

AMERISERV FINANCIAL INC /PA/  
Form 10-Q  
May 05, 2008

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 March 31, 2008

**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, non-accelerated filer or a smaller reporting company. See definition of accelerated filer, large accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined 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 May 1, 2008

Common Stock, par value \$2.50

21,845,722

per share

INDEX

<b>PART I. FINANCIAL INFORMATION:</b>	<b><u>Page No.</u></b>
Consolidated Balance Sheets (Unaudited) - March 31, 2008 and December 31, 2007	3
Consolidated Statements of Operations (Unaudited) - Three Months Ended March 31, 2008 and 2007	4
Consolidated Statements of Cash Flows (Unaudited) - Three Months Ended March 31, 2008 and 2007	5
Notes to Unaudited Consolidated Financial Statements	6
Management's Discussion and Analysis of Financial Condition and Results of Operations	17
Quantitative and Qualitative Disclosure About Market Risk	29
Controls and Procedures	29
<b>PART II. OTHER INFORMATION</b>	
Item 1. Legal Proceedings	30
Item 1A. Risk Factors	30
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	30
Item 3. Defaults Upon Senior Securities	30
Item 4. Submission of Matters to a Vote of Security Holders	30

Item 5. Other Information	30
Item 6. Exhibits	31

## AmeriServ Financial, Inc.

## CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, <u>2008</u>	December 31, <u>2007</u>
-		
<b>ASSETS</b>		
Cash and due from depository institutions	\$ 24,737	\$ 24,715
Interest bearing deposits	<u>12,369</u>	<u>197</u>
Total cash and cash equivalents	37,106	24,912
Investment securities:		
Available for sale	137,181	144,941
Held to maturity (market value \$14,937 on March 31, 2008 and \$18,378 on December 31, 2007)	14,786	18,533
Loans held for sale	1,260	1,060
Loans	632,107	635,566
Less: Unearned income	433	471
Allowance for loan losses	<u>7,309</u>	<u>7,252</u>
Net loans	624,365	627,843
Premises and equipment, net	8,971	8,450
Accrued income receivable	4,015	4,032
Goodwill	13,497	13,497
Core deposit intangibles	757	973
Bank owned life insurance	33,112	32,864
Net deferred tax asset	12,647	13,750
Regulatory stock	7,789	7,204
Other assets	<u>6,863</u>	<u>6,819</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 902,349</u></b>	<b><u>\$ 904,878</u></b>
<b>LIABILITIES</b>		
Non-interest bearing deposits	\$ 93,968	\$ 113,380
Interest bearing deposits	<u>588,491</u>	<u>597,059</u>

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

Total deposits	<u>682,459</u>	<u>710,439</u>
Short-term borrowings	94,685	72,210
Advances from Federal Home Loan Bank	11,894	9,905
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>13,085</u>
Total borrowed funds	<u>119,664</u>	<u>95,200</u>
Other liabilities	<u>8,668</u>	<u>8,945</u>
<b>TOTAL LIABILITIES</b>	<u>810,791</u>	<u>814,584</u>

**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; 26,288,110 shares issued

and 21,842,691 outstanding on March 31,

2008; 26,279,916 shares issued and

22,188,997 outstanding on December 31,

2007	65,720	65,700
------	--------	--------

Treasury stock at cost, 4,445,419 shares on March 31, 2008 and 4,090,919 shares for December

31, 2007	(66,925)	(65,824)
----------	----------	----------

Capital surplus	78,793	78,788
-----------------	--------	--------

Retained earnings	16,831	15,602
-------------------	--------	--------

Accumulated other comprehensive loss, net	<u>(2,861)</u>	<u>(3,972)</u>
---	----------------	----------------

<b>TOTAL STOCKHOLDERS' EQUITY</b>	<u>91,558</u>	<u>90,294</u>
-----------------------------------	---------------	---------------

**TOTAL LIABILITIES AND**

<b>STOCKHOLDERS' EQUITY</b>	<u>\$ 902,349</u>	<u>\$ 904,878</u>
-----------------------------	-------------------	-------------------

See accompanying notes to unaudited consolidated financial statements.





## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

Unaudited

	Three months ended	
	March 31,	March 31,
	<u>2008</u>	<u>2007</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 10,462	\$ 10,061
Deposits with banks	6	6
Federal funds sold	4	6
Investment securities:		
Available for sale	1,572	1,833
Held to maturity	<u>238</u>	<u>269</u>
Total Interest Income	<u>12,282</u>	<u>12,175</u>
<b>INTEREST EXPENSE</b>		
Deposits	4,499	5,699
Short-term borrowings	632	220
Advances from Federal Home Loan Bank	136	21
Guaranteed junior subordinated deferrable interest	-	-
debentures	<u>280</u>	<u>280</u>
Total Interest Expense	<u>5,547</u>	<u>6,220</u>
<b>NET INTEREST INCOME</b>	6,735	5,955
Provision for loan losses	<u>150</u>	<u>-</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR</b>		
<b>FOR</b>	<u>6,585</u>	<u>5,955</u>
<b>LOAN LOSSES</b>		
<b>NON-INTEREST INCOME</b>		
Trust fees	1,790	1,704
Net gains on loans held for sale	89	25
Service charges on deposit accounts	734	585

Investment advisory fees	226	102
Bank owned life insurance	249	258
Other income	<u>750</u>	<u>559</u>
Total Non-Interest Income	<u>3,838</u>	<u>3,233</u>

**NON-INTEREST EXPENSE**

Salaries and employee benefits	4,830	4,885
Net occupancy expense	661	664
Equipment expense	431	546
Professional fees	769	695
Supplies, postage and freight	330	278
Miscellaneous taxes and insurance	353	364
FDIC deposit insurance expense	22	22
Amortization of core deposit intangibles	216	216
Other expense	<u>1,167</u>	<u>1,003</u>
Total Non-Interest Expense	<u>8,779</u>	<u>8,673</u>

**PRETAX INCOME**

	1,644	515
Income tax expense	<u>415</u>	<u>87</u>
<b>NET INCOME</b>	<u>\$ 1,229</u>	<u>\$ 428</u>

**PER COMMON SHARE DATA:**

Basic:

Net income	\$ 0.06	\$ 0.02
Average number of shares outstanding	22,060	22,159

Diluted:

Net income	\$ 0.06	\$ 0.02
Average number of shares outstanding	22,062	22,166
Cash dividends declared	\$ 0.00	\$ 0.00

See accompanying notes to unaudited consolidated financial statements.

## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Unaudited

	Three months ended <u>March 31, 2008</u>	Three months ended <u>March 31, 2007</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 1,229	\$ 428
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan loss	150	-
Depreciation expense	365	389
Amortization expense of core deposit intangibles	216	216
Net amortization of investment securities	54	98
Net realized gains on loans held for sale	(89)	(25)
Amortization of deferred loan fees	(105)	(150)
Origination of mortgage loans held for sale	(7,810)	(3,761)
Sales of mortgage loans held for sale	7,699	2,697
Decrease in accrued income receivable	17	12
Increase (decrease) in accrued expense payable	(433)	8
Net (increase) decrease in other assets	(1,291)	2,819
Net increase in other liabilities	<u>410</u>	<u>2,480</u>
Net cash provided by operating activities	<u>412</u>	<u>5,211</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investment securities and other short-term investments - available for sale	(11,528)	(1,791)
Purchases of regulatory stock	(1,345)	(190)
Proceeds from redemption of regulatory stock	760	1,404
Proceeds from maturities of investment securities available for sale	21,431	17,762
Proceeds from maturities of investment securities held to maturity	3,754	283
Long-term loans originated	(18,191)	(37,441)
Principal collected on long-term loans	21,791	41,406
Loans purchased or participated	(2,500)	(17,006)
Loans sold or participated	2,500	-
Net increase in other short-term loans	(78)	(201)
Purchases of premises and equipment	(886)	(693)
Acquisition of West Chester Capital Advisors	<u>-</u>	<u>(2,200)</u>

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

Net cash provided by investing activities	<u>15,708</u>	<u>1,333</u>
<b>FINANCING ACTIVITIES</b>		
Net (decrease) increase in deposit accounts	(27,060)	24,172
Net increase (decrease) in other short-term borrowings	22,475	(37,856)
Net principal borrowings on advances from Federal Home Loan Bank	1,989	2,989
Purchase of treasury stock	(1,101)	-
Guaranteed junior subordinated deferrable interest debenture dividends paid	(254)	(254)
Proceeds from dividend reinvestment, stock purchase plan, and stock options exercised	<u>25</u>	<u>34</u>
Net cash used in financing activities	<u>(3,926)</u>	<u>(10,915)</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	12,194	(4,371)
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<u>24,912</u>	<u>23,904</u>
<b>CASH AND CASH EQUIVALENTS AT MARCH 31</b>	<u>\$ 37,106</u>	<u>\$19,533</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), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 19 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$1.8 billion that are not recognized on the Company's balance sheet at March 31, 2008. 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, 2007.

3.

**Accounting Policies**

In December 2007, the FASB issued FAS No. 141 (R)(revised 2007), *Business Combinations* ( FAS 141(R) ), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, and any noncontrolling interest in an acquiree, including the recognition and measurement of goodwill acquired in a business combination. FAS No. 141(R) is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements – an amendment of ARB No. 51*. FAS No. 160 amends ARB No. 51 to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. It clarifies that a noncontrolling interest in a subsidiary, which is sometimes referred to as minority interest, is an ownership interest in the consolidated entity that should be reported as equity in the consolidated financial statements. Among other requirements, this statement requires consolidated net income to be reported at amounts that include the amounts attributable to both the parent and the noncontrolling interest. It also requires disclosure, on the face of the consolidated income statement, of the amounts of consolidated net income attributable to the parent and to the noncontrolling interest. FAS No. 160 is effective for fiscal years beginning on or after December 15, 2008. Earlier adoption is prohibited. 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 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, to require enhanced disclosures about derivative instruments and hedging activities. The new standard has revised financial reporting for derivative instruments and hedging activities by requiring more transparency about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS No. 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires entities to provide more information about their liquidity by requiring disclosure of derivative features that are credit risk-related. Further, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard is not expected to have a material effect on the Company's results of operations or 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 retired for earnings per share purposes. Options to purchase 220,909 and 215,207 shares of common stock were outstanding as of March 31, 2008 and 2007, 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 March  
31,            March 31,  
2008            2007  
(In thousands, except per share data)

Numerator:

Net Income	<u>\$ 1,229</u>	<u>\$ 428</u>
------------	-----------------	---------------

Denominator:

Weighted average common shares outstanding (basic)	22,060	22,159
Effect of stock options	<u>2</u>	<u>7</u>
Weighted average common shares outstanding (diluted)	<u>22,062</u>	<u>22,166</u>

Earnings per share:

Basic	\$0.06	\$0.02
Diluted	0.06	0.02

5.

### Comprehensive Income

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

Three months ended  
March 31,    March 31,

	<u>2008</u>	<u>2007</u>
Net income	\$ <u>1,229</u>	\$ <u>428</u>
Other comprehensive income, before tax:		
Pension obligation change for defined benefit plan	82	-
Income tax effect	(28)	-
Unrealized holding gains on available for sale securities arising during period	1,601	738
Income tax effect	<u>(544)</u>	<u>(251)</u>
Other comprehensive income	<u>1,111</u>	<u>487</u>
Comprehensive income	\$ <u>2,340</u>	\$ <u>915</u>

6.

**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. The Company made \$137,000 in income tax payments in the first three months of 2008 as compared to \$32,000 for the first three months of 2007. The Company made total interest payments of \$5,980,000 in the first three months of 2008 compared to \$6,212,000 in the same 2007 period.

7.

