. Additionally, our pipelines for new commercial and industrial lending opportunities continue to be thin. Consequently, we expect to book fewer new commercial loans, which will cause the loan portfolio to shrink further through normal amortization and some anticipated early loan pay-offs. This will put pressure on our net interest income and margin.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2010 VERSUS 2009** Regarding the separate components of net interest income, the Company's total interest income in 2010 decreased by \$2.6 million when compared to 2009. This decrease was due to an 18 basis point decline in the earning asset yield to 5.26%, and a \$9.9 million decrease in average earning assets due to the previously mentioned decline in loans. Investment securities have grown over this period, but not enough to absorb the overall decline in total loans. Within the earning asset base, the yield on the total loan portfolio decreased by 14 basis points to 5.58% while the yield on total investment securities dropped by 54 basis points to 3.54%. Both of these yield declines reflect the impact of the lower interest rate environment that has now been in place for over 2 years. New investment securities and loans that are being booked typically have yields that are below the rate on the maturing instruments that they are replacing. Also the asset mix shift with fewer dollars invested in loans and more dollars invested in lower yielding short duration investment securities also negatively impacts the earning asset yield. Overall, the decline in loans combined with deposit growth caused the Company's loan to deposit ratio to average 87.3% in 2010 compared to 95.1% in 2009.

The Company's total interest expense for 2010 decreased by \$2.5 million, or 16.9%, when compared to 2009. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 32 basis points to 1.75%. Management's decision to reduce interest rates paid on all deposit

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categories has not had any negative impact on deposit growth as consumers have sought the safety provided by well-capitalized community banks like AmeriServ Financial. This decrease in funding costs was aided by a drop in interest expense associated with an \$11.1 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by \$43.1 million, but was partially offset by a \$32 million increase in interest bearing deposits. Additionally, the Company's funding mix also benefited from an \$8.5 million increase in non-interest bearing demand deposits. Overall, in 2010 the Company had the discipline to further reduce its reliance on borrowings as a funding source as wholesale borrowings averaged only 2.3% of total assets. The Company also does not use brokered certificates of deposit as a funding source.

**2009 NET INTEREST PERFORMANCE OVERVIEW** The Company's net interest income in 2009 increased by \$3.3 million, or 11.4%, from 2008 and the net interest margin rose by 8 basis points to 3.72% over the same comparative period. The increased net interest income and margin resulted from a combination of good balance sheet growth and the pricing benefits achieved from a steeper yield curve in 2009. Specifically, total loans averaged \$725 million in 2009, an increase of \$83 million or 13.0% over 2008. This growth caused overall loan interest revenue to increase in 2009 despite the lower interest rate environment. The Company's strong liquidity position had been supported by total deposits that averaged \$763 million in 2009, an increase of \$68 million or 9.8% over 2008. The Company believed that uncertainties in the financial markets and the economy has contributed to growth in money market accounts, certificates of deposit, and demand deposits as consumers looked for safety in well capitalized community banks like AmeriServ Financial Bank. Additionally, the Company benefited from a favorable \$3.7 million decline in interest expense caused by the more rapid downward repricing of both deposits and Federal Home Loan Bank borrowings due to the market decline in short-term interest rates.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2009 VERSUS 2008** Regarding the separate components of net interest income, the Company's total interest income in 2009 decreased by \$364,000 when compared to 2008. This decrease was due to a 52 basis point decline in the earning asset yield to 5.44%, that was partially mitigated by a \$79 million increase in average earning assets due to the previously mentioned strong loan growth. Within the earning asset base, the yield on the total loan portfolio decreased by 65 basis points to 5.72% and reflected the lower interest rate environment in 2009 as the Federal Reserve had reduced the federal funds rate by approximately 200 basis points in response to the financial market crisis that hit in the third quarter 2008. The total investment securities yield decreased by 5 basis points to 4.08% while the yield on short-term money market funds dropped by 161 basis points to 0.35%. Both of these yield drops reflected the lower interest rate environment in 2009.

The \$79 million, or 9.9%, increase in the volume of average earning assets was due to an \$83 million, or 13.0%, increase in average loans, partially offset by a \$7 million, or 4.9%, decrease in average investment securities. This loan growth was driven by increased commercial real estate loans as a result of successful new business development efforts, particularly in the suburban Pittsburgh market. The Company found increased commercial lending opportunities in the Pittsburgh market in the second half of 2008 and first half of 2009 due to the retrenchment of several larger competitors as a result of the turmoil in the financial markets. This loan growth caused the Company's loan to deposit ratio to average 95.1% in 2009 compared to 92.4% in 2008. The decline in investment securities was caused by the call of certain agency securities and ongoing cash flow from mortgage-backed securities. The Company had elected to utilize this cash from lower yielding investment securities to fund higher yielding loans in an effort to improve the Company's earning asset yield and net interest margin. The Company did not expect the investment securities portfolio to shrink any further in order to maintain sufficient security balances for pledging purposes.

The Company's total interest expense for 2009 decreased by \$3.7 million, or 19.7%, when compared to 2008. This decrease in interest expense was due to a lower cost of funds as the cost of both deposits and borrowings repriced downward with the reductions in short-term interest rates. Specifically, the cost of interest bearing deposits declined by 67 basis points to 2.02%, while the cost of all FHLB borrowings dropped by 106 basis points to 1.22%. This decrease in funding costs more than offset the additional interest expense associated

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with a \$46 million increase in the volume of interest bearing liabilities due to the previously mentioned deposit growth. Additionally, the Company's funding mix benefited from a \$3.9 million increase in non-interest bearing demand deposits. Overall, in 2009 the Company had the discipline to further reduce its reliance on borrowings as a funding source as wholesale borrowings averaged only 6.7% of total assets. The Company did 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 recorded on non-accrual loans on a cash basis, which is deemed to be immaterial, is included in interest income. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of approximately 34% is used to compute tax-equivalent yields.

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	YEAR ENDED DECEMBER 31,								
	2010			2009			2008		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE
(IN THOUSANDS, EXCEPT PERCENTAGES)									
Interest earning assets:									
Loans, net of unearned income	\$ 701,502	\$ 39,129	5.58%	\$ 725,241	\$ 41,488	5.72%	\$ 641,766	\$ 41,100	6.37%
Deposits with banks	1,795	1	0.06	1,782	4	0.23	583	13	2.23
Federal funds sold	4,375	16	0.37	490	1	0.11	114	4	3.54
Short-term investment in money market funds	3,834	4	0.10	9,022	30	0.35	7,136	140	1.96
Investment securities:									
Available for sale	151,691	5,281	3.48	131,804	5,340	4.05	136,344	5,770	4.03
Held to maturity	9,574	433	4.52	14,346	630	4.36	17,292	875	5.06
Total investment securities	161,265	5,714	3.54	146,150	5,970	4.08	153,636	6,645	4.13
TOTAL INTEREST EARNING ASSETS/ INTEREST INCOME	872,771	44,864	5.26	882,685	47,493	5.44	803,235	47,902	5.96
Non-interest earning assets:									
Cash and due from banks	15,297			14,498			16,786		
Premises and equipment	10,212			9,213			9,333		
Other assets	80,206			72,574			72,249		
Allowance for loan losses	(21,218)			(13,382)			(7,837)		
TOTAL ASSETS	\$ 957,268			\$ 965,588			\$ 893,766		
Interest bearing liabilities:									
Interest bearing deposits:									
Interest bearing demand	\$ 58,118	\$ 176	0.30%	\$ 62,494	\$ 256	0.41%	\$ 64,683	\$ 654	1.01%
Savings	77,381	397	0.51	72,350	530	0.73	70,255	535	0.76
Money market	186,560	1,622	0.87	169,823	2,437	1.44	107,843	2,417	2.24
Other time	358,472	8,750	2.44	343,841	9,886	2.88	341,185	12,074	3.54
Total interest bearing deposits	680,531	10,945	1.61	648,508	13,109	2.02	583,966	15,680	2.69
Federal funds purchased and other short-term borrowings	3,119	22	0.71	21,028	140	0.67	71,636	1,403	1.96
Advances from Federal Home Loan Bank	18,694	402	2.15	43,934	652	1.48	11,725	499	4.26
Guaranteed junior subordinated deferrable interest debentures	13,085	1,120	8.57	13,085	1,120	8.57	13,085	1,120	8.57
TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE	715,429	12,489	1.75	726,555	15,021	2.07	680,412	18,702	2.75
Non-interest bearing liabilities:									
Demand deposits	122,963			114,473			110,601		
Other liabilities	11,188			11,428			9,816		
Stockholders equity	107,688			113,132			92,937		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	\$ 957,268			\$ 965,588			\$ 893,766		

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Interest rate spread	<b>3.51</b>		3.37		3.21
Net interest income/net interest margin	<b>32,375</b>	<b>3.79%</b>	32,472	3.72%	29,200
Tax-equivalent adjustment	<b>(33)</b>		(38)		(83)
Net interest income	<b>\$ 32,342</b>		\$ 32,434		\$ 29,117

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

	2010 vs. 2009			2009 vs. 2008		
	INCREASE (DECREASE)			INCREASE (DECREASE)		
	DUE TO CHANGE IN:			DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL (IN THOUSANDS)	AVERAGE VOLUME	RATE	TOTAL
<b>INTEREST EARNED ON:</b>						
Loans, net of unearned income	\$ (1,350)	\$ (1,009)	\$ (2,359)	\$ 1,146	\$ (758)	\$ 388
Deposits with banks		(3)	(3)	15	(24)	(9)
Federal funds sold	3		3	9	(12)	(3)
Short-term investments in money market funds	(16)	2	(14)	(78)	(32)	(110)
Investment securities:						
Available for sale	805	(864)	(59)	(156)	(274)	(430)
Held to maturity	(216)	19	(197)	(265)	20	(245)
Total investment securities	589	(845)	(256)	(421)	(254)	(675)
Total interest income	(774)	(1,855)	(2,629)	671	(1,080)	(409)
<b>INTEREST PAID ON:</b>						
Interest bearing demand deposits	(17)	(63)	(80)	(410)	12	(398)
Savings deposits	40	(173)	(133)	(5)		(5)
Money market	270	(1,085)	(815)	526	(506)	20
Other time deposits	439	(1,575)	(1,136)	(2,158)	(30)	(2,188)
Federal funds purchased and other short-term borrowings	(127)	9	(118)	(1,916)	653	(1,263)
Advances from Federal Home Loan Bank	(1,248)	998	(250)	1,046	(893)	153
Total interest expense	(643)	(1,889)	(2,532)	(2,917)	(764)	(3,681)
Change in net interest income	\$ (131)	\$ 34	\$ (97)	\$ 3,588	\$ (316)	\$ 3,272

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**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 loans \$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.

	2010	AT DECEMBER 31, 2009	2008
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total loan past due 30 to 89 days	\$ 2,791	\$ 11,408	\$ 4,396
Total non-accrual loans	12,289	17,116	3,377
Total non-performing assets including TDR(1)	14,364	18,337	4,572
Loan delinquency as a percentage of total loans and loans held for sale, net of unearned income	0.41%	1.58%	0.62%
Non-accrual loans as a percentage of total loans and loans held for sale, net of unearned income	1.81	2.37	0.48
Non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	2.12	2.53	0.65
Non-performing assets as a percentage of total assets	1.51	1.89	0.47
Total classified loans (loans rated substandard or doubtful)	\$ 39,627	\$ 48,587	\$ 13,235

(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 asset quality improvements in 2010. These improvements are evidenced by reduced delinquency and lower levels of non-performing assets and classified loans. Specifically, there was an \$11 million decrease in non-performing assets during the fourth quarter of 2010. Only \$1 million of this decline in non-performing assets related to actual loan losses realized through net charge-offs. The largest item responsible for the lower level of non-performing assets in 2010 was the removal of a \$9 million commercial loan relationship to a borrower in the restaurant industry from non-accrual status due to continued operating performance improvement. Classified loans also favorably dropped by \$9.5 million in 2010 but still remain high by historical standards. This is due to the downgrade of the rating classification of numerous commercial loans that are experiencing operating weakness in the recessionary economy but are still performing. While we are pleased that total loan delinquency dropped back below 1.0% in 2010, we continue to closely monitor the portfolio given the recessionary economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2010, the 25 largest credits represented 33.2% of total loans outstanding.

