AMERISERV FINANCIAL INC /PA/
Form 10-K
March 06, 2008

Table of Contents

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

Form 10-K

(MARK ONE)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007**

OR

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

COMMISSION FILE NUMBER 0-11204

AMERISERV FINANCIAL, INC.
(Exact name of registrant as specified in its charter)

PENNSYLVANIA	**25-1424278**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
MAIN & FRANKLIN STREETS, P.O. BOX 430, JOHNSTOWN, PENNSYLVANIA	**15907-0430**
(Address of principal executive offices)	*(Zip Code)*

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

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

Title of Each Class	**Name of Each Exchange on Which Registered**

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

COMMON STOCK, $2.50 PAR VALUE	SHARE PURCHASE RIGHTS
(Title of class)	*(Title of class)*

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

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

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 þ No o

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

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

Large accelerated filer o	Accelerated filer þ	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant s most recently completed second fiscal quarter. The aggregate market value was $97,535,834 as of June 30, 2007.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. There were 22,178,335 shares outstanding as of January 31, 2008.

DOCUMENTS INCORPORATED BY REFERENCE.

List hereunder the following documents if incorporated by reference and the Part of the Form 10-K (e.g., Part I, Part II, etc.) into which the document is incorporated: (1) Any annual report to security holders; (2) Any proxy or information statement; and (3) Any prospectus filed pursuant to Rule 424(b) or (e) under the Securities Act of 1933. The listed documents should be clearly described for identification purposes (e.g., annual report to security holders for fiscal year ended December 24, 1980).

Portions of the annual shareholders report for the year ended December 31, 2007, are incorporated by reference into Parts I and II.

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

Exhibit Index is located on page 88.

FORM 10-K INDEX

		Page No.
	PART I	
Item 1.	Business	2
Item 1A.	Risk Factors	12
Item 1B.	Unresolved Staff Comments	16
Item 2.	Properties	16
Item 3.	Legal Proceedings	16
Item 4.	Submission of Matters to a Vote of Security Holders	17
	PART II	
Item 5.	Market for the Registrant s Common Stock and Related Stockholder Matters and Issuer Purchases of Equity Securities	17
Item 6.	Selected Consolidated Financial Data	19
Item 7.	Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations	20
Item 7A.	Quantitative and Qualitative Disclosures about Market Risk	40
Item 8.	Consolidated Financial Statements and Supplementary Data	41
Item 9.	Changes In and Disagreements With Accountants On Accounting and Financial Disclosure	86
Item 9A.	Controls and Procedures	86
Item 9B.	Other Information	86
	PART III	
Item 10.	Directors and Executive Officers of the Registrant	86
Item 11.	Executive Compensation	86
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	86
Item 13.	Certain Relationships and Related Transactions and Director Independence	87
Item 14.	Principal Accounting Fees and Services	87
	PART IV	
Item 15.	Exhibits, Consolidated Financial Statement Schedules, and Reports on Form 8-K	87
	Signatures	

Agreement, dated February 1, 2004, Allan R. Dennison as amended on January 24, 2008
Subsidiaries of the Registrant
Consent of Independent Registered Public Accounting Firm
Consent of Independent Registered Public Accounting Firm
Certification pursuant to Rule 13a-14(a)/15d-14(a)
Certification pursuant to Rule 13a-14(a)/15d-14(a)
Certification pursuant to U.S.C. section 1350
Certification pursuant to U.S.C. section 1350

PART I

ITEM 1. *BUSINESS*

GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company, organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) on January 5, 1983. The Company s other wholly owned subsidiaries include AmeriServ Trust and Financial Services Company (the Trust Company) formed in October 1992, and AmeriServ Life Insurance Company (AmeriServ Life) formed in October 1987.

The Company s principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2007, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $905 million, $710 million and $90 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and insurance risk management.

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

AMERISERV FINANCIAL BANKING SUBSIDIARY

AmeriServ Financial Bank

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended. Through 19 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland Counties, Pennsylvania, AmeriServ Financial Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, money market accounts, secured and unsecured loans, mortgage loans, safe deposit boxes, holiday club accounts, collection services, money orders, and traveler s checks; (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as real estate-mortgage loans, short- and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 22 automated bank teller machines (ATMs) through its 24-Hour Banking Network that is linked with NYCE, a regional ATM network and CIRRUS, a national ATM network.

On March 7, 2007, the Bank completed the acquisition of West Chester Capital Advisors (WCCA). WCCA is a registered investment advisor with expertise in large cap stocks and as of December 31, 2007 had $137 million in assets under management. The Bank had a wholly owned mortgage banking subsidiary Standard Mortgage Corporation of Georgia (SMC). SMC was a residential mortgage loan servicer based in Atlanta, GA. The Company

concluded that mortgage servicing was not a core community banking business and it did not have the scale nor the earnings power to absorb the volatility and risk associated with this business line. On December 28, 2004, the Company sold all of its remaining mortgage servicing rights and discontinued operations of this non-core business in 2005. Additionally, AmeriServ Financial Services Corporation was formed on May 23, 1997 and engages in the sale of annuities, mutual funds, and insurance. On December 31, 2004, the Company merged AmeriServ Financial Services Corporation into the Bank.

The Bank s deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. In addition, the loan portfolio is also diversified so that one industry or

group of related industries does not comprise a material portion of the loan portfolio. The Bank s business is not seasonal nor does it have any risks attendant to foreign sources.

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking. See Note 22, Regulatory Matters, for a discussion of the Memorandum Of Understanding (MOU) which the Company and its Board of Directors entered into with its primary regulators in February 2003 and which was terminated in February 2006. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios at December 31, 2007:

Headquarters		**Johnstown, PA**
Chartered		**1933**
Total Assets	**$**	**894,193**
Total Investment Securities		**156,248**
Total Loans (net of unearned income)		**636,155**
Total Deposits		**710,639**
Total Net Income		**2,503**
Asset Leverage Ratio		**8.84%**
Return on Average Assets		**0.29**
Return on Average Equity		**2.78**
Total Full-time Equivalent Employees		**287**

RISK MANAGEMENT OVERVIEW:

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

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

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

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

Commercial

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

3

ability to obtain personal guarantees decreases. In addition to economic risk, this category is impacted by the management ability of the borrower and industry risk, which are also considered during the underwriting process.

Commercial Loans Secured by Real Estate

This category includes various types of loans, including acquisition and construction of investment property, owner-occupied property and operating property. Maximum term, minimum cash flow coverage, leasing requirements, maximum amortization and maximum loan to value ratios are controlled by the Company s credit policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits, and are frequently obtained on mid to smaller commercial real estate loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, which are monitored and considered in underwriting.

Real Estate Mortgage

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

Consumer

This category includes consumer installment loans and revolving credit plans. Underwriting is pursuant to industry norms and guidelines and is achieved through a process, which is inclusive of the Appro Credit Scoring program. The major risk in this category is a significant economic downturn.

MAJOR TYPES OF INVESTMENTS AND THE ASSOCIATED INVESTMENT POLICIES

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

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

DEPOSIT ACTIVITIES AND OTHER SOURCES OF FUNDS, INCLUDING REPAYMENTS AND MATURITIES OF LOANS, SALES AND MATURITIES OF INVESTMENTS AND FHLB ADVANCES

Deposits

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

Borrowings

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

Table of Contents

Loans

During the periods presented herein, the Company has moderately grown its loan portfolio with no adverse effect on liquidity. The Company believes it will be able to fund anticipated loan growth generally from investment securities portfolio cash flow and deposit growth.

Secondary Market Activities

The Residential Lending department of the Bank continues to originate one-to-four family mortgage loans for both outside investors in the secondary market and for the AmeriServ portfolio. Mortgages sold on the secondary market are sold to investors on a flow basis: Mortgages are priced and delivered on a best efforts pricing, with servicing released to the investor. Freddie Mac guidelines are used in underwriting all mortgages with the exception of CRA loans. The mortgages with longer terms such as 20-year, 30-year, FHA, and VA loans are usually sold. The remaining production of the department includes Adjustable Rate Mortgages, 10-year, 15-year, and bi-weekly mortgages. These loans are usually kept in the AmeriServ portfolio.

AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AmeriServ Trust and Financial Services Company

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. As one of the larger providers of trust and investment management products and services between Pittsburgh and Harrisburg, AmeriServ Trust and Financial Services Company is committed to delivering personalized, professional service to its clients. Its staff of approximately 39 professionals administer assets valued at approximately $1.9 billion at December 31, 2007. The Trust Company 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 division. 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. At December 31, 2007, AmeriServ Trust and Financial Services had total assets of $2.9 million and total shareholder s equity of $2.7 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

The diversification of the revenue-generating divisions within the trust company is one of the primary reasons for its successful profitable growth. The specialized union collective funds have attracted several international labor unions as investors as well as many local unions from a number of states. At the end of 2007, assets in these union funds totaled approximately $415 million.

The Trust Investment Division focuses on producing better-than-average investment returns by offering an array of individually managed accounts and several asset allocation disciplines utilizing non-proprietary mutual funds. In addition, the Tactical High Yield Bond Fund, the Pathroad Funds and the Premier Equity Discipline are examples of the Investment Division s ability to respond to the needs and expectations of our clients. The diversified array of investment options, experienced staff and good investment returns facilitate client retention and the development of new clients.

In 2007, the Trust Company continued to be a major contributor of earnings to the corporation. Gross revenue in 2007 amounted to $6.9 million which represents an increase of $248,000 or 3.7% over 2006. The Trust Company s net income contribution was $1.7 million, an increase of $135,000 or 8.7% over 2006.

AmeriServ Life

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company s market area. Operations of AmeriServ Life are conducted in each office of the Company s banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Insurance Department of the

Commonwealth of Pennsylvania, and the Federal Reserve. At December 31, 2007, AmeriServ Life had total assets of $1.1 million and total shareholder s equity of $939,000.

MONETARY POLICIES

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

COMPETITION

The subsidiaries face strong competition from other commercial banks, savings banks, savings and loan associations, and several other financial or investment service institutions for business in the communities they serve. Several of these institutions are affiliated with major banking and financial institutions which are substantially larger and have greater financial resources than the subsidiary entities. As the financial services industry continues to consolidate, the scope of potential competition affecting the subsidiary entities will also increase. For most of the services that the subsidiary entities perform, there is also competition from credit unions and issuers of commercial paper and money market funds. Such institutions, as well as brokerage houses, consumer finance companies, insurance companies, and pension trusts, are important competitors for various types of financial services. In addition, personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals.

MARKET AREA

Nationally, economic growth slowed during 2007 but remained positive at 2.2%, the least growth in five years. Consumer spending, which accounts for more than two thirds of the economy, increased 2.9% in 2007, which was the least growth in four years. By the fourth quarter of 2007, the Federal Reserve s monetary policy had shifted from a neutral stance to an accommodative position in light of a weakening economic outlook and increasing downside risks to growth. The sub-prime mortgage crisis caused housing activity and home values to decline. The troubled housing market along with rising energy and food prices began to negatively impact other sectors of the economy and increase the possibility of the economy slipping into a recession. Credit markets have tightened making it more difficult for households and businesses to borrow money. As a result, the labor markets began to soften. National economic growth is expected to be flat in the first quarter of 2008 and rebound slightly averaging 2% for the remainder of the year.

The economy in Cambria and Somerset Counties, while growing slowly, had unemployment rates of 5.3% and 5.5%, respectively at December 31, 2007, as compared to national and state rates of 4.9% and 4.3%. Local markets have shown improvement as jobs in the area have increased causing the unemployment rate to decline from last year s number of 5.7%. Johnstown, PA, where AmeriServ Financial, Inc is headquartered, is a national leader in technology, ranked 45th in the nation for technology growth by the Milken Institute, the 4th best city in the eastern US by *Money Magazine* and the most affordable city in the nation by *Forbes Magazine.* The local economy did suffer a set back during the summer of 2007 with the announced layoff of 200 workers at a local freight car manufacturer. However, the beginning of construction on a planned technology park, greater work on defense projects and the recent announcement of several retail and restaurant openings are expected to contribute to economic expansion. Overall, local economic conditions in 2008 are expected to remain positive.

Economic conditions are stronger in the State College market. The unemployment rate is 3.4% and one of the lowest of all regions in the Commonwealth. The State College market presents the Company with a more vibrant economic market and a much different demographic. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years

of age. Overall, opportunities in the State College market are quite different and challenging, providing a promising source of business to profitably grow the Company.

EMPLOYEES

The Company employed 385 people as of December 31, 2007, in full- and part-time positions. Approximately 221 non-supervisory employees of the Bank are represented by the United Steelworkers of America, AFL-CIO-CLC, Local Union 2635-06. The Bank s current labor contract with the Steelworkers Local will expire on October 15, 2009. The Bank has not experienced a work stoppage since 1979. The Bank is one of 13 union-represented banks nationwide.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA), among other things, identifies five capital categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. It requires U.S. federal bank regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements based on these categories. The FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on other aspects of its operations. The FDICIA generally prohibits a bank from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized. An undercapitalized bank must develop a capital restoration plan, and its parent holding company must guarantee the bank s compliance with the plan up to the lesser of 5% of the bank s assets at the time it became undercapitalized and the amount needed to comply with the plan.

As of December 31, 2007, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. A bank s capital category is determined solely for the purpose of applying the prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

SARBANES-OXLEY ACT OF 2002

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

PRIVACY PROVISIONS OF GRAMM-LEACH-BLILEY ACT

Under the Gramm-Leach-Bliley Act (GLB Act), federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third

parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provision of the GLB Act affects how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions of the GLB Act.

Table of Contents

CHECK CLEARING FOR THE 21ST CENTURY ACT

The Check Clearing for the 21st Century Act, also known as Check 21, which became effective on October 28, 2004, altered the way banks process checks. Check 21 facilitates check truncation, eliminating the original paper check from the clearing process. Instead, many checks are processed electronically. Under Check 21, as a bank processes a check, funds from the check writer s account are transferred to the check depositor s account, and an electronic image of the check, a processable printout known as a substitute check or Image Replacement Document (IRD), is considered the legal equivalent of the original check. Banks can choose to send substitute checks as electronic files to be printed on-site or in close proximity to the paying bank. For financial institutions and their clients, these changes have the potential to reduce costs, improve efficiency in check collections and accelerate funds availability, while alleviating dependence on the national transportation system.