**Investment Securities**

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

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

March 31, 2008

Gross

Gross



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

	Cost <u>Basis</u>	Unrealized <u>Gains</u>	Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Treasury	\$ 5,005	\$ 64	\$ -	\$ 5,069
U.S. Agency	22,404	79	-	22,483
U.S. Agency mortgage- backed securities	105,002	678	(388)	105,292
Money market mutual funds and other	<u>4,340</u>	<u>-</u>	<u>(3)</u>	<u>4,337</u>
Total	<u>\$136,751</u>	<u>\$ 821</u>	<u>\$ (391)</u>	<u>\$ 137,181</u>

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

March 31, 2008	Cost <u>Basis</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Treasury	\$ 3,135	\$ 132	\$ -	\$ 3,267
U.S. Agency mortgage- backed securities	5,901	112	-	6,013
Other securities	<u>5,750</u>	<u>-</u>	<u>(93)</u>	<u>5,657</u>
Total	<u>\$ 14,786</u>	<u>\$ 244</u>	<u>\$ (93)</u>	<u>\$ 14,937</u>

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

December 31, 2007	Cost <u>Basis</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Treasury	\$ 6,006	\$ 5	\$ -	\$ 6,011
U.S. Agency	38,041	44	(12)	38,073
U.S. Agency mortgage- backed securities	98,484	105	(1,328)	97,261
Money market mutual funds and other	<u>3,598</u>	<u>-</u>	<u>(2)</u>	<u>3,596</u>
Total	<u>\$ 146,129</u>	<u>\$ 154</u>	<u>\$ (1,342)</u>	<u>\$ 144,941</u>

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

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

December 31, 2007	Cost	Gross Unrealized	Gross Unrealized	Fair
	<u>Basis</u>	<u>Gains</u>	<u>Losses</u>	<u>Value</u>
U.S. Treasury	\$ 3,153	\$ 55	\$ -	\$ 3,208
U.S. Agency	3,473	23	-	3,496
U.S. Agency mortgage-backed securities	6,157	13	-	6,170
Other securities	<u>5,750</u>	<u>-</u>	<u>(246)</u>	<u>5,504</u>
Total	<u>\$ 18,533</u>	<u>\$ 91</u>	<u>\$ (246)</u>	<u>\$ 18,378</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." At March 31, 2008 and December 31, 2007, 93.3% and 94.3% of the portfolio was rated "AAA", respectively. Less than 1% of the portfolio was rated below A or unrated at March 31, 2008 and December 31, 2007. At March 31, 2008, the Company's consolidated investment securities portfolio had a modified duration of approximately 2.0 years. The Company has no exposure to sub-prime mortgage loans in either the loan or investment portfolios.

The following tables present information concerning investments with unrealized losses as of March 31, 2008 and December 31, 2007 (in thousands):

**Investment securities available for sale:**

March 31, 2008	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency mortgage-backed securities	\$ 24,301	\$ (112)	\$ 22,064	\$ (276)	\$ 46,365	\$ (388)
Other	<u>21</u>	<u>(3)</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>(3)</u>
Total	<u>\$ 24,322</u>	<u>\$ (115)</u>	<u>\$ 22,064</u>	<u>\$ (276)</u>	<u>\$ 46,386</u>	<u>\$ (391)</u>

**Investment securities held to maturity:**

March 31, 2008	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other	\$ -	\$ -	\$ 5,657	\$ (93)	\$ 5,657	\$ (93)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,657</u>	<u>\$ (93)</u>	<u>\$ 5,657</u>	<u>\$ (93)</u>

**Investment securities available for sale:**

December 31, 2007	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
U.S. Agency	\$ -	\$ -	\$ 25,963	\$ (12)	\$ 25,963	\$ (12)
U.S. Agency mortgage- backed securities	4,388	(31)	81,085	(1,297)	85,473	(1,328)
Other	<u>22</u>	<u>(2)</u>	<u>-</u>	<u>-</u>	<u>22</u>	<u>(2)</u>
Total	<u>\$ 4,410</u>	<u>\$ (33)</u>	<u>\$107,048</u>	<u>\$(1,309)</u>	<u>\$111,458</u>	<u>\$(1,342)</u>

**Investment securities held to maturity:**

December 31, 2007	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Other	\$ -	\$ -	\$5,504	\$ (246)	\$ 5,504	\$ (246)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$5,504</u>	<u>\$ (246)</u>	<u>\$ 5,504</u>	<u>\$ (246)</u>

For fixed maturity investments with unrealized losses due to changes in market interest rates where the Company has the 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. There are 23 positions that are considered temporarily impaired at March 31, 2008. The Company reviews its position quarterly and has asserted that at March 31, 2008 and 2007, the declines outlined in the above table represent temporary declines and the Company does have the ability to hold those securities to maturity or to allow a market recovery.

In the first quarter of 2008, the Company adopted FASB Statement 157. Statement 157 establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the parameters that market participants would use in pricing and asset or liability.

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

Assets Measured on a Recurring Basis

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

	<u>Fair Value Measurements at March 31, 2008 Using</u>		
	Quoted Prices in		
	Active Markets for	Significant Other	Significant
	Identical Assets	Observable Inputs	Unobservable Inputs
	(Level 1)	(Level 2)	(Level 3)
Assets:			
Available for sale securities	\$ 5,091	\$ 132,090	\$ -

8.

**Loans**

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

	March 31,	December 31,
	<u>2008</u>	<u>2007</u>
Commercial	\$ 113,568	\$ 118,936
Commercial loans secured by real estate	290,854	285,115
Real estate mortgage	211,203	214,839
Consumer	<u>16,482</u>	<u>16,676</u>
Total loans	632,107	635,566
Less: Unearned income	<u>433</u>	<u>471</u>
Loans, net of unearned income	<u>\$ 631,674</u>	<u>\$ 635,095</u>

Real estate-construction loans comprised 4.9%, and 5.5% of total loans, net of unearned income, at March 31, 2008 and December 31, 2007, respectively. The Company has no direct credit exposure to foreign countries or sub-prime mortgage loans.

9.

#### Allowance for Loan Losses

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

	Three months ended	
	March 31,	March 31,
	<u>2008</u>	<u>2007</u>
Balance at beginning of period	\$7,252	\$8,092
Charge-offs:		
Commercial	(6)	(9)
Commercial loans secured by real estate	-	-
Real estate-mortgage	(38)	(10)
Consumer	<u>(87)</u>	<u>(124)</u>
Total charge-offs	<u>(131)</u>	<u>(143)</u>
Recoveries:		
Commercial	5	13
Commercial loans secured by real estate	6	13
Real estate-mortgage	1	9
Consumer	<u>26</u>	<u>26</u>

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

Total recoveries	<u>38</u>	<u>61</u>
Net charge-offs	(93)	(82)
Provision for loan losses	<u>150</u>	<u>-</u>
Balance at end of period	<u>\$ 7,309</u>	<u>\$8,010</u>
As a percent of average loans and loans held for sale, net of unearned income:		
Annualized net charge-offs	0.06%	0.06%
Annualized provision for loan losses	0.10	-
Allowance as a percent of loans and loans held for sale, net of unearned income at period end		
	1.15	1.33
Total classified loans	\$8,984	\$12,244

10.

