

AMERISERV FINANCIAL INC /PA/  
Form 10-Q  
November 06, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

**X**

**Quarterly Report Pursuant to Section 13 or 15(d) of the**

**Securities Exchange Act of 1934**

For the period ended September 30, 2006

**Transaction Report Pursuant to Section 13 or 15(d) of**

**the Securities Exchange Act of 1934**

For the transaction period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-11204

**AmeriServ Financial, Inc.**

(Exact name of registrant as specified in its charter)

**Pennsylvania**

**25-1424278**

(State or other jurisdiction of incorporation  
or organization)

(I.R.S. Employer Identification No.)

**Main & Franklin Streets, P.O. Box 430, Johnstown, PA 15907-0430**

(Address of principal executive offices)

(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes

No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined by Rule 12b-2 of the Exchange Act).

Yes  No

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

Class

Outstanding at November 1, 2006

Common Stock, par value \$2.50

22,153,041

per share

AmeriServ Financial, Inc.

INDEX

<b>PART I. FINANCIAL INFORMATION:</b>	<b><u>Page No.</u></b>
Consolidated Balance Sheets (Unaudited) - September 30, 2006 and December 31, 2005	3
Consolidated Statements of Operations (Unaudited) - Three and Nine Months Ended September 30, 2006 and 2005	4
Consolidated Statements of Cash Flows (Unaudited) - Nine Months Ended September 30, 2006 and 2005	6
Notes to Unaudited Consolidated Financial Statements	7
Management's Discussion and Analysis of Financial Condition and Results of Operations	20
Quantitative and Qualitative Disclosure About Market Risk	36
Controls and Procedures	36
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	37

Item 3. Defaults Upon Senior Securities	37
Item 4. Submission of Matters to a Vote of Security Holders	37
Item 5. Other Information	37
Item 6. Exhibits	37

**AmeriServ Financial, Inc.****CONSOLIDATED BALANCE SHEETS**

(In thousands)

(Unaudited)

	September 30, <u>2006</u>	December 31, <u>2005</u>
-		
<b>ASSETS</b>		
Cash and due from banks	\$ 18,070	\$ 20,762
Interest bearing deposits	<u>569</u>	<u>199</u>
Total cash and cash equivalents	18,639	20,961
Investment securities:		
Available for sale	188,049	201,569
Held to maturity (market value \$20,793 on September 30, 2006 and \$30,206 on December 31, 2005)	20,997	30,355
Loans held for sale	206	98
Loans	580,940	551,335
Less: Unearned income	586	831
Allowance for loan losses	<u>8,302</u>	<u>9,143</u>
Net loans	572,052	541,361
Premises and equipment, net	8,073	8,689
Accrued income receivable	4,120	4,125
Goodwill	9,544	9,544

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

Core deposit intangibles, net	2,055	2,703
Bank owned life insurance	31,993	31,640
Deferred tax asset	14,812	14,976
Assets related to discontinued operations	-	329
Other assets	<u>12,297</u>	<u>13,826</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 882,837</u></b>	<b><u>\$ 880,176</u></b>

**LIABILITIES**

Non-interest bearing deposits	\$ 100,310	\$ 109,274
Interest bearing deposits	<u>643,377</u>	<u>603,381</u>
Total deposits	<u>743,687</u>	<u>712,655</u>

Other short-term borrowings	30,993	63,184
Advances from Federal Home Loan Bank	956	987
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>13,085</u>
Total borrowed funds	<u>45,034</u>	<u>77,256</u>
Liabilities related to discontinued operations	-	14
Other liabilities	<u>7,328</u>	<u>5,777</u>
<b>TOTAL LIABILITIES</b>	<b><u>796,049</u></b>	<b><u>795,702</u></b>

**STOCKHOLDERS' EQUITY**

Preferred stock, no par value; 2,000,000 shares

authorized; there were no shares issued and

outstanding for the periods presented - -

Common stock, par value \$2.50 per share; 30,000,000 shares authorized; 26,241,686 shares issued

and 22,150,767 outstanding on September 30, 2006; 26,203,192 shares issued and

22,112,273 outstanding on December 31, 2005 65,604 65,508

Treasury stock at cost, 4,090,919 shares for both

periods presented (65,824) (65,824)

Capital surplus 78,725 78,620

Retained earnings 11,988 10,236

Accumulated other comprehensive loss, net (3,705) (4,066)

**TOTAL STOCKHOLDERS' EQUITY** **86,788** **84,474**

**TOTAL LIABILITIES AND**

**STOCKHOLDERS' EQUITY**

\$ 882,837

\$ 880,176

See accompanying notes to unaudited consolidated financial statements.

## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

Unaudited

	Three months ended September 30, <u>2006</u>	Three months ended September 30, <u>2005</u>	Nine months ended September 30, <u>2006</u>	Nine months ended September 30, <u>2005</u>
<b>INTEREST INCOME</b>				
Interest and fees on loans and loans held for sale	\$ 9,677	\$ 8,200	\$ 27,732	\$ 24,259
Deposits with banks	8	-	17	4
Investment securities:				
Available for sale	1,926	3,035	5,943	9,857
Held to maturity	<u>284</u>	<u>238</u>	<u>796</u>	<u>756</u>
Total Interest Income	11,895	11,473	34,488	34,876
<b>INTEREST EXPENSE</b>				
Deposits	5,143	3,290	13,732	9,323
Other short-term borrowings	357	749	1,286	2,011
Advances from Federal Home Loan Bank	16	1,542	48	4,494
Guaranteed junior subordinated deferrable interest debentures	<u>280</u>	<u>434</u>	<u>840</u>	<u>1,304</u>
Total Interest Expense	<u>5,796</u>	<u>6,015</u>	<u>15,906</u>	<u>17,132</u>
<b>NET INTEREST INCOME</b>	6,099	5,458	18,582	17,744
Provision for loan losses	<u>-</u>	<u>100</u>	<u>(50)</u>	<u>(175)</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR</b>	6,099	5,358	18,632	17,919
<b>LOAN LOSSES</b>				
<b>NON-INTEREST INCOME</b>				
Trust fees	1,603	1,586	4,915	4,564



Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

Net realized losses on investment securities	-	(2,577)	-	(2,499)
Net realized gains on loans held for sale	26	27	69	182
Service charges on deposit accounts	645	723	1,923	2,011
Bank owned life insurance	428	256	944	760
Other income	<u>545</u>	<u>643</u>	<u>1,906</u>	<u>1,968</u>
Total Non-Interest Income	3,247	658	9,757	6,986

**NON-INTEREST EXPENSE**

Salaries and employee benefits	4,600	4,804	14,027	14,235
Net occupancy expense	573	609	1,819	1,869
Equipment expense	529	620	1,799	1,881
Professional fees	791	1,483	2,445	3,244
Supplies, postage and freight	293	319	889	871
Miscellaneous taxes and insurance	388	449	1,209	1,365
FDIC deposit insurance expense	22	76	169	216
Amortization of core deposit intangibles	216	216	648	648
FHLB and interest rate swap prepayment penalties	-	12,287	-	12,287
Other expense	<u>1,152</u>	<u>1,415</u>	<u>3,194</u>	<u>3,511</u>
Total Non-Interest Expense	\$ 8,564	\$22,278	\$26,199	\$40,127

**CONTINUED ON NEXT PAGE**



**CONSOLIDATED STATEMENTS OF OPERATIONS****CONTINUED FROM PREVIOUS PAGE**

(In thousands, except per share data)

Unaudited

	Three months ended September 30, <u>2006</u>	Three months ended September 30, <u>2005</u>	Nine months ended September 30, <u>2006</u>	Nine months ended September 30, <u>2005</u>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES</b>	\$ 782	\$(16,262)	\$ 2,190	\$ (15,222)
Provision (benefit) for income taxes	<u>139</u>	<u>(5,689)</u>	<u>439</u>	<u>(5,991)</u>
<b>INCOME (LOSS) FROM CONTINUING OPERATIONS</b>	643	(10,573)	1,751	(9,231)
<b>INCOME (LOSS) FROM DISCONTINUED OPERATIONS NET OF TAX PROVISION (BENEFIT) \$5 AND \$(67)</b>	-	-	-	-
<b>FOR 2005</b>	<u>-</u>	<u>9</u>	<u>-</u>	<u>(130)</u>
<b>NET INCOME (LOSS)</b>	<u>\$ 643</u>	<u>\$(10,564)</u>	<u>\$ 1,751</u>	<u>\$ (9,361)</u>
<b>PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:</b>				
Basic net income (loss)	\$ 0.03	\$ (0.53)	\$ 0.08	\$ (0.47)
Diluted net income (loss)	0.03	(0.53)	0.08	(0.47)
<b>PER COMMON SHARE DATA FROM DISCONTINUED OPERATIONS:</b>				
Basic net loss	N/A	\$ 0.00	N/A	\$ (0.01)
Diluted net loss	N/A	0.00	N/A	(0.01)
<b>PER COMMON SHARE DATA:</b>				
Basic:				
Net income (loss)	\$ 0.03	\$ (0.53)	\$ 0.08	\$ (0.47)
Average shares outstanding	22,148	19,785	22,137	19,744

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

Diluted:

Net income (loss)	\$ 0.03	\$ (0.53)	\$ 0.08	\$ (0.47)
Average shares outstanding	22,156	19,785	22,145	19,744
Cash dividends declared	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

N/A Not Applicable

See accompanying notes to unaudited consolidated financial statements.