STATISTICAL DISCLOSURES FOR BANK HOLDING COMPANIES

The following Guide 3 information is included in this Form 10-K as listed below:

I. Distribution of Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differential Information. Information required by this section is presented on pages 22-24, and 33-35.

II. Investment Portfolio Information required by this section is presented on pages 8-9 and 52-56.

III. Loan Portfolio Information required by this section appears on pages 9-10 and 26-27.

IV. Summary of Loan Loss Experience Information required by this section is presented on pages 27-29.

V. Deposits Information required by this section follows on page 11.

VI. Return on Equity and Assets Information required by this section is presented on page 20.

VII. Short-Term Borrowings Information required by this section is presented on page 12.

INVESTMENT PORTFOLIO

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

Investment securities available for sale at:

	At December 31,		
Cost Basis:	**2007**	**2006**	**2005**
		(In thousands)	
U.S. Treasury	**$ 6,006**	$ 6,011	$ 5,021
U.S. Agency	**38,041**	57,636	59,335
Mortgage-backed securities	**98,484**	113,460	131,981
Equity investment in Federal Home Loan Bank and Federal Reserve Stock*			6,988

Other securities	**3,598**	3,362	4,499
Total cost basis of investment securities available for sale	**$ 146,129**	$ 180,469	$ 207,824
Total fair value of investment securities available for sale	**$ 144,941**	$ 175,543	$ 201,569

* On January 1, 2006, the equity investments in Federal Home Loan Bank and Federal Reserve Stocks were reclassified to Regulatory Stock within the other assets section of the Balance Sheet.

Table of Contents

Investment securities held to maturity at:

Cost Basis:	2007	At December 31, 2006 (In thousands)	2005
U.S. Treasury	**$ 3,153**	$ 3,220	$ 3,285
U.S. Agency	**3,473**	3,471	11,484
Mortgage-backed securities	**6,157**	7,216	8,836
Other securities	**5,750**	6,750	6,750
Total cost basis of investment securities held to maturity	**$ 18,533**	$ 20,657	$ 30,355
Total fair value of investment securities held to maturity	**$ 18,378**	$ 20,460	$ 30,206

LOAN PORTFOLIO

The loan portfolio of the Company consisted of the following:

	2007	2006	At December 31, 2005 (In thousands)	2004	2003
Commercial	**$ 118,936**	$ 91,746	$ 80,629	$ 72,011	$ 75,738
Commercial loans secured by real estate	**285,115**	269,781	249,204	225,661	206,204
Real estate-mortgage(1)	**214,839**	209,728	201,111	201,406	194,605
Consumer	**16,676**	18,336	20,391	23,285	28,343
Loans	**635,566**	589,591	551,335	522,363	504,890
Less: Unearned income	**471**	514	831	1,634	2,926
Loans, net of unearned income	**$ 635,095**	$ 589,077	$ 550,504	$ 520,729	$ 501,964

(1) For each of the periods presented beginning with December 31, 2007, real estate-construction loans constituted 5.5%, 4.4%, 5.5%, 6.3% and 3.2% of the Company s total loans, net of unearned income, respectively.

Table of Contents

NON-PERFORMING ASSETS

The following table presents information concerning non-performing assets:

	At December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except percentages)				
Non-accrual loans					
Commercial	**$ 3,553**	$ 494	$ 2,315	$ 802	$ 3,282
Commercial loans secured by real estate	**225**	195	318	606	5,262
Real estate-mortgage	**875**	1,050	1,070	2,049	1,495
Consumer	**585**	547	446	412	742
Total	**5,238**	2,286	4,149	3,869	10,781
Past due 90 days or more and still accruing					
Commercial					58
Commercial loans secured by real estate					10
Consumer		3	31		30
Total		3	31		98
Other real estate owned					
Commercial loans secured by real estate					255
Real estate-mortgage	**42**	3	130	15	248
Consumer			5	10	29
Total	**42**	3	135	25	532
Total non-performing assets	**$ 5,280**	$ 2,292	$ 4,315	$ 3,894	$ 11,411
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	**0.83%**	0.39%	0.78%	0.75%	2.26%
Total restructured loans (included in non-accrual loans above)	**$ 1,217**	$ 1,302	$ 258	$ 5,685	$ 698

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

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

loans, and (iii) the net reduction in interest income attributable to such loans.

	Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(In thousands)				
Interest income due in accordance with original terms	**$ 215**	$ 214	$ 213	$ 469	$ 670
Interest income recorded	**(24)**	(55)	(12)	(19)	(119)
Net reduction in interest income	**$ 191**	$ 159	$ 201	$ 450	$ 551

Table of Contents

DEPOSITS

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

	At December 31,					
	2007		2006		2005	
	(In thousands, except percentages)					
Demand:						
Non-interest bearing	**$ 105,306**	%	$ 104,266	%	$ 107,018	%
Interest bearing	**67,132**	**1.76**	57,817	1.05	54,695	0.41
Savings	**71,922**	**0.76**	81,964	0.78	96,819	0.86
Money market	**158,947**	**3.80**	172,029	3.34	156,932	2.07
Other time	**346,134**	**4.34**	319,220	3.83	284,951	3.04
Total deposits	**$ 749,441**	**3.54**	$ 735,296	3.05	$ 700,415	2.18

Interest expense on deposits consisted of the following:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Interest bearing demand	**$ 1,184**	$ 606	$ 227
Savings	**549**	644	829
Money market	**6,040**	5,743	3,256
Certificates of deposit in denominations of $100,000 or more	**1,774**	1,894	1,378
Other time	**13,264**	10,345	7,295
Total interest expense	**$ 22,811**	$ 19,232	$ 12,985

Additionally, the following table provides more detailed maturity information regarding certificates of deposit issued in denominations of $100,000 or more as of December 31, 2007**:**

MATURING IN:

	(In thousands)
Three months or less	$ 14,354
Over three through six months	15,270
Over six through twelve months	7,895
Over twelve months	3,871

Total	$	41,390

Table of Contents

FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

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

	At December 31, 2007	
	Federal Funds Purchased	Other Short-Term Borrowings
	(In thousands, except rates)	
Balance	$	**$ 72,210**
Maximum indebtedness at any month end	**3,430**	**74,095**
Average balance during year	**99**	**19,745**
Average rate paid for the year	**5.18%**	**4.89%**
Interest rate on year end balance		**3.88**

	At December 31, 2006	
	Federal Funds Purchased	Other Short-Term Borrowings
	(In thousands, except rates)	
Balance	$	$ 49,091
Maximum indebtedness at any month end		61,728
Average balance during year	43	32,778
Average rate paid for the year	5.69%	5.10%
Interest rate on year end balance		5.48

	At December 31, 2005	
	Federal Funds Purchased	Other Short-Term Borrowings
	(In thousands, except rates)	
Balance	$	$ 63,184
Maximum indebtedness at any month end		150,552
Average balance during year	1	78,151
Average rate paid for the year	4.94%	3.32%
Interest rate on year end balance		4.25

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

These borrowing transactions can range from overnight to one year in maturity. The average maturity was two days at the end of 2007 and three days at the end of 2006 and 2005.

ITEM 1A. *RISK FACTORS*

Investors should carefully consider the risks described below before investing in our common stock. The risks described below are not the only ones facing the Company. Additional risks not currently known to us or that we currently believe are immaterial also may impair our business. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained or incorporated by reference in this Form 10-K, including our consolidated financial statements and related notes. Other corporate information is available at www.AmeriServFinancial.com

Failure to successfully execute our turnaround strategy would adversely affect future earnings.

At the end of 2003, we adopted a turnaround strategy that consisted of three distinct elements. These were:

In 2003, stabilizing AmeriServ and taking immediate steps to eliminate or minimize those risk elements that posed a threat to our survival;

In 2004 and 2005, initiating steps to eliminate the key structural impediments to sustainable, improved earnings; and

Articulating and executing, over the long-term, a strategy centered on community banking and continued expansion of our successful trust business that is intended to produce consistent future earnings.

We believe we accomplished the first two elements of the turnaround strategy. With our earnings growth in 2007, we achieved some success towards the third element of the turnaround. However, this final element of the turnaround requires sustained execution of our business plan to drive our financial performance closer to peer bank levels. If we are unable to achieve the last element of the turnaround strategy, our financial condition and results of operations will not dramatically improve and may deteriorate.

Weak loan growth may hinder our ability to improve earnings performance.

In order to improve our financial performance, we must increase our average balance of quality loans. However, our market area is characterized by an aging and declining population base and comparatively slow economic growth. Despite these unattractive fundamentals, our market also is highly competitive. Unless loan originations increase, our earnings performance may not improve to the degree we have planned.

We have unionized employees, which increases our costs and may deter any acquisition proposal.

The Bank is party to a collective bargaining agreement with the United Steelworkers of America, which represents approximately 61% of our employees. In 2007, our current contract was extended until October 15, 2009. Terms of the contract extension remain the same as the prior contract with the exception of a 2.0% wage increase in the first year, and a 2.5% increase in the second year. As a result of provisions in the contract, generally known as work rules, we sometimes cannot take steps that would reduce our operating costs. Furthermore, to our knowledge, we are one of only 13 unionized banking institutions in the United States. The banking industry is a consolidating industry in which acquisitions are frequent. However, some banking institutions may be reluctant to buy a unionized bank because of a perception that operating costs may be higher or that it could result in unionization of its work force. Additionally, there is the risk of a work stoppage if a new collective bargaining agreement cannot be negotiated before the end of the current agreement. Therefore, our stock price may be adversely affected because investors may conclude that there is a reduced likelihood that we will be acquired or could be an acquiror.

A meaningful portion of our trust business is dependent on a union client base.

In an effort to capitalize on the Bank s union affiliation, our Trust Company operates the ERECT Funds and the BUILD Funds that seek to attract investment from union pension funds. These funds then use the investments to make loans and/or equity investments on construction projects that use union labor. At December 31, 2007, approximately $415 million was invested by unions in the ERECT and BUILD Funds. This represents approximately 22.0% of the total assets under management held by the Trust Company. Therefore, the Trust Company is dependent on a discrete union client base for a meaningful portion of its assets under management and its resulting revenue and net income.

Changes in interest rates could reduce our income, cash flows and asset values.

Our income, cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, as well as the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in

monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings, but it also will affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. This challenge was particularly evident during periods such as 2006 and the first half of 2007 when the yield curve was flat to inverted. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

Because our operations are concentrated in Cambria and Somerset Counties, Pennsylvania, we are subject to economic conditions in this area, which typically lag behind economic activity in other areas.

Our loan and deposit activities are largely based in Cambria and Somerset Counties, located in southwestern Pennsylvania. As a result, our financial performance will depend largely upon economic conditions in this area. Economic activity in this geographic market generally lags behind the economic activity in Pennsylvania and the nation. Similarly, unemployment in this market area is typically higher than the unemployment rate in Pennsylvania and the nation, although this difference has declined in recent years as our local economy has become more diversified. Adverse local economic conditions could cause us to experience a reduction in deposits, an increase in the number of borrowers who default on their loans and a reduction in the value of the collateral securing their loans, all of which could adversely affect our profitability.

We are subject to lending risks.

There are risks inherent in making all loans. These risks include interest rate changes over the time period in which loans may be repaid and changes in the national economy or the economy of our regional market that affect the ability of our borrowers to repay their loans or the value of the collateral securing these loans.

At December 31, 2007, 63.5% of our net loan portfolio consisted of commercial and commercial mortgage loans, including construction loans. Commercial loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans also are typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial and commercial mortgage loans with relatively large balances, the deterioration of one or a few of these loans would cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in our provision for loan losses and an increase in loan charge-offs.

Our financial condition and results of operations would be adversely affected if our allowance for loan losses is not sufficient to absorb actual losses or if we are required to increase our allowance.

Despite our underwriting criteria, we may experience loan delinquencies and losses for reasons beyond our control, such as general economic conditions. At December 31, 2007, we had nonperforming assets equal to 0.83% of total loans, and loans held for sale, net of unearned income and other real estate owned. In order to absorb losses associated with nonperforming assets, we maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Determination of the allowance inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. We may be required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance. In

addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and may materially affect our results of operations in the period in which the allowance is increased.

Our future success will depend on our ability to compete effectively in a highly competitive market and geographic area.

We face substantial competition in all phases of our operations from a variety of different competitors, including commercial banks, savings and loan associations, mutual savings banks, credit unions, consumer finance companies, factoring companies, insurance companies and money market mutual funds. There is very strong competition among financial services providers in our principal service area. Due to their size, many competitors can achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can.

We believe that our ability to compete successfully depends on a number of factors, including:

- Our ability to build upon existing customer relationships and market position;
- Competitors interest rates and service fees;
- Our ability to attract and retain a qualified workforce;
- The scope of our products and services;
- The relevance of our products and services to customer needs and demands and the rate at which we and our competitors introduce them;
- Satisfaction of our customers with our customer service; and
- Industry and general economic trends.

If we experience difficulty in any of these areas, our competitive position could be materially adversely affected, which will affect our growth and profitability.

Some of the financial services organizations with which we compete are not subject to the same degree of regulation as is imposed on federally insured financial institutions. As a result, those non-bank competitors may be able to access funding and provide various services more easily or at less cost than we can, adversely affecting our ability to compete effectively.

Environmental liability associated with lending activities could result in losses.

In the course of our business, we may foreclose on and take title to properties securing our loans. If hazardous substances were discovered on any of these properties, we may be liable to governmental entities or third parties for the costs of remediation of the hazard, as well as for personal injury and property damage. Many environmental laws can impose liability regardless of whether we knew of, or were responsible for, the contamination. In addition, if we arrange for the disposal of hazardous or toxic substances at another site, we may be liable for the costs of cleaning up and removing those substances from the site, even if we neither own nor operate the disposal site. Environmental laws may require us to incur substantial expenses and may materially limit use of properties we acquire through foreclosure, reduce their value or limit our ability to sell them in the event of a default on the loans they secure. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability.