**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 allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other

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qualitative factors, which include delinquency and non-performing loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company's loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company's management to establish allocations that accommodate each of the listed risk factors. The following table sets forth changes in the allowance for loan losses and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,				
	2010	2009	2008	2007	2006
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	\$ 19,685	\$ 8,910	\$ 7,252	\$ 8,092	\$ 9,143
Charge-offs:					
Commercial	(835)	(3,810)	(405)	(934)	(769)
Commercial loans secured by real estate	(4,221)	(840)	(811)	(12)	(2)
Real estate-mortgage	(293)	(128)	(132)	(79)	(76)
Consumer	(282)	(352)	(365)	(307)	(397)
Total charge-offs	(5,631)	(5,130)	(1,713)	(1,332)	(1,244)
Recoveries:					
Commercial	226	601	299	40	115
Commercial loans secured by real estate	48	14	39	38	41
Real estate-mortgage	42	27	26	12	19
Consumer	145	113	82	102	143
Total recoveries	461	755	446	192	318
Net charge-offs	(5,170)	(4,375)	(1,267)	(1,140)	(926)
Provision for loan losses	5,250	15,150	2,925	300	(125)
Balance at end of year	\$ 19,765	\$ 19,685	\$ 8,910	\$ 7,252	\$ 8,092
Loans and loans held for sale, net of unearned income:					
Average for the year	\$ 701,502	\$ 725,241	\$ 644,896	\$ 610,685	\$ 567,435
At December 31	678,181	722,904	707,108	636,155	589,435
As a percent of average loans and loans held for sale:					
Net charge-offs	0.74%	0.60%	0.20%	0.19%	0.16%
Provision for loan losses	0.75	2.09	0.45	0.05	(0.02)
Allowance as a percent of each of the following:					
Total loans and loans held for sale, net of unearned income	2.91	2.72	1.26	1.14	1.37
Total delinquent loans (past due 30 to 89 days)	708.17	172.55	202.68	203.77	270.54
Total non-accrual loans	160.83	115.01	263.84	138.45	353.98
Total non-performing assets	137.60	107.35	194.88	137.35	225.15
Allowance as a multiple of net charge-offs	3.82x	4.50x	7.03x	6.36x	8.74x

For the year-ended December 31, 2010, the Company recorded a \$5.3 million provision for loan losses compared to a \$15.2 million provision for the 2009 year, or a decrease of \$9.9 million. Proactive monitoring of our asset quality has allowed us to carefully adjust downward the provision for loan losses in each quarter of 2010 while still maintaining solid loan loss reserve coverage ratios. We actively identify and seek prompt



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resolution to problem credits in order to limit actual losses. Actual credit losses realized through charge-offs in 2010 approximated the provision levels, but are higher than 2009. For 2010, net charge-offs amounted to \$5.2 million or 0.74% of total loans compared to net charge-offs of \$4.4 million or 0.60% of total loans for 2009. The higher charge-offs in 2010 largely relate to two non-performing commercial real-estate loans, one of which was completely resolved in the first quarter (\$1.2 million charge-off) and the second of which relates to a student housing project (\$2.4 million charge-off) which the Company fully resolved through a note sale during the fourth quarter of 2010. In summary, the allowance for loan losses provided 145% coverage of non-performing loans and was 2.91% of total loans at December 31, 2010, compared to 115% of non-performing loans and 2.72% of total loans at December 31, 2009.

The Company appropriately strengthened its allowance for loan losses in 2009 in response to deterioration in asset quality. This deterioration in asset quality in 2009 was evidenced by higher levels of non-performing loans and classified loans than in 2008 and reflected the results of a comprehensive review of loans in the commercial loan and commercial real estate portfolio in the second half of 2009. Overall, the Company recorded a \$15.2 million provision for loan losses in 2009, compared to a \$2.9 million provision for 2008, or an increase of \$12.2 million. Actual credit losses realized through charge-off, however, were well below the provision level, but higher than in 2008. For 2009, net charge-offs amounted to \$4.4 million or 0.60% of total loans, compared to net charge-offs of \$1.3 million or 0.20% of total loans for 2008. Of the 2009 net charge-offs, \$3.3 million was realized in the fourth quarter and reflected the resolution of one of the Company's larger non-performing 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.

	2010		2009		AT DECEMBER 31, 2008		2007		2006	
	PERCENT OF LOANS IN EACH CATEGORY TO AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO LOANS								
Commercial	\$ 3,851	11.5%	\$ 4,756	13.3%	\$ 2,841	15.6%	\$ 2,074	18.7%	\$ 2,361	15.6%
Commercial loans secured by real estate	12,717	54.6	12,692	54.9	4,467	50.0	3,632	44.8	3,546	45.8
Real estate-mortgage	1,117	31.1	1,015	29.2	1,004	31.1	979	33.9	1,206	35.6
Consumer	206	2.8	204	2.6	246	3.3	172	2.6	218	3.0
Allocation to general risk	1,874		1,018		352		395		761	
Total	\$ 19,765	100.0%	\$ 19,685	100.0%	\$ 8,910	100.0%	\$ 7,252	100.0%	\$ 8,092	100.0%

Even though residential real estate-mortgage loans comprise 31.1% of the Company's total loan portfolio, only \$1,117,000 or 5.7% 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 five-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company's historical loss experience in these categories, and other qualitative factors.

Based on the Company's allowance for loan loss methodology and the related assessment of the inherent risk factors contained within the Company's loan portfolio, we believe that the allowance for loan losses was adequate at December 31, 2010 to cover losses within the Company's loan portfolio.

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**NON-INTEREST INCOME** Non-interest income for 2010 totalled \$14.0 million; an increase of \$39,000, or 0.3%, from 2009. Factors contributing to this relatively stable level of non-interest income in 2010 included:

a \$485,000, or 17.5% decrease in service charges on deposit accounts in 2010. Customers have maintained higher balances in their checking accounts, which have resulted in fewer overdraft fees in 2010. Additionally, regulatory changes which took effect in mid-August and are designed to limit customer overdraft fees on debit card transactions also negatively impacted deposit service charges.

a \$307,000, or 47.2%, increase in gains realized on residential mortgage loan sales into the secondary market in 2010. As a result of another strong year of mortgage purchase and refinance activity in the Company's primary market, there were \$69 million of residential mortgage loans sold into the secondary market in 2010. Overall, the Company sold approximately 68% of its new residential mortgage loan production into the secondary market in order to help manage long term interest rate risk.

a \$217,000, or 7.6% increase in other income resulting from the increased residential mortgage loan production due to higher underwriting, appraisal and document preparation fees. The Company also benefitted from increased letter of credit fees and interchange revenue in 2010.

Non-interest income for 2009 totalled \$13.9 million; a decrease of \$2.5 million, or 15.2%, from 2008. Factors contributing to this reduced level of non-interest income in 2009 included:

a \$1.5 million decrease in revenue from bank owned life insurance (BOLI) due to fewer death claim payments in 2009.

a \$1.2 million, or 16.2%, decline in trust and investment advisory fees due to reductions in the market value of assets managed due to lower equity and real estate values in 2009.

a \$174,000, or 36.5%, increase in gains realized on residential mortgage loan sales into the secondary market in 2009. As a result of increased mortgage purchase and refinance activity in the Company's primary market, there were \$66 million of residential mortgage loans sold into the secondary market in 2009 compared to \$37 million in 2008. Overall, the Company sold approximately 70% of its new residential mortgage loan production into the secondary market in 2009 in an effort to limit longer term interest rate risk.

the Company took advantage of market opportunities and generated \$164,000 of gains on the sale of investment securities in 2009 compared to a \$95,000 loss on a portfolio repositioning strategy executed in 2008.

**NON-INTEREST EXPENSE** Non-interest expense for 2010 totalled \$39.7 million; a \$540,000, or 1.4%, increase from 2009. Factors contributing to the higher non-interest expense in 2010 included:

a \$1.1 million, or 5.2%, increase in salaries and employee benefits expense due to higher medical insurance costs, increased pension expense, and greater incentive compensation expense reflecting increased commission payments related to the residential mortgage activity.

Other expense decreased by \$613,000 primarily due to higher credit related costs in the prior year. Specifically, other real estate owned expense decreased by \$749,000 due to the write-down and operating costs associated with an increased number of other real-estate owned properties in 2009.

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a \$331,000 or 8.2% increase in professional fees due to increased consulting expenses and recruitment costs in the Trust company and higher legal fees and loan workout costs at the Company.

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Non-interest expense for 2009 totalled \$39.2 million; a \$3.5 million, or 9.9%, increase from 2008. Factors contributing to the higher non-interest expense in 2009 included:

a \$1.6 million increase in FDIC deposit insurance expense due to the recognition of a \$435,000 expense for a special five basis point assessment mandated for all banks and higher recurring insurance premiums due to the need to strengthen the deposit insurance fund.

a \$1.3 million, or 6.8%, increase in salaries and employee benefits expense due to higher sales, related incentive compensation, normal merit increases, severance costs and greater pension expense.

Other expense increased by \$1.1 million primarily due to credit related costs. Specifically, other real estate owned expense increased by \$715,000 due to the write-down and operating costs associated with an increased number of other real-estate owned properties while the Company also had to fund its reserve for unfunded commitments by an additional \$118,000 in 2009.

a \$450,000 increase in professional fees due to higher legal costs, recruitment fees, and greater consulting costs associated with a comprehensive review of the Trust Company in the fourth quarter of 2009.

a \$757,000 decrease in core deposit amortization as a branch core deposit intangible was fully amortized by the end of the first quarter of 2009.

**INCOME TAX EXPENSE** The Company recorded income tax expense of \$80,000 or 5.9% effective tax rate in 2010 compared to income tax benefit of \$3.1 million or an effective tax rate of 38.4% in 2009. The income tax expense recorded in 2008 was \$1.5 million or an effective tax rate of 21.1%. The Company was able to record a lower effective tax rate in all periods due to tax-free revenue from BOLI. BOLI is the Company's largest source of tax-free income. The Company's deferred tax asset was \$16.1 million at December 31, 2010 and relates primarily to net operating loss carryforwards and the allowance for loan losses.

**SEGMENT RESULTS** Retail banking's net income contribution was \$1.3 million in 2010 compared to \$948,000 in 2009 and \$2.7 million in 2008. The increased net income in 2010 was due to increased net interest income resulting from a combination of increased deposit balances and lower deposit costs. This exceeded an increased level of non-interest expense. Non-interest income was consistent between years as increased gains on residential mortgage loan sales into the secondary market were offset by reduced deposit service charges. The lower 2009 net income performance is reflective of increases in FDIC insurance premiums, generally higher other non-interest expenses and reduced non-interest income from BOLI. These negative items more than offset increased net interest income resulting from the growth in deposits and improved revenue from residential mortgage loan sales into the secondary market.

The commercial lending segment reported net income of \$497,000 in 2010 compared to a net loss of \$6.4 million in 2009 and net income of \$2.3 million in 2008. The increased earnings in 2010 were caused primarily by a \$9.6 million reduction in the provision for loan losses due to the previously discussed improvements in asset quality. The loss in 2009, however, was caused by an increased provision for loan losses due to the strengthening of the allowance for loan losses as a result of the deterioration in asset quality experienced in 2009. The loan loss provision allocated to this segment was \$12.3 million greater in 2009. Non-interest expenses also increased in 2009 due to higher other real-estate owned expenses and other loan work out related costs. These negative items more than offset an increased level of net interest income due to the commercial loan growth achieved in 2009.