**AmeriServ Financial, Inc.****CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)

Unaudited

	Nine months ended	Nine months ended
	<u>September 30, 2006</u>	<u>September 30, 2005</u>

**OPERATING ACTIVITIES**

Net income (loss)	\$ 1,751	\$(9,361)
Loss from discontinued operations	<u>-</u>	<u>(130)</u>
Income (loss) from continuing operations	1,751	(9,231)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:		
Provision for loan losses	(50)	(175)
Depreciation expense	1,288	1,335
Amortization expense of core deposit intangibles	648	649
Net amortization of investment securities	466	1,401
Net realized losses on investment securities available for sale	-	2,499
Loss on prepayment of interest rate swaps	-	5,825
Net realized gains on loans held for sale	(69)	(182)
Amortization of deferred loan fees	(291)	(314)
Origination of mortgage loans held for sale	(8,698)	(15,286)
Sales of mortgage loans held for sale	8,384	14,899
Decrease in accrued income receivable	5	444
Decrease (Increase) in accrued expense payable	680	(1,051)
Net decrease (increase) in other assets	1,476	(14,119)
Net increase in other liabilities	<u>1,619</u>	<u>1,911</u>
Net cash provided by (used in) operating activities from continuing operations	7,209	(11,395)
Net cash used in operating activities from discontinued operations	<u>-</u>	<u>(130)</u>
Net cash provided by (used in) operating activities	<u>7,209</u>	<u>(11,525)</u>

**INVESTING ACTIVITIES**

Purchases of investment securities and other short-term investments - available for sale	(7,166)	(31,828)
Purchases of investment securities and other short-term investments - held to maturity	(1,500)	-

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

Proceeds from maturities of investment securities and other short-term investments available for sale	20,748	45,225
Proceeds from maturities of investment securities and other short-term investments held to maturity	10,885	3,250
Proceeds from sales of investment securities and other short-term investments available for sale	-	127,456
Long-term loans originated	(120,121)	(85,042)
Principal collected on long-term loans	91,191	80,310
Loans purchased or participated	(2,506)	(18,896)
Loans sold or participated	1,600	1,000
Net increase in other short-term loans	(239)	(570)
Purchases of premises and equipment	<u>(672)</u>	<u>(759)</u>
Net cash provided by (used in) investing activities	<u>(7,780)</u>	<u>120,146</u>

**FINANCING ACTIVITIES**

Net increase in deposit accounts	31,032	53,906
Net decrease in federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	(32,191)	(62,495)
Net principal repayments of advances from Federal Home Loan Bank and hedges	(31)	(100,029)
Payment of cancellation of interest rate swaps	-	(5,825)
Net guaranteed junior subordinated deferrable interest debenture dividends paid	(762)	(1,218)
Proceeds from dividend reinvestment, stock purchase plan, and stock options exercised	201	104
Common stock issued with private placement, net of costs	<u>-</u>	<u>9,409</u>
Net cash used in financing activities	<u>(1,751)</u>	<u>(106,148)</u>

**NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM**

**CONTINUING AND DISCONTINUED OPERATIONS**

<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<u>20,961</u>	<u>20,573</u>
<b>CASH AND CASH EQUIVALENTS AT SEPTEMBER 30</b>	<u>\$ 18,639</u>	<u>\$23,046</u>

See accompanying notes to unaudited consolidated financial statements.





## **NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1.

### **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), AmeriServ Associates, Inc., (AmeriServ Associates) and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 21 locations in Pennsylvania. Standard Mortgage Corporation of Georgia (SMC), a former wholly-owned subsidiary of the Bank, was a mortgage banking company whose business included the servicing of mortgage loans. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued operations of this non-core business in 2005.

The Trust Company offers a complete range of trust and financial services and has \$1.7 billion in assets under management. The Trust Company also offers the ERECT and BUILD Funds which are collective investment funds for trade union controlled pension fund assets. AmeriServ Associates was a registered investment advisory firm that provided investment portfolio and asset/liability management services to small and mid-sized financial institutions. In the second quarter of 2006, the Company closed this subsidiary since it no longer fit the Company's strategic direction.

AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

2.

### **Basis of Preparation**

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

3.

### **Accounting Policies**

In February 2006, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting ( FAS ) No. 155, *Accounting for Certain Hybrid Instruments, as an amendment of FASB Statements No. 133 and 140*. FAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets*. This Statement, which is an amendment to FAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, FAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. FAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability, requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either of the amortization or fair value methods for subsequent measurement. The provisions of FAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes*. FIN 48 is an interpretation of FAS No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition,

FIN No. 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company's results of operations.

In September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In September 2006, the FASB issued FAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Post Retirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. FAS No. 158 requires that a company recognize the overfunded or underfunded status of its defined benefit post retirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and that it recognize changes in the funded status in the year in which the changes occur through other comprehensive income. FAS No. 158 also requires the measurement of defined benefit plan assets and obligations as of the fiscal year end, in addition to footnote disclosures. FAS No. 158 is effective for fiscal years ending after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company's financial position.

4.

### Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as unissued for earnings per share purposes. Options to purchase 213,974 and 132,857 shares of common stock were outstanding as of September 30, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per common share as the options' exercise prices were greater than the average market price of the common stock for the respective periods.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	(In thousands, except per share data)			
Numerator:				
Income (loss) from continuing operations	\$ 643	\$ (10,573)	\$ 1,751	\$ (9,231)

Loss from discontinued operations	—	9	—	(130)
Net Income (Loss)	<u>\$ 643</u>	<u>\$ (10,564)</u>	<u>\$ 1,751</u>	<u>\$ (9,361)</u>
Denominator:				
Weighted average common shares				
outstanding (basic)	22,148	19,785	22,137	19,744
Effect of stock options	<u>8</u>	<u>—</u>	<u>8</u>	<u>—</u>
Weighted average common shares				
outstanding (diluted)	<u>22,156</u>	<u>19,785</u>	<u>22,145</u>	<u>19,744</u>
Earnings per share from continuing operations:				
Basic	\$0.03	\$(0.53)	\$0.08	\$(0.47)
Diluted	0.03	(0.53)	0.08	(0.47)
Earnings per share from discontinued operations:				
Basic	N/A	\$0.00	N/A	\$(0.01)
Diluted	N/A	0.00	N/A	\$(0.01)
Earnings per share:				
Basic	\$0.03	\$(0.53)	\$0.08	\$(0.47)
Diluted	0.03	(0.53)	0.08	(0.47)
N/A Not Applicable				

5.

### Stock-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (FAS) #123(R) Share-Based Payment using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured and accounted for in accordance with FAS #123(R). As a result of this adoption the Company recognized \$53,000 of pretax compensation expense for the first nine months of 2006. 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 3.41% to 4.70%; expected lives of 10 years; expected volatility ranging from 33.39% to 39.65%; and expected dividend yields of 0%. Prior to the adoption employee compensation expense under stock options was reported using the intrinsic value method. The following pro forma information for the prior year first quarter regarding net income and earnings per share assumes stock options had been accounted for under the fair value method and the estimated fair value of the options is amortized to

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

expense over the vesting period. The additional disclosure requirements of FAS #123(R) have been omitted due to immateriality. The compensation expense, net of related tax, of \$56,000 for the nine months ended September 30, 2005, is included in the pro forma net income as reported below (in thousands, except per share data).

	Three months ended	Nine months ended
	September 30,	September 30,
	<u>2005</u>	<u>2005</u>
Net loss, as reported	\$(10,564)	\$(9,361)
Less: Total stock-based compensation		
	<u>19</u>	<u>56</u>
Cost, net of taxes		
Pro forma net loss	<u>\$(10,583)</u>	<u>\$(9,417)</u>
Earnings per share:		
Basic as reported	\$(0.53)	\$(0.47)
Basic pro forma	(0.53)	(0.47)
Diluted as reported	(0.53)	(0.47)
Diluted pro forma	(0.53)	(0.47)

6.

**Comprehensive Loss**

For the Company, comprehensive loss includes net income and unrealized holding gains and losses from available for sale investment securities. The changes in other comprehensive income (loss) are reported net of income taxes, as follows (in thousands):

	Three months ended		Nine months ended	
	September 30,	September 30,	September 30,	September 30,
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Net income (loss)	<u>\$ 643</u>	<u>\$(10,564)</u>	<u>\$ 1,751</u>	<u>\$(9,361)</u>

Other comprehensive income (loss), before tax:

Unrealized security gains (losses) on available for sale securities arising during period	2,837	(2,307)	547	(2,435)
Income tax effect	(965)	784	(186)	828
Reclassification adjustment for losses on available for sale securities included in net income (loss)	-	(2,577)	-	(2,499)
Income tax effect	<u>-</u>	<u>(876)</u>	<u>-</u>	<u>(850)</u>
Other comprehensive income (loss), net of tax:	<u>1,872</u>	<u>178</u>	<u>361</u>	<u>42</u>
Comprehensive income (loss)	<u>\$ 2,515</u>	<u>\$(10,386)</u>	<u>\$ 2,112</u>	<u>\$(9,319)</u>

7.

### Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold. For the Parent Company, cash and cash equivalents also include short-term investments. The Company made \$21,000 in income tax payments in the first nine months of 2006 as compared to \$48,000 for the first nine months of 2005. Total interest expense paid amounted to \$15,226,000 in 2006's first nine months compared to \$18,183,000 in the same 2005 period.

8.