**Non-performing Assets**

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

	March 31, <u>2008</u>	December 31, <u>2007</u>
<u>Non-accrual loans</u>		
Commercial	\$ 1,230	\$ 3,553
Commercial loans secured by real estate	213	225

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

Real estate-mortgage	800	875
Consumer	<u>591</u>	<u>585</u>
Total	<u>2,834</u>	<u>5,238</u>
<u>Past due 90 days or more and still accruing</u>		
Total	<u>-</u>	<u>-</u>
<u>Other real estate owned</u>		
Real estate-mortgage	<u>216</u>	<u>42</u>
Total	<u>216</u>	<u>42</u>
Total non-performing assets	<u>\$ 3,050</u>	<u>\$ 5,280</u>
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income,		
and other real estate owned	0.48%	0.83%
Total restructured loans	\$ 1,313	\$ 1,217

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 (increase) reduction in interest income attributable to such loans (in thousands).

	Three months ended	
	March 31,	
	<u>2008</u>	<u>2007</u>
Interest income due in accordance		
with original terms	\$ 53	\$ 33
Interest income recorded	<u>-</u>	<u>(18)</u>
Net (increase) reduction in interest income	<u>\$ 53</u>	<u>\$ 15</u>

11.

**Federal Home Loan Bank Borrowings**

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following at March 31, 2008, (in thousands, except percentages):

<u>Type</u>	<u>Maturing</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Open Repo Plus	Overnight	\$ 94,685	3.24%
Advances	2009	9,004	4.62
	2010	2,000	3.40
	2011 and after	<u>890</u>	6.45
		<u>11,894</u>	4.55
Total FHLB borrowings		<u>\$ 106,579</u>	3.39%

The rate on Open Repo Plus advances can change daily, while the rate on the advances is fixed until the maturity of the advance.

12.

**Regulatory Matters**



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 March 31, 2008, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. The Company believes that no conditions or events have occurred that would change this conclusion. 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.

<u>March 31, 2008</u>	For Capital Adequacy Purposes				To Be Well Capitalized Under Prompt Corrective Action Provisions	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	Actual (In thousands, except ratios)					
Total Capital (to Risk						
W e i g h t e d Assets)						
Consolidated	\$ 93,458	13.51%	\$ 55,353	8.00%	\$ 69,191	10.00%
Bank	83,341	12.19	54,695	8.00	68,369	10.00
Tier 1 Capital (to Risk						
W e i g h t e d Assets)						
Consolidated	85,718	12.39	27,676	4.00	41,514	6.00
Bank	75,601	11.06	27,348	4.00	41,021	6.00
Tier 1 Capital (to Average Assets)						

Consolidated	85,718	9.78	35,063	4.00	43,829	5.00
Bank	75,601	8.74	34,614	4.00	43,268	5.00

13.

### 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, and investment/parent. 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, and commercial real-estate loans. 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. The financial results of the recently acquired WCCA, an investment advisory firm, have been incorporated into the trust segment beginning March 7, 2007. 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 months ended March 31, 2008 and 2007 were as follows (in thousands):

	Three months ended		
	<u>March 31, 2008</u>		<u>March 31, 2008</u>
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 5,808	\$ 380	\$ 343,028
Commercial lending	2,618	730	404,275

Trust	2,041	463	3,079
Investment/Parent	<u>106</u>	<u>(344)</u>	<u>151,967</u>
Total	<u>\$ 10,573</u>	<u>\$ 1,229</u>	<u>\$ 902,349</u>

	Three months ended		
	<u>March 31, 2007</u>		<u>March 31, 2007</u>
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 5,964	\$ 359	\$ 352,361
Commercial lending	2,173	630	351,142
Trust	1,845	439	2,818
Investment/Parent	<u>(794)</u>	<u>(1,000)</u>	<u>185,238</u>
Total	<u>\$ 9,188</u>	<u>\$ 428</u>	<u>\$ 891,559</u>

14.

### 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 \$109.6 million and standby letters of credit of \$7.9 million as of March 31, 2008.

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 or cash flows.

15.

### Pension Benefits

The Company has a noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year. 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 plans assets), mutual funds, and short-term cash equivalent instruments.

	Three months ended	
	March 31,	
	<u>2008</u>	<u>2007</u>
Components of net periodic benefit cost		
Service cost	\$ 241	\$ 234
Interest cost	233	222
Expected return on plan assets	(309)	(289)
Amortization of prior year service cost	1	1
Amortization of transition asset	(4)	(4)
Recognized net actuarial loss	<u>85</u>	<u>95</u>
Net periodic pension cost	<u>\$ 247</u>	<u>\$ 259</u>

16.

#### **West Chester Capital Advisors Acquisition**

The Company announced on January 22, 2007, that it had signed a Definitive Agreement to acquire West Chester Capital Advisors (WCCA) of West Chester, Pennsylvania. WCCA is a registered investment advisor with expertise in large cap stocks, and at March 31, 2008 had \$120 million in assets under management. WCCA was formed in 1994.

The acquisition was completed on March 7, 2007. WCCA is a wholly owned subsidiary of AmeriServ Financial Bank. Because the acquisition was a cash transaction, the Company did not issue any stock to execute the purchase. Therefore, there was no ownership dilution to current AmeriServ stockholders, and as expected the transaction was accretive to earnings. The purchase price paid by AmeriServ Financial Bank to the Sellers for all the capital stock of WCCA was \$4,000,000. This amount consisted of: (a) \$2,200,000 paid at closing in immediately available funds, and (b) a deferred payment of up to \$1,800,000 to be paid as follows: (A) up to \$1,000,000 payable 30 months after closing, and (B) up to \$800,000 payable 48 months after closing, in each case, subject to proportionate reduction if revenues of WCCA as of those dates is less than \$1,360,000.



