

AMERISERV FINANCIAL INC /PA/

Form 8-K

July 20, 2004

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 8-K

Current Report Pursuant to Section 13 or 15(d) of the Securities

Act of 1934

Date of Report (Date of earliest event reported) July 20, 2004

AMERISERV FINANCIAL, Inc.

(exact name of registrant as specified in its charter)

Pennsylvania 0-11204 25-1424278

(State or other (commission (I.R.S. Employer

jurisdiction File Number) Identification No.)

of Incorporation)

Main and Franklin Streets, Johnstown, Pa. 15901

(address or principal executive offices) (Zip Code)

Registrant's telephone number, including area code: 814-533-5300

N/A

(Former name or former address, if changed since last report.)

Form 8-K

## Item 12. Results of Operations and Financial Condition

AMERISERV FINANCIAL Inc. (the "Registrant") press release dated July 20, 2004, announcing its earnings for the three (3) and six (6) month periods ended June 30, 2004 is attached hereto as Exhibit 99.1 and incorporated herein by reference

Exhibits

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Exhibit 99.1 Press release dated July 20, 2004, announcing its earnings for the

three (3) and six (6) month periods ended June 30, 2004.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

AMERISERV FINANCIAL, Inc.

By /s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President

& CFO

Date: July 20, 2004

Exhibit 99.1

Jeffrey A. Stopko

July 20, 2004

Senior Vice President &

Chief Financial Officer

(814)-533-5310

**AMERISERV FINANCIAL REPORTS FIFTH CONSECUTIVE QUARTER OF PROFITABILITY AND REDUCED NON-PERFORMING ASSETS**

JOHNSTOWN, PA AmeriServ Financial, Inc. (NASDAQ: ASRV) completed its fifth consecutive quarter of profitability by reporting net income for the second quarter of 2004 of \$254,000 or \$0.02 per diluted share. For the six month period ended June 30, 2004, the Company has now earned \$480,000 or \$0.03 per diluted share which represents an increase over the net income of \$120,000 or \$0.01 per diluted share reported for the six month period ended June 30, 2003. The following table highlights the Company's financial performance for both the three and six month periods ended June 30, 2004 and 2003:

|                            | Second<br>Quarter<br>2004 | Second<br>Quarter<br>2003 | Six Months<br>Ended<br>June 30, 2004 | Six Months<br>Ended<br>June 30, 2003 |
|----------------------------|---------------------------|---------------------------|--------------------------------------|--------------------------------------|
| Net income                 | \$254,000                 | \$915,000                 | \$480,000                            | \$120,000                            |
| Diluted earnings per share | 0.02                      | 0.07                      | 0.03                                 | 0.01                                 |

Allan R. Dennison, President and Chief Executive Officer, commented, "The AmeriServ Turnaround continues in spite of the volatility of financial markets. We are pleased to see progress in deposit growth, the slowing of erosion in the loan portfolio, the decline in the level of non-performing assets, and the decline in non-interest expense. In the few months since I have joined the Company, I am impressed with the commitment of our employees to maintain our focus as a community bank and to take the necessary steps to improve the performance of this Company."

The Company's provision for loan losses totaled \$259,000 or 0.21% of total loans in the second quarter of 2004. This represented a decrease of \$275,000 from the second quarter 2003 provision of \$534,000 or 0.40% of total loans. For the first six months of 2004, the Company's provision for loan losses totaled \$643,000 or 0.26% of total loans, a decrease of \$1.6 million from the provision of \$2.2 million or 0.80% of total loans recorded in the first six months of 2003. Net charge-offs in the first half of 2004 totaled \$1.2 million or 0.48% of total loans compared to net charge-offs of \$312,000 or 0.11% of total loans in the first half of 2003. The higher net charge-offs in the first six months of 2004 reflect a \$625,000 write-down of a \$4.8 million loan on a personal care facility that was moved into other real estate owned and increased charge-offs on small business commercial loans. Overall, however, the lower provision for loan losses in 2004 reflects improvements in asset quality most evidenced by lower levels of classified loans and non-performing assets. While the Company is pleased with this early improvement in asset quality, it continues to closely monitor the portfolio given its existing level of non-performing assets and problem credits.