### Investment Securities

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

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

September 30, 2006		Gross	Gross	
	Cost	Unrealized	Unrealized	Market

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

	<u>Basis</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
U.S. Treasury	\$ 6,013	\$ 1	\$ (167)	\$ 5,847
U.S. Agency	60,913	11	(1,085)	59,839
U.S. Agency mortgage- backed securities	117,051	25	(4,515)	112,561
Equity investment in Federal				
Home Loan Bank and				
Federal Reserve Stocks	5,611	-	-	5,611
Other securities	<u>4,161</u>	<u>30</u>	<u>-</u>	<u>4,191</u>
Total	<u>\$193,749</u>	<u>\$ 67</u>	<u>\$ (5,767)</u>	<u>\$ 188,049</u>

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

September 30, 2006	Cost	Gross Unrealized	Gross Unrealized	Market
	<u>Basis</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
U.S. Treasury	\$ 3,237	\$ -	\$ (63)	\$ 3,174
U.S. Agency	3,470	-	(64)	3,406
U.S. Agency mortgage- backed securities	7,540	-	(77)	7,463
Other securities	<u>6,750</u>	<u>-</u>	<u>-</u>	<u>6,750</u>
Total	<u>\$ 20,997</u>	<u>\$ -</u>	<u>\$ (204)</u>	<u>\$ 20,793</u>

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

December 31, 2005	Cost	Gross Unrealized	Gross Unrealized	Market
	<u>Basis</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
U.S. Treasury	\$ 5,021	\$ -	\$ (180)	\$ 4,841
U.S. Agency	59,335	12	(1,078)	58,269
U.S. Agency mortgage- backed securities	131,981	2	(5,047)	126,936
Equity investment in Federal				
Home Loan Bank and				
Federal Reserve Stocks	6,988	-	-	6,988

Other securities	<u>4,499</u>	<u>36</u>	<u>-</u>	<u>4,535</u>
Total	<u>\$ 207,824</u>	<u>\$ 50</u>	<u>\$ (6,305)</u>	<u>\$ 201,569</u>

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

December 31, 2005	Cost	Gross	Gross	Market
	<u>Basis</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Value</u>
U.S. Treasury	\$ 3,285	\$ -	\$ (49)	\$ 3,236
U.S. Agency	11,484	-	(110)	11,374
U.S. Agency mortgage-backed securities	8,836	20	(10)	8,846
Other securities	<u>6,750</u>	<u>-</u>	<u>-</u>	<u>6,750</u>
Total	<u>\$ 30,355</u>	<u>\$ 20</u>	<u>\$ (169)</u>	<u>\$ 30,206</u>

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." 94.9% and 95.5% of the portfolio was rated "AAA" at September 30, 2006 and December 31, 2005, respectively. Less than 1% of the portfolio was rated below A or unrated at September 30, 2006 and December 31, 2005.

There are 54 positions that are considered temporarily impaired at September 30, 2006. The following tables present information concerning investments with unrealized losses as of September 30, 2006 and December 31, 2005 (in thousands):

**Investment securities available for sale:**

September 30, 2006	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>	<u>Market Value</u>	<u>Unrealized Losses</u>
U.S. Treasury	\$ -	\$ -	\$ 4,849	\$ (167)	\$ 4,849	\$ (167)



Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

U.S. Agency	199	(1)	51,294	(1,084)	51,493	(1,085)
U.S. Agency mortgage-backed securities	<u>100</u>	<u>-</u>	<u>109,305</u>	<u>(4,515)</u>	<u>109,405</u>	<u>(4,515)</u>
Total	<u>\$ 299</u>	<u>\$ (1)</u>	<u>\$165,448</u>	<u>\$(5,766)</u>	<u>\$165,747</u>	<u>\$(5,767)</u>

**Investment securities held to maturity:**

September 30, 2006	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	\$ -	\$ -	\$3,174	\$ (63)	\$ 3,174	\$ (63)
U.S. Agency	-	-	3,406	(64)	3,406	(64)
U.S. Agency mortgage-backed securities	<u>6,270</u>	<u>(64)</u>	<u>1,193</u>	<u>(13)</u>	<u>7,463</u>	<u>(77)</u>
Total	<u>\$ 6,270</u>	<u>\$ (64)</u>	<u>\$7,773</u>	<u>\$(140)</u>	<u>\$14,043</u>	<u>\$(204)</u>

**Investment securities available for sale:**

December 31, 2005	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	\$ -	\$ -	\$ 4,841	\$ (180)	\$ 4,841	\$ (180)
U.S. Agency	20,267	(59)	30,554	(1,019)	50,821	(1,078)
U.S. Agency mortgage-backed securities	<u>4,449</u>	<u>(113)</u>	<u>122,330</u>	<u>(4,934)</u>	<u>126,779</u>	<u>(5,047)</u>
Total	<u>\$ 24,716</u>	<u>\$ (172)</u>	<u>\$157,725</u>	<u>\$(6,133)</u>	<u>\$182,441</u>	<u>\$(6,305)</u>

**Investment securities held to maturity:**

December 31, 2005	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	\$ 2,157	\$ (20)	\$1,079	\$ (29)	\$ 3,236	\$ (49)
U.S. Agency	3,450	(19)	7,924	(91)	11,374	(110)
U.S. Agency mortgage-backed securities	<u>1,274</u>	<u>(10)</u>	<u>-</u>	<u>-</u>	<u>1,274</u>	<u>(10)</u>
Total	<u>\$ 6,881</u>	<u>\$ (49)</u>	<u>\$9,003</u>	<u>\$(120)</u>	<u>\$15,884</u>	<u>\$(169)</u>

For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent

and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. The Company reviews its position quarterly and asserts that at October 31, 2005, the declines outlined in the above table represent temporary declines and the Company does have the intent and ability to hold those securities either to maturity or to allow a market recovery. The Company has concluded that any impairment of its investment securities portfolio is not other than temporary but is the result of interest rate changes that are not expected to result in the noncollection of principal and interest during the period.

9.

### Loans

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

	September 30,	December 31,
	<u>2006</u>	<u>2005</u>
Commercial	\$ 87,692	\$ 80,629
Commercial loans secured by real estate	266,990	249,204
Real estate mortgage	206,325	201,111
Consumer	<u>19,933</u>	<u>20,391</u>
Total loans	580,940	551,335
Less: Unearned income	<u>586</u>	<u>831</u>
Loans, net of unearned income	<u>\$ 580,354</u>	<u>\$ 550,504</u>

Real estate-construction loans comprised 5.3%, and 5.5% of total loans, net of unearned income, at September 30, 2006 and December 31, 2005, respectively. The Company has no direct credit exposure to foreign countries.

10.

### Allowance for Loan Losses

An analysis of the changes in the allowance for loan losses follows (in thousands, except ratios):

Three months ended	Nine months ended
-----------------------	-------------------

Edgar Filing: AMERISERV FINANCIAL INC /PA/ - Form 10-Q

	September 30, <u>2006</u>	September 30, <u>2005</u>	September 30, <u>2006</u>	September 30, <u>2005</u>
Balance at beginning of period	\$8,874	\$9,480	\$9,143	\$9,893
Charge-offs:				
Commercial	(597)	(21)	(721)	(49)
Commercial loans secured by real estate	-	(39)	(2)	(98)
Real estate-mortgage	(18)	(51)	(76)	(106)
Consumer	<u>(55)</u>	<u>(78)</u>	<u>(237)</u>	<u>(275)</u>
Total charge-offs	<u>(670)</u>	<u>(189)</u>	<u>(1,036)</u>	<u>(528)</u>
Recoveries:				
Commercial	36	9	87	72
Commercial loans secured by real estate	5	3	15	14
Real estate-mortgage	2	5	19	38
Consumer	<u>55</u>	<u>27</u>	<u>124</u>	<u>121</u>
Total recoveries	<u>98</u>	<u>44</u>	<u>245</u>	<u>245</u>
Net charge-offs	(572)	(145)	(791)	(283)
Provision for loan losses	<u>-</u>	<u>100</u>	<u>(50)</u>	<u>(175)</u>
Balance at end of period	<u>\$ 8,302</u>	<u>\$9,435</u>	<u>\$ 8,302</u>	<u>\$9,435</u>
As a percent of average loans and loans held for sale, net of unearned income:				
Annualized net charge-offs	0.39%	0.11%	0.19%	0.07%
Annualized provision for loan losses	-	0.08	(0.01)	(0.04)
Allowance as a percent of loans and loans held for sale, net of unearned income at period end	1.43	1.73	1.43	1.73
Total classified loans	\$15,589	\$23,381	\$15,589	\$23,381

11.

**Non-performing Assets**

The following table presents information concerning non-performing assets (in thousands, except percentages):

	September 30, <u>2006</u>	December 31, <u>2005</u>
<u>Non-accrual loans</u>		
Commercial	\$ 549	\$ 2,315
Commercial loans secured by real estate	186	318
Real estate-mortgage	843	1,070
Consumer	<u>339</u>	<u>446</u>
Total	<u>1,917</u>	<u>4,149</u>
<u>Past due 90 days or more and still accruing</u>		
Consumer	<u>3</u>	<u>31</u>
Total	<u>3</u>	<u>31</u>
<u>Other real estate owned</u>		
Commercial	782	-
Real estate-mortgage	276	130
Consumer	<u>-</u>	<u>5</u>
Total	<u>1,058</u>	<u>135</u>
Total non-performing assets	<u>\$ 2,978</u>	<u>\$ 4,315</u>
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income,		
and other real estate owned	0.51%	0.78%
Total restructured loans	\$ -	\$ 258

The Company is unaware of any additional loans which are required either to 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, (i) 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, (ii) the amount of interest income actually recorded on such loans, and (iii) the net reduction in interest income attributable to such loans (in thousands).

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Interest income due in accordance				
with original terms	\$ 51	\$ 43	\$ 181	\$148
Interest income recorded	<u>(54)</u>	<u>-</u>	<u>(54)</u>	<u>(1)</u>
Net reduction (increase) in interest income	<u>\$ (3)</u>	<u>\$43</u>	<u>\$ 127</u>	<u>\$147</u>

12.

### **Derivative Hedging Instruments**

The Company can use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. The Company can use derivative instruments, primarily interest rate swaps, to manage interest rate risk and match the rates on certain assets by hedging the fair value of certain fixed rate debt, which converts the debt to variable rates and by hedging the cash flow variability associated with certain variable rate debt by converting the debt to fixed rates. During the third quarter of 2005, the increasing short-term interest rate environment caused the Company to exit all hedging transactions with the counter parties and incur a pretax prepayment penalty of \$5.8 million.

The Company had no interest rate swaps, caps, floors or swaptions outstanding as of September 30, 2006.

13.

### **Federal Home Loan Bank Borrowings**

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following at September 30, 2006, (in thousands, except percentages):

<u>Type</u>	<u>Maturing</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Open Repo Plus	Overnight	\$ 30,993	5.38%
Advances	2011 and after	<u>956</u>	6.45
Total FHLB borrowings		<u>\$ 31,949</u>	5.41%

The rate on Open Repo Plus advances 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 mortgage loans and mortgage-backed securities with an aggregate statutory value equal to the amount of the advances, have been delivered as collateral to the FHLB of Pittsburgh to support these borrowings.