We may be adversely affected by government regulation.

We are subject to extensive federal and state banking regulation and supervision. Banking regulations are intended primarily to protect our depositors funds and the federal deposit insurance funds, not shareholders. Regulatory requirements affect our lending practices, capital structure, investment practices, dividend policy and growth. Failure to meet minimum capital requirements could result in the imposition of limitations on our operations that would adversely impact our operations and could, if capital levels drop significantly, result in our being required to cease operations. Changes in governing law, regulations or regulatory practices could impose additional costs on us or adversely affect our ability to obtain deposits or make loans and, as a consequence, our revenues and profitability.

Table of Contents

RISKS ASSOCIATED WITH THE COMPANY S COMMON STOCK

The Company s stock price can be volatile.

Stock price volatility may make it more difficult for you to resell your common stock when you want and at prices you find attractive. The Company s stock price can fluctuate significantly in response to a variety of factors including, among other things:

Actual or anticipated variations in quarterly results of operations;

Operating and stock price performance of other companies that investors deem comparable to the Company;

News reports relating to trends, concerns and other issues in the financial services industry;

Perceptions in the marketplace regarding the Company and/or its competitors;

New technology used, or services offered, by competitors;

Changes in government regulations; and

Geopolitical conditions such as acts or threats of terrorism or military conflicts.

General market fluctuations, industry factors and general economic and political conditions and events, such as economic slowdowns or recessions, interest rate changes or credit loss trends, could also cause the Company s stock price to decrease regardless of operating results.

The trading volume in the Company s common stock is less than that of other larger financial services companies.

Although the Company s common stock is listed for trading on the National Market System (NASDAQ), the trading volume in its common stock is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Company s common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Company has no control. Given the lower trading volume of the Company s common stock, significant sales of the Company s common stock, or the expectation of these sales, could cause the Company s stock price to fall.

An investment in our common stock is not an insured deposit.

Our common stock is not a bank deposit and, therefore, is not insured against loss by the Federal Deposit Insurance Corporation, commonly referred to as the FDIC, any other deposit insurance fund or by any other public or private entity. Investment in our common stock is inherently risky for the reasons described in this Risk Factors section and is subject to the same market forces that affect the price of common stock in any company. As a result, if you acquire our common stock, you may lose some or all of your investment.

ITEM 1B. *UNRESOLVED STAFF COMMENTS*

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

ITEM 2. *PROPERTIES*

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus twelve floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 13 other locations which are owned. Ten additional locations are leased with terms expiring from January 1, 2008 to March 31, 2018.

ITEM 3. ***LEGAL PROCEEDINGS***

The Company is subject to a number of asserted and unasserted potential legal claims encountered in the normal course of business. In the opinion of both management and legal counsel, there is no present basis to

conclude that the resolution of these claims will have a material adverse effect on the Company s consolidated financial position, results of operations or cash flows.

ITEM 4. ***SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS***

No matter was submitted by the Company to its shareholders through the solicitation of proxies or otherwise during the fourth quarter of the fiscal year covered by this report.

PART II

ITEM 5. ***MARKET FOR THE REGISTRANT S COMMON STOCK AND RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***

COMMON STOCK

As of January 31, 2008, the Company had 5,795 shareholders of its common stock. AmeriServ Financial, Inc. s common stock is traded on the NASDAQ National Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	Prices		Cash Dividends
	High	**Low**	**Declared**
Year ended December 31, 2007:			
First Quarter	**$ 4.85**	**$ 4.52**	**$ 0.00**
Second Quarter	**4.77**	**4.25**	**0.00**
Third Quarter	**4.26**	**3.33**	**0.00**
Fourth Quarter	**3.36**	**2.77**	**0.00**
Year ended December 31, 2006			
First Quarter	$ 5.00	$ 4.31	$ 0.00
Second Quarter	5.24	4.50	0.00
Third Quarter	4.96	4.43	0.00
Fourth Quarter	5.00	4.25	0.00

Table of Contents

PERFORMANCE GRAPH

The following Performance Graph and related information shall not be deemed Soliciting material or to be filed with the Securities and Exchange Commission, nor shall such information be incorporated by reference into any future filing under the Securities Act of 1933 or Securities Exchange Act of 1934, each as amended, except to the extent that the Company specifically incorporates it by reference into such filing.

Comparison of Five Year Cumulative Total Returns
Among AmeriServ Financial, Inc., NASDAQ Stock Market,
and NASDAQ Bank Stocks

The following table compares total shareholder returns for the Company over the past five years to the NASDAQ Stock Market and the NASDAQ Bank Stocks assuming a $100 investment made on December 31, 2002. Each of the three measures of cumulative return assumes reinvestment of dividends. The stock performance shown on the graph above is not necessarily indicative of future price performance.

	12/31/02	**12/31/03**	**12/31/04**	**12/31/05**	**12/31/06**	**12/31/07**
AmeriServ Financial, Inc.	$ 100.00	$ 175.40	$ 181.40	$ 153.70	$ 173.00	$ 97.20
NASDAQ Stock Market (US Companies)	100.00	150.80	164.60	168.10	185.50	205.30
NASDAQ Bank Stocks	100.00	133.00	151.20	148.30	168.70	135.20

Table of Contents

ITEM 6. ***SELECTED CONSOLIDATED FINANCIAL DATA***

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	At or for the Year Ended December 31,				
	2007	**2006**	**2005**	**2004**	**2003**
	(Dollars in thousands, except per share data)				
SUMMARY OF INCOME STATEMENT DATA:					
Total interest income	**$ 49,379**	$ 46,565	$ 45,865	$ 50,104	$ 55,005
Total interest expense	**25,156**	22,087	21,753	26,638	30,360
Net interest income	**24,223**	24,478	24,112	23,466	24,645
Provision for loan losses	**300**	(125)	(175)	1,758	2,961
Net interest income after provision for loan losses	**23,923**	24,603	24,287	21,708	21,684
Total non-interest income	**14,707**	12,841	10,209	14,012	16,995
Total non-interest expense	**34,672**	34,692	49,420	50,091	35,902
Income (loss) from continuing operations before income taxes	**3,958**	2,752	(14,924)	(14,371)	2,777
Provision (benefit) for income taxes	**924**	420	(5,902)	(5,845)	587
Income (loss) from continuing operations	**3,034**	2,332	(9,022)	(8,526)	2,190
Loss from discontinued operations, net of income taxes*			(119)	(1,193)	(1,641)
Net income (loss)	**$ 3,034**	$ 2,332	$ (9,141)	$ (9,719)	$ 549
PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:					
Basic earnings (loss) per share	**$ 0.14**	$ 0.11	$ (0.44)	$ (0.58)	$ 0.16
Diluted earnings (loss) per share	**0.14**	0.11	(0.44)	(0.58)	0.16
PER COMMON SHARE DATA FROM DISCONTINUED OPERATIONS*:					
Basic loss per share	$	$	$ (0.01)	$ (0.08)	$ (0.12)
Diluted loss per share			(0.01)	(0.08)	(0.12)
PER COMMON SHARE DATA:					
Basic earnings (loss) per share	**$ 0.14**	$ 0.11	$ (0.45)	$ (0.66)	$ 0.04
Diluted earnings (loss) per share	**0.14**	0.11	(0.45)	(0.66)	0.04
Cash dividends declared	**0.00**	0.00	0.00	0.00	0.00
Book value at period end	**4.07**	3.82	3.82	4.32	5.32

BALANCE SHEET AND OTHER DATA:					
Total assets	**$ 904,878**	$ 895,992	$ 880,176	$ 1,009,232	$ 1,148,782
Loans and loans held for sale, net of unearned income	**636,155**	589,435	550,602	521,416	503,387
Allowance for loan losses	**7,252**	8,092	9,143	9,893	11,682
Investment securities available for sale	**144,941**	175,543	201,569	373,584	524,573
Investment securities held to maturity	**18,533**	20,657	30,355	27,435	28,089
Deposits	**710,439**	741,755	712,665	644,391	654,597
Total borrowings	**82,115**	63,122	77,256	269,169	409,064
Stockholders equity	**90,294**	84,684	84,474	85,219	74,270
Full-time equivalent employees	**351**	369	378	406	413

* The Company sold its remaining mortgage servicing rights of Standard Mortgage Corporation, its former mortgage servicing subsidiary, in December 2004 and incurred discontinued operations activity of this non-core business in 2005 (see Note 23).

	At or for the Year Ended December 31,				
	2007	2006	2005	2004	2003
	(Dollars in thousands, except per share data)				
SELECTED FINANCIAL RATIOS:					
Return on average total equity	**3.51%**	2.74%	(10.77)%	(11.44)%	0.71%
Return on average assets	**0.34**	0.27	(0.95)	(0.76)	0.05
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	**89.54**	79.46	77.26	80.92	76.90
Ratio of average total equity to average assets	**9.79**	9.73	8.80	6.67	6.67
Interest rate spread	**2.54**	2.67	2.39	2.01	2.02
Net interest margin	**3.06**	3.12	2.76	2.28	2.31
Allowance for loan losses as a percentage of loans and loans held for sale, net of unearned income, at period end	**1.14**	1.37	1.66	1.90	2.32
Non-performing assets as a percentage of loans, loans held for sale and other real estate owned, at period end	**0.83**	0.39	0.78	0.75	2.26
Net charge-offs as a percentage of average loans and loans held for sale	**0.19**	0.16	0.11	0.68	0.22
Ratio of earnings to fixed charges and preferred dividends:(1)					
Excluding interest on deposits	**2.60X**	1.93X	(1.35)X	0.12X	1.15x
Including interest on deposits	**1.16**	1.12	0.05	0.46	1.09
Cumulative one year interest rate sensitivity gap ratio, at period end	**0.90**	0.85	0.89	0.78	0.96

(1) The ratio of earnings to fixed charges and preferred dividends is computed by dividing the sum of income before taxes, fixed charges, and preferred dividends by the sum of fixed charges and preferred dividends. Fixed charges represent interest expense and are shown as both excluding and including interest on deposits.

ITEM 7. ***MANAGEMENT S DISCUSSION AND ANALYSIS OF CONSOLIDATED FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)***

The following discussion and analysis of financial condition and results of operations of AmeriServ Financial, Inc. should be read in conjunction with the consolidated financial statements of AmeriServ Financial, Inc. including the related notes thereto, included elsewhere herein.

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2007, 2006, AND 2005

SUMMARY OVERVIEW:

There was significant financial turmoil in the national and global market place during the fourth quarter of 2007. Concerns that a credit and liquidity crunch within the banking sector and a weak housing market impacted by risky sub prime lending practices could combine to cause the United States economy to enter a recession in 2008. Because of the actions taken early in the Turnaround effort in 2003, 2004 and 2005, AmeriServ enters this period of uncertainty with strong capital, good asset quality, reduced operating expenses and continued improvement in net

income. Additionally, AmeriServ has never made a sub prime mortgage, therefore, it has never sold a sub prime mortgage and it owns no investment securities for which the collateral is sub prime mortgages. A few of the highlights of the fourth quarter of 2007 and some comments about the year as a whole follow.

On January 22, 2008, AmeriServ announced fourth quarter net income of $924,000 or $0.04 per share. This was a 59% increase over the $581,000 reported for the fourth quarter of 2006.

This level of net income meant that AmeriServ in the fourth quarter of 2007 reported a Return on Assets of 0.41%, the highest level reported since the balance sheet restructuring in 2005.

Loans Outstanding continued to grow, ending the 2007 year at $636 million. This represented solid growth of $47 million or 7.9% from the December 31, 2006 total.

Operating Expenses declined by $69,000 from the third quarter and $20,000 for the full year creating the third consecutive year of declining expenses.

Non-Performing Assets increased by $2.8 million over September 30, 2007. However, in early January 2008 the largest non- performing loan in the portfolio was paid off with no loss to the company, returning the coverage of the remaining non- performing assets by the Loan Loss Reserve to approximately 250%.

The Net Interest Margin in the fourth quarter was 3.08% or 15 basis points above the fourth quarter of 2006 and demonstrated an improving trend in the second half of 2007.

These fourth quarter highlights, combined with the improvements reported in the preceding quarters of 2007, enabled AmeriServ to report net income for the full year of $3.0 million or $0.14 per share, an increase of $702,000 or 30.1% better than the $2.3 million or $0.11 per share reported for 2006. We believe that this is tangible evidence that the AmeriServ Turnaround continued in 2007 even as conditions in our industry deteriorated. However, it is important to say that while we are pleased to report the continuing recovery of the franchise, we recognize that this level of earnings is still well below the level AmeriServ should be reporting. We remain committed to continue the unrelenting focus on building upon our growing strength in the community banking and trust activities which have been the focus of the Turnaround.

On January 22, 2008, AmeriServ also announced a stock repurchase program with a goal to buy back up to 5% or approximately 1.1 million of the outstanding common shares. The Board and management believe this is a positive strategy that will benefit shareholders. During 2007 the common stock prices of most banks were severely punished by investors who were concerned about the spreading turmoil in financial markets. By the end of 2007 many bank stocks, including that of AmeriServ, were selling below their stated book value. With the balance sheet restructuring activities of 2004 and 2005, AmeriServ not only reduced the size of the Company but also reduced the level of risk present on the restructured balance sheet. Concurrently, a maximum effort was effective in reducing the level of non-performing assets below that of AmeriServ s peer banks. We believe this stock repurchase program will result in positive changes. The number of shares outstanding will be reduced with the goal of improving future earnings per share. This will also allow us to return a portion of Company capital to shareholders while maintaining conservative capital ratios.

For the year ended December 31, 2006, the Company returned to profitability by reporting net income of $2.3 million or $0.11 per share. This compared favorably to the net loss of $9.1 million or ($0.45) per share reported for 2005. These positive 2006 earnings were generated from traditional community banking and trust activities with no complex financial transactions or unusual strategies. These earnings are an indication that the operating losses of 2002 and 2003 have ended and that the balance sheet restructuring losses of 2004 and 2005 have accomplished their stated goal to reconstitute AmeriServ as a safe and sound community bank with a growing trust and asset management subsidiary.