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

**2008 FIRST QUARTER SUMMARY OVERVIEW** The news concerning the financial industry does not seem to be improving. The "sub prime mortgage" crisis continues to be a concern, but now other troubles such as "credit crunch" and "liquidity" issues seem to have added to the sub prime mortgage concern. While most of these issues and, therefore; most of the continuing series of financial industry losses are concentrated in the world's largest banks, it has become necessary for community banks like AmeriServ to be quite vigilant. We are now hearing economists and elected representatives use the word recession on a frequent basis. We know we must remain vigilant in the management of our balance sheet, while keeping a keen eye on the financial condition of our borrowers.

Here are a few highlights of AmeriServ Financial's first quarter 2008 performance:

Net Income was \$1,229,000 or \$.06 per share. This represents an improvement of \$801,000 over the first quarter 2007, and is the highest level of quarterly earnings since the completion of the balance sheet restructuring in 2005. It is also meaningful to note that quarterly earnings have now increased for four consecutive quarters.

Net Interest Income and Total Revenue have both increased for five consecutive quarters.

Operating Expenses have been stable for the past three quarters even with the addition of West Chester Capital Advisors and a greater resource emphasis on our small business unit called Business Banking.

Non Performing Loans were reduced by more than \$2 million from 2007 year end, and the Allowance for Loan Losses provides sound coverage of 240% of Non-Performing Assets.

The Net Interest Margin improved by 24 basis points from the fourth quarter of 2007 as management worked to take full advantage of the Federal Reserve continuing actions to lower interest rates throughout the economy.

These improvements do not reflect any new activities or any unusual financial maneuverings or instruments. Instead, these improvements reflect a careful managing of the balance sheet during these challenging times. Average Loans Outstanding increased by \$4 million in the quarter creating the eighth consecutive quarter of net loan growth. Deposits declined for the second consecutive quarter as management reduced dependence on more costly deposit sources. It is also important to note that the Trust Company surpassed its first quarter of 2007 net income performance by 15% and now has more than \$1.8 billion of assets under administration. It is these core activities combined with keeping expenses stable that have produced net income increases in the last four consecutive quarters.

A stock repurchase program was initiated during the first quarter of 2008. The repurchase of 354,500 shares at a total cost of \$1.1 million had a positive impact on both book value per share and earnings per share. We hope that the continuation of the AmeriServ Turnaround will begin to be noticed as these facts portray what appears to us to be a

positive trend. We realize that earnings performance levels still lag our peers but however, we think it is important to note that the results continue to be improving, even in hard times.

**THREE MONTHS ENDED MARCH 31, 2008 VS. THREE MONTHS ENDED MARCH 31, 2007**

**.....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>March 31, 2008</u>	Three months ended <u>March 31, 2007</u>
Net income	\$ 1,229	\$ 428
Diluted earnings per share	0.06	0.02
Return on average assets (annualized)	0.55%	0.20%
Return on average equity (annualized)	5.43%	2.05%

The Company reported net income of \$1.2 million or \$0.06 per diluted share for the first quarter of 2008. This represents an increase of \$801,000 or 187% over the first quarter 2007 net income of \$428,000 or \$0.02 per diluted share. Our conservative balance sheet positioning allowed AmeriServ Financial to report improved financial performance during a period of turmoil within the banking industry and financial markets. The growth in earnings was driven by increased net interest income, higher non-interest revenue and continued good asset quality.

**.....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 first quarter of 2008 to the first quarter of 2007 (in thousands, except percentages):

	Three months ended <u>March 31, 2008</u>	Three months ended <u>March 31, 2007</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 12,282	\$12,175	\$ 107	0.9%
Interest expense	<u>5,547</u>	<u>6,220</u>	<u>(673)</u>	(10.8)
Net interest income	<u>\$ 6,735</u>	<u>\$ 5,955</u>	<u>\$ 780</u>	13.1

Net interest margin	3.32%	2.97%	0.35	N/M
N/M - not meaningful				

The Company's net interest income in the first quarter of 2008 increased by \$780,000 or 13.1% from the prior year's first quarter and the net interest margin was up by 35 basis points over the same comparative period. The Company's balance sheet positioning allowed it to benefit from the significant Federal Reserve reductions in short-term interest rates and the return to a more traditional positively sloped yield curve. This factor, combined with the benefits of solid loan growth experienced over the past 12 months, caused the increased net interest income and margin in the first quarter of 2008. Total loans averaged \$631 million in the first quarter of 2008, an increase of \$38 million or 6.3% over the first quarter of 2007. The loan growth was most evident in the commercial loan portfolio and contributed to the increased interest income. The favorable decline in interest expense was caused by the downward repricing of both deposits and Federal Home Loan Bank borrowings due to the market decline in short-term interest rates. Overall, net interest income has now increased for five consecutive quarters and the Company believes its balance sheet is well positioned for a continued lower interest rate environment in 2008.

**.....COMPONENT CHANGES IN NET INTEREST INCOME..** Regarding the separate components of net interest income, the Company's total interest income for the first quarter of 2008 increased by \$107,000 when compared to the same 2007 quarter. This increase was due to an \$8.7 million increase in average earning assets despite a six basis point decrease in the earning asset yield to 6.08%. Within the earning asset base, the yield on the total loan portfolio decreased by 21 basis points to 6.58% and reflects the lower interest rate environment in 2008. The yield on the total investment securities portfolio increased by six basis points to 4.22% as the Company has generally elected to not replace all maturing lower yielding securities.

The \$8.7 million increase in the volume of average earning assets was due to a \$37.6 million or 6.3% increase in average loans partially offset by a \$28.7 million or 14.2% decrease in average investment securities. This loan growth was driven by increased commercial and commercial real estate loans as a result of successful new business development efforts. Note that the Company has focused on growing the higher yielding and more rate sensitive commercial loans at a faster rate than the commercial real-estate loans. The decline in investment securities was caused by regularly scheduled maturities and ongoing cash flow from mortgage-backed securities. The Company has elected to utilize this cash from lower yielding investment securities to fund higher yielding loans in an effort to increase the Company's earning asset yield.