14.

### **Regulatory Matters**

#### MOU Termination

The Company announced on February 21, 2006 that the Federal Reserve Bank of Philadelphia and Pennsylvania Department of Banking terminated the Memorandum of Understanding (MOU) that the Company had been operating under since February 28, 2003.

The MOU was enacted to address the Company's prior deficiencies in asset quality, credit administration, and other matters. The Company's successful actions to improve asset quality, strengthen capital, reduce interest rate risk, and enhance administrative procedures, were the key factors that led to the termination of this regulatory enforcement action. The Company expects that the termination of the MOU will mean lower insurance and regulatory costs and it will reduce the administrative burdens so the Company can focus on the development of new business within the context of a community bank based strategic plan.

### Capital Requirements

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of September 30, 2006, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

	For Capital Adequacy				To Be Well Capitalized	
	Actual		Purposes		Under Prompt Corrective	
<u>September 30,</u> <u>2006</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
(In thousands, except ratios)						
Total Capital (to Risk						
Weighted Assets)						
Consolidated	\$ 98,828	15.62%	\$ 50,607	8.00%	\$ 63,259	10.00%
Bank	90,664	14.49	50,072	8.00	62,590	10.00
Tier 1 Capital (to Risk						

Weighted Assets)						
Consolidated	90,912	14.37	25,304	4.00	37,956	6.00
Bank	82,831	13.23	25,036	4.00	37,554	6.00
Tier 1 Capital (to						
Average Assets)						
Consolidated	90,912	10.52	34,563	4.00	43,204	5.00
Bank	82,831	9.69	34,197	4.00	42,747	5.00

15.

### Segment Results

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company's major business units include retail banking, commercial lending, trust, other fee based businesses and investment/parent. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued the operations of this non-core business in 2005. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, commercial real-estate loans, and commercial leasing (excluding certain small business lending through the branch network).

The trust segment has two primary business divisions, traditional trust and union collective investment funds. Traditional trust 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 union collective investment funds, namely the ERECT and BUILD Funds are designed to invest union pension dollars in construction projects that utilize union labor. Other fee based businesses include AmeriServ Life and AmeriServ Associates until June 30, 2006 when the Company closed



this subsidiary.

The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on the guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the consolidated results of operations for the three and nine months ended September 30, 2006 and 2005 were as follows (in thousands, except ratios):

	<u>Three months ended</u> <u>September 30, 2006</u>		<u>Nine months ended</u> <u>September 30, 2006</u>		<u>September 30, 2006</u>
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 6,257	\$ 514	\$ 18,391	\$ 927	\$ 346,777
Commercial lending	2,059	725	5,817	1,802	322,737
Trust	1,687	403	5,163	1,287	2,934
Other fee based	4	(16)	110	(95)	1,343
Investment/Parent	<u>(661)</u>	<u>(983)</u>	<u>(1,142)</u>	<u>(2,170)</u>	<u>209,046</u>
Total	<u>\$ 9,346</u>	<u>\$ 643</u>	<u>\$ 28,339</u>	<u>\$ 1,751</u>	<u>\$ 882,837</u>

	<u>Three months ended</u> <u>September 30, 2005</u>		<u>Nine months ended</u> <u>September 30, 2005</u>		<u>September 30, 2005</u>
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 6,033	\$ (379)	\$ 18,618	\$ 479	\$ 358,672
Commercial lending	1,429	175	4,306	1,015	283,296
Trust	1,657	364	4,790	989	2,989
Other fee based	126	(77)	378	(67)	1,841
Investment/Parent	<u>(3,129)</u>	<u>(10,656)</u>	<u>(3,362)</u>	<u>(11,647)</u>	<u>253,082</u>
Total from continuing					
Operations	6,116	(10,573)	24,730	(9,231)	899,880
Total from discontinued					
Operations	<u>37</u>	<u>9</u>	<u>269</u>	<u>(130)</u>	<u>1,314</u>
Total	<u>\$ 6,153</u>	<u>\$ (10,564)</u>	<u>\$ 24,999</u>	<u>\$ (9,361)</u>	<u>\$ 901,194</u>

## Commitments and Contingent Liabilities

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 Bank 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 \$111.2 million and standby letters of credit of \$8.4 million as of September 30, 2006.

Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position or results of operation.

17.

## Pension Benefits

The Company has a trustee, noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year and who have not yet reached age 60 at their employment date. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments.

	Three months ended		Nine months ended	
	September 30,		September 30,	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Components of net periodic benefit cost				
Service cost	\$ 221	\$ 214	\$ 662	\$ 641
Interest cost	204	202	612	605
Expected return on plan assets	(252)	(231)	(755)	(693)
Amortization of prior year service cost	1	1	3	3
Amortization of transition asset	(4)	(4)	(13)	(13)
Recognized net actuarial loss	<u>100</u>	<u>96</u>	<u>299</u>	<u>287</u>
Net periodic pension cost	<u>\$ 270</u>	<u>\$ 278</u>	<u>\$ 808</u>	<u>\$ 830</u>

18.

### **Private Placement Offering**

On September 27, 2005, the Company entered into agreements with institutional investors for a \$10.3 million private placement of common stock. The agreements secured commitments from investors to purchase 2.4 million of the Company's shares at a price of \$4.35 per share.

The Company contributed \$1.0 million of the net proceeds to the capital of the Bank and \$1.0 million of the net proceeds to the capital of the Trust Company. The Company used the remaining \$7.2 million of net proceeds to redeem outstanding 8.45% Trust Preferred Securities, which will result in annual pre-tax savings of approximately \$600,000 in interest expense.

The successful completion of a \$10.3 million private placement common stock offering provided the Company with the capital to facilitate a series of transactions in 2005 which were designed to significantly improve the Company's interest rate risk position and position the Company for future increased earnings performance. These transactions and their related impact on earnings were as follows: 1) The Company retired all remaining \$100 million of FHLB convertible advances that had a cost of approximately 6.0% and a 2010 maturity. The Company incurred a \$6.5 million pre-tax prepayment penalty to accomplish this transaction. 2) The Company terminated all interest rate hedges associated with the FHLB debt. The Company incurred a pre-tax termination fee of \$5.8 million to eliminate these hedges on which the Company was a net payer. 3) The Company sold \$112 million of investment securities to provide the cash needed at the Bank for this FHLB debt and swap prepayment. The Company incurred a \$2.6 million pre-tax loss on these investment security sales. 4) The Company redeemed at par \$7.2 million of our high coupon trust preferred securities for which the Company incurred a \$210,000 charge to write-off related unamortized issuance costs which is included within other expense.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("M.D. & A.")**

**2006 THIRD QUARTER SUMMARY OVERVIEW** Net income has now increased each quarter since the balance sheet restructuring that occurred in the third quarter of 2005. This increase of 13% over the second quarter of 2006 is another sign of the progress AmeriServ is making in its continuing Turnaround.

More specifically, on the issue of continued Turnaround progress, here are a few encouraging measures:

- Since December 31, 2005, loans outstanding have increased by 5.4% or \$30 million.

- Since December 31, 2005 total deposits have increased by 4.4% or \$31 million.

- Non-interest expenses (excluding the 2005 FHLB and interest rate swap prepayment penalties) through nine months of 2006 are 6% or \$1.6 million lower than the comparable period in 2005.

- Non-Performing Assets have declined by 31% or \$1.3 million since the fourth quarter of 2005.

- The Trust Company net income contribution to the Company has increased by 38% in the first nine months of 2006 compared with the first nine months of 2005.

The balance sheet restructurings of 2004 and 2005 have created an AmeriServ which generates its revenues from traditional community banking sources without venturing into complex or risky financial strategies. The net income reported in the third quarter of 2006 amounted to \$643,000 or \$0.03 per share or \$1,751,000 or \$0.08 per share for the first nine months of 2006.

While we are encouraged by the positive trends enumerated above, we are not pleased with the level of net income. One of the largest challenges that most community banks face today is the inverted yield curve. This refers to the fact that short-term interest rates, as managed by the Board of Governors of the Federal Reserve System, are higher than the longer-term interest rates. The result is that community banks such as AmeriServ pay for deposits based on the higher short term rate market and price loans based on the lower intermediate to long-term rate market. This

phenomenon has occurred before and hopefully it will run its course soon, providing AmeriServ with the increased revenues which its loan and deposit growth should provide. Actually, it is in an economy such as this that the Trust Company proves its worth because its revenues are based entirely on fees from clients and its success in managing the assets entrusted to it rather than interest income. It is important to note that since the Turnaround began in December 2002 that the Trust Company has increased its client assets from \$1.1 billion to \$1.7 billion or 55%.

Additionally, here are a few more initiatives that we believe will be of future importance:

- 

During the third quarter AmeriServ restructured its Consumer Lending and Residential Mortgage function. New experienced management was recruited and both areas are now housed within the Retail Bank so as to ensure not only a better performance for AmeriServ but a better customer experience than we have provided in the past.

- 

As a result of the termination of the Memorandum of Understanding by the regulatory authorities in February 2006, the Federal Deposit Insurance Corporation has reduced the annual premium AmeriServ pays to the insurance fund recognizing the reduced risk at AmeriServ.

- 

AmeriServ is completing and implementing a new Strategic Plan which will guide the Company through 2008. The plan has been developed on a company-wide basis and has especially involved the Board, the Chief Executive Officer and the senior staff. The fundamental goal is to improve financial performance to industry norms. But, this improvement is to be achieved by an intensive focus on the fundamental precepts of community banking. This means working diligently to increase loans outstanding, to build deposit growth and to continue to rationalize expenses. The common theme throughout will be a heightened focus on customer service and a new level of energy every day.