Non-performing assets totaled \$10.2 million at June 30, 2004, which represented a decrease of \$3.3 million or 24.7% from the March 31, 2004 level of \$13.5 million. This decline resulted primarily from successful work-out efforts on problem credits which included the collection of over \$2 million on the personal care facility housed in other real estate owned. The Company's allowance for loan losses totaled \$10.9 million at June 30, 2004 providing 108% coverage of non-performing assets. Overall, the allowance for loan losses as a percentage of total loans amounted to 2.18% at June 30, 2004 compared to 2.32% at December 31, 2003, and 2.27% at June 30, 2003.

The Company's net interest income in the second quarter of 2004 decreased by \$521,000 from the prior year second quarter and for the first six months of 2004 declined by \$956,000 when compared to the first six months of 2003. This decline resulted from a reduced level of earning assets and a 13 basis point drop in the net interest margin to 2.32% for the first half of 2004. Loan portfolio shrinkage experienced during the majority of 2003 was a predominant factor contributing to both the lower level of earning assets and the net interest margin contraction. While the Company has generated increased new commercial loan production in 2004, the effects of heightened pay-offs continue to constrain the size of total loans outstanding. A strategic focus on deposit generation has caused the Company to experience a rebuilding and growth of deposits since the low point reached in the third quarter of 2003.

The Company's total non-interest income declined by approximately \$1.5 million when both the second quarter and first six months of 2004 are compared to the same 2003 periods. Fewer gains realized on asset sales was the primary factor responsible for the lower non-interest income in 2004. Specifically, gains realized on the sale of investment securities dropped by \$1.3 million in the second quarter of 2004 and by \$1.7 million for the six month period due to the higher interest rate environment in place in 2004. This higher rate environment in 2004 also had a negative impact on new residential mortgage origination and refinance volumes as gains realized on the sale of mortgage loans into the secondary market decreased by \$106,000 in the second quarter and \$239,000 for the six month period ended June 30, 2004. This lower level of new mortgage origination activity in 2004 was also the main factor responsible for the decrease in other non-interest income. These negative items were partially offset by a \$108,000 or 4.3% increase in

trust fees due to continued successful union related new business development efforts. Also the Company benefited from the non-recurrence of a \$758,000 loss on the sale of approximately 70% of its mortgage-servicing portfolio in the first quarter of 2003. This significant downsizing of the mortgage-servicing asset reduced the level of interest rate risk and earnings volatility of the Company.

The Company's non-interest expense in the second quarter of 2004 favorably decreased by \$830,000 from the prior year second quarter and for the first six months of 2004 declined by \$1.3 million when compared to the first six months of 2003. The largest factor causing the six month decrease was a net favorable change of \$784,000 in the impairment charge on mortgage servicing rights as the higher interest rate environment and reduced mortgage refinancing activity caused an improvement in the value of the Company's remaining mortgage servicing rights. The Company also benefited from the non-recurrence in 2004 of a \$199,000 goodwill impairment loss associated with the write-off of all goodwill within the mortgage-banking segment in the first quarter of 2003. Excluding these impairment related charges, the remaining total non-interest expenses were still down by \$296,000 between the first half of 2003 and first half of 2004 reflecting the Company's continued focus on reducing and containing expenses. Expense reductions were experienced in numerous categories including equipment expense, professional fees, and other expenses.

At June 30, 2004, ASRV had total assets of \$1.178 billion and shareholders' equity of \$67 million or \$4.81 per share. The Company is well capitalized for regulatory purposes with an asset leverage ratio at June 30, 2004 of 7.71%, compared to a regulatory minimum of 5.0%.

AmeriServ Financial, Inc., is the parent of AmeriServ Financial Bank and AmeriServ Trust & Financial Services in Johnstown, AmeriServ Associates of State College, and AmeriServ Life Insurance Company.