The trust segment's net income contribution was \$222,000 in 2010 compared to \$148,000 in 2009 and \$1.3 million in 2008. The increase in net income in 2010 resulted from a decline in expenses particularly within our investment advisory subsidiary. The major reason for the decrease in 2009 was due to less wealth management revenue as a result of fewer assets under management resulting from the declines experienced in the equity and real estate markets. Specifically, the most significant decline has been in the value of real-estate assets in the

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BUILD and ERECT Funds (a fund that invests union pension dollars in construction projects that utilize union labor) where the market value of assets has declined from \$325 million at December 31, 2008 to \$193 million at December 31, 2010. The BUILD Fund is in liquidation status. Overall, the fair market value of trust assets totaled \$1.37 billion at December 31, 2010, a modest increase of \$8.4 million, or 0.6%, from the December 31, 2009 total of \$1.36 billion.

The investment/parent segment reported net loss of \$699,000 in 2010 compared to net income of \$379,000 in 2009 and a net loss of \$783,000 in 2008. The weaker performance in 2010 reflects lower net interest income as declining yields in the investment securities portfolio have negatively impacted this segment. In 2009, the Company's balance sheet positioning allowed it to benefit from the significant Federal Reserve reductions in short-term interest rates and the return to a more traditional positively sloped yield curve, which caused net interest income in this segment to increase. Also, the Company realized \$164,000 of investment security gains in 2009 compared to losses of \$95,000 realized in 2008

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 were \$949 million at December 31, 2010, which was down by \$21 million or 2.2% from the \$970 million level at December 31, 2009. The Company's loans and loan held for sale totaled \$678 million at December 31, 2010, a decrease of \$44.7 million or 6.2% from year-end 2009 as the Company focused on reducing its commercial real-estate loan concentration in 2010. Investment securities and short-term money market investments increased by \$29.4 million in 2010 due to principal repayments in the loan portfolio being reinvested in the securities portfolio. The \$1.3 million increase in premises and equipment related to the costs associated with the construction of a new branch office in the State College market.

The Company's deposits totaled \$801 million at December 31, 2010, which was \$15.2 million or 1.9% higher than December 31, 2009, due to an increase in almost all deposit categories. We believe that uncertainties in the financial markets and the economy have contributed to a second consecutive year of growth in our deposits as consumers have looked for safety in well capitalized community banks like AmeriServ Financial Bank. As a result of this deposit growth and asset shrinkage, we were able to reduce FHLB borrowings by \$37.3 million during 2010. Total FHLB borrowings now represent 1.5% of total assets compared to 5.3% at December 31, 2009. The Company continues to be considered well capitalized for regulatory purposes with a risk based capital ratio of 16.54% and an asset leverage ratio of 11.20% at December 31, 2010. The Company's book value per common share was \$4.07, its tangible book value per common share was \$3.46, and its tangible common equity to tangible assets ratio was 7.94% at December 31, 2010.

**LIQUIDITY** The Company's liquidity position has been strong during the last several years. Our core retail deposit base has grown over the past two years and has been more than adequate to fund the Company's operations. Cash flow from maturities, prepayments and amortization of securities was used to either fund loan growth (2009) or paydown borrowings (2010). We strive to operate our loan to deposit ratio in a range of 85% to 95%. At December 31, 2010, the Company's loan to deposit ratio was 84.6%. Given further expected net loan paydowns in the first half of 2011, we expect to more actively purchase mortgage backed investment securities to replace this cash flow.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by \$7.0 million from December 31, 2009, to December 31, 2010, due to \$22.1 million of cash used in financing activities. This was partially offset by \$12.4 million of cash provided by investing activities and \$2.7 million of cash provided by operating activities. Within investing activities, cash advanced for new loan fundings and purchases totalled \$86.9 million and was \$42.8 million lower than the \$129.7 million of cash received from loan principal payments and sales. Cash used for new investment security purchases exceeded

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maturities and sales by \$29.8 million. Within financing activities, deposits increased by \$16.3 million, which was used to help pay down short-term borrowings by \$21.2 million.

The holding company had a total of \$16.7 million of cash, short-term investments, and securities at December 31, 2010, which was down \$3.2 million from the year-end 2009 total. We have elected to retain \$14 million of the total \$21 million in funds received from the preferred stock issued to the U.S. Treasury in connection with our participation in TARP's Capital Purchase Program (CPP) at the holding company to provide us with greater liquidity and financial flexibility. (\$7 million of the CPP funds were downstreamed to our subsidiary Bank over the past two years to help the Bank maintain compliance with our own internal capital guidelines.) Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the holding company. At December 31, 2010, however, the subsidiary Bank did not have any cash available for immediate dividends to the holding company under the applicable regulatory formulas because of the loss it incurred in 2009. We presently expect that the Bank will return to dividend paying capacity sometime in the second half of 2011. As such, the holding company will continue to use its ample supply of cash and short-term investments to meet its trust preferred debt service requirements and preferred stock dividends, which approximate \$2.1 million annually.

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 \$29 million at December 31, 2010 and \$33 million at December 31, 2009. 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, 2010, the Company had \$244 million of overnight borrowing availability at the FHLB, \$36 million of short-term borrowing availability at the Federal Reserve Bank and \$23 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 11.20%, the Tier 1 capital ratio was 15.27%, and the risk based capital ratio was 16.54% at December 31, 2010. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At December 31, 2010, accumulated other comprehensive loss amounted to \$4.9 million. The Company's tangible equity to assets ratio was 10.05% and its tangible common equity to assets ratio was 7.94% at December 31, 2010. We anticipate that our strong capital ratios will increase further in 2011 due to the retention of all earnings, which will be partially offset by preferred dividend requirements and limited balance sheet growth.

Our decision to accept the \$21 million CPP preferred stock investment in December 2008 did strengthen our capital ratios. However as a result of this decision, for a period of three years we are no longer permitted to repurchase stock or declare and pay common dividends without the consent of the U.S. Treasury. The Company presently does not expect to repay any portion of the CPP preferred stock investment prior to 2012 given the slowness of the economic recovery and the need for the Bank to achieve sustained profitability.

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**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.

The following table presents a summary of the Company's static GAP positions at December 31, 2010:

INTEREST SENSITIVITY PERIOD	3 MONTHS OR LESS	OVER	OVER	OVER 1 YEAR	TOTAL
		3 MONTHS THROUGH 6 MONTHS	6 MONTHS THROUGH 1 YEAR		
(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)					
<b>RATE SENSITIVE ASSETS:</b>					
Loans and loans held for sale	\$ 202,515	\$ 52,899	\$ 86,290	\$ 316,712	\$ 658,416
Investment securities	18,276	9,075	15,364	129,920	172,635
Short-term assets	5,177				5,177
Regulatory stock	7,233			2,125	9,358
Bank owned life insurance			34,466		34,466
<b>Total rate sensitive assets</b>	<b>\$ 233,201</b>	<b>\$ 61,974</b>	<b>\$ 136,120</b>	<b>\$ 448,757</b>	<b>\$ 880,052</b>
<b>RATE SENSITIVE LIABILITIES:</b>					
Deposits:					
Non-interest bearing deposits	\$	\$	\$	\$ 127,870	\$ 127,870
NOW	4,442			54,764	59,206
Money market	150,631			22,603	173,234
Other savings	19,190			57,572	76,762
Certificates of deposit of \$100,000 or more	12,796	21,695	5,321	10,996	50,808
Other time deposits	87,089	27,543	47,069	151,635	313,336
<b>Total deposits</b>	<b>274,148</b>	<b>49,238</b>	<b>52,390</b>	<b>425,440</b>	<b>801,216</b>
Borrowings	4,565	15	29	22,776	27,385
<b>Total rate sensitive liabilities</b>	<b>\$ 278,713</b>	<b>\$ 49,253</b>	<b>\$ 52,419</b>	<b>\$ 448,216</b>	<b>\$ 828,601</b>
<b>INTEREST SENSITIVITY GAP:</b>					
Interval	(45,512)	12,721	83,701	541	
Cumulative	\$ (45,512)	\$ (32,791)	\$ 50,910	\$ 51,451	\$ 51,451
Period GAP ratio	0.84X	1.26X	2.60X	1.00X	
Cumulative GAP ratio	0.84	0.90	1.13	1.06	
Ratio of cumulative GAP to total assets	(4.80)%	(3.46)%	5.36%	5.42%	

When December 31, 2010, is compared to December 31, 2009, there has been limited change in the Company's modestly positive cumulative GAP ratio through one year. While the Company does have a negative GAP position through six months, the absolute low level of rates makes this table more difficult to analyze since there is little room for certain liabilities to reprice downward further.



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

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

<b>INTEREST RATE SCENARIO</b>	<b>VARIABILITY OF NET INTEREST INCOME</b>	<b>CHANGE IN MARKET VALUE OF PORTFOLIO EQUITY</b>
200 bp increase	<b>2.1%</b>	<b>2.9%</b>
100 bp increase	<b>2.4</b>	<b>3.8</b>
100 bp decrease	<b>(7.4)</b>	<b>(12.0)</b>

The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The variability of net interest income is positive in the upward rate shocks as the Company has better diversified its loan portfolio with the interest rate on more loans now tied to LIBOR. 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, 2010, 95% of the portfolio is classified as available for sale and 5% 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 27 securities that are temporarily impaired at December 31, 2010. The Company reviews its securities quarterly and has asserted that at December 31, 2010, 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. The Company also periodically sells 15-year fixed-rate mortgage loans into the secondary market as well, depending on market conditions. For the year 2010, 68% 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, 2010, 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	\$ 25,974	\$ 42,570	\$ 9,778	\$ 78,322
Commercial loans secured by real estate	50,585	175,024	144,766	370,375
Real estate-mortgage	61,058	79,725	69,945	210,728
Consumer	4,383	9,345	5,505	19,233
<b>Total</b>	<b>\$ 142,000</b>	<b>\$ 306,664</b>	<b>\$ 229,994</b>	<b>\$ 678,658</b>
Loans with fixed-rate	\$ 86,442	\$ 174,361	\$ 101,617	\$ 362,420
Loans with floating-rate	55,558	132,303	128,377	316,238
<b>Total</b>	<b>\$ 142,000</b>	<b>\$ 306,664</b>	<b>\$ 229,994</b>	<b>\$ 678,658</b>
Percent composition of maturity	20.9%	45.2%	33.9%	100.0%
Fixed-rate loans as a percentage of total loans				53.4%
Floating-rate loans as a percentage of total loans				46.6%

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, 2010, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	NOTE REFERENCE	ONE YEAR OR LESS	ONE TO THREE YEARS	PAYMENTS DUE IN THREE TO FIVE YEARS	OVER FIVE YEARS	TOTAL
			(IN THOUSANDS)			
Deposits without a stated maturity	8	\$ 437,072	\$	\$	\$	\$ 437,072
Certificates of deposit*	8	206,430	117,568	22,979	39,443	386,420
Borrowed funds*	10	4,641	9,673	186	589	15,089
Guaranteed junior subordinated deferrable interest debentures*	10				29,947	29,947
Pension obligation	14	1,500				1,500
Lease commitments	15	959	1,337	948	2,704	5,948

\* Includes interest based upon interest rates in effect at December 31, 2010. Future changes in market interest rates could materially affect contractual amounts to be paid.

**OFF BALANCE SHEET ARRANGEMENTS** The Company incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and

standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The

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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 \$84.9 million and standby letters of credit of \$11.5 million as of December 31, 2010. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. As of December 31, 2010, the Company had \$18 million in interest rate swaps outstanding.