### **THREE MONTHS ENDED SEPTEMBER 30, 2006 VS. THREE MONTHS ENDED SEPTEMBER 30, 2005**

**....PERFORMANCE OVERVIEW.....** The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Three months ended <u>September 30, 2006</u>	Three months ended <u>September 30, 2005</u>
<b>FROM CONTINUING OPERATIONS:</b>		
Net income (loss)	\$ 643	\$ (10,573)
Diluted earnings per share	0.03	(0.53)
Return on average equity (annualized)	3.00%	(49.46)%
<b>FROM DISCONTINUED OPERATIONS:</b>		
Net income	N/A	\$ 9
Diluted earnings per share	N/A	0.00
<b>TOTAL RESULTS:</b>		
Net income (loss)	\$ 643	\$ (10,564)
Diluted earnings per share	0.03	(0.53)
Return on average equity (annualized)	3.00%	(49.42)%

N/A Not Applicable

The Company reported net income of \$643,000 or \$0.03 per diluted share for the third quarter of 2006. This compares to a net loss of \$10.6 million or (\$0.53) per diluted share for the third quarter of 2005. Note that for comparative purposes the 2005 loss resulted from a restructuring that strengthened the Company's balance sheet and reduced its risk profile. The successful completion of a \$10.3 million private placement common stock offering in the third quarter of 2005 provided the Company with the necessary capital to execute this balance sheet restructuring.

**.....NET INTEREST INCOME AND MARGIN.....** The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average 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 average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the third quarter of 2006 to the third quarter of 2005 (in thousands, except percentages):

	Three months ended <u>September 30, 2006</u>	Three months ended <u>September 30, 2005</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 11,895	\$11,473	\$ 422	3.7%
Interest expense	<u>5,796</u>	<u>6,015</u>	<u>(219)</u>	(3.6)
Net interest income	<u>\$ 6,099</u>	<u>\$ 5,458</u>	<u>\$ 641</u>	11.7
Net interest margin	3.06%	2.43%	0.63	N/M

N/M - not meaningful

The Company's net interest income in the third quarter of 2006 increased by \$641,000 from the prior year's third quarter. This improvement reflects the benefits from an increased net interest margin which more than offset a reduced level of earning assets. Specifically, for the third quarter of 2006 the net interest margin increased by 63 basis points to 3.06% while the level of average earning assets declined by \$110 million or 12.2%. Both of these items reflect the deleverage of high cost debt from the Company's balance sheet which has resulted in lower levels of both borrowed funds and investment securities. Wholesale borrowings averaged only 3.1% of total assets in the third quarter of 2006 compared to 17.6% of total assets in the third quarter of 2005. The Company's net interest margin also benefited from increased loans in the earning asset mix as total loans outstanding averaged \$572 million in the third quarter of 2006, a 9.4% increase from the same 2005 period. Total deposits averaged \$743 million for the second quarter of 2006, a 6.5% increase from the same 2005 period due primarily to increased deposits from the trust company's operations and increased certificates of deposit as customers have demonstrated a preference for this product due to higher short-term interest rates. Overall, the Company has been able to generate increased net interest income from a smaller but stronger balance sheet despite the negative impact resulting from a flat to inverted yield curve in 2006.

**...COMPONENT CHANGES IN NET INTEREST INCOME** Regarding the separate components of net interest income, the Company's total interest income for the third quarter of 2006 increased by \$422,000 or 3.7% when compared to the same 2005 quarter. This increase was due to a 91 basis point increase in the earning asset yield to 5.98% but was partially offset by a \$110 million decline in average earning assets. Within the earning asset base, the yield on the total loan portfolio increased by 38 basis points to 6.55% and reflects the higher interest rate environment in 2006 which has allowed the Company to book new loans at rates higher than those currently in the portfolio. The yield on the total investment securities portfolio increased by 60 basis points to 4.10% due to the repricing of variable rate securities in the higher rate environment and reduced amortization expense on the Company's lower balance of mortgage-backed securities.

The \$110 million decline in the volume of average earning assets was due to a \$159 million or 42.4% reduction in average investment securities partially offset by a \$48.9 million increase in average loans. The average investment securities decline in the third quarter of 2006 reflects the impact of the Company's deleveraging and balance sheet repositioning strategies which began in the second half of 2004 and continued in the third quarter of 2005. This restructuring involved selling investment securities and using the proceeds to retire borrowings. The increase in average loans reflects successful commercial loan growth as the Company was able to generate new business particularly in commercial real estate loans.

The Company's total interest expense for the third quarter of 2006 decreased by \$219,000 or 3.6% when compared to the same 2005 quarter. This reduction in interest expense was due to a lower volume of interest bearing liabilities. Total average interest bearing liabilities were \$106 million lower in the third quarter of 2006, as we have deleveraged our balance sheet by reducing high cost FHLB debt and trust preferred securities in the second half of 2005. The average balance of total borrowings has decreased by \$153 million or 79.2% from the third quarter of 2005. The total cost of funds for the third quarter of 2006 did increase by 35 basis points to 3.38 and was due to the increased volume of deposits when compared to the third quarter 2005. Specifically, total average deposits increased by \$45.4 million or 6.5% compared to the third quarter of 2005, while the cost of interest bearing deposits increased by 99 basis points

to 3.19%. The increased cost of deposits reflects the higher short-term interest rate environment as well as a customer movement of funds from lower cost savings accounts into higher yielding certificates of deposit.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended September 30, 2006 and September 30, 2005 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) AmeriServ Financial's 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) AmeriServ Financial's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do not include non-accrual loans, but interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as, interest recorded on non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.



**Three months ended September 30** (In thousands, except percentages)

	<u>2006</u>			<u>2005</u>		
	Average	Interest	Yield/	Average	Interest	Yield/
	<u>Balance</u>	<u>Income/</u>	<u>Rate</u>	<u>Balance</u>	<u>Income/</u>	<u>Rate</u>
		<u>Expense</u>			<u>Expense</u>	
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	\$ 572,077	\$ 9,703	6.55 %	\$ 523,159	\$ 8,228	6.17 %
Deposits with banks	698	8	4.55	862	-	-
Investment securities AFS	194,461	1,926	3.96	349,433	3,035	3.47
Investment securities HTM	<u>21,298</u>	<u>284</u>	5.33	<u>24,883</u>	<u>238</u>	3.83
Total investment securities	<u>215,759</u>	<u>2,210</u>	4.10	<u>374,316</u>	<u>3,273</u>	3.50
<b>Total interest earning</b>						
<b>assets/interest income</b>	788,534	11,921	5.98	898,337	11,501	5.07
Non-interest earning assets:						
Cash and due from banks	19,146			22,128		
Premises and equipment	8,088			9,306		
Assets of discontinued						
operations	-			1,462		
Other assets	68,653			61,585		
Allowance for loan losses	<u>(8,739)</u>			<u>(9,433)</u>		
<b>TOTAL ASSETS</b>	<u>\$875,682</u>			<u>\$ 983,385</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 58,551	\$ 171	1.16 %	\$ 55,693	\$ 61	0.43 %
Savings	80,663	159	0.78	96,935	208	0.85
Money markets	169,022	1,490	3.50	153,278	803	2.08
Other time	<u>330,900</u>	<u>3,323</u>	3.98	<u>286,108</u>	<u>2,218</u>	3.08
Total interest bearing deposits	639,136	5,143	3.19	592,014	3,290	2.20
Short-term borrowings:						
Federal funds purchased,						
securities sold under						
agreements to repurchase and other short-term borrowings	26,128	357	5.34	79,958	749	3.66

## Advances from Federal

Home Loan Bank	962	16	6.40	92,669	1,542	6.52
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>280</u>	8.57	<u>20,285</u>	<u>434</u>	8.56
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	679,311	5,796	3.38	784,926	6,015	3.03
Non-interest bearing liabilities:						
Demand deposits	104,361			106,119		
Liabilities of discontinued operations	-			356		
Other liabilities	7,059			7,180		
Stockholders' equity	<u>84,951</u>			<u>84,804</u>		
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<u>\$875,682</u>			<u>\$ 983,385</u>		
Interest rate spread			2.60			2.04
Net interest income/						
Net interest margin		6,125	3.06 %		5,486	2.43 %
Tax-equivalent adjustment		<u>(26)</u>			<u>(28)</u>	
<b>Net Interest Income</b>		<u>\$ 6,099</u>			<u>\$ 5,458</u>	

**..PROVISION FOR LOAN LOSSES.....** As a result of continued sound asset quality, the Company did not record a provision for loan losses in the third quarter of 2006 compared to a \$100,000 provision recorded in the third quarter of 2005. The Company did experience higher net charge-offs in the third quarter of 2006 due entirely to losses incurred on the repossession of equipment related to a loan to a borrower in the coal mining industry. This caused net charge-offs to average loans to total 0.39% in the third quarter of 2006 compared to 0.11% in the third quarter of 2005. As a result of the successful workout of another problem credit and the previously mentioned higher net charge-offs, non-performing assets declined during the first nine months of 2006 from \$4.3 million or 0.78% of total loans at December 31, 2005 to \$3.0 million or 0.51% of total loans at September 30, 2006. Classified loans have also declined from \$20.2 million at December 31, 2005 to \$15.6 million at September 30, 2006. The allowance for loan losses provided 279% coverage of non-performing assets at September 30, 2006 compared to 212% coverage at December 31, 2005.

**.....NON-INTEREST INCOME.....** Non-interest income for the third quarter of 2006 totaled \$3.2 million; a \$2.6 million increase from the third quarter 2005 performance. Factors contributing to the net increase in non-interest income in 2006 included:

\* in the third quarter of 2005, the Company incurred a \$2.6 million loss on investment security sales in conjunction with its balance sheet restructuring. There were no investment security losses in the third quarter of 2006.

\* a \$172,000 increase in bank owned life insurance proceeds due largely to the payment of a death claim in the third quarter of 2006.

\* a \$78,000 or 10.8% decrease in service charges on deposit accounts due to fewer overdraft penalty fees.

\* a \$98,000 decrease in other income as there was no revenue from AmeriServ Associates in the third quarter of 2006 due to the closure of that subsidiary this year.