This news release may contain forward-looking statements that involve risks and uncertainties, including the risks detailed in the Company's Annual Report and Form 10-K to the Securities and Exchange Commission as defined in the Private Securities Litigation Reform Act of 1995. Actual results may differ materially.

Nasdaq NMS: ASRV

SUPPLEMENTAL FINANCIAL PERFORMANCE DATA (A)

July 20, 2004

(In thousands, except per share and ratio data)

2004

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|  | 1QTR | 2QTR | YEAR<br>TO DATE |
|--|------|------|-----------------|
|--|------|------|-----------------|

PERFORMANCE DATA FOR THE PERIOD:

|            |       |       |       |
|------------|-------|-------|-------|
| Net income | \$226 | \$254 | \$480 |
|------------|-------|-------|-------|

PERFORMANCE PERCENTAGES (annualized):

|  |       |       |       |
|--|-------|-------|-------|
| Return on average equity                             | 1.21% | 1.41% | 1.31% |
| Net interest margin                                  | 2.39  | 2.25  | 2.32  |
| Net charge-offs as a percentage of average loans     | 0.48  | 0.48  | 0.48  |
| Loan loss provision as a percentage of average loans | 0.31  | 0.21  | 0.26  |
| Efficiency ratio                                     | 93.83 | 94.80 | 94.29 |

PER COMMON SHARE:

Net income:

|   |            |            |            |
|---|------------|------------|------------|
| Basic                                       | \$0.02     | \$0.02     | \$0.03     |
| Average number of common shares outstanding | 13,962,010 | 13,969,211 | 13,965,611 |
| Diluted                                     | 0.02       | 0.02       | 0.03       |
| Average number of common shares outstanding | 14,025,836 | 14,023,577 | 14,023,450 |
| Cash dividends declared                     | 0.00       | 0.00       | 0.00       |

2003

|  | 1QTR | 2QTR | YEAR<br>TO DATE |
|--|------|------|-----------------|
|--|------|------|-----------------|

PERFORMANCE DATA FOR THE PERIOD:

|                   |         |       |       |
|-------------------|---------|-------|-------|
| Net income (loss) | \$(795) | \$915 | \$120 |
|-------------------|---------|-------|-------|

PERFORMANCE PERCENTAGES (annualized):

|  |         |       |       |
|--|---------|-------|-------|
| Return on average equity                             | (4.17)% | 4.68% | 0.31% |
| Net interest margin                                  | 2.48    | 2.41  | 2.45  |
| Net charge-offs as a percentage of average loans     | 0.20    | 0.02  | 0.11  |
| Loan loss provision as a percentage of average loans | 1.19    | 0.40  | 0.80  |
| Efficiency ratio                                     | 94.98   | 84.81 | 89.69 |

PER COMMON SHARE:

Net income (loss):

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|   |            |            |            |
|---|------------|------------|------------|
| Basic                                       | \$ (0.06)  | \$ 0.07    | \$ 0.01    |
| Average number of common shares outstanding | 13,923,010 | 13,935,086 | 13,929,082 |
| Diluted                                     | (0.06)     | 0.07       | 0.01       |
| Average number of common shares outstanding | 13,923,010 | 13,940,460 | 13,933,861 |
| Cash dividends declared                     | 0.00       | 0.00       | 0.00       |

NOTES:

(A)

All quarterly data unaudited.

AMERISERV FINANCIAL, INC.

(In thousands, except per share, statistical, and ratio data)

2004

|                                       | 1QTR        | 2QTR        |
|---------------------------------------|-------------|-------------|
| PERFORMANCE DATA AT PERIOD END        |             |             |
| Assets                                | \$1,099,564 | \$1,178,406 |
| Investment securities                 | 504,980     | 581,553     |
| Loans                                 | 503,404     | 500,522     |
| Allowance for loan losses             | 11,379      | 10,932      |
| Goodwill and core deposit intangibles | 13,905      | 13,547      |
| Mortgage servicing rights             | 1,493       | 1,642       |
| Deposits                              | 656,348     | 670,941     |
| Stockholders' equity                  | 77,721      | 67,213      |
| Trust assets - fair market value      | 1,256,064   | 1,246,458   |
| Non-performing assets                 | 13,482      | 10,155      |
| Asset leverage ratio                  | 7.75%       | 7.71%       |
| PER COMMON SHARE:                     |             |             |
| Book value (A)                        | \$5.57      | \$4.81      |
| Market value                          | 6.10        | 5.55        |
| Market price to book value            | 109.52%     | 115.50%     |