Specifically when analyzing 2005, the successful completion of a $10.3 million private placement common stock offering on September 29, 2005 provided the Company with the capital to facilitate a series of transactions which were designed to significantly improve the Company s interest rate risk position and position the Company for future increased earnings performance. These transactions and their related impact on 2005 earnings were as follows: 1) We retired all remaining $100 million of Federal Home Loan Bank (FHLB) convertible advances that had a cost of approximately 6.0% and a 2010 maturity. The Company incurred a $6.5 million pre-tax prepayment penalty to accomplish this transaction. 2) We terminated all interest rate hedges associated with the FHLB debt. The Company

incurred a pre-tax termination fee of $5.8 million to eliminate these hedges on which the Company was a net payer. 3) We sold $112 million of investment securities to provide the additional cash needed by the Bank for these FHLB debt and interest rate swap prepayments. The Company incurred a $2.5 million pre-tax loss on these investment security sales. 4) We redeemed at par $7.2 million of our high coupon trust preferred securities for which the Company incurred a $210,000 charge to write-off related unamortized issuance costs which is included within other expense. These transactions were significant factors that caused the Company to report losses in 2005.

Table of Contents

However, the execution of these transactions combined with the capital provided from the successful private placement common stock offerings strengthened the Company s balance sheet and reduced its risk profile.

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

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands, except per share data and ratios)		
Net income (loss)	**$ 3,034**	$ 2,332	$ (9,141)
Diluted earnings (loss) per share	**0.14**	0.11	(0.45)
Return on average equity	**3.51%**	2.74%	(10.77)%

The Company reported net income of $3.0 million or $0.14 per diluted share for 2007. This represents an increase of $702,000 or 30.1% when compared to net income of $2.3 million or $0.11 per diluted share for the full year 2006. The increase in net income in 2007 was due to increased non-interest revenue and lower non-interest expense which more than offset the negative impact of reduced net interest income, a higher provision for loan losses and increased income tax expense. The increase in non-interest revenue was driven by the benefit of the West Chester Capital Advisors acquisition which was completed in March of 2007. Also, the Company benefited from higher trust revenue and increased gains on asset sales in 2007.

The Company reported net income of $2.3 million or $0.11 per diluted share for 2006 compared to a net loss of $9.1 million or ($0.45) per diluted share in 2005. The Company increased earnings in 2006 by generating more revenue from traditional community banking and its trust company while reducing its non-interest expense base. This revenue improvement was evidenced by increased levels of both net interest income and non-interest income. The Company also benefited from a negative loan loss provision for the second consecutive year in 2006 due to the demonstrated sustained improvement in its asset quality. The Company s financial performance was negatively impacted by increased income tax expense in 2006 after recording an income tax benefit in 2005 due to the large pre-tax loss realized that year from the balance sheet restructuring actions discussed earlier.

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

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands, except ratios)		
Interest income	**$ 49,379**	$ 46,565	$ 45,865
Interest expense	**25,156**	22,087	21,753
Net interest income	**24,223**	24,478	24,112
Tax-equivalent adjustment	**91**	96	108

Net tax-equivalent interest income	**$ 24,314**	$ 24,574	$ 24,220
Net interest margin	**3.06%**	3.12%	2.76%

2007 NET INTEREST PERFORMANCE OVERVIEW. . . The Company s 2007 net interest income on a tax-equivalent basis decreased by $260,000 or 1.1% from 2006 due to a six basis point drop in the net interest margin to 3.06%. The decline in both net interest income and net interest margin resulted from the Company s cost of funds increasing at a faster pace than the earning asset yield particularly during the first six months of 2007. This resulted from deposit customer preference for higher yielding certificates of deposit and money market accounts due to the inverted/flat yield curve with short-term interest rates exceeding intermediate to longer term rates during that period. This net interest margin pressure overshadowed solid loan and deposit growth within our community bank. Average loans in 2007 grew by $43 million or 7.7% while average deposits increased by $14 million or 1.9% when

compared to 2006. However, it is important to note that the Federal Reserve reductions in short-term interest rates that began late in the third quarter of 2007 favorably impacted the Company. On a quarterly basis, the Company s net interest margin has shown improvement throughout 2007 increasing from 2.97% in the first quarter to 3.08% in the fourth quarter. This helped to reverse a trend of four consecutive quarters of net interest income and margin contraction experienced in 2006 where the margin declined from 3.20% to a low of 2.93% in the fourth quarter. The Company believes it is well positioned for net interest income and margin expansion in 2008.

COMPONENT CHANGES IN NET INTEREST INCOME: 2007 VERSUS 2006...Regarding the separate components of net interest income, the Company s total interest income for 2007 increased by $2.8 million or 6.0% when compared to 2006. This increase was due to a 30 basis point increase in the earning asset yield to 6.23%, and was aided by an $8 million increase in average earning assets. Within the earning asset base, the yield on the total loan portfolio increased by 18 basis points to 6.82% and reflects the higher interest rate environment in place during most of 2007 which has allowed the Company to book new loans at rates moderately higher than those currently in the portfolio. The yield on the total investment securities portfolio increased by 12 basis points to 4.08% as the Company has generally elected to not replace maturing lower yielding securities. Also reduced amortization expense on the Company s lower balance of mortgage-backed securities has favorably impacted the portfolio yield.

The $8 million increase in average earning assets was due to a $43 million or 7.7% increase in average loans partially mitigated by a $38 million or 17.0% reduction 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 2007 increased by $3.1 million or 13.9% when compared to 2006. This increase in interest expense was due to a higher cost of funds and an increase in total average interest bearing liabilities which were $4.0 million higher in 2007. The total cost of funds for 2007 increased by 43 basis points to 3.69% and was driven up by higher short-term interest rates and increased deposits when compared to 2006. Specifically, total average deposits increased by $14 million or 1.9% compared to 2006, while the cost of interest bearing deposits increased by 49 basis points to 3.54%. The increased cost of deposits reflects the higher short-term interest rate environment for the majority of 2007 as well as a customer movement of funds from lower cost savings accounts into higher yielding certificates of deposit. Average wholesale borrowings declined by $9 million in 2007 and averaged only 2.8% of total assets in 2007.

2006 NET INTEREST PERFORMANCE OVERVIEW. . . The Company s 2006 net interest income on a tax-equivalent basis increased by $354,000 or 1.5% from 2005. This improvement reflected the benefit of an increased net interest margin which more than offset a reduced level of average earning assets. Specifically, the net interest margin increased by 36 basis points to 3.12% while average earning assets declined by $91 million or 10.4%. Both of these items reflected the benefits of the previously mentioned balance sheet restructuring where the removal of high cost debt from the Company s balance sheet had resulted in lower levels of both borrowed funds and investment securities. Wholesale borrowings averaged only 3.9% of total assets in 2006 compared to 15.8% of total assets in 2005 while investment securities as a percentage of total assets had declined from 36.5% to 25.4% during this same period. The Company s net interest margin and net interest income also benefited from increased loans in the earning asset mix as total loans outstanding averaged $564 million in 2006, a $39 million or 7.4% increase from 2005. This loan growth was driven by increased commercial and commercial real estate loans. Total deposits averaged $735 million in 2006, a $35 million or 5.0% increase from 2005 due primarily to increased deposits from the trust company s operations and increased certificates of deposit as customers demonstrated a preference for this product due to higher short-term

interest rates. Overall, the Company generated increased net interest income from a smaller but stronger balance sheet despite the negative impact resulting from a flat to inverted yield curve which pressured the Company s net interest margin on a quarterly basis throughout 2006.

COMPONENT CHANGES IN NET INTEREST INCOME: 2006 VERSUS 2005... Regarding the separate components of net interest income, the Company s total interest income for 2006 increased by $688,000 or 1.5%

when compared to 2005. This increase was due to a 69 basis point increase in the earning asset yield to 5.93%, but was partially offset by a $91 million decrease in average earning assets. Within the earning asset base, the yield on the total loan portfolio increased by 39 basis points to 6.64% and reflected the higher interest rate environment in 2006 which allowed the Company to book new loans at rates higher than those in the portfolio. The yield on the total investment securities portfolio increased by 26 basis points to 3.96% due to the repricing of variable rate securities in the higher rate environment and reduced amortization expense on the Company s lower balance of mortgage-backed securities.

The $91 million decline in average earning assets was due to a $130 million or 37% reduction in average investment securities partially mitigated by a $39 million increase in average loans. The average investment securities decline in 2006 reflects the impact of the Company s deleveraging and balance sheet repositioning strategies which began in the second half of 2004 and continued throughout 2005. This repositioning involved selling investment securities and using the proceeds to retire borrowings. The increase in average loans reflects successful commercial loan growth as the Company was able to generate new business particularly in commercial real estate loans. This commercial loan growth led to a greater composition of loans in the earning asset mix that favorably impacted the Company s net interest margin.

The Company s total interest expense for 2006 increased by $334,000 or 1.5% when compared to 2005. This increase in interest expense was due to a higher cost of funds which more than offset the decline in total average interest bearing liabilities which were $87 million lower in 2006. We deleveraged our balance sheet by reducing high cost FHLB debt and trust preferred securities in the second half of 2005.

The total cost of funds for 2006 increased by 41 basis points to 3.26% and was driven up by higher short-term interest rates and increased deposits when compared to 2005. Specifically, total average deposits increased by $35 million or 5.0% compared to 2005, while the cost of interest bearing deposits increased by 87 basis points to 3.05%. The increased cost of deposits reflects the higher short-term interest rate environment as well as a customer movement of funds from lower cost savings and demand deposit accounts into higher yielding certificates of deposit.

Table of Contents

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

	Year Ended December 31,								
	2007			2006			2005		
	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield/ Rate	Average Balance	Interest Income/ Expense	Yield Rate
	(In thousands, except percentages)								
rest earning assets:									
ns, net of unearned ome	$ 607,507	$ 41,654	6.82%	$ 564,173	$ 37,693	6.64%	$ 525,401	$ 33,055	6.2
osits with banks	500	20	4.00	706	23	3.26	770	6	0.7
eral funds sold	2,278	121	5.26	62	3	5.21			
estment securities:									
ilable for sale	163,860	6,636	3.96	197,256	7,868	3.92	326,533	11,926	3.6
d to maturity	20,257	1,039	5.04	24,448	1,074	4.39	25,422	986	3.8
al investment securities	184,117	7,675	4.08	221,704	8,942	3.96	351,955	12,912	3.7
TAL INTEREST RNING ASSETS/ TEREST INCOME	794,402	49,470	6.23	786,645	46,661	5.93	878,126	45,973	5.2
n-interest earning assets:									
h and due from banks	17,750			18,841			21,449		
mises and equipment	8,623			8,324			9,365		
er assets	70,369			68,920			63,401		
ets of discontinued rations							1,135		
owance for loan losses	(7,755)			(8,750)			(9,613)		
TAL ASSETS	$ 883,389			$ 873,980			$ 963,863		
rest bearing liabilities:									
rest bearing deposits:									
rest bearing demand	$ 67,132	$ 1,184	1.76%	$ 57,817	$ 606	1.05%	$ 54,695	$ 227	0.4
ings	71,922	549	0.76	81,964	643	0.78	96,819	829	0.8
ney market	158,947	6,040	3.80	172,029	5,741	3.34	156,932	3,256	2.0
er time	346,134	15,038	4.34	319,220	12,242	3.83	284,951	8,673	3.0

al interest bearing osits	**644,135**	**22,811**	**3.54**	631,030	19,232	3.05	593,397	12,985	2.1
eral funds purchased other short-term rowings	**19,844**	**972**	**4.89**	32,821	1,672	5.09	78,152	2,599	3.3
vances from Federal ne Loan Bank	**4,852**	**253**	**5.22**	967	63	6.45	73,924	4,510	6.1
ranteed junior ordinated deferrable rest debentures	**13,085**	**1,120**	**8.57**	13,085	1,120	8.57	19,345	1,659	8.5
TAL INTEREST ARING BILITIES/INTEREST PENSE	**681,916**	**25,156**	**3.69**	677,903	22,087	3.26	764,818	21,753	2.8
-interest bearing ilities:									
nand deposits	**105,306**			104,266			107,018		
bilities of discontinued rations							379		
er liabilities	**9,703**			6,765			6,780		
ckholders equity	**86,464**			85,046			84,868		
TAL LIABILITIES D STOCKHOLDERS UITY	**$ 883,389**			$ 873,980			$ 963,863		
rest rate spread			**2.54**			2.67			2.3
interest income/net rest margin		**24,314**	**3.06%**		24,574	3.12%		24,220	2.7
-equivalent adjustment		**(91)**			(96)			(108)	
interest income		**$ 24,223**			$ 24,478			$ 24,112	

Table of Contents

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

	2007 vs. 2006 Increase (Decrease) due to Change in:			2006 vs. 2005 Increase (Decrease) due to Change in:		
	Average Volume	Rate	Total	Average Volume	Rate	Total
	(In thousands)					
INTEREST EARNED ON:						
Loans, net of unearned income	**$ 2,928**	**$ 1,033**	**$ 3,961**	$ 2,513	$ 2,125	$ 4,638
Deposits with banks	**(14)**	**11**	**(3)**		17	17
Federal funds sold	**118**		**118**	3		3
Investment securities:						
Available for sale	**(1,286)**	**79**	**(1,207)**	(4,990)	932	(4,058)
Held to maturity	**(257)**	**197**	**(60)**	(36)	124	88
Total investment securities	**(1,543)**	**276**	**(1,267)**	(5,026)	1,056	(3,970)
Total interest income	**1,489**	**1,320**	**2,809**	(2,510)	3,198	688
INTEREST PAID ON:						
Interest bearing demand deposits	**111**	**467**	**578**	13	366	379
Savings deposits	**(78)**	**(16)**	**(94)**	(116)	(70)	(186)
Money market	**(369)**	**668**	**299**	337	2,148	2,485
Other time deposits	**1,084**	**1,712**	**2,796**	1,139	2,430	3,569
Federal funds purchased and other short-term borrowings	**(637)**	**(63)**	**(700)**	(1,964)	1,037	(927)
Advances from Federal Home Loan Bank	**199**	**(9)**	**190**	(4,721)	274	(4,447)
Guaranteed junior subordinated deferrable interest debentures				(537)	(2)	(539)
Total interest expense	**310**	**2,759**	**3,069**	(5,849)	6,183	334
Change in net interest income	**$ 1,179**	**$ (1,439)**	**$ (260)**	$ 3,339	$ (2,985)	$ 354

*LOAN QUALITY. . .*AmeriServ Financial s written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. The Company s policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of

$250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business loans $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative

economic concerns indicate impairment. The following table sets forth information concerning AmeriServ Financial s loan delinquency and other non-performing assets.