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

ACCOUNT Allowance for Loan Losses

BALANCE SHEET REFERENCE Allowance for Loan Losses

INCOME STATEMENT REFERENCE Provision 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 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 \$16.6 million, or 84%, of the total allowance for loan losses at December 31, 2010 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, 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 and core deposit intangibles

BALANCE SHEET REFERENCE Goodwill and core deposit intangibles

INCOME STATEMENT REFERENCE Goodwill impairment and amortization of core deposit intangibles

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DESCRIPTION

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

The fair value of acquired assets and liabilities, including the resulting goodwill, was based either on quoted market prices or provided by other third party sources, when available. When third party information was not available, estimates were made in good faith by management primarily through the use of internal cash flow modeling techniques. The assumptions that were used in the cash flow modeling were subjective and are susceptible to significant changes. The Company routinely utilizes the services of an independent third party that is regarded within the banking industry as an expert in valuing core deposits to monitor the ongoing value and changes in the Company's core deposit base. These core deposit valuation updates are based upon specific data provided from statistical analysis of the Company's own deposit behavior to estimate the duration of these non-maturity deposits combined with market interest rates and other economic factors.

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

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. The Company's testing in 2010 indicated that its goodwill was not impaired. However, during the third quarter of 2009, the Company did reduce the goodwill allocated to West Chester Capital Advisors (WCCA) by \$547,000. This reduction resulted from a purchase price adjustment as the principals of WCCA did not fully earn a deferred contingent payment that had been accrued as a liability of the Company at the time of acquisition.

Core deposit intangibles that have a finite life are amortized over their useful life. As of December 31, 2010, all core deposit intangibles for the Company had been fully amortized.

As of December 31, 2010, 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    Deferred Tax Asset and Current Taxes Payable

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.

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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, 2010, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and that no valuation allowances were needed.

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

ACCOUNT Investment Securities

BALANCE SHEET REFERENCE Investment Securities

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

**DESCRIPTION**

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2010, all of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies, the U.S. Treasury or government sponsored agencies. 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. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. It is our plan

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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.

**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. This challenge will be met by seeking to exceed customer expectations in every area. An examination of the peer bank database provides ample proof that a well executed community banking business model can generate a reliable and rewarding revenue stream.

**Expense Rationalization** AmeriServ Financial remains focused on trying to rationalize expenses. This has not been a program of broad based cuts, but has been targeted so AmeriServ stays strong but spends less. However, this initiative takes on new importance because it is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues.

This Form 10-K contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipate, estimate, intend, plan or similar expressions. These forward-looking statements upon current expectations and are subject to risk and uncertainties. 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.

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**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Risk identification and management are essential elements for the successful management of the Company. In the normal course of business, the Company is subject to various types of risk, including interest rate, credit, and liquidity risk. The Company controls and monitors these risks with policies, procedures, and various levels of managerial and Board oversight. The Company's objective is to optimize profitability while managing and controlling risk within Board approved policy limits.

Interest rate risk is the sensitivity of net interest income and the market value of financial instruments to the magnitude, direction, and frequency of changes in interest rates. Interest rate risk results from various repricing frequencies and the maturity structure of assets, liabilities, and hedges. The Company uses its asset liability management policy and hedging policy to control and manage interest rate risk. For information regarding the effect of changing interest rates on the Company's net interest income and market value of its investment portfolio, see Management's Discussion and Analysis of Financial Condition and Results of Operations Interest Rate Sensitivity.

Liquidity risk represents the inability to generate cash or otherwise obtain funds at reasonable rates to satisfy commitments to borrowers, as well as, the obligations to depositors, debtholders and to fund operating expenses. The Company uses its asset liability management policy and contingency funding plan to control and manage liquidity risk. See Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity.

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

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

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

	<b>AT DECEMBER 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(IN THOUSANDS)</b>	
<b>ASSETS</b>		
Cash and due from depository institutions	<b>\$ 14,160</b>	\$ 20,835
Interest bearing deposits	<b>1,716</b>	1,707
Short-term investments in money market funds	<b>3,461</b>	3,766
<b>Cash and cash equivalents</b>	<b>19,337</b>	26,308
Investment securities:		
Available for sale	<b>164,811</b>	131,272
Held to maturity (market value \$8,267 at December 31, 2010 and \$11,996 at December 31, 2009)	<b>7,824</b>	11,611
Loans held for sale	<b>7,405</b>	3,790
Loans	<b>671,253</b>	719,785
Less: Unearned income	<b>477</b>	671
Allowance for loan losses	<b>19,765</b>	19,685
<b>Net loans</b>	<b>651,011</b>	699,429
Premises and equipment, net	<b>10,485</b>	9,229
Accrued income receivable	<b>3,210</b>	3,589
Goodwill	<b>12,950</b>	12,950
Bank owned life insurance	<b>34,466</b>	33,690
Net deferred tax asset	<b>16,058</b>	15,925
Regulatory stock	<b>9,358</b>	9,739
Prepaid federal deposit insurance	<b>3,073</b>	4,538
Other assets	<b>8,986</b>	7,956
<b>TOTAL ASSETS</b>	<b>\$ 948,974</b>	\$ 970,026
<b>LIABILITIES</b>		
Non-interest bearing deposits	<b>\$ 127,870</b>	\$ 118,232
Interest bearing deposits	<b>673,346</b>	667,779
<b>Total deposits</b>	<b>801,216</b>	786,011
Short-term borrowings	<b>4,550</b>	25,775
Advances from Federal Home Loan Bank	<b>9,750</b>	25,804
Guaranteed junior subordinated deferrable interest debentures	<b>13,085</b>	13,085
<b>Total borrowed funds</b>	<b>27,385</b>	64,664
<b>Other liabilities</b>	<b>13,315</b>	12,097
<b>TOTAL LIABILITIES</b>	<b>841,916</b>	862,772
<b>STOCKHOLDERS EQUITY</b>		

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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, 2010 and 2009	<b>20,669</b>	20,558
Common stock, par value \$0.01 per share; 30,000,000 shares authorized: 26,396,289 shares issued and 21,207,670 shares outstanding on December 31, 2010; par value \$2.50 per share; 26,410,528 shares issued and 21,221,909 shares outstanding on December 31, 2009	<b>264</b>	264
Treasury stock at cost, 5,188,619 shares on December 31, 2010 and 2009	<b>(68,659)</b>	(68,659)
Capital surplus	<b>145,045</b>	144,984
Retained earnings	<b>14,601</b>	14,480
Accumulated other comprehensive loss, net	<b>(4,862)</b>	(4,373)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>107,058</b>	107,254
<b>TOTAL LIABILITIES AND STOCKHOLDERS EQUITY</b>	<b>\$ 948,974</b>	\$ 970,026

See accompanying notes to consolidated financial statements.

**Table of Contents****AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS**

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<b>INTEREST INCOME</b>			
Interest and fees on loans:			
Taxable	<b>\$ 39,020</b>	\$ 41,359	\$ 40,817
Tax exempt	<b>76</b>	91	200
Interest bearing deposits with banks	<b>1</b>	4	13
Short-term investments in money market funds	<b>16</b>	30	140
Federal funds sold	<b>4</b>	1	4
Investment securities:			
Available for sale	<b>5,281</b>	5,340	5,770
Held to maturity	<b>433</b>	630	875
<b>Total Interest Income</b>	<b>44,831</b>	47,455	47,819
<b>INTEREST EXPENSE</b>			
Deposits	<b>10,945</b>	13,109	15,680
Federal funds purchased		7	1
Short-term borrowings	<b>22</b>	133	1,402
Advances from Federal Home Loan Bank	<b>402</b>	652	499
Guaranteed junior subordinated deferrable interest debentures	<b>1,120</b>	1,120	1,120
<b>Total Interest Expense</b>	<b>12,489</b>	15,021	18,702
<b>Net Interest Income</b>	<b>32,342</b>	32,434	29,117
Provision for loan losses	<b>5,250</b>	15,150	2,925
<b>Net Interest Income after Provision for Loan Losses</b>	<b>27,092</b>	17,284	26,192
<b>NON-INTEREST INCOME</b>			
Trust fees	<b>5,571</b>	5,648	6,731
Net gains on loans held for sale	<b>958</b>	651	477
Net realized gains (losses) on investment securities	<b>157</b>	164	(95)
Service charges on deposit accounts	<b>2,284</b>	2,769	3,069
Investment advisory fees	<b>713</b>	648	779
Bank owned life insurance	<b>1,227</b>	1,208	2,695
Other income	<b>3,057</b>	2,840	2,768
<b>Total Non-Interest Income</b>	<b>13,967</b>	13,928	16,424
<b>NON-INTEREST EXPENSE</b>			
Salaries and employee benefits	<b>21,602</b>	20,526	19,217
Net occupancy expense	<b>2,691</b>	2,632	2,561
Equipment expense	<b>1,680</b>	1,692	1,677
Professional fees	<b>4,363</b>	4,032	3,582
Supplies, postage, and freight	<b>997</b>	1,117	1,252
Miscellaneous taxes and insurance	<b>1,396</b>	1,374	1,395
Federal deposit insurance expense	<b>1,575</b>	1,670	113

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Amortization of core deposit intangibles		108	865
Federal Home Loan Bank prepayment penalties			91
Other expense	<b>5,393</b>	6,006	4,884
Total Non-Interest Expense	<b>39,697</b>	39,157	35,637
PRETAX INCOME (LOSS)	<b>1,362</b>	(7,945)	6,979
Provision for income taxes (benefit)	<b>80</b>	(3,050)	1,470
NET INCOME (LOSS)	<b>1,282</b>	(4,895)	5,509
Preferred stock dividends and accretion of preferred stock discount	<b>1,161</b>	1,158	35
NET INCOME (LOSS) AVAILABLE TO COMMON SHAREHOLDERS	<b>\$ 121</b>	\$ (6,053)	\$ 5,474

(continued on next page)

**Table of Contents****AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF OPERATIONS (CONTINUED)**

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<b>PER COMMON SHARE DATA:</b>			
Basic:			
Net income (loss)	\$ 0.01	\$ (0.29)	\$ 0.25
Average number of shares outstanding	21,224	21,172	21,833
Diluted:			
Net income (loss)	\$ 0.01	\$ (0.29)	\$ 0.25
Average number of shares outstanding	21,226	21,174	21,975
Cash dividends declared	\$ 0.00	\$ 0.00	\$ 0.025

See accompanying notes to consolidated financial statements.

**Table of Contents****AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
<b>COMPREHENSIVE INCOME (LOSS)</b>			
Net income (loss)	\$ 1,282	\$ (4,895)	\$ 5,509
Other comprehensive loss, before tax:			
Pension obligation change for defined benefit plan	(1,031)	(1,093)	(3,745)
Income tax effect	352	372	1,273
Unrealized holding gains on available for sale securities arising during period	446	1,018	3,280
Income tax effect	(152)	(346)	(1,115)
Reclassification adjustment for (gains) losses on available for sale securities included in net income (loss)	(157)	(164)	95
Income tax effect	53	56	(32)
Other comprehensive loss	(489)	(157)	(244)
Comprehensive income (loss)	\$ 793	\$ (5,052)	\$ 5,265

See accompanying notes to consolidated financial statements.