STATISTICAL DATA AT PERIOD END:

|                                |     |     |
|--------------------------------|-----|-----|
| Full-time equivalent employees | 415 | 412 |
|--------------------------------|-----|-----|



|                           |            |            |
|---------------------------|------------|------------|
| Branch locations          | 23         | 23         |
| Common shares outstanding | 13,965,737 | 13,972,424 |

2003

|                                       | 1QTR        | 2QTR        | 3QTR        | 4QTR        |
|---------------------------------------|-------------|-------------|-------------|-------------|
| PERFORMANCE DATA AT PERIOD<br>END     |             |             |             |             |
| Assets                                | \$1,190,360 | \$1,167,610 | \$1,160,915 | \$1,147,886 |
| Investment securities                 | 546,427     | 554,967     | 577,374     | 552,662     |
| Loans                                 | 555,335     | 525,591     | 496,951     | 503,387     |
| Allowance for loan losses             | 11,415      | 11,916      | 11,872      | 11,682      |
| Goodwill and core deposit intangibles | 15,337      | 14,979      | 14,621      | 14,263      |
| Mortgage servicing rights             | 2,214       | 1,784       | 1,859       | 1,718       |
| Deposits                              | 669,103     | 661,932     | 648,844     | 654,597     |
| Stockholders' equity                  | 77,864      | 78,884      | 75,188      | 74,270      |
| Trust assets - fair market value      | 1,091,391   | 1,146,695   | 1,107,022   | 1,145,660   |
| Non-performing assets                 | 11,687      | 10,163      | 11,227      | 11,411      |
| Asset leverage ratio                  | 7.23%       | 7.39%       | 7.48%       | 7.58%       |
| PER COMMON SHARE:                     |             |             |             |             |
| Book value (A)                        | \$5.59      | \$5.66      | \$5.39      | \$5.32      |
| Market value                          | 3.50        | 3.80        | 4.17        | 5.00        |
| Market price to book value            | 62.61%      | 67.14%      | 77.37%      | 93.98%      |
| STATISTICAL DATA AT PERIOD END:       |             |             |             |             |
| Full-time equivalent employees        | 416         | 427         | 422         | 413         |
| Branch locations                      | 23          | 23          | 23          | 23          |
| Common shares outstanding             | 13,929,324  | 13,940,999  | 13,949,383  | 13,957,599  |

## NOTES:

(A) Other comprehensive income had a negative impact of \$0.61 on book value per share at June 30, 2004.

AMERISERV FINANCIAL, INC.

CONSOLIDATED STATEMENT OF INCOME

(In thousands)

(Quarterly data unaudited)