	At December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Total loan past due 30 to 89 days	**$ 3,559**	$ 2,991	$ 4,361
Total non-accrual loans	**5,238**	2,286	4,149
Total non-performing assets(1)	**5,280**	2,292	4,315
Loan delinquency as a percentage of total loans and loans held for sale, net of unearned income	**0.56%**	0.51%	0.79%
Non-accrual loans as a percentage of total loans and loans held for sale, net of unearned income	**0.82**	0.39	0.75
Non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	**0.83**	0.39	0.78

(1) Non-performing assets are comprised of (i) loans that are on a non-accrual basis, (ii) loans that are contractually past due 90 days or more as to interest and principal payments and (iii) other real estate owned.

Loan delinquency levels have now remained below 1% for the past three years and reflect the improved loan portfolio quality. This stability resulted from the Company s diligent focus on improving asset quality as one of the core strategies of the Company s turnaround. Non-performing assets totaled $5.3 million or 0.83% of total loans at December 31, 2007 which represented an increase from the approximate $2.4 million non-performing asset total at December 31, 2006. The increase during the fourth quarter of 2007 resulted primarily from the transfer of a $2.4 million commercial real-estate loan into non-accrual status. The Company is pleased to report that this non-performing loan was subsequently paid-off in January 2008 with no loss to the bank.

Overall, the Company had one loan totaling $1.2 million at December 31, 2007, that had been restructured which involved granting loan rates less than that of the market rate.

While we are pleased with the sustained improvement in asset quality, we continue to closely monitor the portfolio given the number of relatively large sized commercial and commercial real estate loans within the portfolio. As of December 31, 2007, the 25 largest credits represented 31.4% of total loans outstanding.

ALLOWANCE AND PROVISION FOR LOAN LOSSES. . . As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, the Company uses a comprehensive methodology and procedural discipline to maintain an allowance for loan losses to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements; 1) reserves established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency and non-performing loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides adequate positioning in the event of variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the bank s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. Note that the

qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the

Table of Contents

Company s management to establish allocations which accommodate each of the listed risk factors. The following table sets forth changes in the allowance for loan losses and certain ratios for the periods ended.

	Year Ended December 31,				
	2007	2006	2005	2004	2003
	(In thousands, except ratios and percentages)				
Balance at beginning of year	**$ 8,092**	$ 9,143	$ 9,893	$ 11,682	$ 10,035
Transfer to reserve for unfunded loan commitments				(122)	(139)
Charge-offs:					
Commercial	**(934)**	(769)	(214)	(1,107)	(425)
Commercial loans secured by real estate	**(12)**	(2)	(113)	(1,928)	(172)
Real estate-mortgage	**(79)**	(76)	(145)	(139)	(331)
Consumer	**(307)**	(397)	(403)	(867)	(645)
Total charge-offs	**(1,332)**	(1,244)	(875)	(4,041)	(1,573)
Recoveries:					
Commercial	**40**	115	77	410	170
Commercial loans secured by real estate	**38**	41	15	7	2
Real estate-mortgage	**12**	19	52	65	63
Consumer	**102**	143	156	134	163
Total recoveries	**192**	318	300	616	398
Net charge-offs	**(1,140)**	(926)	(575)	(3,425)	(1,175)
Provision for loan losses	**300**	(125)	(175)	1,758	2,961
Balance at end of year	**$ 7,252**	$ 8,092	$ 9,143	$ 9,893	$ 11,682
Loans and loans held for sale, net of unearned income:					
Average for the year	**$ 610,685**	$ 567,435	$ 528,545	$ 503,742	$ 525,604
At December 31	**636,155**	589,435	550,602	521,416	503,387
As a percent of average loans and loans held for sale:					
Net charge-offs	**0.19%**	0.16%	0.11%	0.68%	0.22%
Provision for loan losses	**0.05**	(0.02)	(0.03)	0.35	0.56
Allowance for loan losses	**1.19**	1.43	1.73	1.96	2.22
Allowance as a percent of each of the following:					
Total loans and loans held for sale, net of unearned income	**1.14**	1.37	1.66	1.90	2.32
	203.77	270.54	209.65	298.79	79.82

Total delinquent loans (past due 30 to 89 days)										
Total non-accrual loans		**138.45**		353.98		220.37		255.70		108.36
Total non-performing assets		**137.35**		353.05		211.89		254.06		102.37
Allowance as a multiple of net charge-offs		**6.36x**		8.74x		15.90x		2.89x		9.94x
Total classified loans	**$**	**10,839**	$	15,163	$	20,208	$	22,921	$	35,135

For 2007, the provision for loan losses amounted to $300,000 compared to a negative loan loss provision of $125,000 for 2006 and $175,000 for 2005. The Company did experience higher net charge-offs in 2007, as net charge-offs amounted to $1.1 million or 0.19% of total loans compared to net charge-offs of $926,000 or 0.16% of total loans for 2006 and net charge-offs of $575,000 or 0.11% of total loans in 2005. Note that the Company s

Table of Contents

2007 net charge-offs were materially impacted by a third quarter $875,000 complete charge-off of a commercial loan that resulted from fraud committed by the borrower. Classified loans have now declined for four consecutive years from a high point of $35.1 million at December 31, 2003 to $10.8 million at December 31, 2007. This is another metric that demonstrates the sustained improvement in asset quality that the Company has experienced.

Additionally, at December 31, 2007, the allowance for loan losses as a percentage of total loans amounted to 1.14% compared to 1.37% at December 31, 2006 and 1.66% at December 31, 2005. The drop in this ratio since December 31, 2005 is due to a decrease in the size of the allowance for loan loss combined with an increase in total loans. The Company s allowance for loan loss coverage of non-performing assets amounted to 137% at December 31, 2007 compared to 353% at December 31, 2006 and 212% at December 31, 2005.

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

	At December 31,									
	2007		2006		2005		2004		2003	
	Amount	Percent of Loans in Each Category to Loans	Amount	Percent of Loans in Each Category to Loans	Amount	Percent of Loans in Each Category to Loans	Amount	Percent of Loans in Each Category to Loans	Amount	Percen of Loans in Each Categor to Loans
	(In thousands, except percentages)									
nmercial	**$ 2,074**	**18.7%**	$ 2,361	15.6%	$ 3,312	14.6%	$ 2,173	13.8%	$ 2,623	15.
nmercial loans ured by real estate	**3,632**	**44.8**	3,546	45.8	3,644	45.3	5,519	43.2	7,120	41.
l estate-mortgage	**316**	**33.9**	424	35.6	381	36.5	346	38.9	376	38.
sumer	**835**	**2.6**	1,000	3.0	1,022	3.6	1,074	4.1	853	5.
ocation to general	**395**		761		784		781		710	
al	**$ 7,252**	**100.0%**	$ 8,092	100.0%	$ 9,143	100.0%	$ 9,893	100.0%	$ 11,682	100.

Even though residential real estate-mortgage loans comprise 33.9% of the Company s total loan portfolio, only $316,000 or 4.4% of the total allowance for loan losses is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company s five-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company s historical loss experience in these categories, and other qualitative factors.

Based on the Company s allowance for loan loss methodology and the related assessment of the inherent risk factors contained within the Company s loan portfolio, we believe that the allowance for loan losses was adequate at December 31, 2007 to cover losses within the Company s loan portfolio.

NON-INTEREST INCOME. . Non-interest income for 2007 totaled $14.7 million; a $1.9 million or 14.5% increase from the 2006 performance. Factors contributing to the net increase in non-interest income in 2007 included:

a $974,000 increase in investment advisory fees resulting from the acquisition of West Chester Capital Advisors in March of 2007.

a $234,000 or 3.6% increase in trust fees due to continued successful new business development efforts. Over the past year, the fair market value of trust customer assets has grown by 5.9% to $1.9 billion at December 31, 2007.

a $202,000 increase in gains realized on residential mortgage loan sales into the secondary market in 2007. There were $26.3 million of residential mortgage loans sold into the secondary market in 2007 compared to $11.5 million in 2006.

other income increased by $377,000 in 2007 or 15.4% due in part to a $200,000 gain realized on the sale of a bank owned operations facility that was no longer being fully utilized. The Company also benefited from a $69,000 gain realized on the sale of a closed branch facility in the third quarter of 2007.

Non-interest income for 2006 totaled $12.8 million; a $2.6 million or 25.8% increase from the 2005 performance. Factors contributing to the net increase in non-interest income in 2006 included:

the Company realized $2.5 million of investment security losses in 2005 in conjunction with its balance sheet restructuring. There were no investment security losses realized in 2006.

a $390,000 or 6.4% increase in trust fees due to continued successful business development efforts in both the union and traditional trust product lines.

a $190,000 increase in bank owned life insurance proceeds due largely to the payment of a death claim in 2006.

a $104,000 decrease in gains realized on loan sales into the secondary market due to weaker residential mortgage loan production in 2006. Overall, there were $5.8 million fewer loans sold into the secondary market in 2006 when compared to 2005.

other income declined by $204,000 in 2006 or 7.7% due to reduced revenues from AmeriServ Associates, a subsidiary that previously provided asset liability management and investment consulting services to smaller community banks, that was closed in the second quarter of 2006 because it no longer fit the Company s strategic direction.

NON-INTEREST EXPENSE. . . Non-interest expense for 2007 totaled $34.7 million, a $20,000 decrease from the 2006 performance. Note that this overall decline in total non-interest expense occurred even after the inclusion of $820,000 of non-interest expenses from the newly acquired West Chester Capital Advisors. Factors contributing to the net decrease in non-interest expense in 2007 included:

salaries and employee benefits increased by $670,000 or 3.6% due primarily to $588,000 of personnel costs related to the West Chester Capital Advisors acquisition and an $85,000 curtailment charge for an early retirement program.

equipment expense decreased by $304,000 or 12.9% due to lower depreciation expense and maintenance costs.

FDIC deposit insurance expense declined by $104,000 or 54.2% due to the termination of the Memorandum of Understanding that the Company had been operating under in the first quarter of 2006.

other expenses declined by $268,000 due to a recovery on a previous mortgage loan securitization and our continuing focus on cost reduction and rationalization that has resulted in numerous expense reductions in categories such as software amortization, collection costs, telephone costs, and other taxes and insurance.

Non-interest expense for 2006 totaled $34.7 million, a $14.7 million or 29.8% decrease from the 2005 performance. Factors contributing to the net decrease in non-interest expense in 2006 included:

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

professional fees decreased by $1.0 million or 24.4% due to lower legal costs and external audit fees. The Company also experienced a reduction in costs related to Sarbanes Oxley Section 404 compliance in 2006 as the professional costs associated with the first year implementation were higher in 2005.

salaries and employee benefits decreased by $393,000 or 2.1% due primarily to 17 fewer full time equivalent employees (FTE) in 2006. The closure of AmeriServ Associates was responsible for a reduction of 8 of these FTE.

miscellaneous taxes and insurance declined by $195,000 or 11.1% due largely to reduced premium costs for professional insurance coverage.

other expenses declined by $433,000 as our continuing focus on cost reduction and rationalization has resulted in numerous expense reductions in categories such as collection costs, business development expenses, telephone costs, and other real estate owned expense. Also, the Company incurred a $210,000 charge to write-off unamortized issuance costs related to the redemption of trust preferred securities in 2005. There was no such charge in 2006.

INCOME TAX EXPENSE. . . For the full year 2007, the Company recorded an income tax expense of $924,000, which reflects an effective tax rate of 23.3%. This compares to $420,000 of income tax expense or an effective tax rate of approximately 15.3% in 2006 compared to an income tax benefit of approximately $5.9 million for 2005. The higher effective tax rate in 2007 resulted from the Company s improved profitability. As part of the 2006 tax expense, the Company did benefit from the elimination of a $100,000 income tax valuation allowance related to the deductibility of charitable contributions that management determined was no longer needed given the level of taxable income generated by the Company in 2006. The Company s largest source of tax-free income is from bank owned life insurance which is the primary reason why the effective tax rate is lower than the statutory rate in all years.

SEGMENT RESULTS. . . Retail banking s net income contribution was $2.0 million in 2007 compared to $1.2 million for 2006. The retail banking net income contribution was up from the prior year due to higher non-interest income and lower non-interest expense. This more than offset reduced net interest income and higher provision for loan losses. These same factors were also responsible for the $704,000 improvement in net income between 2006 and 2005. The reduced net interest income in both 2006 and 2007 reflected increased deposit costs due to the negative impact that the flat to inverted yield curve had on shifting customers into higher cost certificates of deposit.

The commercial lending segment increased its profitability by generating net income of $3.2 million in 2007 compared to $2.6 million of net income earned in 2006. The improved performance in 2007 was caused by increased net interest income resulting from the greater level of commercial loans outstanding. This more than offset higher non-interest expense and an increased provision for loan losses. Assets within the commercial lending segment increased by $70 million or 21.2% during 2007. When 2006 is compared to 2005, the net income contribution increased by $1.2 million for this segment again due largely to higher net interest income resulting from commercial loan growth. Improved asset quality also allowed the Company to release a portion of our allowance for loan losses into earnings in both 2006 and 2005.