**Table of Contents****AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY**

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
<b>PREFERRED STOCK</b>			
Balance at beginning of period	\$ 20,558	\$ 20,447	\$ 20,447
Accretion of preferred stock discount	111	111	
Balance at end of period	20,669	20,558	20,447
<b>COMMON STOCK</b>			
Balance at beginning of period	264	65,794	65,700
New shares issued for dividend reinvestment plan		51	94
Change in par value (from \$2.50 per share to \$0.01 per share)		(65,582)	
Restricted stock		1	
Balance at end of period	264	264	65,794
<b>TREASURY STOCK</b>			
Balance at beginning of period	(68,659)	(68,659)	(65,824)
Treasury stock, purchased at cost (1,097,700 shares)			(2,835)
Balance at end of period	(68,659)	(68,659)	(68,659)
<b>CAPITAL SURPLUS</b>			
Balance at beginning of period	144,984	79,353	78,788
New common shares issued for dividend reinvestment plan (2,033 shares)	3	22	5
Stock option expense	18	11	7
Common stock warrant issued (1,312,500 shares)			553
Change in par value (from \$2.50 per share to \$0.01 per share)		65,582	
Restricted stock	40	16	
Balance at end of period	145,045	144,984	79,353
<b>RETAINED EARNINGS</b>			
Balance at beginning of period	14,480	20,533	15,602
Net income (loss)	1,282	(4,895)	5,509
Accretion of preferred stock discount	(111)	(111)	
Cash dividend declared on preferred stock	(1,050)	(1,047)	(35)
Cash dividend declared on common stock of \$0.025 per share			(543)
Balance at end of period	14,601	14,480	20,533
<b>ACCUMULATED OTHER COMPREHENSIVE LOSS</b>			
Balance at beginning of period	(4,373)	(4,216)	(3,972)
Other comprehensive loss	(489)	(157)	(244)
Balance at end of period	(4,862)	(4,373)	(4,216)
<b>TOTAL STOCKHOLDERS EQUITY</b>	<b>\$ 107,058</b>	<b>\$ 107,254</b>	<b>\$ 113,252</b>

See accompanying notes to consolidated financial statements.

**Table of Contents****AMERISERV FINANCIAL, INC.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

	YEAR ENDED DECEMBER 31		
	2010	2009	2008
	(IN THOUSANDS)		
<b>OPERATING ACTIVITIES</b>			
Net income (loss)	\$ 1,282	\$ (4,895)	\$ 5,509
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Provision for loan losses	5,250	15,150	2,925
Depreciation and amortization expense	1,496	1,586	1,533
Amortization expense of core deposit intangibles		108	865
Net amortization of investment securities	467	231	193
Net realized (gains) losses on investment securities available for sale	(157)	(164)	95
Net realized gains on loans held for sale	(958)	(651)	(477)
Amortization of deferred loan fees	(407)	(456)	(466)
Origination of mortgage loans held for sale	(71,643)	(67,775)	(36,923)
Sales of mortgage loans held for sale	68,986	65,636	37,460
Decrease in accrued interest receivable	379	146	297
Increase (decrease) in accrued interest payable	(595)	74	(899)
Earnings on bank-owned life insurance	(1,032)	(1,021)	(1,038)
Deferred income taxes	(126)	(3,274)	1,099
Stock compensation expense	61	73	106
Decrease (increase) in prepaid Federal Deposit Insurance	1,465	(4,538)	
Net increase in other assets	(2,532)	(2,922)	(3,479)
Net increase in other liabilities	784	1,085	1,048
Net cash provided by operating activities	2,720	(1,607)	7,848
<b>INVESTING ACTIVITIES</b>			
Purchase of investment securities available for sale	(97,789)	(55,171)	(68,610)
Purchase of investment securities held to maturity	(1,123)		(4,464)
Purchase of regulatory stock			(8,268)
Proceeds from maturities of investment securities available for sale	61,483	46,778	59,299
Proceeds from maturities of investment securities held to maturity	4,914	4,225	7,052
Proceeds from sales of investment securities available for sale	2,742	4,746	25,941
Proceeds from redemption of regulatory stock	381		5,733
Long-term loans originated	(82,922)	(132,551)	(152,535)
Principal collected on long-term loans	129,655	128,554	133,043
Loans purchased or participated	(3,845)	(25,343)	(56,182)
Loans sold or participated		12,950	3,950
Net (increase) decrease in other short-term loans	(134)	116	90
Purchases of premises and equipment	(2,762)	(1,294)	(2,604)
Sale of equipment	10		
Sale of other real estate owned	1,300	2,874	166
Proceeds from insurance policies	451	452	2,635
Net cash provided by (used in) investing activities	12,361	(13,664)	(54,754)
<b>FINANCING ACTIVITIES</b>			
Net increase (decrease) in deposit accounts	16,277	89,606	(16,526)
Net (decrease) increase in other short-term borrowings	(21,225)	(94,145)	47,710
Principal borrowings on advances from Federal Home Loan Bank	34,000	350,000	11,000
Principal repayments on advances from Federal Home Loan Bank	(50,054)	(338,055)	(7,047)

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Common stock dividend paid			(543)
Preferred stock dividend paid	(1,050)	(951)	
Purchases of treasury stock			(2,835)
Preferred stock issuance			21,000
Net cash (used in) provided by financing activities	(22,052)	6,455	52,759
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(6,971)	(8,816)	5,853
CASH AND CASH EQUIVALENTS AT JANUARY 1	26,308	35,124	29,271
CASH AND CASH EQUIVALENTS AT DECEMBER 31	\$ 19,337	\$ 26,308	\$ 35,124

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, 2010, 2009 AND 2008**

**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 \$1.4 billion that are not recognized on the Company's Balance Sheet at December 31, 2010.

**PRINCIPLES OF CONSOLIDATION:**

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

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

**INVESTMENT SECURITIES:**

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income/loss within stockholders' equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis. The Company does not engage in trading activity.

Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's

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performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

**FEDERAL HOME LOAN BANK STOCK:**

The Bank is a member of the Federal Home Loan Bank of Pittsburgh and as such, is required to maintain a minimum investment in stock of the Federal Home Loan Bank that varies with the level of advances outstanding with the Federal Home Loan Bank. The stock is bought from and sold to the Federal Home Loan Bank based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost and evaluated for by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) The significance of the decline in net assets of the Federal Home Loan Bank as compared to the capital stock amount and the length of time this situation has persisted (b) Commitments by the Federal Home Loan Bank to make payments required by law or regulation and the level of such payments in relation to the operating performance (c) The impact of legislative and regulatory changes on the customer base of the Federal Home Loan Bank and (d) The liquidity position of the Federal Home Loan Bank.

The Federal Home Loan Bank of Pittsburgh has incurred losses in the prior two years and has suspended the payment of dividends. The losses are primarily attributable to impairment of private label mortgage backed securities associated with the extreme economic conditions in place over the last two years. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. More consideration was given to the long-term prospects for the Federal Home Loan Bank as opposed to the recent stress caused by the difficult economic conditions the world is facing. Management also considered that the Federal Home Loan Bank's regulatory capital ratios have increased from the prior year, liquidity appears adequate, new shares of FHLB Stock continue to exchange hands at the \$100 par value and the Company received a \$381,000 partial redemption of its Federal Home Loan Bank stock in the fourth quarter of 2010.

**LOANS:**

Interest income is recognized using methods which approximate a level yield related to principal amounts outstanding. The Company discontinues the accrual of interest income when loans become 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. Payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; or the loan has been returned to accrual status. The only exception to this policy is for residential mortgage loans wherein interest income is recognized on a cash basis as payments are received. A non-accrual commercial loan is placed on accrual status after becoming current and remaining current for twelve consecutive payments. Residential mortgage loans are placed on accrual status upon becoming current.

**LOAN FEES:**

Loan origination and commitment fees, net of associated direct costs, are deferred and amortized into interest and fees on loans over the loan or commitment period. Fee amortization is determined by the effective interest method.

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**LOANS HELD FOR SALE:**

Certain newly originated fixed-rate residential mortgage loans are classified as held for sale, because it is management's intent to sell these residential mortgage loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or market value.

**PREMISES AND EQUIPMENT:**

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

**ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:**

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

Review of all criticized and impaired loans with balances over \$250,000 (\$100,000 for loans classified as doubtful or worse) to determine if any specific reserve allocations are required on an individual loan basis. The specific reserve allocations established for these criticized and impaired loans is based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.

The application of formula driven reserve allocations to consumer and residential mortgage loans which are based upon historical net charge-off experience for those loan types. The residential mortgage loan allocation is based upon the Company's three-year historical average of actual loan net charge-offs experienced in that category. The same methodology is used to determine the allocation for consumer loans except the allocation is based upon an average of the most recent actual three-year historical net charge-off experience for consumer loans.

The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions.

Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company believes that there is estimation risk associated with the use of specific and formula driven allowances.

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

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

The Company's policy is to individually review, as circumstances warrant, its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. 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 loans \$250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and evaluated for specific impairment if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

### **ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:**

The allowance for unfunded loan commitments and letters of credit is maintained at a level believed by management to be sufficient to absorb estimated losses related to these unfunded credit facilities. The determination of the adequacy of the allowance is based on periodic evaluations of the unfunded credit facilities including an assessment of the probability of commitment usage, credit risk factors for loans outstanding to these same customers and the terms and expiration dates of the unfunded credit facilities. Net adjustments to the allowance for unfunded loan commitments and letters of credit are provided for in the unfunded commitment reserve expense line item within other expense in the consolidated statement of income and a separate reserve is recorded within the liabilities section of the consolidated balance sheet in other liabilities.

### **TRUST FEES:**

Trust fees are recorded on the cash basis which approximates the accrual basis for such income.

### **BANK-OWNED LIFE INSURANCE:**

The Company has purchased life insurance policies on certain employees. These policies are recorded on the Consolidated Balance Sheet at their cash surrender value, or the amount that can be realized. Income from these policies and changes in the cash surrender value are recorded in bank owned life insurance within non-interest income.

### **INTANGIBLE ASSETS:**

#### **Intangible Assets**

Intangible assets consist of core deposit acquisition premiums. Core deposit acquisition premiums, which were developed by specific core deposit life studies, are amortized using the straight-line method over periods not exceeding 10 years. The recoverability of the carrying value of intangible assets is evaluated on an ongoing basis, and permanent declines in value, if any, are charged to expense.

**Table of Contents****Goodwill**

The Company accounts for goodwill using a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. The Company performs an annual impairment analysis of goodwill. No impairment of goodwill was recognized in any of the periods presented.

**EARNINGS PER COMMON SHARE:**

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options and warrant to purchase 1,467,142, 1,546,109, and 1,539,509 shares of common stock were outstanding during 2010, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per common share because to do so would be anti-dilutive. Exercise prices of anti-dilutive options and warrant to purchase common stock outstanding were \$1.73-\$6.10, \$1.77-\$6.10, and \$2.40-\$6.10 during 2010, 2009 and 2008, respectively. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

**STOCK-BASED COMPENSATION:**

The Company uses the modified prospective method for accounting of stock-based compensation. The Company recognized \$18,000, \$11,000 and \$7,000 of pretax compensation expense for the year 2010, 2009 and 2008. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for the grants: risk-free interest rates ranging from 2.76% to 3.83%; expected lives of 10 years; expected volatility ranging from 33.28% to 35.74% and expected dividend yields of 0%.

**ACCUMULATED OTHER COMPREHENSIVE LOSS:**

The Company presents the components of other comprehensive income (loss) in the Consolidated Statements of Comprehensive Income (Loss). These components are comprised of the change in the pension obligation and the unrealized holding gains on available for sale securities, net of any reclassification adjustments for realized gains and losses.

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

	<b>AT DECEMBER 31,</b>	
	<b>2010</b>	<b>2009</b>
	<b>(IN THOUSANDS)</b>	
Pension obligation for defined benefit plan	<b>\$ (6,926)</b>	<b>\$ (6,249)</b>
Unrealized holding gains on available for sale securities	<b>2,064</b>	<b>1,876</b>
<b>Total accumulated other comprehensive loss</b>	<b>\$ (4,862)</b>	<b>\$ (4,373)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS:**

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest bearing deposits, federal funds sold and short-term investments in money market funds. The Company made \$174,000 in income tax payments in 2010; \$126,000 in 2009; and \$200,000 in 2008. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of \$788,000 in 2010; \$2,900,000 in 2009; and \$1,319,000 in 2008. The Company made total interest payments of \$13,084,000 in 2010; \$15,963,000 in 2009; and \$19,601,000 in 2008.