The Company's total interest expense for the first quarter of 2008 decreased by \$673,000 or 10.8% when compared to the same 2007 quarter. This decrease in interest expense was due to a lower cost of funds. The total cost of funds for the first quarter of 2008 declined by 43 basis points to 3.24% and was driven down by lower short-term interest rates and a more favorable funding mix in the first quarter of 2008. Specifically, total average interest bearing deposits decreased by \$70.9 million or 10.8% due almost entirely to a decline in Trust Company specialty deposits related to the Build and Erect Funds as wholesale borrowings provided the Company with a lower cost funding source than these deposits in the first quarter of 2008. Additionally, the Company's funding mix also benefited from an \$8.7 million increase in non-interest bearing demand deposits.



The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended March 31, 2008 and March 31, 2007 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 March 31** (In thousands, except percentages)

	<u>2008</u>			<u>2007</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	\$ 630,581	\$ 10,483	6.58 %	\$ 592,956	\$ 10,084	6.79 %
Deposits with banks	498	6	3.24	661	6	3.63
Federal funds sold	424	4	3.50	423	6	5.28
Investment securities AFS	155,112	1,572	4.09	181,290	1,833	4.04
Investment securities HTM	<u>18,199</u>	<u>238</u>	5.23	<u>20,769</u>	<u>269</u>	5.18
Total investment securities	<u>173,311</u>	<u>1,810</u>	4.22	<u>202,059</u>	<u>2,102</u>	4.16
<b>Total interest earning</b>						
<b>assets/interest income</b>	804,814	12,303	6.08	796,099	12,198	6.14
Non-interest earning assets:						
Cash and due from banks	17,935			17,082		
Premises and equipment	8,886			8,735		
Other assets	72,963			66,127		
Allowance for loan losses	<u>(7,309)</u>			<u>(8,062)</u>		
<b>TOTAL ASSETS</b>	<u>\$897,289</u>			<u>\$ 879,981</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 64,310	\$ 222	1.38 %	\$ 58,027	\$ 169	1.18 %
Savings	68,666	131	0.77	74,191	140	0.77
Money markets	104,180	697	2.68	188,891	1,832	3.93
Other time	<u>347,134</u>	<u>3,450</u>	3.99	<u>334,093</u>	<u>3,558</u>	4.32
Total interest bearing deposits	584,290	4,500	3.10	655,202	5,699	3.53
Short-term borrowings:						
Federal funds purchased,						
securities sold under						
agreements to repurchase and						
other short-term borrowings						
	76,997	631	3.24	16,196	220	5.43
Advances from Federal						

Home Loan Bank	11,718	136	4.66	1,392	21	6.07
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>280</u>	8.57	<u>13,085</u>	<u>280</u>	8.57
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	686,090	5,547	3.24	685,875	6,220	3.67
Non-interest bearing liabilities:						
Demand deposits	110,645			101,900		
Other liabilities	9,526			7,703		
Stockholders' equity	<u>91,028</u>			<u>84,503</u>		
<b>TOTAL LIABILITIES AND</b>						
<b>STOCKHOLDERS'</b>	<u>\$897,289</u>			<u>\$ 879,981</u>		
<b>EQUITY</b>						
Interest rate spread			2.84			2.47
Net interest income/						
Net interest margin		6,756	3.32 %		5,978	2.97 %
Tax-equivalent adjustment		<u>(21)</u>			<u>(23)</u>	
<b>Net Interest Income</b>		<u>\$ 6,735</u>			<u>\$ 5,955</u>	

**..PROVISION FOR LOAN LOSSES.....** The Company recorded a \$150,000 provision for loan losses in the first quarter of 2008 compared to no loan loss provision in the first quarter of 2007. When determining the provision for loan losses, the Company considers a number of factors some of which include periodic credit reviews, delinquency trends, concentrations of credit, loan volume trends and broader local and national economic trends. The Company's net charge-offs in the first quarter of 2008 amounted to \$93,000 or 0.06% of total loans. This amount was comparable with the net charge-offs of \$82,000 or 0.06% of total loans experienced in the first quarter of 2007. Non-performing assets favorably declined by \$2.2 million from December 31, 2007 due to the successful workout during the first quarter of 2008 of the Company's largest non-performing loan with no loss to the bank. Non-performing assets totaled \$3.1 million or 0.48% of total loans at March 31, 2008 compared to \$5.3 million or 0.83% of total loans at December 31, 2007. Overall, the allowance for loan losses provided 240% coverage of non-performing assets and was 1.15% of total loans at March 31, 2008. Note also that the Company has no exposure to sub-prime mortgage loans in either the loan or investment portfolios.

**.....NON-INTEREST INCOME.....** Non-interest income for the first quarter of 2008 totaled \$3.8 million; an increase of \$605,000 or 18.7% from the first quarter 2007 performance. Factors contributing to this increased level of non-interest income in 2008 included:

\* an \$86,000 increase in Trust fees due to continued successful new business development efforts in 2008. The fair market value of trust assets totaled \$1.8 billion at March 31, 2008.

\* a \$124,000 increase in investment advisory fees resulting from the inclusion of West Chester Capital Advisors for a full quarter in 2008 as compared to just one month in 2007.

\* a \$64,000 increase in gains on loans held for sale due to increased residential mortgage loan sales into the secondary market in 2008.

\* a \$149,000 increase in deposit service charges due to increased overdraft fees and greater service charge revenue that resulted from a realignment of the bank's checking accounts to include more fee based products.

\* a \$191,000 increase in other income due entirely to a gain realized on the mandatory redemption of shares of VISA stock that occurred as a result of VISA's initial public offering.

**.....NON-INTEREST EXPENSE.....**Non-interest expense for the first quarter of 2008 totaled \$8.8 million; a \$106,000 or 1.2% increase from the first quarter 2007 performance. The inclusion of West Chester Capital Advisors for the entire quarter in 2008 compared to only a partial quarter in 2007 caused non-interest expense to increase by \$164,000. Otherwise, expense decreases were recorded in several line items including salaries and employee benefits and equipment expense as a result of the Company's continuing focus on containing and reducing non-interest expenses. Total full-time equivalent employees at March 31, 2008 were down by 25 employees or 6.7% from the first quarter of 2007.