**.....NON-INTEREST EXPENSE.....** Non-interest expense for the third quarter of 2006 totaled \$8.6 million; a \$13.7 million or 61.6% decrease from the third quarter 2005 performance. Factors contributing to the decrease in non-interest expense in 2006 included:

\* the Company incurred \$12.3 million in charges related to FHLB prepayment penalties and interest rate hedge termination costs in conjunction with its balance sheet restructuring in the third quarter of 2005. There were no such charges in 2006.

\* salaries and employee benefits decreased by \$204,000 due primarily to fewer full time equivalent employees (FTE) in the third quarter of 2006. The closure of AmeriServ Associates was responsible for a reduction of 8 FTE.

\* professional fees decreased \$692,000 as a result of lower legal costs and external audit fees. The Company has experienced a reduction in costs related to Sarbanes Oxley Section 404 in 2006 as the professional costs associated with the first year implementation were higher in 2005.

\* other expenses declined by \$264,000 as our continuing focus on containing costs has resulted in numerous expense reductions in categories such as collection costs, business development expenses, telephone costs, other real estate owned expense and other miscellaneous expenses.

Overall, the termination of the Memorandum of Understanding earlier in 2006 was a key factor causing the Company to begin realizing in the third quarter of 2006 expense savings within professional fees, other expenses, and FDIC insurance.

### NINE MONTHS ENDED SEPTEMBER 30, 2006 VS. NINE MONTHS ENDED SEPTEMBER 30, 2005

.....**PERFORMANCE OVERVIEW**..... The following table summarizes some of the Company's key performance indicators (in thousands, except per share and ratios).

	Nine months ended <u>September 30, 2006</u>	Nine months ended <u>September 30, 2005</u>
<b>FROM CONTINUING OPERATIONS:</b>		
Net income (loss)	\$ 1,751	\$ (9,231)
Diluted earnings per share	0.08	(0.47)
Return on average equity (annualized)	2.77%	(14.50)%
<b>FROM DISCONTINUED OPERATIONS:</b>		
Net loss	N/A	\$ (130)
Diluted earnings per share	N/A	(0.01)
<b>TOTAL RESULTS:</b>		
Net income (loss)	\$ 1,751	\$(9,361)
Diluted earnings per share	0.08	(0.47)
Return on average equity (annualized)	2.77%	(14.71)%

N/A Not Applicable

For the first nine months of 2006, the Company reported net income of \$1.8 million or \$0.08 per diluted share compared to a net loss of \$9.4 million or (\$0.47) per diluted share for the first nine months of 2005. Note that for comparative purposes the 2005 loss resulted from a restructuring that strengthened the Company's balance sheet and reduced its risk profile. The Company has made progress in 2006 by generating more revenue from traditional community banking and its trust company while reducing its non-interest expense base.

.....**NET INTEREST INCOME AND MARGIN**..... The following table compares the Company's net interest income performance for the first nine months of 2006 to the first nine months of 2005 (in thousands, except percentages):

Nine months ended	Nine months ended
-------------------	-------------------

	<u>September 30, 2006</u>	<u>September 30, 2005</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 34,488	\$ 34,876	\$ (388)	(1.1)%
Interest expense	<u>15,906</u>	<u>17,132</u>	<u>(1,226)</u>	(7.2)
Net interest income	<u>\$ 18,582</u>	<u>\$17,744</u>	<u>\$ 838</u>	4.7
Net interest margin	3.14%	2.60%	0.54	N/M
N/M - not meaningful				

The Company's net interest income in the first nine months of 2006 increased by \$838,000 or 4.7% when compared to the first nine months of 2005. This improvement reflects the benefits from an increased net interest margin which more than offset a reduced level of earning assets. Specifically, for the first nine months of 2006 the net interest margin increased by 54 basis points to 3.14% while the level of average earning assets declined by \$125 million or 13.7%. Both of these items reflect the deleverage of high cost debt from the Company's balance sheet which has resulted in lower levels of both borrowed funds and investment securities. Wholesale borrowings averaged only 4.1% of total assets in the first nine months of 2006 compared to 18.5% of total assets in the first nine months of 2005 while investment securities as a percentage of total assets has declined from 39.0% to 25.8% during this same period. The Company's net interest margin also benefited from increased loans in the earning asset mix as total loans outstanding averaged \$558 million in the first nine months of 2006, a 7.3% increase from the same 2005 period.

**...COMPONENT CHANGES IN NET INTEREST INCOME** Regarding the separate components of net interest income, the Company's total interest income for the first nine months of 2006 decreased by \$388,000 or 1.1% when compared to the same 2005 period. This decrease was due to a \$125 million decline in average earning assets but was partially offset by a 72 basis point increase in the earning asset yield to 5.83%. Within the earning asset base, the yield on the total loan portfolio increased by 40 basis points to 6.56% and the yield on the total investment securities portfolio increased by 19 basis points to 3.93%. Both of these increases reflect the higher interest rate environment in 2006 as the Federal Reserve has increased short-term interest rates by 150 basis points over the past year. Note the higher yields also reflect the upward repricing of floating rate assets.

The \$125 million decline in the volume of average earning assets was due to a \$162 million or 41.9% reduction in average investment securities partially offset by a \$37.7 million increase in average loans. The previously discussed balance sheet restructuring was the main cause of the decline in investment securities. Commercial loan growth led to a greater composition of loans in the earning asset mix that favorably impacted the Company's net interest income and net interest margin.

The Company's total interest expense for the first nine months of 2006 decreased by \$1.2 million or 7.2% when compared to the same 2005 period. This reduction in interest expense was due to a lower volume of interest bearing liabilities. Total average interest bearing liabilities were \$120 million lower in the first nine months of 2006 as we have deleveraged our balance sheet by reducing high cost FHLB debt and trust preferred securities. The lower balance of guaranteed junior subordinated deferrable interest debentures favorably reduced interest expense by \$464,000 in the first nine months of 2006. The total cost of funds for the first nine months of 2006 did increase by 27 basis points to 3.14% and was due to the increased volume of deposits when compared to the first nine months of

2005. Specifically, total average deposits increased by \$35.3 million or 5.1% compared to the first nine months of 2005, while the cost of interest bearing deposits increased by 82 basis points to 2.93%. The increased cost of deposits reflects the higher short-term interest rate environment as well as a customer movement of funds from lower cost savings accounts into higher yielding certificates of deposit.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the nine month periods ended September 30, 2006 and September 30, 2005. For a detailed discussion of the components and assumptions included in the table, see the paragraph before the quarterly table on page 22.

**Nine months ended September 30** (In thousands, except percentages)

	<u>2006</u>			<u>2005</u>		
	Average	Interest	Yield/	Average	Interest	Yield/
	<u>Balance</u>	<u>Income/</u>	<u>Expense Rate</u>	<u>Balance</u>	<u>Income/</u>	<u>Expense Rate</u>
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	\$ 558,176	\$27,805	6.56 %	\$ 520,427	\$ 24,344	6.16 %
Deposits with banks	669	17	3.40	801	4	0.68
Investment securities AFS	199,414	5,943	3.91	361,290	9,857	3.73
Investment securities HTM	<u>25,652</u>	<u>796</u>	4.14	<u>25,905</u>	<u>756</u>	3.89
Total investment securities	<u>225,066</u>	<u>6,739</u>	3.93	<u>387,195</u>	<u>10,613</u>	3.74
<b>Total interest earning</b>						
<b>assets/interest income</b>	783,911	34,561	5.83	908,423	34,961	5.11
Non-interest earning assets:						
Cash and due from banks	18,975			21,520		
Premises and equipment	8,337			9,504		
Assets of discontinued						
Operations	-			1,647		
Other assets	69,226			62,113		
Allowance for loan losses	<u>(8,922)</u>			<u>(9,714)</u>		
<b>TOTAL ASSETS</b>	<u>\$871,527</u>			<u>\$993,493</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 57,329	\$ 423	0.99 %	\$ 54,513	\$ 150	0.37 %
Savings	84,235	498	0.79	98,652	637	0.86
Money markets	171,525	4,117	3.21	153,854	2,208	1.92
Other time	<u>313,598</u>	<u>8,694</u>	3.71	<u>283,895</u>	<u>6,328</u>	2.98
Total interest bearing deposits	626,687	13,732	2.93	590,914	9,323	2.11
Short-term borrowings:						
Federal funds purchased,						
securities sold under						
agreements to repurchase and						
other short-term borrowings	34,459	1,286	4.92	85,764	2,011	3.09

Advances from Federal						
Home Loan Bank	972	48	6.47	98,234	4,494	6.12
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>840</u>	8.57	<u>20,285</u>	<u>1,304</u>	8.57
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	675,203	15,906	3.14	795,197	17,132	2.87
Non-interest bearing liabilities:						
Demand deposits	105,292			105,732		
Liabilities of discontinued						
Operations	-			496		
Other liabilities	6,584			6,984		
Stockholders' equity	<u>84,448</u>			<u>85,084</u>		
<b>TOTAL LIABILITIES AND</b>						
<b>STOCKHOLDERS'</b>	<u>\$871,527</u>			<u>\$993,493</u>		
<b>EQUITY</b>						
Interest rate spread			2.69			2.24
Net interest income/						
Net interest margin		18,655	3.14 %		17,829	2.60 %
Tax-equivalent adjustment		<u>(73)</u>			<u>(85)</u>	
<b>Net Interest Income</b>		<u>\$18,582</u>			<u>\$ 17,744</u>	

**..PROVISION FOR LOAN LOSSES.....** As a result of continued sound asset quality, the Company was able to reverse a small portion of its allowance for loan losses into earnings in the first nine months of 2006. This loan loss provision benefit amounted to \$50,000 in the first nine months of 2006 which was \$125,000 lower than a similar loan loss provision benefit of \$175,000 reversed into earnings in the first nine months of 2005. For the nine month period ended September 30, 2006, net charge-offs have amounted to \$791,000 or 0.19% of total loans compared to net charge-offs of \$283,000 or 0.07% of total loans for the same nine month period in 2005. The higher net charge-offs in 2006 relate to the previously mentioned losses incurred on the repossession of equipment related to a loan to a borrower in the coal mining industry. The allowance for loan losses as a percentage of total loans amounted to 1.43% at September 30, 2006 compared to 1.66% at December 31, 2005.