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### **INCOME TAXES:**

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

### **INTEREST RATE CONTRACTS:**

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

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

### **RECENT ACCOUNTING STANDARDS:**

In December 2009, the FASB issued ASU 2009-16, *Accounting for Transfer of Financial Assets*. ASU 2009-16 provides guidance to improve the relevance, representational faithfulness, and comparability of the information that an entity provides in its financial statements about a transfer of financial assets; the effects of a transfer on its financial position, financial performance, and cash flows; and a transferor's continuing involvement, if any, in transferred financial assets. ASU 2009-16 is effective for annual periods beginning after November 15, 2009 and for interim periods within those fiscal years. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

In January 2010, the FASB issued ASU No. 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements*. ASU 2010-06 amends Subtopic 820-10 to clarify existing disclosures, require new disclosures, and includes conforming amendments to guidance on employers' disclosures about postretirement benefit plan assets. ASU 2010-06 is effective for interim and annual periods beginning after December 15, 2009, except for disclosures about purchases, sales, issuances, and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures are effective for fiscal years beginning after December 15, 2010 and for interim periods within those fiscal years. The adoption of this guidance did not have a significant impact on the Company's financial statements or the Company has presented the necessary disclosures in the Notes 11 & 12 herein.

In February 2010, the FASB issued ASU 2010-08, *Technical Corrections to Various Topics*. ASU 2010-08 clarifies guidance on embedded derivatives and hedging. ASU 2010-08 is effective for interim and annual periods beginning after December 15, 2009. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation or the Company has presented the necessary disclosures in the Note 21 herein.

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In July 2010, FASB issued ASU No. 2010-20, *Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses*. ASU 2010-20 is intended to provide additional information to assist financial statement users in assessing an entity's credit risk exposures and evaluating the adequacy of its allowance for credit losses. The disclosures as of the end of a reporting period are effective for interim and annual reporting periods ending on or after December 15, 2010. The disclosures about activity that occurs during a reporting period are effective for interim and annual reporting periods beginning on or after December 15, 2010. The amendments in ASU 2010-20 encourage, but do not require, comparative disclosures for earlier reporting periods that ended before initial adoption. However, an entity should provide comparative disclosures for those reporting periods ending after initial adoption. The Company is currently evaluating the impact the adoption of this guidance will have on the Company's financial position or results of operations.

In December, 2010, the FASB issued ASU 2010-28, *When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts*. This ASU modifies Step 1 of the goodwill impairment test for reporting units with zero or negative carrying amounts. For those reporting units, an entity is required to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are any adverse qualitative factors indicating an impairment may exist. The qualitative factors are consistent with the existing guidance, which requires that goodwill of a reporting unit be tested for impairment between annual tests if an event occurs or circumstances change that would more likely than not reduce the fair value of a reporting unit below its carrying amount. For public entities, the amendments in this Update are effective for fiscal year, and interim periods within those years, beginning after December 15, 2010. Early adoption is not permitted. For nonpublic entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Nonpublic entities may early adopt the amendments using the effective date for public entities. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position or results of operations.

**2. CASH AND DUE FROM BANKS**

Cash and due from banks at December 31, 2010 and 2009, included \$150,000 of reserves required to be maintained under Federal Reserve Bank regulations.

**3. INVESTMENT SECURITIES**

The cost basis and fair values of investment securities are summarized as follows:

Investment securities available for sale:

	AT DECEMBER 31, 2010			
	COST BASIS	GROSS	GROSS	FAIR VALUE
		UNREALIZED GAINS	UNREALIZED LOSSES	
(IN THOUSANDS)				
U.S. Agency	\$ 15,956	\$ 57	\$ (69)	\$ 15,944
U.S. Agency mortgage-backed securities	145,727	3,714	(574)	148,867
<b>Total</b>	<b>\$ 161,683</b>	<b>\$ 3,771</b>	<b>\$ (643)</b>	<b>\$ 164,811</b>

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Investment securities held to maturity:

	AT DECEMBER 31, 2010			
	COST BASIS	GROSS	GROSS	FAIR VALUE
		UNREALIZED GAINS	UNREALIZED LOSSES	
		(IN THOUSANDS)		
U.S. Agency mortgage-backed securities	\$ 6,824	\$ 452	\$	\$ 7,276
Other securities	1,000		(9)	991
<b>Total</b>	<b>\$ 7,824</b>	<b>\$ 452</b>	<b>\$ (9)</b>	<b>\$ 8,267</b>

Investment securities available for sale:

	AT DECEMBER 31, 2009			
	COST BASIS	GROSS	GROSS	FAIR VALUE
		UNREALIZED GAINS	UNREALIZED LOSSES	
		(IN THOUSANDS)		
U.S. Agency	\$ 12,342	\$ 26	\$ (76)	\$ 12,292
U.S. Agency mortgage-backed securities	116,088	3,128	(236)	118,980
<b>Total</b>	<b>\$ 128,430</b>	<b>\$ 3,154</b>	<b>\$ (312)</b>	<b>\$ 131,272</b>

Investment securities held to maturity:

	AT DECEMBER 31, 2009			
	COST BASIS	GROSS	GROSS	FAIR VALUE
		UNREALIZED GAINS	UNREALIZED LOSSES	
		(IN THOUSANDS)		
U.S. Treasury	\$ 3,009	\$ 13	\$	\$ 3,022
U.S. Agency mortgage-backed securities	7,602	373		7,975
Other securities	1,000		(1)	999
<b>Total</b>	<b>\$ 11,611</b>	<b>\$ 386</b>	<b>\$ (1)</b>	<b>\$ 11,996</b>

Realized gains and losses are calculated by the specific identification method.

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investors Service or Standard & Poor's rating of A. At December 31, 2010, 99.4% of the portfolio was rated AAA as compared to 99.3% at December 31, 2009. None of the portfolio was rated below A or unrated on December 31, 2010. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. Treasury and U.S. Agencies, that exceeded 10% of shareholders' equity at December 31, 2010.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was \$86,894,000 at December 31, 2010 and \$103,196,000 at December 31, 2009.

The Company realized \$157,000 of gross investment gains and no investment security losses in 2010, and \$164,000 of gross investment gains and no investment security losses in 2009, and \$42,000 of gross investment security gains and \$137,000 of gross investment security losses for 2008. The Company realized no gross investment security gains and losses on held to maturity securities in 2010, 2009 or 2008. On a net basis, the realized gain for 2010 was \$104,000, after factoring the tax expense of \$53,000, the realized gains in 2009



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amounted to \$108,000, after factoring in tax expense of \$56,000 and realized losses in 2008 of \$63,000 after factoring in a tax benefit of \$32,000. Proceeds from sales of investment securities available for sale were \$2.7 million for 2010, \$4.7 million for 2009, and \$25.9 million during 2008.

The following table sets forth the contractual maturity distribution of the investment securities, cost basis and fair market values, and the weighted average yield for each type and range of maturity as of December 31, 2010. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity. The Company's consolidated investment securities portfolio had a modified duration of approximately 3.12 years. The weighted average expected maturity for available for sale securities at December 31, 2010 for U.S. Agency and U.S. Agency Mortgage-Backed was 4.45, and 4.03 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2010 for U.S. Agency Mortgage-Backed and other securities was 3.07 and 1.48 years.

Investment securities available for sale:

	AT DECEMBER 31, 2010									
	WITHIN 1 YEAR		AFTER 1 YEAR BUT WITHIN 5 YEARS		AFTER 5 YEARS BUT WITHIN 10 YEARS		AFTER 10 YEARS		TOTAL	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD
(IN THOUSANDS, EXCEPT YIELDS)										
<b>COST BASIS</b>										
U.S. Agency	\$	%	\$ 12,456	2.21%	\$ 3,500	3.10%	\$	%	\$ 15,956	2.40%
U.S. Agency mortgage-backed securities	429	1.53		%	17,536	4.27	127,762	3.45	145,727	3.54
Total investment securities available for sale	\$ 429	1.53%	\$ 12,456	2.21%	\$ 21,036	4.08%	\$ 127,762	3.45%	\$ 161,683	3.43%
<b>FAIR VALUE</b>										
U.S. Agency	\$		\$ 12,441		\$ 3,503		\$		\$ 15,944	
U.S. Agency mortgage-backed securities	429				18,526		129,912		148,867	
Total investment securities available for sale	\$ 429		\$ 12,441		\$ 22,029		\$ 129,912		\$ 164,811	

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Investment securities held to maturity:

	AT DECEMBER 31, 2010									
	WITHIN 1 YEAR		AFTER 1 YEAR BUT WITHIN 5 YEARS		AFTER 5 YEARS BUT WITHIN 10 YEARS		AFTER 10 YEARS		TOTAL	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD
(IN THOUSANDS, EXCEPT YIELDS)										
<b>COST BASIS</b>										
U.S. Agency mortgage-backed securities	\$	%	\$	%	\$	%	\$ 6,824	5.29%	\$ 6,824	5.29%
Other securities			1,000	1.01					1,000	1.01
Total investment securities held to maturity	\$	%	\$ 1,000	1.01%	\$	%	\$ 6,824	5.29%	\$ 7,824	4.78%
<b>FAIR VALUE</b>										
U.S. Agency mortgage-backed securities	\$		\$		\$		\$ 7,276		\$ 7,276	
Other securities			991						991	
Total investment securities held to maturity	\$		\$ 991		\$		\$ 7,276		\$ 8,267	

The following tables present information concerning investments with unrealized losses as of December 31, 2010 (in thousands):

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$ 4,204	\$ (69)	\$	\$	\$ 4,204	\$ (69)
U.S. Agency mortgage-backed securities	38,202	(574)			38,202	(574)
Total investment securities available for sale	\$ 42,406	\$ (643)	\$	\$	\$ 42,406	\$ (643)

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Other securities	\$	\$	\$ 991	\$ (9)	\$ 991	\$ (9)
Total investment securities held to maturity	\$	\$	\$ 991	\$ (9)	\$ 991	\$ (9)



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The following tables present information concerning investments with unrealized losses as of December 31, 2009 (in thousands):

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
U.S. Agency	\$ 7,424	\$ (76)	\$	\$	\$ 7,424	\$ (76)
U.S. Agency mortgage-backed securities	17,525	(236)			17,525	(236)
Total investment securities available for sale	\$ 24,949	\$ (312)	\$	\$	\$ 24,949	\$ (312)

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		TOTAL	
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES
Other securities	\$	\$	\$ 999	\$ (1)	\$ 999	\$ (1)
Total investment securities held to maturity	\$	\$	\$ 999	\$ (1)	\$ 999	\$ (1)

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. There are 28 positions that are considered temporarily impaired at December 31, 2010. 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.

**4. LOANS**

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2010	2009
(IN THOUSANDS)		
Commercial	\$ 78,322	\$ 96,158
Commercial loans secured by real estate	369,904	396,123
Real estate-mortgage	203,317	207,214
Consumer	19,233	19,619
Loans, net of unearned income	\$ 670,776	\$ 719,114

Loan balances at December 31, 2010 and 2009 are net of unearned income of \$477,000 and \$671,000, respectively.

Real estate construction loans comprised 3.9% and 6.8% of total loans net of unearned income at December 31, 2010 and 2009, respectively. The Company has no exposure to subprime mortgage loans in either



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the loan or investment portfolios. The Company has no direct credit exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2010 and 2009, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. Additionally, the majority of the Company's lending occurs within a 100 mile radius of the Johnstown market.