**.....INCOME TAX EXPENSE.....**The Company recorded an income tax expense of \$415,000 in the first quarter of 2008 which reflects an estimated effective tax rate of approximately 25.2%. The income tax expense recorded in the first quarter 2007 was \$87,000 and reflected an estimated effective tax rate of approximately 16.9%. The increased tax expense and higher effective rate reflect the impact of an increased level of pre-tax income in 2008 as the level of tax-free income has been relatively consistent between years. The Company's deferred tax asset declined to \$12.6 million at March 31, 2008 due to the ongoing utilization of net operating loss carryforwards and improved market value of the AFS investment portfolio.

**..SEGMENT RESULTS.** Retail banking's net income contribution was \$380,000 in the first three months of 2008 and was \$359,000 in the first quarter of 2007. The 2008 net income performance is better than the 2007 performance due to the positive impact of increased non-interest revenue in line items such as deposit service charges and gain on residential mortgage loan sales combined with declines in corporate overhead expense resulting from a diligent focus on cost control.

The commercial lending segment increased its profitability in the first quarter of 2008 by generating net income of \$730,000 compared to \$630,000 of net income earned in the first quarter of 2007. The improved performance in 2008 was caused by increased revenue resulting from the greater level of commercial loans outstanding and the continued strong asset quality.

The trust segment's net income contribution in the first three months of 2008 amounted to \$463,000 which was up \$24,000 from the prior year period. Successful new business development and the acquisition of West Chester Capital Advisors caused revenues to increase at a faster pace than expenses in 2008. The diversification of the revenue-generating divisions within the trust segment is also one of the primary reasons for its successful growth.

The investment/parent segment reported a net loss of \$344,000 in the first three months of 2008 which was lower than the net loss of \$1.0 million realized in the first three months of 2007. The Company's balance sheet positioning allowed it to benefit from the significant Federal Reserve reductions in short-term interest rates and the return to a more traditional positively sloped yield curve.

**.....BALANCE SHEET.....**The Company's total consolidated assets were \$902 million at March 31, 2008, which was consistent from the \$905 million level at December 31, 2007. The Company's loans totaled \$633 million at March 31, 2008, a decrease of \$3.2 million or 1.0% from year-end as loan origination activity was slower in the first quarter of the year. Note that the Company's loan pipelines are sharply higher so far in the second quarter of 2008 so we expect to see increased new loan fundings over the next two quarters. Investment securities declined by \$11.5 million so far in 2008 as investment portfolio cash was used to either fund loan growth or pay-down borrowings.

The Company's deposits totaled \$682 million at March 31, 2008, which was \$28 million or 3.9% lower than December 31, 2007. This decrease was due primarily to a \$22 million decline in Trust Company specialty deposits related to the Build and Erect Funds as wholesale borrowings provided the Company with a lower cost funding source than these deposits in the first quarter of 2008. Total borrowed funds increased by \$24.5 million due to the replacement of the Trust specialty deposits with lower rate short-term borrowings and FHLB advances. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at March 31, 2008 of 9.78%. The Company's book value per share at March 31, 2008 was \$4.19.

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

	March 31, <u>2008</u>	December 31, <u>2007</u>	March 31, <u>2007</u>
Total loan delinquency (past due 30 to 89 days)	\$ 3,866	\$3,559	\$ 4,324
Total non-accrual loans	2,834	5,238	2,696
Total non-performing assets*	3,050	5,280	2,706
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	0.61%	0.56%	0.72%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	0.45	0.82	0.45
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.48	0.83	0.45

\*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, and (iii) other real estate owned.

Non-performing assets have remained in a range of \$2.3 to \$5.2 million for the past 11 quarters and ended the first quarter of 2008 at \$3.1 million or 0.48% of total loans. The \$2.2 million decline since year-end 2007 reflects the successful workout during the first quarter of 2008 of the Company's largest non-performing loan with no loss to the Bank. Loan delinquency levels have remained below 1.0% during all periods presented and reflect the continued good loan portfolio quality. While we are pleased with our asset quality, we continue to closely monitor the portfolio amid signs of a slowing economy given the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of March 31, 2008, the 25 largest credits represented 31.5% 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):

	March 31, <u>2008</u>	December 31, <u>2007</u>	March 31, <u>2007</u>
Allowance for loan losses	\$7,309	\$7,252	\$8,010
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	1.15%	1.14%	1.33%
total delinquent loans (past due 30 to 89 days)	189.06	203.77	185.25
total non-accrual loans	257.90	138.45	297.11
total non-performing assets	239.64	137.35	296.01

The allowance for loan losses provided 240% coverage of non-performing assets at March 31, 2008 compared to 137% coverage at December 31, 2007, and 296% coverage at March 31, 2007. The allowance for loan losses to total loans ratio decreased to 1.15% since the prior year first quarter due to a drop in the size of the loan loss reserve combined with an increase in the level of total loans outstanding but did increase modestly since year-end.

.....**LIQUIDITY**.....The Bank's liquidity position has been strong during the last several years when the Bank was undergoing a turnaround and return to traditional community banking. Our core retail deposit base (excluding Trust specialty deposits) has first remained stable and then grown throughout this period and has been adequate to fund the Bank's operations. Cash flow from prepayments and amortization of securities was used to reduce Federal Home Loan Bank borrowings and fund net loan growth. 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 increased by \$17.6 million from December 31, 2007, to March 31, 2008, due to \$15.7 million of cash provided by investing activities. This was partially offset by \$3.9 million of cash used in financing activities. Within investing activities, cash provided by investment security maturities exceeded purchases of new investment securities by \$13.1 million. Cash advanced for new loan fundings and purchases totaled \$20.8 million and was \$3.5 million lower than the \$24.3 million of cash received from loan principal payments and sales.

The Company used \$1.1 million of cash to buyback 354,500 shares of its common stock at an average price of \$3.11. In the fourth quarter of 2007, the Company's Board of Directors approved a repurchase program to buyback up to 5% or approximately 1.1 million of its outstanding common shares. The shares may be purchased in open market,

negotiated, or block transactions. This stock repurchase program does not obligate the Company to acquire any specific number of shares and may be suspended or discontinued at any time. The Company also used \$254,000 of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in the first three months of 2008. The parent company had \$5.1 million of cash and investments at March 31, 2008.

Additionally, dividend payments from its subsidiaries also provide ongoing cash to the parent. At March 31, 2008, the subsidiary bank had \$3.6 million of cash available for immediate upstream to the Parent per the applicable regulatory formulas.