The trust segment s net income contribution in 2007 amounted to $1.8 million which was up $99,000 from the prior year. Successful new business development and the acquisition of West Chester Capital Advisors caused revenues to increase at a faster pace than expenses in 2007. Between 2006 and 2005, the trust segment s net income contribution increased by $303,000 due to increased revenue and controlled expenses. The diversification of the revenue-generating divisions within the trust segment is also one of the primary reasons for its successful profitable growth over the past several years. The specialized union collective funds are expected to continue to be a unique growth niche for the trust company. The union collective investment funds, namely the ERECT and BUILD Funds are designed to invest union pension dollars in construction projects that utilize union labor. The union funds have attracted several international labor unions as investors as well as many local unions from a number of states. The market value of these union funds totaled $415 million at December 31, 2007. Overall, since December 31, 2006, the fair market value of all trust assets combined with the West Chester Capital acquisition caused customer assets to increase by $242 million or 13.6% to $1.9 billion at December 31, 2007.

The investment/parent segment reported a net loss of $3.9 million in 2007 which was greater than the net loss of $3.2 million realized in 2006, but significantly less than the net loss of $12.2 million realized in 2005. The lower level of net interest income in this segment in 2007 reflects the negative impact of the inverted/flat yield curve with short-term rates exceeding intermediate to longer term rates during the first eight months of 2007. This more than

offset the benefit of lower non-interest expenses. Note that the loss in 2005 was due primarily to the previously discussed balance sheet restructuring actions which were executed to reduce the Company s risk profile and improve our earnings power. Specifically in 2005, these restructuring actions included $12.3 million of FHLB debt and interest rate hedge prepayment penalties and $2.6 million of losses realized on investment security sales.

For greater discussion on the future strategic direction of the Company s key business segments, see Forward Looking Statement which begins on page 38.

BALANCE SHEET. . . The Company s total consolidated assets were $905 million at December 31, 2007, compared with $896 million at December 31, 2006, which represents an increase of $8.9 million or 1.0%. This higher level of assets resulted primarily from an increased level of loans. The Company s loans totaled $636 million at December 31, 2007, an increase of $47 million or 7.9% from year-end 2006 due to commercial loan growth. Investment securities declined by $33 million in 2007 as investment portfolio cash flow has been used to either fund loan growth or pay-down borrowings. Goodwill increased by $4.0 million to $13.5 million as a result of the West Chester Capital Advisors acquisition.

The Company s deposits totaled $710 million at December 31, 2007, which was $31 million or 4.2% lower than December 31, 2006. This decrease was due entirely to a $39 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 fourth quarter of 2007. The remainder of the deposit increase was due to increased certificates of deposit and growth in non-interest bearing demand deposits. Total borrowed funds increased by $32 million due to the replacement of the Trust specialty deposits with lower rate short-term borrowed funds and FHLB advances. Total stockholders equity increased to approximately $90 million at December 31, 2007 from $85 million at December 31, 2006 due to the retention of all earnings and a reduced accumulated other comprehensive loss due to the improved value of the Company s available for sale investment securities in 2007. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at December 31, 2007 of 9.74%. The Company s book value per share at December 31, 2007 was $4.07.

LIQUIDITY. . The Bank s liquidity position has been sufficient during the last several years when the Bank was undergoing a turnaround and return to traditional community banking. Our core deposit base has 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 that was used to reduce FHLB borrowings has not adversely affected the Bank s liquidity. We expect that liquidity will continue to be adequate as we transform the balance sheet to one that is more loan dependent.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by $1.0 million from December 31, 2006, to December 31, 2007, due primarily to $10.3 million of cash provided by operating activities. This was partially offset by $9.2 million of cash used in investing activities. Within investing activities, proceeds from investment security maturities exceeded cash used for limited purchases of new investment securities by $32.1 million. This reflected the Company s ongoing strategy of using cash from the investment portfolio to fund loans. Cash advanced for new loan fundings and purchases totaled $214 million and was $46 million more than the cash received from loan principal payments and sales. Note that both the level of new loan fundings and existing loan payoffs were sharply higher in 2007 when compared to the prior two years. Within financing activities, the Company experienced a net $31.3 million decline in deposits due to less utilization of specialty deposits from the Trust Company. The Company largely replaced these deposits with increased short-term FHLB borrowings and advances due to more attractive funding costs.

The Company used $1.0 million of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in 2007 and $2.2 million of cash to acquire West Chester Capital Advisors. There was no cash used for common stock cash dividends payments to shareholders in any of the past three years. The parent company had $4.1 million of cash and short-term investments at December 31, 2007.

Dividend payments from subsidiaries and the settlement of the inter-company tax position also provide ongoing cash to the parent. As of January 1, 2008, the subsidiary bank had $4.6 million of cash available for dividend upstream to

the parent as the bank s 2004 and 2005 loss years are no longer part of the dividend upstream calculation. On January 22, 2008, the Company announced a stock repurchase program with a goal to buy back up to 5% or approximately 1.1 million of the outstanding common shares.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositor and borrower customers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term

Table of Contents

investment securities, time deposits with banks, federal funds sold, banker s acceptances, and commercial paper. These assets totaled $8 million at both December 31, 2007 and December 31, 2006. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities and security maturities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the Federal Home Loan Bank systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company s subsidiary bank is a member of the Federal Home Loan Bank which provides the opportunity to obtain short- to longer-term advances based upon the Bank s investment in assets secured by one- to four-family residential real estate. At December 31, 2007, the bank had immediately available $218 million of overnight borrowing capability at the FHLB and $18 million of unsecured federal funds lines with correspondent banks. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES. . . The Company exceeds all regulatory capital ratios for each of the periods presented. The Company continues to be considered well capitalized as the asset leverage ratio was 9.74% at December 31, 2007 compared to 10.54% at December 31, 2006. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At December 31, 2007, accumulated other comprehensive loss amounted to $4.0 million. Additionally, the amortization of $865,000 of core deposit intangible assets has favorably impacted tangible capital. The tangible equity to asset ratio was 8.52% at December 31, 2007. We anticipate that our capital ratios may decline modestly during 2008 as we expect to return capital to our shareholders through the execution of the stock repurchase program that was discussed earlier.

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

Table of Contents

The following table presents a summary of the Company s static GAP positions at December 31, 2007:

Interest Sensitivity Period	3 Months or Less	Over 3 Months through 6 Months	Over 6 Months through 1 Year	Over 1 Year	Total
	(In thousands, except ratios and percentages)				
RATE SENSITIVE ASSETS:					
Loans and loans held for sale	$ 169,747	$ 41,332	$ 86,501	$ 331,323	$ 628,903
Investment securities	13,655	15,949	32,137	101,733	163,474
Regulatory stock	5,079			2,125	7,204
Short-term assets	197				197
Bank owned life insurance			32,864		32,864
Total rate sensitive assets	$ 188,678	$ 57,281	$ 151,502	$ 435,181	$ 832,642
RATE SENSITIVE LIABILITIES:					
Deposits:					
Non-interest bearing deposits	$	$	$	$ 113,380	$ 113,380
NOW	9,243			53,956	63,199
Money market	106,987			10,986	117,973
Other savings	17,289			51,866	69,155
Certificates of deposit of $100,000 or more	14,354	15,270	7,895	3,871	41,390
Other time deposits	110,587	31,215	55,837	107,703	305,642
Total deposits	258,460	46,485	63,732	341,762	710,439
Borrowings	72,222	12	24	22,942	95,200
Total rate sensitive liabilities	$ 330,682	$ 46,497	$ 63,756	$ 364,704	$ 805,639
INTEREST SENSITIVITY GAP:					
Interval	(142,004)	10,784	87,746	70,477	
Cumulative	$ (142,004)	$ (131,220)	$ (43,474)	$ 27,003	$ 27,003
Period GAP ratio	0.57X	1.23X	2.38X	1.19X	
Cumulative GAP ratio	0.57	0.65	0.90	1.03	
Ratio of cumulative GAP to total assets	(15.69)%	(14.50)%	(4.80)%	2.98%	

When December 31, 2007, is compared to December 31, 2006, the ratio of the cumulative GAP to total assets up to the one year time frame became less negative increasing from -7.80% to -4.80% due to an anticipated increase in asset prepayment speeds. This negative gap positioning suggests that the Company s net interest income should benefit from the recent reductions in short-term interest rates.

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

The following table presents an analysis of the sensitivity inherent in the Company s net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company s base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of

100 and 200 basis points. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company s existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario	Variability of Net Interest Income	Change in Market Value of Portfolio Equity
200 bp increase	(2.7)%	7.8%
100 bp increase	0.3	5.7
100 bp decrease	(1.9)	(12.3)
200 bp decrease	(8.9)	(32.9)

The market value of portfolio equity increases in the upward rate shocks due to improved value of the Company s core deposit base. Negative variability of market value of portfolio equity occurred in both downward rate shocks due to a reduced value for core deposits. Overall, the Company is within its policy guidelines for the interest rate simulations.

Within the investment portfolio at December 31, 2007, 90% of the portfolio is classified as available for sale and 10% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity to fund loan growth if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity but has no impact on regulatory capital. Furthermore, it is the Company s intent to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market. The Company also periodically sells 15-year fixed rate mortgage loans into the secondary market as well.

The amount of loans outstanding by category as of December 31, 2007, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

	One Year or Less	More than One Year through Five Years	Over Five Years	Total Loans
		(In thousands, except ratios)		
Commercial	$ 36,461	$ 66,550	$ 15,925	$ 118,936
Commercial loans secured by real estate	29,967	103,524	151,624	285,115
Real estate-mortgage	40,748	75,862	99,289	215,899
Consumer	2,763	4,694	9,219	16,676
Total	$ 109,939	$ 250,630	$ 276,057	$ 636,626
Loans with fixed-rate	$ 54,294	$ 160,737	$ 155,567	$ 370,600
Loans with floating-rate	55,645	89,893	120,490	266,026

Total	**$ 109,939**	**$ 250,630**	**$ 276,057**	**$ 636,626**
Percent composition of maturity	**17.3%**	**39.3%**	**43.4%**	**100.0%**
Fixed-rate loans as a percentage of total loans				**58.2%**
Floating-rate loans as a percentage of total loans				**41.8%**

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

Table of Contents

*CONTRACTUAL OBLIGATIONS. . .*The following table presents, as of December 31, 2007, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

			Payments due in			
	Note Reference	One Year or Less	One to Three Years	Three to Five Years	Over Five Years	Total
			(In thousands)			
Deposits without a stated maturity	8	$ 363,707	$	$	$	$ 363,707
Certificates of deposit*	8	245,387	78,661	29,039	24,234	377,321
Borrowed funds*	10	76,001	10,443	146	819	87,409
Guaranteed junior subordinated deferrable interest debentures*	10				33,264	33,264
Pension obligation	13	1,100				1,100
Lease commitments	14	582	970	524	502	2,578

* Includes interest based upon interest rates in effect at December 31, 2007. Future changes in market interest rates could materially affect contractual amounts to be paid.

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 $93,583,000 and standby letters of credit of $7,884,000 as of December 31, 2007. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. As of December 31, 2007, there were no interest rate contracts outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. . . The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses 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 $5.7 million, or 79%, of the total allowance for credit losses at December 31, 2007 has been allotted to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

ACCOUNT 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 (FAS) #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 timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2007, 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 considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At December 31, 2007, 100% of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by Government agencies, U.S. Treasury or

Table of Contents

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 intent and 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-K contains various forward-looking statements and includes assumptions concerning the Company s beliefs, plans, objectives, goals, expectations, anticipations estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipate 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

38

Table of Contents

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.

Table of Contents

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

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

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

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

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

For information regarding the market risk of the Company s financial instruments, see Interest Rate Sensitivity in the MD&A presented on pages 33-35. The Company s principal market risk exposure is to interest rates.

Table of Contents

ITEM 8. ***CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

CONSOLIDATED BALANCE SHEETS

	At December 31,	
	2007	2006
	(In thousands)	
ASSETS		
Cash and due from depository institutions	$ 24,715	$ 23,491
Interest bearing deposits	197	413
Cash and cash equivalents	24,912	23,904
Investment securities:		
Available for sale	144,941	175,543
Held to maturity (market value $18,378 at December 31, 2007 and $20,460 at December 31, 2006)	18,533	20,657
Loans held for sale	1,060	358
Loans	635,566	589,591
Less: Unearned income	471	514
Allowance for loan losses	7,252	8,092
Net loans	627,843	580,985
Premises and equipment, net	8,450	8,562
Accrued income receivable	4,032	4,165
Goodwill	13,497	9,544
Core deposit intangibles	973	1,838
Bank owned life insurance	32,864	32,256
Net deferred tax asset	13,750	15,837
Regulatory stock	7,204	5,355
Other assets	6,819	16,988
TOTAL ASSETS	$ 904,878	$ 895,992
LIABILITIES		
Non-interest bearing deposits	$ 113,380	$ 107,559
Interest bearing deposits	597,059	634,196
Total deposits	710,439	741,755
Short-term borrowings	72,210	49,091
Advances from Federal Home Loan Bank	9,905	946
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Total borrowed funds	95,200	63,122

Other liabilities	**8,945**	6,431
TOTAL LIABILITIES	**814,584**	811,308
STOCKHOLDERS EQUITY		
Preferred stock, no par value; 2,000,000 shares authorized; there were no shares issued and outstanding on December 31, 2007, and 2006		
Common stock, par value $2.50 per share; 30,000,000 shares authorized; 26,279,916 shares issued and 22,188,997 shares outstanding on December 31, 2007; 26,247,013 shares issued and 22,156,094 shares outstanding on December 31, 2006	**65,700**	65,618
Treasury stock at cost, 4,090,919 shares on December 31, 2007 and 2006	**(65,824)**	(65,824)
Capital surplus	**78,788**	78,739
Retained earnings	**15,602**	12,568
Accumulated other comprehensive loss, net	**(3,972)**	(6,417)
TOTAL STOCKHOLDERS EQUITY	**90,294**	84,684
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 904,878**	$ 895,992