2004

|  | YEAR         |              |               |
|--|--------------|--------------|---------------|
|  | 1QTR         | 2QTR         | TO<br>DATE    |
| <b>INTEREST INCOME</b>   |              |              |               |
| Interest and fees on loans                                     | \$7,691      | \$7,679      | \$15,370      |
| Total investment portfolio                                     | 5,228        | 4,943        | 10,171        |
| Total Interest Income  | 12,919       | 12,622       | 25,541        |
| <b>INTEREST EXPENSE</b>  |              |              |               |
| Deposits   | 2,543        | 2,529        | 5,072         |
| All other funding sources                                      | 4,164        | 4,180        | 8,344         |
| Total Interest Expense   | 6,707        | 6,709        | 13,416        |
| <b>NET INTEREST INCOME</b>                                     |              |              |               |
| Provision for loan losses                                      | 384          | 259          | 643           |
| <b>NET INTEREST INCOME AFTER<br/>PROVISION FOR LOAN LOSSES</b> | <b>5,828</b> | <b>5,654</b> | <b>11,482</b> |
| <b>NON-INTEREST INCOME</b>                                     |              |              |               |
| Trust fees   | 1,267        | 1,347        | 2,614         |
| Net realized gains on investment securities                    |              |              |               |
| available for sale   | 937          | 111          | 1,048         |
| Net realized gains on loans and loans held for sale            | 40           | 115          | 155           |
| Service charges on deposit accounts                            | 730          | 716          | 1,446         |
| Net mortgage servicing fees                                    | 52           | 47           | 99            |
| Bank owned life insurance                                      | 275          | 276          | 551           |
| Other income   | 764          | 893          | 1,657         |
| Total Non-interest Income                                      | 4,065        | 3,505        | 7,570         |
| <b>NON-INTEREST EXPENSE</b>                                    |              |              |               |
| Salaries and employee benefits                                 | 4,915        | 4,803        | 9,718         |
| Net occupancy expense  | 757          | 699          | 1,456         |
| Equipment expense  | 704          | 687          | 1,391         |
| Professional fees  | 804          | 833          | 1,637         |
| FDIC deposit insurance expense                                 | 72           | 71           | 143           |

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|  |       |       |        |
|--|-------|-------|--------|
| Amortization of core deposit intangibles                 | 358   | 358   | 716    |
| Impairment charge (credit) for mortgage servicing rights | 100   | (264) | (164)  |
| Other expenses   | 1,961 | 1,769 | 3,730  |
| Total Non-interest Expense                               | 9,671 | 8,956 | 18,627 |
| <br>   |       |       |        |
| INCOME BEFORE INCOME TAXES                               | 222   | 203   | 425    |
| Provision (benefit) for income taxes                     | (4)   | (51)  | (55)   |
| NET INCOME   | \$226 | \$254 | \$480  |

2003

|   | 1QTR    | 2QTR    | YEAR<br>TO<br>DATE |
|---|---------|---------|--------------------|
| INTEREST INCOME                                     |         |         |                    |
| Interest and fees on loans                          | \$9,083 | \$8,595 | \$17,678           |
| Total investment portfolio                          | 5,660   | 5,631   | 11,291             |
| Total Interest Income                               | 14,743  | 14,226  | 28,969             |
| <br>  |         |         |                    |
| INTEREST EXPENSE                                    |         |         |                    |
| Deposits  | 3,140   | 2,965   | 6,105              |
| All other funding sources                           | 4,956   | 4,827   | 9,783              |
| Total Interest Expense                              | 8,096   | 7,792   | 15,888             |
| <br>  |         |         |                    |
| NET INTEREST INCOME                                 | 6,647   | 6,434   | 13,081             |
| Provision for loan losses                           | 1,659   | 534     | 2,193              |
| NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES | 4,988   | 5,900   | 10,888             |
| <br>  |         |         |                    |
| NON-INTEREST INCOME                                 |         |         |                    |
| Trust fees  | 1,253   | 1,253   | 2,506              |
| Net realized gains on investment securities         |         |         |                    |
| available for sale                                  | 1,278   | 1,420   | 2,698              |
| Net realized gains on loans and loans held for sale | 173     | 221     | 394                |
| Service charges on deposit accounts                 | 767     | 800     | 1,567              |