In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. In management's opinion, these transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled \$1,028,000 and \$1,183,000 at December 31, 2010 and 2009, respectively. An analysis of these related party loans follows:

	YEAR ENDED DECEMBER 31,	
	2010	2009
	(IN THOUSANDS)	
Balance January 1	\$ 1,183	\$ 6,121
New loans	198	1,220
Payments	(353)	(4,130)
Reduction due to director retirement		(2,028)
Balance December 31	\$ 1,028	\$ 1,183

**5. ALLOWANCE FOR LOAN LOSSES**

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

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
Balance January 1	\$ 19,685	\$ 8,910	\$ 7,252
Provision for loan losses	5,250	15,150	2,925
Recoveries on loans previously charged-off	461	755	446
Loans charged-off	(5,631)	(5,130)	(1,713)
Balance December 31	\$ 19,765	\$ 19,685	\$ 8,910

The following table summarizes the primary segments of the loan portfolio.

	AT DECEMBER 31, 2010				TOTAL
	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE (IN THOUSANDS)	CONSUMER	
Individually evaluated for impairment	\$ 4,065	\$ 8,082	\$ 203,317	\$ 19,233	\$ 12,147
Collectively evaluated for impairment	74,257	361,822	203,317	19,233	658,629
Total loans	\$ 78,322	\$ 369,904	\$ 203,317	\$ 19,233	\$ 670,776



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	AT DECEMBER 31, 2010					TOTAL
	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE (IN THOUSANDS)	CONSUMER	ALLOCATION FOR GENERAL RISK	
Specific reserve allocation	\$ 1,905	\$ 1,901	\$ 1,117	\$ 206	\$ 1,874	\$ 3,806
General reserve allocation	1,946	10,816	1,117	206	1,874	15,959
Total allowance for loan losses	\$ 3,851	\$ 12,717	\$ 1,117	\$ 206	\$ 1,874	\$ 19,765

	AT DECEMBER 31, 2009					TOTAL
	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE (IN THOUSANDS)	CONSUMER		
Individually evaluated for impairment	\$ 3,082	\$ 11,996	\$ 207,214	\$ 19,619	\$ 15,078	\$ 247,929
Collectively evaluated for impairment	93,076	384,127	207,214	19,619	704,036	1,408,172
Total loans	\$ 96,158	\$ 396,123	\$ 207,214	\$ 19,619	\$ 719,114	\$ 1,651,103

	AT DECEMBER 31, 2009					TOTAL
	COMMERCIAL	COMMERCIAL LOANS SECURED BY REAL ESTATE	REAL ESTATE- MORTGAGE (IN THOUSANDS)	CONSUMER	ALLOCATION FOR GENERAL RISK	
Specific reserve allocation	\$ 1,090	\$ 3,905	\$ 1,015	\$ 204	\$ 1,018	\$ 4,995
General reserve allocation	3,666	8,787	1,015	204	1,018	14,690
Total allowance for loan losses	\$ 4,756	\$ 12,692	\$ 1,015	\$ 204	\$ 1,018	\$ 19,685

The segments of the Company's loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The overall risk profile for the commercial loan segment is driven by non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as the majority of the commercial portfolio is centered in these types of accounts. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates for possible impairment any individual loan in the commercial segment with a loan balance in excess of \$100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure. Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis,

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taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of larger relationship that is impaired, or are classified as a troubled debt restructuring agreement.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan's effective interest rate; (b) the loan's observable market price; or (c) the fair value of the collateral less selling costs. The method is selected on a loan-by-loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company's policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The following table presents impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary.

	DECEMBER 31, 2010				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS UNPAID PRINCIPAL BALANCE	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT (IN THOUSANDS)	RECORDED INVESTMENT	RECORDED INVESTMENT
Commercial	\$ 4,041	\$ 1,905	\$ 24	\$ 4,065	\$ 4,842
Commercial loans secured by real estate	4,938	1,901	3,144	8,082	8,341
<b>Total impaired loans</b>	<b>\$ 8,979</b>	<b>\$ 3,806</b>	<b>\$ 3,168</b>	<b>\$ 12,147</b>	<b>\$ 13,183</b>

	DECEMBER 31, 2009				
	IMPAIRED LOANS WITH SPECIFIC ALLOWANCE		IMPAIRED LOANS WITH NO SPECIFIC ALLOWANCE	TOTAL IMPAIRED LOANS UNPAID PRINCIPAL BALANCE	
	RECORDED INVESTMENT	RELATED ALLOWANCE	RECORDED INVESTMENT (IN THOUSANDS)	RECORDED INVESTMENT	RECORDED INVESTMENT
Commercial	\$ 2,967	\$ 1,090	\$ 115	\$ 3,082	\$ 3,795
Commercial loans secured by real estate	11,996	3,905		11,996	12,020
<b>Total impaired loans</b>	<b>\$ 14,963</b>	<b>\$ 4,995</b>	<b>\$ 115</b>	<b>\$ 15,078</b>	<b>\$ 15,815</b>

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

YEAR ENDED DECEMBER 31,  
2010      2009      2008  
(IN THOUSANDS)

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Average investment in impaired loans	<b>\$ 18,202</b>	\$ 11,248	\$ 1,605
Interest income recognized on a cash basis on impaired loans	<b>458</b>	75	

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

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, at a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of \$250,000 within a 12-month period. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company's commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review and rating concurrence from the Company's internal Loan Review Department. The Loan Review Department is an experienced independent function which reports directly to the Board Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2010 required a minimum range-of-coverage of 60% to 70% of the commercial loan portfolio. Actual coverage was 68% of the aggregate commercial loan portfolio balance as of December 31, 2010.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated Pass-6 with aggregate balances greater than \$1,000,000, all credits rated Special Mention or Substandard with aggregate balances greater than \$250,000, and all credits rated Doubtful with aggregate balances greater than \$100,000 on an individual basis to the Company's Loan Loss Reserve Committee on a quarterly basis.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system.

	DECEMBER 31, 2010				
	PASS	SPECIAL MENTION	SUBSTANDARD (IN THOUSANDS)	DOUBTFUL	TOTAL
Commercial	\$ 61,961	\$ 8,797	\$ 5,793	\$ 1,771	\$ 78,322
Commercial loans secured by real estate	306,555	33,165	29,754	430	369,904
Total	\$ 368,516	\$ 41,962	\$ 35,547	\$ 2,201	\$ 448,226

	DECEMBER 31, 2009				
	PASS	SPECIAL MENTION	SUBSTANDARD (IN THOUSANDS)	DOUBTFUL	TOTAL
Commercial	\$ 69,510	\$ 8,086	\$ 17,074	\$ 1,488	\$ 96,158
Commercial loans secured by real estate	324,911	43,212	28,000		396,123
Total	\$ 394,421	\$ 51,298	\$ 45,074	\$ 1,488	\$ 492,281

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It is the policy of the bank that the outstanding balance of any residential mortgage loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs. A charge down is recorded for any deficiency balance determined from the collateral evaluation. The remaining non-accrual balance is reported as impaired with no specific allowance. It is the policy of the bank that the outstanding balance of any consumer loan that exceeds 90-days past due as to principal and/or interest is charged off.

	DECEMBER 31, 2010	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 201,438	\$ 1,879
Consumer	19,233	
<b>Total</b>	<b>\$ 220,671</b>	<b>\$ 1,879</b>

	DECEMBER 31, 2009	
	PERFORMING	NON-PERFORMING
	(IN THOUSANDS)	
Real estate-mortgage	\$ 205,189	\$ 2,025
Consumer	19,619	
<b>Total</b>	<b>\$ 224,808</b>	<b>\$ 2,025</b>

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans.

	DECEMBER 31, 2010						
	CURRENT	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE	NON- ACCRUAL	TOTAL LOANS
	(IN THOUSANDS)						
Commercial	\$ 74,643	\$	\$	\$	\$	\$ 3,679	\$ 78,322
Commercial loans secured by real estate	362,890	283			283	6,731	369,904
Real estate-mortgage	199,003	1,892	543		2,435	1,879	203,317
Consumer	19,160	29	44		73		19,233
<b>Total</b>	<b>\$ 655,696</b>	<b>\$ 2,204</b>	<b>\$ 587</b>	<b>\$</b>	<b>\$ 2,791</b>	<b>\$ 12,289</b>	<b>\$ 670,776</b>

	DECEMBER 31, 2009						
	CURRENT	30-59 DAYS PAST DUE	60-89 DAYS PAST DUE	90 DAYS PAST DUE	TOTAL PAST DUE	NON- ACCRUAL	TOTAL LOANS
	(IN THOUSANDS)						
Commercial	\$ 92,783	\$	\$	\$	\$	\$ 3,375	\$ 96,158
Commercial loans secured by real estate	375,812	8,595			8,595	11,716	396,123
Real estate-mortgage	202,479	2,056	654		2,710	2,025	207,214
Consumer	19,516	68	35		103		19,619

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Total	\$ 690,590	\$ 10,719	\$ 689	\$	\$ 11,408	\$ 17,116	\$ 719,114
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An allowance for loan losses ( ALL ) is maintained to absorb losses from the loan portfolio. The ALL is based on management's continuing evaluation of the risk characteristics and credit quality of the loan portfolio,

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assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

As described in more detail in the Summary of Significant Accounting Policies section in Note 1, the Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency and non-performing loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company's loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company's management to establish allocations which accommodate each of the listed risk factors.

Pass rated credits are segregated from Criticized credits for the application of qualitative factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

## **6. NON-PERFORMING ASSETS**

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

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The following tables present information concerning non-performing assets:

	AT DECEMBER 31,		
	2010	2009	2008
(IN THOUSANDS, EXCEPT PERCENTAGES)			
<b>Non-accrual loans</b>			
Commercial	\$ 3,679	\$ 3,375	\$ 1,128
Commercial loans secured by real estate	6,731	11,716	484
Real estate-mortgage	1,879	2,025	1,765
<b>Total</b>	<b>12,289</b>	<b>17,116</b>	<b>3,377</b>
<b>Other real estate owned</b>			
Commercial loans secured by real estate	436	871	701
Real estate-mortgage	302	350	494
<b>Total</b>	<b>738</b>	<b>1,221</b>	<b>1,195</b>
Total restructured loans not in non-accrual (TDR)	1,337		
<b>Total non-performing assets including TDR</b>	<b>\$ 14,364</b>	<b>\$ 18,337</b>	<b>\$ 4,572</b>

Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned **2.12%** 2.53% 0.65%

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned is recorded at the lower of 1) fair value minus estimated costs to sell, or 2) carrying cost.

The Company had non-accrual loans totaling \$10,410,000 and \$15,091,000 being specifically identified as impaired and a corresponding allocation reserve of \$3,806,000 and \$4,995,000 at December 31, 2010 and 2009, respectively. The average outstanding balance for loans being specifically identified as impaired was \$18,202,000 for 2010 and \$11,248,000 for 2009. A majority of the impaired loans are secured by sellable collateral; the estimated timing of the liquidation of the collateral and the estimated fair value of the collateral are evaluated in measuring the impairment. The interest income recognized on impaired loans during 2010, 2009 and 2008 was \$458,000, \$75,000 and \$0, respectively.

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		
	2010	2009	2008
(IN THOUSANDS)			
Interest income due in accordance with original terms	\$ 1,086	\$ 553	\$ 198
Interest income recorded	(458)	(75)	
<b>Net reduction in interest income</b>	<b>\$ 628</b>	<b>\$ 478</b>	<b>\$ 198</b>

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An analysis of premises and equipment follows:

	AT DECEMBER 31, 2010      2009 (IN THOUSANDS)	
Land	\$ 1,208	\$ 1,208
Premises	22,780	21,541
Furniture and equipment	7,087	13,994
Leasehold improvements	512	599
<b>Total at cost</b>	<b>31,587</b>	37,342
Less: Accumulated depreciation and amortization	21,102	28,113
<b>Net book value</b>	<b>\$ 10,485</b>	\$ 9,229

The Company recorded depreciation expense of \$1.5 million, \$1.6 million and \$1.5 million for 2010, 2009 and 2008, respectively.