**.....NON-INTEREST INCOME.....** Non-interest income for the first nine months of 2006 totaled \$9.8 million; a \$2.8 million or 39.7% increase from the first nine months of 2005 performance. Factors contributing to the net increase in non-interest income in 2006 included the following:

\* in the third quarter of 2005 the Company incurred a \$2.6 million loss on investment security sales in conjunction with its balance sheet restructuring. There were no investment security losses in 2006.



\* a \$351,000 or 7.7% increase in trust fees due to continued successful new business development efforts in both the union and traditional trust product lines. Over the past year, the fair market value of trust assets has grown by 6.3% to \$1.7 billion at September 30, 2006.

\* a \$113,000 decrease in gains realized on loan sales into the secondary market due to weaker residential mortgage loan production in the first nine months of 2006. Overall, there were \$6.5 million fewer loans sold into the secondary market in the first nine months of 2006 when compared to the first nine months of 2005.

.....**NON-INTEREST EXPENSE**..... Non-interest expense for the first nine months of 2006 totaled \$26.2 million; a \$13.9 million decrease from the first nine months of 2005 performance. Factors contributing to the net decrease in non-interest expense in 2006 included the following:

\* the Company incurred \$12.3 million in charges related to FHLB prepayment penalties and interest rate hedge termination costs in conjunction with its balance sheet restructuring in 2005. There were no such charges in 2006.

\* professional fees decreased by \$799,000 or 24.6% due to lower legal costs and external audit fees. The Company has experienced a reduction in costs related to Sarbanes Oxley Section 404 in 2006 as the professional costs associated with the first year implementation were higher in 2005.

\* other expenses decreased \$318,000 as our continuing focus on containing costs has resulted in numerous expense reductions in categories such as telephone, advertising, collection costs and other real estate owned expense.

\* miscellaneous taxes and insurance declined by \$156,000 or 11.4% due largely to reduced premium costs for professional insurance coverage.

.....**INCOME TAX EXPENSE**..... The Company recorded an income tax expense of \$439,000 in the first nine months of 2006 which reflects an estimated effective tax rate of approximately 20.0%. The income tax expense recorded in 2006 compares to a \$6.0 million income tax benefit recorded in 2005 largely as a result of the sizable pre-tax loss incurred in last year's third quarter. Additionally in the first nine months of 2005, the Company lowered its income tax expense by \$475,000 due to a reduction in reserves for prior year tax contingencies as a result of the successful conclusion of an IRS examination on several open tax years.

**..SEGMENT RESULTS.** Retail banking's net income contribution was \$927,000 in the first nine months of 2006 and \$514,000 in the third quarter of 2006. The 2006 net income performance is better than the 2005 performance for both periods due to the positive impact of reduced non-interest expenses in retail banking resulting from a diligent focus on cost control and declines in corporate overhead expense.

The trust segment's net income contribution in the first nine months of 2006 amounted to \$1.3 million which was up \$298,000 from the prior year period. Third quarter 2006 trust net income was \$403,000 which was \$39,000 higher than the third quarter 2005. Successful new business development in both traditional trust and the union related products caused revenues to increase in 2006 while expenses were relatively consistent between periods. The fair value of trust assets since December 31, 2005 increased by \$95 million or 5.9% to \$1.70 billion at September 30, 2006. The diversification of the revenue-generating divisions within the trust segment is also one of the primary reasons for its successful growth. The specialized union collective funds are expected to continue to be a unique growth niche for the trust company. The union collective investment funds, namely the ERECT and BUILD Funds, are designed to invest union pension dollars in construction projects that utilize union labor. The union funds have attracted several international labor unions as investors as well as many local unions from a number of states. The value of assets in these union funds totaled \$393 million at September 30, 2006.

The commercial lending segment increased its profitability in the first nine months of 2006 by generating net income of \$1.8 million compared to \$1.0 million of net income earned in the first nine months of 2005. Similar improvement was noted in the third quarter of 2006 as commercial lending increased its profitability to \$725,000 compared to \$175,000 for the third quarter of 2005. The improved performance for both periods was caused by increased revenue resulting from the greater level of commercial loans outstanding.

The investment/parent segment reported a net loss of \$2.2 million in the first nine months of 2006 which was less than the net loss of \$11.6 million realized in the first nine months of 2005. The third quarter 2006 net loss was \$983,000 compared to a net loss of \$10.7 million in the third quarter of 2005. Note that for comparative purposes the Company incurred \$12.3 million in charges related to FHLB prepayment penalties and interest rate hedge termination costs and \$2.5 million of investment security losses in conjunction with its balance sheet restructuring in 2005. There were no such charges in 2006. This restructuring that strengthened the Company's balance sheet and reduced its risk profile.

The \$95,000 loss in the other fee based segment reflects \$100,000 of closure costs for AmeriServ Associates which ceased operations in the second quarter of 2006 due to the Company's strategic decision to exit this business.

**....BALANCE SHEET.....**The Company's total consolidated assets were \$883 million at September 30, 2006, which was comparable with the \$880 million level at December 31, 2005. The Company's loans totaled \$581 million at September 30, 2006, an increase of \$30.0 million or 5.4% from year-end due to commercial and commercial real estate loan growth in the first nine months of 2006. Investment securities declined by \$23 million so far in 2006 as investment portfolio cash flow continued to be used to paydown borrowings.

The Company's deposits totaled \$744 million at September 30, 2006, which was \$31 million or 4.4% higher than December 31, 2005. The deposit increase was due largely to increased certificates of deposit as customers have opted for this product given higher short-term interest rates. Total borrowed funds decreased by \$32 million due to the previously discussed strategy to reduce the Company's borrowed funds with investment securities cash flow if this cash is not first needed to fund loans. Total stockholders' equity increased by \$2.3 million from December 31, 2005 to \$87 million at September 30, 2006 due largely to the retention of all earnings. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at September 30, 2006 of 10.52%. The Company's book value per share at September 30, 2006 was \$3.92.

.....**LOAN QUALITY**..... The following table sets forth information concerning the Company's loan delinquency and other non-performing assets (in thousands, except percentages):

	September 30, <u>2006</u>	December 31, <u>2005</u>	September 30, <u>2005</u>
Total loan delinquency (past due 30 to 89 days)	\$ 7,482	\$4,361	\$ 3,358
Total non-accrual loans	1,917	4,149	2,748
Total non-performing assets*	2,978	4,315	3,323
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	1.29%	0.79%	0.62%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	0.33	0.75	0.50
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.51	0.78	0.61

\*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 some of which are insured for credit loss, and (iii) other real estate owned.

Non-performing assets have remained in a range of \$3.0 to \$4.6 million for the past eight quarters and ended the third quarter of 2006 at the low point of \$3.0 million or 0.51% of total loans. The increase in loan delinquency to \$7.5 million or 1.29% of total loans at September 30, 2006 was caused by two commercial loans totaling \$3.7 million. As of October 31, 2006, \$2.4 million of this amount was no longer past due. While we are pleased with our asset quality, we continue to closely monitor the portfolio given the number of relatively large sized commercial loans within the portfolio. As of September 30, 2006, the 25 largest credits represented 34.2% of total loans outstanding.

.....**ALLOWANCE FOR LOAN LOSSES**.....The following table sets forth the allowance for loan losses and certain ratios for the periods ended (in thousands, except percentages):

	September 30, <u>2006</u>	December 31, <u>2005</u>	September 30, <u>2005</u>
Allowance for loan losses	\$8,302	\$9,143	\$9,435
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	1.43%	1.66%	1.73%
total delinquent loans (past due 30 to 89 days)	110.96	209.65	280.97
total non-accrual loans	433.07	220.37	343.34
total non-performing assets	278.78	211.89	283.93

The allowance for loan losses provided 279% coverage of non-performing assets at September 30, 2006 compared to 212% coverage at December 31, 2005, and 284% coverage at September 30, 2005. The allowance for loan losses to total loans ratio decreased to 1.43% since the prior year third quarter due to a drop in the size of the loan loss reserve combined with an increase in the level of total loans outstanding.

.....**LIQUIDITY**..... The Bank's liquidity position has been sufficient during the last several years when the Bank was undergoing a turnaround and return to traditional community banking. Our core deposit base has remained stable throughout this period and has been adequate to fund the Bank's operations. Neither the sales of investment securities nor the use of the proceeds from such sales and cash flow from prepayments and amortization of securities to redeem Federal Home Loan Bank advances has adversely affected the Bank's liquidity. The securities sold were pledged as collateral for FHLB borrowings, but the proceeds from the sale of securities were used to reduce FHLB advances and therefore these sales did not require that replacement securities be pledged and did not otherwise adversely affect Bank liquidity. We expect that liquidity will continue to be adequate as we transform the balance sheet to one that is more loan dependent.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by \$2.3 million from December 31, 2005, to September 30, 2006, due to \$7.8 million of cash used in investing activities and \$1.8 million of cash used in financing activities. This was partially offset by \$7.2 million of cash provided by operating activities. Within investing activities, cash provided by investment security maturities exceeded limited purchases of new investment securities by \$23.0 million. Cash advanced for new loan fundings and purchases totaled \$123 million and was \$30 million greater than the \$93 million of cash received from loan principal payments and sales. Within financing activities, the Company experienced a net \$31.0 million growth in deposits with these funds used to fund the previously mentioned loan growth. The Company also used the net cash provided from investment securities activities to paydown borrowings.

The Company used \$762,000 of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in the first nine months of 2006. This was \$456,000 less than the cash used for this purpose in the prior year due to the retirement of \$7.2 million of these securities as part of the third quarter 2005 balance sheet restructuring. As a result of the successful \$25.8 million private placement of common stock in the fourth quarter of 2004 and the \$10.3 million private placement in the third quarter of 2005, the liquidity position of the Parent Company has improved significantly. The parent company had \$3.2 million of cash at September 30, 2006.