.....**CAPITAL RESOURCES**.....The Company continues to be considered well capitalized as the asset leverage ratio was 9.78% and the Tier 1 capital ratio was 12.39% at March 31, 2008. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At March 31, 2008, accumulated other comprehensive loss amounted to \$2.9 million. Additionally, the quarterly \$216,000 amortization of core deposit intangible assets has favorably impacted tangible capital. The Company's tangible equity to assets ratio was 8.55% at March 31, 2008. We anticipate that our capital ratios will be relatively stable in 2008 as we currently plan to utilize earnings to support our 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 and 200 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>
200bp increase	(0.4)%	11.3%
100bp increase	1.5	8.0
100bp decrease	(4.6)	(15.4)
200bp decrease	(13.6)	(37.0)

The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shocks due to a



reduced value for core deposits. Note that the negative variability of net interest income in the downward interest rate forecasts is being caused by a significant assumed increase in asset prepayment speeds at a pace that is faster than what has actually materialized given the 300 basis point short-term rate reductions that have already occurred.

**....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 \$109.6 million and standby letters of credit of \$7.9 million as of March 31, 2008.

**....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 \$5.8 million, or 79%, of the total allowance for credit losses at March 31, 2008 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 March 31, 2008, we believe that all of the deferred tax assets recorded on our balance sheet 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.

**ACCOUNT** Investment Securities

**BALANCE SHEET REFERENCE** Investment Securities

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

## **DESCRIPTION**

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is to be considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operation. At March 31, 2008, 100% of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by Government agencies, U.S. Treasury or Government sponsored agencies. The Company believes the price movements in these securities are dependent upon the movement in market interest rates. The Company's management also maintains the ability to hold securities in an unrealized loss position to the earlier of the recovery of losses or maturity.

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

### **THE STRATEGIC FOCUS:**

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. In accordance with our strategic plan, our focus encompasses the following:

Customer Service - it is the existing and prospective customer that AmeriServ must satisfy. This means good products and fair prices. But it also means quick response time and professional competence. It means speedy problem resolution and a minimizing of bureaucratic frustrations. AmeriServ is training and motivating its staff to meet these standards.

Revenue Growth - It is necessary for AmeriServ to focus on growing revenues. This means loan growth, deposit growth and fee growth. It also means close coordination between all customer service areas so as many revenue producing products as possible can be presented to existing and prospective customers. The Company's Strategic Plan contains action plans in each of these areas. This challenge will be met by seeking to exceed customer expectations in every area. An examination of the peer bank database provides ample proof that a well executed community banking business model can generate a reliable and rewarding revenue stream.

Expense Rationalization - a quick review of recent AmeriServ financial statements tells the story of a continuing process of expense rationalization. This has not been a program of broad based cuts but has been targeted so AmeriServ stays strong but spends less. However, this initiative takes on new importance because it is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues.

Each of the preceding charges has become the focus at AmeriServ, particularly in the three major customer service, revenue generating areas.

1.

**THE RETAIL BANK** this business unit has emerged from the past difficulties strong and eager to grow. It has new powers in that it now includes Consumer Lending and Residential Mortgages. But more importantly, it has a solid array of banking services, and a broad distribution of community offices in its primary market. This business unit will provide a solid foundation for the company as it presents its new, positive face to the community.

2.

**COMMERCIAL LENDING** this business unit is already in a growth mode. It has totally revised procedures and has recruited an experienced professional staff. But it also has the skills and energy to provide financial advice and counsel. The challenge is to shorten response time, to eliminate bureaucracy and to always understand the needs of the customer. This business unit has already proven its value, while now only in the early stages of working to maximize its potential.

3.

**TRUST COMPANY** the Trust Company has already proven its ability to grow its assets under management along with its fees. It has restructured itself into a true 21st Century business model which has improved its marketplace focus. It has a positive investment performance record which enables it to excel in traditional trust functions such as wealth management. But also, it has shown creativity in building a position of substance in the vast world of union

managed pension funds. Resources will continue to be channeled to the Trust Company so that this kind of creativity can continue to lead to new opportunities. Also, synergies need to be developed between the Trust Company and West Chester Capital Advisors so that revenue growth can be further enhanced.

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.

The foregoing list of important factors is not exclusive, and neither such list nor any forward-looking statement takes into account the impact that any future acquisition may have on the Company and on any such forward-looking statement.

**.....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 March 31, 2008, 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 March

31, 2008, 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 year ended December 31, 2007.

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

Following are the Company's monthly common stock purchases during the first quarter of 2008. All shares are repurchased under Board of Directors authorization. In December 2007, the Board authorized a new program to repurchase 1.1 million shares. There is no prescribed termination date for this program.

Shares repurchased	Shares	Ave. Price
January	26,200	\$3.04
February	269,400	\$3.14
March	<u>58,900</u>	<u>\$3.00</u>
Total first quarter 2008 repurchases	354,500	\$3.11
Shares remaining authorized under disclosed repurchase plan at March 31, 2008	754,950	

**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: May 1, 2008

/s/Allan R. Dennison

Allan R. Dennison

President and Chief Executive Officer

Date: May 1, 2008

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and Chief Financial Officer

**STATEMENT OF MANAGEMENT RESPONSIBILITY**

May 1, 2008

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 March 31, 2008, the related consolidated statements of operations for the three months ended March 31, 2008 and 2007, and the consolidated statement of cash flows for the three months ended March 31, 2008 and 2007. 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.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2007, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated March 6, 2008, we expressed an unqualified opinion on those consolidated financial statements.

/S.R. Snodgrass, A.C.

Wexford, PA

May 1, 2008

**Exhibit 15.1**

May 1, 2008

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 March 31, 2008, as indicated in our report dated May 1, 2008. 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 March 31, 2008, 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.R. Snodgrass, A.C.

**Exhibit 31.1**

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF  
1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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: May 1, 2008

/s/Allan R. Dennison  
Allan R. Dennison  
President & CEO

**Exhibit 31.2**

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER  
PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF  
1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

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: May 1, 2008

/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 March 31, 2008, 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

May 1, 2008

**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 March 31, 2008, 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

May 1, 2008