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands, except per share data)		
INTEREST INCOME			
Interest and fees on loans:			
Taxable	**$ 41,345**	$ 37,366	$ 32,685
Tax exempt	**218**	231	262
Deposits with banks	**20**	23	6
Federal funds sold	**121**	3	
Investment securities:			
Available for sale	**6,636**	7,868	11,926
Held to maturity	**1,039**	1,074	986
Total Interest Income	**49,379**	46,565	45,865
INTEREST EXPENSE			
Deposits	**22,811**	19,232	12,985
Short-term borrowings	**972**	1,672	2,599
Advances from Federal Home Loan Bank	**253**	63	4,510
Guaranteed junior subordinated deferrable interest debentures	**1,120**	1,120	1,659
Total Interest Expense	**25,156**	22,087	21,753
Net Interest Income	**24,223**	24,478	24,112
Provision for loan losses	**300**	(125)	(175)
Net Interest Income after Provision for Loan Losses	**23,923**	24,603	24,287
NON-INTEREST INCOME			
Trust fees	**6,753**	6,519	6,129
Net gains on loans held for sale	**307**	105	209
Net realized losses on investment securities			(2,499)
Service charges on deposit accounts	**2,579**	2,561	2,700
Investment advisory fees	**974**		
Bank owned life insurance	**1,268**	1,207	1,017
Other income	**2,826**	2,449	2,653
Total Non-Interest Income	**14,707**	12,841	10,209
NON-INTEREST EXPENSE			
Salaries and employee benefits	**19,339**	18,669	19,062
Net occupancy expense	**2,494**	2,410	2,552

Equipment expense	**2,045**	2,349	2,509
Professional fees	**3,197**	3,208	4,242
Supplies, postage, and freight	**1,211**	1,167	1,154
Miscellaneous taxes and insurance	**1,436**	1,567	1,762
FDIC deposit insurance expense	**88**	192	289
Amortization of core deposit intangibles	**865**	865	865
Federal Home Loan Bank and hedge prepayment penalties			12,287
Other expense	**3,997**	4,265	4,698
Total Non-Interest Expense	**34,672**	34,692	49,420
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	**3,958**	2,752	(14,924)
Provision (benefit) for income taxes	**924**	420	(5,902)
INCOME (LOSS) FROM CONTINUING OPERATIONS	**3,034**	2,332	(9,022)
LOSS FROM DISCONTINUED OPERATIONS NET OF TAX BENEFIT $(61)			(119)
NET INCOME (LOSS)	**$ 3,034**	$ 2,332	$ (9,141)
PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:			
Basic:			
Income (loss)	**$ 0.14**	$ 0.11	$ (0.44)
Average number of shares outstanding	**22,171**	22,141	20,340
Diluted:			
Income (loss)	**$ 0.14**	$ 0.11	$ (0.44)
Average number of shares outstanding	**22,173**	22,149	20,340
PER COMMON SHARE DATA:			
Basic:			
Net income (loss)	**$ 0.14**	$ 0.11	$ (0.45)
Average number of shares outstanding	**22,171**	22,141	20,340
Diluted:			
Net income (loss)	**$ 0.14**	$ 0.11	$ (0.45)
Average number of shares outstanding	**22,173**	22,149	20,340
Cash dividends declared	**$ 0.00**	$ 0.00	$ 0.00

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
COMPREHENSIVE INCOME (LOSS)			
Net income (loss)	**$ 3,034**	$ 2,332	$ (9,141)
Other comprehensive income (loss), before tax:			
Pension obligation change for defined benefit plan	**21**		
Income tax effect	**(7)**		
Unrealized holding gains (losses) on available for sale securities arising during period	**3,683**	1,309	(3,605)
Income tax effect	**(1,252)**	(444)	1,226
Reclassification adjustment for losses on available for sale securities included in net loss			2,499
Income tax effect			(850)
Other comprehensive income (loss)	**2,445**	865	(730)
Comprehensive income (loss)	**$ 5,479**	$ 3,197	$ (9,871)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

	Year Ended December 31,		
	2007	**2006**	**2005**
		(In thousands)	
COMMON STOCK			
Balance at beginning of period	**$ 65,618**	$ 65,508	$ 59,522
Stock options exercised/new shares issued	**82**	110	67
Shares issued from private offering			5,919
Balance at end of period	**65,700**	65,618	65,508
TREASURY STOCK			
Balance at beginning of period	**(65,824)**	(65,824)	(65,824)
Balance at end of period	**(65,824)**	(65,824)	(65,824)
CAPITAL SURPLUS			
Balance at beginning of period	**78,739**	78,620	75,480
Stock options exercised/new shares issued	**37**	64	66
Stock option expense	**12**	55	
Shares issued from private offering, net of issuance costs			3,074
Balance at end of period	**78,788**	78,739	78,620
RETAINED EARNINGS			
Balance at beginning of period	**12,568**	10,236	19,377
Net income (loss)	**3,034**	2,332	(9,141)
Balance at end of period	**15,602**	12,568	10,236
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period	**(6,417)**	(4,066)	(3,336)
Cumulative effect of adoption of change in accounting for pension obligation, net of tax effect		(3,216)	
Other comprehensive income (loss)	**2,445**	865	(730)
Balance at end of period	**(3,972)**	(6,417)	(4,066)
TOTAL STOCKHOLDERS EQUITY	**$ 90,294**	$ 84,684	$ 84,474

See accompanying notes to consolidated financial statements.

Table of Contents

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2007	**2006**	**2005**
		(In thousands)	
OPERATING ACTIVITIES			
Net income (loss)	**$ 3,034**	$ 2,332	$ (9,141)
Loss from discontinued operations			(119)
Income (loss) from continuing operations	**3,034**	2,332	(9,022)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Provision for loan losses	**300**	(125)	(175)
Depreciation and amortization expense	**1,505**	1,700	1,817
Amortization expense of core deposit intangibles	**865**	865	865
Net amortization of investment securities	**387**	597	1,560
Net realized losses on investment securities available for sale			2,499
Net gain on sale of fixed assets	**(248)**		
Net realized gains on loans held for sale	**(307)**	(105)	(209)
Amortization of deferred loan fees	**(518)**	(393)	(421)
Loss on prepayment of interest rate swaps			5,825
Origination of mortgage loans held for sale	**(26,720)**	(11,714)	(16,807)
Sales of mortgage loans held for sale	**26,325**	11,454	17,298
Write-off of debt issuance costs			210
Decrease (increase) in accrued interest receivable	**133**	(40)	163
Increase (decrease) in accrued interest payable	**530**	1,029	(707)
Net decrease (increase) in other assets	**2,047**	(1,148)	(10,605)
Net increase in other liabilities	**3,000**	627	889
Net cash provided by (used in) operating activities from continuing operations	**10,333**	5,079	(6,820)
Net cash used in operating activities from discontinued operations			(597)
Net cash provided by (used in) operating activities	**10,333**	5,079	(7,417)
INVESTING ACTIVITIES			
Purchase of investment securities available for sale	**(6,768)**	(8,823)	(32,469)
Purchase of investment securities held to maturity		(1,500)	
Purchase of regulatory stock	**(5,824)**	(3,363)	
Proceeds from maturities of investment securities available for sale	**42,639**	28,088	60,086
Proceeds from maturities of investment securities held to maturity	**2,054**	11,104	3,701
Proceeds from sales of investment securities available for sale			132,595
Proceeds from redemption of regulatory stock	**3,975**	4,996	
Long-term loans originated	**(180,558)**	(142,247)	(119,012)
Principal collected on long-term loans	**163,819**	112,027	110,991

Loans purchased or participated	**(33,762)**	(10,004)	(22,104)
Loans sold or participated	**4,500**	1,600	1,000
Net increase in other short-term loans	**(332)**	(377)	(497)
Purchases of premises and equipment	**(1,667)**	(1,597)	(1,028)
Proceeds from sale/retirement of premises and equipment	**522**	50	210
Acquisition of West Chester Capital Advisors	**2,200**		
Net cash (used in) provided by investing activities	**(9,202)**	(10,046)	133,473
FINANCING ACTIVITIES			
Net (decrease) increase in deposit accounts	**(31,316)**	22,608	68,264
Net increase (decrease) in other short-term borrowings	**23,119**	(14,093)	(88,751)
Principal advances on advances from Federal Home Loan Bank	**9,004**		
Principal repayments on advances from Federal Home Loan Bank	**(45)**	(41)	(100,039)
Cancellation payment of interest rate swaps			(5,825)
Guaranteed junior subordinated deferrable interest debenture dividends paid	**(1,016)**	(1,016)	(1,546)
Redemption of guaranteed junior subordinated deferrable interest debentures			(7,200)
Proceeds from dividend reinvestment and stock purchase plan and stock options exercised	**131**	173	133
Private placement issuance of common stock			10,300
Costs associated with private placement			(1,482)
Net cash (used in) provided by financing activities	**(123)**	7,631	(126,146)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,008**	2,664	(90)
CASH AND CASH EQUIVALENTS AT JANUARY 1	**23,904**	21,240	21,330
CASH AND CASH EQUIVALENTS AT DECEMBER 31	**$ 24,912**	$ 23,904	$ 21,240

See accompanying notes to consolidated financial statements.

45

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
At and for the Years Ended
December 31, 2007, 2006 and 2005

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND NATURE OF OPERATIONS:

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary the Company operates 19 banking locations in five southwestern Pennsylvania counties. These branches provide a full range of consumer, mortgage, and commercial financial products. The AmeriServ Trust and Financial Services Company (Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately $1.9 billion at December 31, 2007. On March 7, 2007, the Bank completed the acquisition of West Chester Capital Advisors (WCCA). WCCA is a registered investment advisor with expertise in large cap stocks and at December 31, 2007 had $137 million in assets under management.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), Trust Company, and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 19 locations in Pennsylvania. On March 7, 2007, the Bank completed the acquisition of West Chester Capital Advisors (WCCA). WCCA is a registered investment advisor with expertise in large cap stocks and at December 31, 2007 had $137 million in assets under management. Standard Mortgage Corporation of Georgia (SMC), a former wholly-owned subsidiary of the Bank, was a mortgage banking company whose business included the servicing of mortgage loans. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued the operations of this non-core business in 2005 (see Note 23). AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

INVESTMENT SECURITIES:

Securities are classified at the time of purchase as investment securities held to maturity if it is management s intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company s books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management s intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company s asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other

comprehensive income/loss within stockholders equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis. The Company does not engage in trading activity. Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

LOANS:

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

LOAN FEES:

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

LOANS HELD FOR SALE:

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

PREMISES AND EQUIPMENT:

Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is charged to operations over the estimated useful lives of the premises and equipment using the straight-line method with a half-year convention. Useful lives of up to 45 years for buildings and up to 12 years for equipment are utilized. Leasehold improvements are amortized using the straight-line method over the terms of the respective leases or useful lives of the improvements, whichever is shorter. Maintenance, repairs, and minor alterations are charged to current operations as expenditures are incurred.

ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:

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

review of all criticized and impaired loans with balances over $250,000 ($100,000 for loans classified as doubtful or worse) to determine if any specific reserve allocations are required on an individual loan basis. The

specific reserve established for these criticized and impaired loans is based on careful analysis of the loan s performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan s effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.

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

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

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

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

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

The Company s policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loan relationships with aggregate balances in excess of $250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business loans $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

ALLOWANCE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:

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

expense in the consolidated statement of income and a separate reserve is recorded within the liabilities section of the consolidated balance sheet in other liabilities.

TRUST FEES:

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

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

BANK-OWNED LIFE INSURANCE:

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

INTANGIBLE ASSETS:

Core deposit intangible assets are amortized over their useful lives, which do not exceed 10 years. Prior to January 1, 2002, goodwill was amortized using the straight-line method over a period of 15 years. Beginning in 2002, the Company ceased amortizing goodwill in accordance with Financial Accounting Statement #142 (FAS #142). Goodwill and core deposit intangibles are reviewed for impairment at least on an annual basis or when events occur that could result in impairment.

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 220,892, 213,974, and 134,349 shares of common stock were outstanding during 2007, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per common share as the options exercise prices were greater than the average market price of the common stock for the respective periods.

STOCK-BASED COMPENSATION:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (FAS) #123(R) Share-Based Payment using the modified prospective method. Under this method, awards that are granted, modified, or vested after December 15, 2005, are measured and accounted for in accordance with FAS #123(R). The Company recognized $12,000 and $55,000 of pretax compensation expense for the year 2007 and 2006. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for the grants: risk-free interest rates ranging from 3.41% to 4.70%; expected lives of 10 years; expected volatility ranging from 33.39% to 39.65% and expected dividend yields of 0%.

The Company has stock based compensation plans, which are described more fully in Note 17 Stock Compensation Plans. Prior to FAS #123(R), the Company accounted for these plans under Accounting Principles Board Opinion #25, Accounting for Stock Issued to Employees, and related interpretations. No stock-based employee compensation expense had been reflected in net income as all rights and options to purchase the Company s stock granted under these plans had an exercise price equal to the market value of the underlying stock on the date of grant. The following table illustrates the income from continuing operations and earnings per share as

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (FAS) #123, Accounting for Stock-Based Compensation, to stock compensation plans.

**PRO FORMA NET LOSS
AND LOSS PER SHARE**

		Year Ended December 31, 2005 (In thousands, except per share data)
Net loss, as reported	$	(9,022)
Less: Total stock compensation expense determined under the fair value method for all awards, net of related tax effects		(74)
Pro forma net loss	$	(9,096)
Loss per share:		
Basic as reported	$	(0.44)
Basic pro forma		(0.45)
Diluted as reported		(0.44)
Diluted pro forma		(0.45)

COMPREHENSIVE LOSS:

For the Company, comprehensive loss includes net income, unfunded pension obligation and unrealized holding gains and losses from available for sale investment securities. The balances of accumulated other comprehensive loss were $(3,972,000), $(6,417,000) and $(4,066,000) at December 31, 2007, 2006 and 2005, respectively.

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 and securities purchased under agreements to resell. The Company made $138,000 in income tax payments in 2007; $169,000 in 2006; and $54,000 in 2005. The Company made total interest payments of $24,626,000 in 2007; $21,058,000 in 2006; and $22,460,000 in 2005.

INCOME TAXES:

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

INTEREST RATE CONTRACTS:

The Company can use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. These interest rate contracts function as hedges against specific assets or liabilities on the Consolidated Balance Sheets. The Company does not use interest rate contracts for trading purposes.