Dividend payments from non-bank subsidiaries and the settlement of the inter-company tax position also provide ongoing cash to the parent. Longer term, however, the resumption of a common dividend is dependent upon the subsidiary bank maintaining and improving profitability so that it can resume upstreaming dividends to the Parent Company. The subsidiary bank must first recoup \$15.7 million in net losses that it incurred over the past two years before it can consider resuming dividend upstreams or wait until the first quarter of 2008 when these losses are no longer factored into the regulatory dividend upstream calculation.

.....**CAPITAL RESOURCES**..... The Company continues to be considered well capitalized as the asset leverage ratio was 10.52% and the Tier 1 capital ratio was 14.37% at September 30, 2006 compared to 9.90% and 15.43% at September 30, 2005. Note that the impact of other comprehensive income (loss) is excluded from the regulatory capital ratios. At September 30, 2006, accumulated other comprehensive income (loss) amounted to (\$3.7) million. Additionally, the amortization of \$648,000 of core deposit intangible assets has favorably increased tangible capital within the Tier I calculation in 2006. We anticipate that we will continue to build our capital ratios during the remainder of 2006 through the retention of earnings and limited change in the overall size of the balance sheet.

The Company announced on January 24, 2003 that it suspended its common stock cash dividend. While the Company had not repurchased any of its own shares since the year 2000, the Company has also suspended its treasury stock repurchase program.

.....**INTEREST RATE SENSITIVITY**..... 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 basis points. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario	Variability of Net <u>Interest Income</u>	Change In Market Value of <u>Portfolio Equity</u>
100bp increase	1.8%	4.3%
100bp decrease	(1.6)	(8.8)

As indicated in the table, the third quarter 2005 balance sheet restructuring has sharply reduced the earnings volatility in the Company's balance sheet as a result of the Company's reduced level of borrowed funds. The market value of portfolio equity increased by 4.3% in a 100 basis point upward rate shock due to increased value of the Company's core deposit base. Negative variability of market value of portfolio equity occurred in a 100 basis point downward rate shock due to a reduced value for core deposits.

**....OFF BALANCE SHEET ARRANGEMENTS ..** The Bank 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 Bank 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 \$111.2 million and standby letters of credit of \$8.4 million as of September 30, 2006.

**....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, mortgage servicing rights, and income taxes 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 mortgages 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 \$6.1 million, or 73%, of the total allowance for credit losses at September 30, 2006 has been allotted to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, recent regulatory examination results, trends in loan volume, terms of loans and risk of potential estimation or judgmental errors. 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** Income Taxes

**Balance Sheet Reference** Deferred Tax Asset and Current Taxes Payable

**Income Statement Reference** Provision for Income Taxes

**Description**

In accordance with the liability method of accounting for income taxes specified in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes 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 asset 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.

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 time of 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 September 30, 2006, we believe that all of the deferred tax assets recorded on our balance sheet, which are net of a \$100,000 valuation allowance, will ultimately be recovered.

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.

#### **.....FORWARD LOOKING STATEMENT.....**

The stabilization of the Company in 2003 and the infusion of new capital in 2004 and 2005 have enabled the Board and management to complete the first significant Turnaround goal of restructuring the balance sheet into that of a traditional community bank. The next step in the Turnaround is to attack financial performance with the same level of intensity that has been directed at balance sheet restructuring and regulatory compliance. The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and our growing trust company. The Company is coalescing around this next phase of the Turnaround and we believe that the Company has a solid franchise and can create greater institutional value.

The Company has re-affirmed its roots as a community bank. It has strengthened its core units: the Retail Bank, Commercial Lending and the Trust Company. It has contained and/or corrected its troubled units. The Company recognizes that it suffered from a lack of focus and poor execution. However, the speed with which the Company took steps to right itself in 2003 and the success of the private placement common stock offerings in 2004 and 2005 helped the Company address longstanding structural impediments. Therefore, the future direction of AmeriServ Financial, Inc. will be highlighted by efforts to continue to strengthen our balance sheet, to control and leverage our non-interest expenses and to place strong emphasis on our three key business units. The fundamental goal is to build an increasing level of net income from these core units.



This Form 10-Q 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, intend, plan or similar expressions. These forward-looking statements are based 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.

**.....QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....** The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of this M.D. & A.

**.....CONTROLS AND PROCEDURES.....** (a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2006, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2006, are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be in the Company's periodic filings under the Exchange Act.

(b) Changes in Internal Controls. There have been no changes in AmeriServ Financial Inc.'s internal controls over financial reporting that occurred during the most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

## **Part II Other Information**

**Item 1. Legal Proceedings**

There are no material proceedings to which the Company or any of our subsidiaries are a party or by which, to the Company's knowledge, we, or any of our subsidiaries, are threatened. All legal proceedings presently pending or threatened against the Company or our subsidiaries involve routine litigation incidental to our business or that of the subsidiary involved and are not material in respect to the amount in controversy.

**Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. Submission of Matters to a Vote of Security Holders**

None

**Item 5. Other Information**

None

**Item 6. Exhibits**

-

- 3.1 Articles of Incorporation as amended on January 3, 2005, exhibit 3.1 to 2004 Form 10-K filed on March 10, 2005
- 3.2 Bylaws, Exhibit 3.2 to the Registrant's Form 8-K filed January 26, 2005.
- 15.1 Report of S.R. Snodgrass, A.C. regarding unaudited interim financial statement information.
- 31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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

AmeriServ Financial, Inc.  
Registrant

Date: November 2, 2006

/s/Allan R. Dennison  
Allan R. Dennison  
President and Chief Executive Officer

Date: November 2, 2006

/s/Jeffrey A. Stopko  
Jeffrey A. Stopko  
Senior Vice President and Chief Financial Officer



**STATEMENT OF MANAGEMENT RESPONSIBILITY**

November 2, 2006

To the Stockholders and  
Board of Directors of  
AmeriServ Financial, Inc.

Management of AmeriServ Financial, Inc. and its subsidiaries (the Company ) have prepared the consolidated financial statements and other information in the Form 10-Q in accordance with generally accepted accounting principles and are responsible for its accuracy.

In meeting its responsibilities, management relies on internal accounting and related control systems, which include selection and training of qualified personnel, establishment and communication of accounting and administrative policies and procedures, appropriate segregation of responsibilities, and programs of internal audit. These systems are designed to provide reasonable assurance that financial records are reliable for preparing financial statements and maintaining accountability for assets, and that assets are safeguarded against unauthorized use or disposition. Such assurance cannot be absolute because of inherent limitations in any internal control system.

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of propriety information, and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of outside directors. The Audit Committee meets periodically with management and the Independent Registered Public Accounting Firm to discuss audit,

financial reporting, and related matters. S.R. Snodgrass, A.C. and the Company's internal auditors have direct access to the Audit Committee.

-----

/s/Allan R. Dennison  
Allan R. Dennison  
President &  
Chief Executive Officer

/s/Jeffrey A. Stopko  
Jeffrey A. Stopko  
Senior Vice President &  
Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

AmeriServ Financial, Inc.

We have reviewed the accompanying consolidated balance sheet of AmeriServ Financial, Inc. and its consolidated subsidiaries as of September 30, 2006, the related consolidated statements of operations for the three-month and nine-month periods ended September 30, 2006, and the consolidated statement of cash flows for the nine-month period ended September 30, 2006. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying financial statements for them to be in conformity with U.S. generally accepted accounting principles.

The financial statements of AmeriServ Financial, Inc. as of December 31, 2005, and for the year then ended, were audited by other auditors whose report, dated March 6, 2006, expressed an unqualified opinion on those financial statements.

/s/ S.R. Snodgrass, A.C.

Wexford, PA

October 13, 2006



**Exhibit 15.1**

November 2, 2006

AmeriServ Financial, Inc.

216 Franklin Street

PO Box 520

Johnstown, PA 15907-0520

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of AmeriServ Financial, Inc. for the period ended September 30, 2006, as indicated in our report dated October 13, 2006; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended September 30, 2006, is incorporated by reference in the following Registration Statements:

Registration Statement No. 33-56604 on Form S-3

Registration Statement No. 33-53935 on Form S-8

Registration Statement No. 33-55207 on Form S-8

Registration Statement No. 33-55211 on Form S-8

Registration Statement No. 333-67600 on Form S-8

Registration Statement No. 333-50225 on Form S-3

Registration Statement No. 333-121215 on Form S-3

Registration Statement No. 333-129009 on Form S-3

We are also aware that the aforementioned report, pursuant to Rule 436(c) under the Securities Act of 1933, is not considered a part of the Registration Statement prepared or certified by an accountant or a report prepared or certified by an accountant within the meaning of Sections 7 and 11 of that Act.

Sincerely,

/s/ S.R. Snodgrass, A.C.

**Exhibit 31.1**

I, Allan R. Dennison, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmeriServ Financial, Inc. (ASF);
  
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
  
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and

5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: November 6, 2006

/s/Allan R. Dennison

Allan R. Dennison

President & CEO

**Exhibit 31.2**

I, Jeffrey A. Stopko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmeriServ Financial, Inc. (ASF);
  
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
  
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
  
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and

5. ASF's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to ASF's auditors and the audit committee of ASF's board of directors:

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect ASF's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in ASF's internal control over financial reporting.

Date: November 6, 2006

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President & CFO

**Exhibit 32.1**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company) on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Allan R. Dennison, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2).

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Allan R. Dennison

Allan R. Dennison

President and

Chief Executive Officer

November 6, 2006

**Exhibit 32.2**

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company ) on Form 10-Q for the period ended September 30, 2006, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Jeffrey A. Stopko, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

The Report fully complies with the requirements of section 13(a) or 15 (d) of the Securities Exchange Act of 1934; and

2).

The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and

Chief Financial Officer

November 6, 2006