**8. DEPOSITS**

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

	AT DECEMBER 31, 2010      2009 (IN THOUSANDS)	
<b>Demand:</b>		
Non-interest bearing	\$ 127,870	\$ 118,232
Interest bearing	59,206	61,292
Savings	76,762	72,557
Money market	173,234	181,139
Certificates of deposit in denominations of \$100,000 or more	50,808	45,169
Other time	313,336	307,622
<b>Total deposits</b>	<b>\$ 801,216</b>	\$ 786,011

Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31, 2010      2009      2008 (IN THOUSANDS)		
Interest bearing demand	\$ 176	\$ 256	\$ 653
Savings	397	530	535
Money market	1,622	2,437	2,417
Certificates of deposit in denominations of \$100,000 or more	834	1,186	1,744
Other time	7,916	8,700	10,331
<b>Total interest expense</b>	<b>\$ 10,945</b>	\$ 13,109	\$ 15,680



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The following table sets forth the balance of other time deposits and certificates of deposit of \$100,000 or more as of December 31, 2010 maturing in the periods presented:

YEAR	OTHER TIME DEPOSITS (IN THOUSANDS)	CERTIFICATES OF DEPOSIT
		OF \$100,000 OR MORE (IN THOUSANDS)
2011	\$ 161,758	\$ 39,711
2012	64,794	8,211
2013	33,991	2,553
2014	7,496	149
2015	12,651	184
2016 and after	32,646	
Total	\$ 313,336	\$ 50,808

The maturities on certificates of deposit greater than \$100,000 or more as of December 31, 2010, are as follows:

	(IN THOUSANDS)
MATURING IN:	
Three months or less	\$ 12,695
Over three through six months	21,695
Over six through twelve months	5,321
Over twelve months	11,097
Total	\$ 50,808

**9. FEDERAL FUNDS PURCHASED AND SHORT-TERM BORROWINGS**

The outstanding balances and related information for federal funds purchased and other short-term borrowings are summarized as follows:

	AT DECEMBER 31, 2010	
	FEDERAL FUNDS PURCHASED (IN THOUSANDS, EXCEPT RATES)	SHORT-TERM BORROWINGS
Balance	\$ 9	\$ 4,550
Maximum indebtedness at any month end		9,230
Average balance during year	9	3,110
Average rate paid for the year	0.51%	0.71%
Interest rate on year end balance		0.62

	AT DECEMBER 31, 2009	
	FEDERAL FUNDS PURCHASED (IN THOUSANDS, EXCEPT RATES)	SHORT-TERM BORROWINGS

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Balance	\$	\$	25,775
Maximum indebtedness at any month end	5,968		54,649
Average balance during year	1,358		19,670
Average rate paid for the year	0.50%		0.67%
Interest rate on year end balance			0.62

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Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances.

These borrowing transactions can range from overnight to one year in maturity. The average maturity was three days at the end of 2010 and two days at the end of 2009.

#### 10. ADVANCES FROM FEDERAL HOME LOAN BANK AND GUARANTEED JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES

Borrowings and advances from the FHLB consist of the following:

MATURING	AT DECEMBER 31, 2010	
	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS)	
Overnight	0.62%	\$ 4,550
2012	1.82	4,000
2013	2.04	5,000
2016 and after	6.44	750
<b>Total advances</b>	<b>2.28</b>	<b>9,750</b>
Total FHLB borrowings	1.75%	\$ 14,300

MATURING	AT DECEMBER 31, 2009	
	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS)	
Overnight	0.62%	\$ 25,775
2010	1.67	22,000
2012	1.97	3,000
2016 and after	6.44	804
<b>Total advances</b>	<b>1.85</b>	<b>25,804</b>
Total FHLB borrowings	1.24%	\$ 51,579

The Company's subsidiary Bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the Company's investment in assets secured by one- to four-family residential real estate. The rate on open repo plus advances, which are typically overnight borrowings, can change daily, while the rate on the advances is fixed until the maturity of the advance. All FHLB stock along with an interest in certain residential mortgage and commercial real-estate loans with an aggregate statutory value equal to the amount of the advances, are pledged as collateral to the FHLB of Pittsburgh to support these borrowings. At December 31, 2010, the Company had immediately available \$244 million of overnight borrowing capability at the FHLB and \$23 million of unsecured federal funds lines with correspondent banks.

Guaranteed Junior Subordinated Deferrable Interest Debentures:

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On April 28, 1998, the Company completed a \$34.5 million public offering of 8.45% Trust Preferred Securities, which represent undivided beneficial interests in the assets of a Delaware business trust, AmeriServ Financial Capital Trust I. The Trust Preferred Securities will mature on June 30, 2028, and are callable at par at the option of the Company after June 30, 2003. Proceeds of the issue were invested by AmeriServ Financial Capital Trust I in Junior Subordinated Debentures issued by AmeriServ Financial, Inc. Unamortized deferred

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issuance costs associated with the Trust Preferred Securities amounted to \$271,000 as of December 31, 2010 and are included in other assets on the consolidated balance sheet, and are being amortized on a straight-line basis over the term of the issue. The Trust Preferred securities are listed on NASDAQ under the symbol ASRVP. The Company used \$22.5 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in 2005 and 2004. The balance as of December 31, 2010 and 2009 was \$13.1 million.

**11. DISCLOSURES ABOUT FAIR VALUE MEASUREMENTS**

The following disclosures establish a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined within this hierarchy are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things.

Residential real estate loans held for sale are carried at fair value on a recurring basis. Residential real estate loans are valued based on quoted market prices from purchase commitments from market participants and are classified as Level 1.

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

The following table presents the assets reported on the balance sheet at their fair value as of December 31, 2010 and 2009, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

**Assets Measured on a Recurring Basis**

Assets measured at fair value on a recurring basis are summarized below (in thousands):

	Fair Value Measurements at December 31, 2010 Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
U.S. Agency securities	\$ 15,944	\$	\$ 15,944	\$
U.S. Agency mortgage-backed securities	148,867		148,867	
Fair value swap asset	420		420	

**Table of Contents****Fair Value Measurements at December 31, 2009 Using**

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
U.S. Agency securities	\$ 12,292	\$	\$ 12,292	\$
U.S. Agency mortgage-backed securities	118,980		118,980	
Fair value swap asset	154		154	

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data which at times are discounted. At December 31, 2010, impaired loans with a carrying value of \$12.1 million were reduced by specific valuation allowance totaling \$3.8 million resulting in a net fair value of \$8.3 million.

OREO is measured at fair value based on appraisals, less cost to sell at the date of foreclosure. Valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

**Assets Measured on a Non-recurring Basis**

Assets measured at fair value on a non-recurring basis are summarized below (in thousands):

**Fair Value Measurements at December 31, 2010 Using**

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Impaired loans	\$ 8,341	\$	\$ 8,341	\$
Other real estate owned	738		738	

**Fair Value Measurements at December 31, 2009 Using**

	<b>Total</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
<b>Assets:</b>				
Impaired loans	\$ 9,268	\$	\$ 9,268	\$
Other real estate owned	1,221		1,221	

**12. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS**

For the Company, as for most financial institutions, approximately 90% of its assets and liabilities are considered financial instruments. Many of the Company's financial instruments, however, lack an available trading market characterized by a willing buyer and willing seller engaging in an exchange transaction. Therefore, significant estimates and present value calculations were used by the Company for the purpose of this disclosure.



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Fair values have been determined by the Company using independent third party valuations that uses best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values based on US GAAP measurements, and recorded book balances at December 31, 2010 and 2009, were as follows:

	2010	2010	2009	2009
	FAIR	RECORDED	FAIR	RECORDED
	VALUE	BOOK	VALUE	BOOK
		BALANCE		BALANCE
		(IN THOUSANDS)		
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	\$ 19,337	\$ 19,337	\$ 26,308	\$ 26,308
Investment securities	173,078	172,635	143,268	142,883
Regulatory stock	9,358	9,358	9,739	9,739
Loans held for sale	7,542	7,405	3,840	3,790
Loans, net of allowance for loan loss and unearned income	651,866	651,011	695,930	699,429
Accrued income receivable	3,210	3,210	3,589	3,589
Bank owned life insurance	34,466	34,466	33,690	33,690
Fair value swap asset	420	420	154	154
<b>FINANCIAL LIABILITIES:</b>				
Deposits with no stated maturities	\$ 437,072	\$ 437,072	\$ 433,220	\$ 433,220
Deposits with stated maturities	369,972	364,144	357,275	352,791
Short-term borrowings	4,550	4,550	25,775	25,775
All other borrowings	25,419	22,835	41,272	38,889
Accrued interest payable	3,541	3,541	4,136	4,136
Fair value swap liability	420	420	154	154

The fair value of cash and cash equivalents, regulatory stock, accrued income receivable, short-term borrowings, and accrued interest payable are equal to the current carrying value.

The fair value of investment securities is equal to the available quoted market price.

The net loan portfolio has been valued using a present value discounted cash flow. The discount rate used in these calculations is based upon the treasury yield curve adjusted for non-interest operating costs, credit loss, current market prices and assumed prepayment risk.

The fair value of bank owned life insurance is based upon the cash surrender value of the underlying policies and matches the book value.

Deposits with stated maturities have been valued using a present value discounted cash flow with a discount rate approximating current market for similar assets and liabilities. Deposits with no stated maturities have an estimated fair value equal to both the amount payable on demand and the recorded book balance.

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

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

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Changes in assumptions or estimation methodologies may have a material effect on these estimated fair values. The Company's remaining assets and liabilities which are not considered financial instruments have not been valued differently than has been customary under historical cost accounting.

**13. INCOME TAXES**

The expense for income taxes is summarized below:

	YEAR ENDED DECEMBER 31,		
	2010	2009	2008
	(IN THOUSANDS)		
Current	\$ 206	\$ 170	\$ 121
Deferred	(126)	(3,220)	1,349
Income tax (benefit) expense	\$ 80	\$ (3,050)	\$ 1,470

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

	YEAR ENDED DECEMBER 31,					
	2010		2009		2008	
	AMOUNT	RATE	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Income tax (benefit) expense based on federal statutory rate	\$ 463	34.0%	\$ (2,701)	(34.0)%	\$ 2,373	34.0%
Tax exempt income	(443)	(32.5)	(443)	(5.6)	(985)	(14.1)
Other	60	4.4	94	1.2	82	1.2
Total (benefit) expense for income taxes	\$ 80	5.9%	\$ (3,050)	(38.4)%	\$ 1,470	21.1%

December 31, 2010 and 2009, deferred taxes are included in the accompanying Consolidated Balance Sheets. The following table highlights the major components comprising the deferred tax assets and liabilities for each of the periods presented:

	AT DECEMBER 31,	
	2010	2009
	(IN THOUSANDS)	
<b>DEFERRED TAX ASSETS:</b>		
Allowance for loan losses	\$ 6,720	\$ 6,692
Unfunded commitment reserve	298	240
Premises and equipment	1,193	796
Accrued pension obligation	1,867	1,510
Net operating loss carryforwards	5,444	6,028
Alternative minimum tax credits	1,352	1,389
Other	504	459
Total tax assets	17,378	17,114
<b>DEFERRED TAX LIABILITIES:</b>		
Investment accretion	(34)	(30)
Unrealized investment security gains	(1,064)	(967)
Other	(222)	(192)

Total tax liabilities	(1,320)	(1,189)
Net deferred tax asset	<b>\$ 16,058</b>	<b>\$ 15,925</b>

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At December 31, 2010 and 2009, the Company had no valuation allowance established against its deferred tax assets as we believe the Company will generate sufficient future taxable income to fully utilize all net operating loss carryforwards and AMT tax credits.

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