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|  |         |       |        |
|--|---------|-------|--------|
| Net mortgage servicing fees                              | 71      | 77    | 148    |
| Gain (loss) on sale of mortgage servicing                | (758)   | -     | (758)  |
| Bank owned life insurance                                | 298     | 307   | 605    |
| Other income   | 913     | 1,017 | 1,930  |
| Total Non-interest Income                                | 3,995   | 5,095 | 9,090  |
| NON-INTEREST EXPENSE                                     |         |       |        |
| Salaries and employee benefits                           | 4,789   | 4,717 | 9,506  |
| Net occupancy expense                                    | 752     | 701   | 1,453  |
| Equipment expense  | 817     | 750   | 1,567  |
| Professional fees  | 903     | 1,058 | 1,961  |
| FDIC deposit insurance expense                           | 28      | 26    | 54     |
| Amortization of core deposit intangibles                 | 358     | 358   | 716    |
| Impairment charge (credit) for mortgage servicing rights | 366     | 254   | 620    |
| Goodwill impairment loss                                 | 199     | -     | 199    |
| Other expenses   | 1,908   | 1,922 | 3,830  |
| Total Non-interest Expense                               | 10,120  | 9,786 | 19,906 |
| INCOME (LOSS) BEFORE INCOME TAXES                        | (1,137) | 1,209 | 72     |
| Provision (benefit) for income taxes                     | (342)   | 294   | (48)   |
| NET INCOME (LOSS)  | \$(795) | \$915 | \$120  |

AMERISERV FINANCIAL, INC.

Nasdaq NMS: ASRV

Average Balance Sheet Data (In thousands)

(Quarterly Data Unaudited)

Note: 2003 data appears before 2004.

2003

2004

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|  | 2QTR        | SIX<br>MONTHS | 2QTR        | SIX<br>MONTHS |
|--|-------------|---------------|-------------|---------------|
| Interest earning assets:   |             |               |             |               |
| Loans and loans held for sale, net of unearned income  | \$525,935   | \$541,528     | \$495,519   | \$495,623     |
| Deposits with banks  | 4,002       | 5,621         | 5,117       | 4,845         |
| Federal funds sold   | 35          | 18            | 47          | 137           |
| Total investment securities  | 531,834     | 514,836       | 554,425     | 548,093       |
| <br>   |             |               |             |               |
| Total interest earning assets  | 1,061,806   | 1,062,003     | 1,055,108   | 1,048,698     |
| <br>   |             |               |             |               |
| Non-interest earning assets:   |             |               |             |               |
| Cash and due from banks  | 21,533      | 22,545        | 21,221      | 21,667        |
| Premises and equipment   | 12,123      | 12,300        | 10,580      | 10,781        |
| Other assets   | 69,670      | 70,453        | 69,903      | 68,181        |
| Allowance for loan losses  | (11,703)    | (10,988)      | (11,258)    | (11,358)      |
| <br>   |             |               |             |               |
| Total assets   | \$1,153,429 | \$1,156,313   | \$1,145,554 | \$1,137,969   |
| <br>   |             |               |             |               |
| Interest bearing liabilities:  |             |               |             |               |
| Interest bearing deposits:   |             |               |             |               |
| Interest bearing demand  | \$52,491    | \$51,520      | \$53,266    | \$52,552      |
| Savings  | 103,238     | 102,678       | 106,627     | 105,928       |
| Money market   | 124,827     | 126,529       | 118,704     | 119,567       |
| Other time   | 284,879     | 287,046       | 279,128     | 276,684       |
| Total interest bearing deposits  | 565,435     | 567,773       | 557,725     | 554,731       |
| Borrowings:  |             |               |             |               |
| Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings |             |               |             |               |
|  | 102,264     | 97,958        | 134,982     | 131,693       |
| Advanced from Federal Home Loan Bank   | 264,861     | 266,509       | 226,050     | 226,430       |
| Guaranteed junior subordinated deferrable interest debentures *  |             |               |             |               |
|  | 34,500      | 34,500        | 35,567      | 35,567        |
| Total interest bearing liabilities   | 967,060     | 966,740       | 954,324     | 948,421       |
| <br>   |             |               |             |               |
| Non-interest bearing liabilities:  |             |               |             |               |
| Demand deposits  | 104,057     | 105,952       | 107,295     | 106,820       |
| Other liabilities  | 3,973       | 4,582         | 11,273      | 8,826         |
| Stockholders equity  | 78,339      | 79,039        | 72,662      | 73,902        |
| Total liabilities and stockholders equity  | \$1,153,429 | \$1,156,313   | \$1,145,554 | \$1,137,969   |

\* - In the first quarter 2004 The Company adopted FIN46R which resulted in the deconsolidation of the capital trust subsidiary.