The interest rate contracts involve no exchange of principal either at inception or upon maturity; rather, they involve the periodic exchange of interest payments arising from an underlying notional principal amount. For

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

interest rate swaps, the interest differential to be paid or received is accrued by the Company and recognized as an adjustment to interest income or interest expense of the underlying assets or liabilities being hedged. Because only interest payments are exchanged, the cash requirement and exposure to credit risk are significantly less than the notional amount.

Any premium or transaction fee incurred to purchase interest rate caps or floors is deferred and amortized to interest income or interest expense over the term of the contract. Unamortized premiums related to the purchase of caps and floors are included in other assets on the consolidated balance sheets. There were no interest rate contracts in place at December 31, 2007 or December 31, 2006.

RECENT ACCOUNTING STANDARDS:

In December 2007, the FASB issued FAS No. 141 (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 September 2006, the FASB issued FAS No. 157, *Fair Value Measurements*, which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The standard does not expand the use of fair value in any new circumstances. FAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard did not have a material effect on the Company s results of operations or financial position.

In February 2007, the FASB issued FAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, which provides all entities with an option to report selected financial assets and liabilities at fair value. The objective of the FAS No. 159 is to improve financial reporting by providing entities with the opportunity to mitigate volatility in earnings caused by measuring related assets and liabilities differently without having to apply the complex provisions of hedge accounting. FAS No. 159 is effective as of the beginning of an entity s first fiscal year beginning after November 15, 2007. Early adoption is permitted as of the beginning of a fiscal year that begins on or before November 15, 2007 provided the entity also elects to apply the provisions of FAS No. 157, *Fair Value Measurements*. The Company presently does not expect to elect to adopt this standard.

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 September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-4 (EITF 06-4), *Accounting for Deferred Compensation and Postretirement Benefit Aspects of Endorsement Split-Dollar Life Insurance Arrangements*. The guidance is applicable to endorsement split-dollar life insurance arrangements, whereby the employer owns and controls the insurance policy, that are associated with

51

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

a postretirement benefit. EITF 06-4 requires that for a split-dollar life insurance arrangement within the scope of the Issue, an employer should recognize a liability for future benefits in accordance with FAS No. 106 (if, in substance, a postretirement benefit plan exists) or Accounting Principles Board Opinion No. 12 (if the arrangement is, in substance, an individual deferred compensation contract) based on the substantive agreement with the employee. EITF 06-4 is effective for fiscal years beginning after December 15, 2007. The adoption of this EITF did not have a material effect on the Company s results of operations or financial position.

In March 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-10 (EITF 06-10), *Accounting for Collateral Assignment Split-Dollar Life Insurance Agreements*. EITF 06-10 provides guidance for determining a liability for the postretirement benefit obligation as well as recognition and measurement of the associated asset on the basis of the terms of the collateral assignment agreement. EITF 06-10 is effective for fiscal years beginning after December 15, 2007. The adoption of this EITF did not have a material effect on the Company s results of operations or financial position.

In June 2007, the FASB ratified Emerging Issues Task Force Issue No. 06-11 (EITF 06-11), *Accounting for Income Tax Benefits of Dividends on Share-Based Payment Awards*. EITF 06-11 applies to share-based payment arrangements with dividend protection features that entitle employees to receive (a) dividends on equity-classified nonvested shares, (b) dividend equivalents on equity-classified nonvested share units, or (c) payments equal to the dividends paid on the underlying shares while an equity-classified share option is outstanding, when those dividends or dividend equivalents are charged to retained earnings under FAS No. 123R, *Share-Based Payment*, and result in an income tax deduction for the employer. A consensus was reached that a realized income tax benefit from dividends or dividend equivalents that are charged to retained earnings and are paid to employees for equity-classified nonvested equity shares, nonvested equity share units, and outstanding equity share options should be recognized as an increase in additional paid-in capital. EITF 06-11 is effective for fiscal years beginning after December 15, 2007, and interim periods within those fiscal years. The adoption of this EITF did not have a material effect on the Company s results of operations or financial position.

2. CASH AND DUE FROM BANKS

Cash and due from banks at December 31, 2007 and 2006, included $9,107,000 and $8,481,000, respectively, of reserves required to be maintained under Federal Reserve Bank regulations.

3. INVESTMENT SECURITIES

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

Investment securities available for sale:

	At December 31, 2007			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			

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**
Other securities		**3,598**				**(2)**		**3,596**
Total	$	**146,129**	$	**154**	$	**(1,342)**	$	**144,941**

Table of Contents

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investment securities held to maturity:

	At December 31, 2007			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
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	**5,750**		**(246)**	**5,504**
Total	**$ 18,533**	**$ 91**	**$ (246)**	**$ 18,378**

Investment securities available for sale:

	At December 31, 2006			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
U.S. Treasury	$ 6,011	$	$ (164)	$ 5,847
U.S. Agency	57,636	7	(1,021)	56,622
U.S. Agency mortgage-backed securities	113,460	22	(3,800)	109,682
Other securities	3,362	30		3,392
Total	$ 180,469	$ 59	$ (4,985)	$ 175,543

Investment securities held to maturity:

	At December 31, 2006			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			

U.S. Treasury	$	3,220	$		$	(69)	$	3,151
U.S. Agency		3,471				(75)		3,396
U.S. Agency mortgage-backed securities		7,216				(53)		7,163
Other securities		6,750						6,750
Total	$	20,657	$		$	(197)	$	20,460

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

Maintaining investment quality is a primary objective of the Company s investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody s Investors Service or Standard & Poor s rating of A. At December 31, 2007, 94.3% of the portfolio was rated AAA as compared to 94.8% at December 31, 2006. Less than 1.0% of the portfolio was rated below A or unrated on December 31, 2007. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. Treasury and U.S. Agencies, that exceeded 10% of shareholders equity at December 31, 2007.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was $146,365,000 at December 31, 2007 and $182,552,000 at December 31, 2006. The Company had realized no security gains or losses on available for sale securities in 2007 or 2006. The Company realized $78,000 of gross investment security gains and $2,577,000 of

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

gross investment security losses on available for sale securities in 2005. On a net basis, the realized losses amounted to ($1,649,000) in 2005 after factoring in the tax benefit of ($850,000) for 2005. The Company realized no gross investment security gains and losses on held to maturity securities in 2007, 2006 or 2005. Proceeds from sales of investment securities were zero during 2007 and 2006 and $133 million during 2005.

The following table sets forth the contractual maturity distribution of the investment securities, cost basis and fair market values, and the weighted average yield for each type and range of maturity as of December 31, 2007. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity. Average maturities are based upon the original contractual maturity dates with the exception of mortgage-backed securities for which the average lives were used. At December 31, 2007, the Company s consolidated investment securities portfolio had a modified duration of approximately 1.98 years. The weighted average expected maturity for available for sale securities at December 31, 2007 for U.S. Treasury, U.S. Agency, U.S. Agency Mortgage-Backed, and other securities was 0.87, 1.73, 4.73, and 1.0 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2007 for U.S. Treasury, U.S. Agency, U.S. Agency Mortgage-Backed and other securities was 1.94, 5.16, 5.01 and 1.42 years.

Investment securities available for sale:

	At December 31, 2007									
	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(In thousands, except yields)									
OST BASIS										
S. Treasury	$ 6,006	3.39%	$	%	$	%	$	%	$ 6,006	3.39%
S. Agency	1,983	4.61	36,058	4.38					38,041	4.39
S. Agency ortgage-backed curities			61,097	4.19	28,580	4.15	8,807	3.98	98,484	4.16
her securities	3,598	4.92							3,598	4.92
otal investment curities ailable for sale	$ 11,587	4.07%	$ 97,155	4.26%	$ 28,580	4.15%	$ 8,807	3.98%	$ 146,129	4.21%
AIR VALUE										
S. Treasury	$ 6,011		$		$		$		$ 6,011	
S. Agency	1,984		36,089						38,073	
S. Agency ortgage-backed curities			60,258		28,328		8,675		97,261	

ther securities	**3,596**				**3,596**
otal investment curities ailable for sale	**$ 11,591**	**$ 96,347**	**$ 28,328**	**$ 8,675**	**$ 144,941**

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Investment securities held to maturity:

	At December 31, 2007									
	Within 1 Year		After 1 Year But Within 5 Years		After 5 Years But Within 10 Years		After 10 Years		Total	
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield
	(In thousands, except yields)									
COST BASIS										
U.S. Treasury	$	%	$ 3,153	3.98%	$	%	$	%	$ 3,153	3.98%
U.S. Agency					3,473	5.22			3,473	5.22
U.S. Agency mortgage-backed securities			5,110	5.49	1,047	5.50			6,157	5.50
Other securities	2,500	5.62	3,250	5.78					5,750	5.71
Total investment securities held to maturity	$ 2,500	5.62%	$ 11,513	5.16%	$ 4,520	5.28%	$	%	$ 18,533	5.25%
FAIR VALUE										
U.S. Treasury	$		$ 3,208		$		$		$ 3,208	
U.S. Agency					3,496				3,496	
U.S. Agency mortgage-backed securities			5,122		1,048				6,170	
Other securities	2,452		3,052						5,504	
Total investment securities held to maturity	$ 2.452		$ 11,382		$ 4,544		$		$ 18,378	

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

Investment securities available for sale:

Less Than 12 Months	12 Months Or Longer	Total

	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency	$	$	$ 25,963	$ (12)	$ 25,963	$ (12)
U.S. Agency mortgage-backed securities	4,388	(31)	81,085	(1,297)	85,473	(1,328)
Other	22	(2)			22	(2)
Total investment securities available for sale	$ 4,410	$ (33)	$ 107,048	$ (1,309)	$ 111,458	$ (1,342)

Investment securities held to maturity:

	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other	$	$	$ 5,504	$ (246)	$ 5,504	$ (246)
Total investment securities held to maturity	$	$	$ 5,504	$ (246)	$ 5,504	$ (246)

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present information concerning investments with unrealized losses as of December 31, 2006 (in thousands):

Investment securities available for sale:

	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$ 996	$ (2)	$ 4,851	$ (162)	$ 5,847	$ (164)
U.S. Agency			49,554	(1,021)	49,554	(1,021)
U.S. Agency mortgage-backed securities	1,948	(5)	105,151	(3,795)	107,099	(3,800)
Total investment securities available for sale	$ 2,944	$ (7)	$ 159,556	$ (4,978)	$ 162,500	$ (4,985)

Investment securities held to maturity:

	Less Than 12 Months		12 Months Or Longer		Total	
	Fair Value	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**	**Fair Value**	**Unrealized Losses**
U.S. Treasury	$	$	$ 3,151	$ (69)	$ 3,151	$ (69)
U.S. Agency			3,396	(75)	3,396	(75)
U.S. Agency mortgage-backed securities	3,005	(17)	4,158	(36)	7,163	(53)
Total investment securities held to maturity	$ 3,005	$ (17)	$ 10,705	$ (180)	$ 13,710	$ (197)

For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. There are 37 positions that are temporarily impaired at December 31, 2007. The Company reviews its position quarterly and has asserted that at December 31, 2007, the declines outlined in the above table represent temporary declines and the Company does have the intent and ability to hold those securities to maturity or to allow a market recovery.

4. LOANS

The loan portfolio of the Company consisted of the following:

	At December 31,	
	2007	**2006**
	(In thousands)	
Commercial	**$ 118,936**	$ 91,746
Commercial loans secured by real estate	**285,115**	269,781
Real estate-mortgage	**214,839**	209,728
Consumer	**16,676**	18,336
Loans	**635,566**	589,591
Less: Unearned income	**471**	514
Loans, net of unearned income	**$ 635,095**	$ 589,077

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Real estate construction loans comprised 5.5% and 4.4% of total loans net of unearned income at December 31, 2007 and 2006, respectively. The Company has no exposure to sub prime mortgage loans in either the loan or investment portfolios. The Company has no direct credit exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2007 and 2006, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans.

In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. These transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled $4,729,000 and $3,977,000 at December 31, 2007 and 2006, respectively. An analysis of these related party loans follows:

	Year Ended December 31,	
	2007	**2006**
	(In thousands)	
Balance January 1	**$ 3,977**	$ 4,250
New loans	**1,457**	350
Payments	**(705)**	(623)
Balance December 31	**$ 4,729**	$ 3,977

5. ALLOWANCE FOR LOAN LOSSES

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

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands)		
Balance January 1	**$ 8,092**	$ 9,143	$ 9,893
Provision for loan losses	**300**	(125)	(175)
Recoveries on loans previously charged-off	**192**	318	300
Loans charged-off	**(1,332)**	(1,244)	(875)
Balance December 31	**$ 7,252**	$ 8,092	$ 9,143

6. NON-PERFORMING ASSETS

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

Table of Contents

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present information concerning non-performing assets:

	At December 31,		
	2007	2006	2005
	(In thousands, except percentages)		
Non-accrual loans			
Commercial	**$ 3,553**	$ 494	$ 2,315
Commercial loans secured by real estate	**225**	195	318
Real estate-mortgage	**875**	1,050	1,070
Consumer	**585**	547	446
Total	**5,238**	2,286	4,149
Past due 90 days or more and still accruing			
Consumer		3	31
Total		3	31
Other real estate owned			
Real estate-mortgage	**42**	3	130
Consumer			5
Total	**42**	3	135
Total non-performing assets	**$ 5,280**	$ 2,292	$ 4,315
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	**0.83%**	0.39%	0.78%
Total restructured loans (included in non-accrual loans above)	**$ 1,217**	$ 1,302	$ 258

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

The Company had loans totaling $3,778,000 and $9,582,000 being specifically identified as impaired and a corresponding allocation reserve of $694,000 and $1,835,000 at December 31, 2007 and 2006, respectively. The average outstanding balance for loans being specifically identified as impaired was $3,907,000 for 2007 and $10,872,000 for 2006. A majority of the impaired loans are collateral dependent, therefore the fair value of the collateral of the impaired loans is evaluated in measuring the impairment. The interest income recognized on impaired loans during 2007, 2006 and 2005 was $262,000, $725,000 and $833,000, respectively.

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

	Year Ended December 31,		
	2007	**2006**	**2005**
	(In thousands)		
Interest income due in accordance with original terms	**$ 215**	$ 214	$ 213
Interest income recorded	**(24)**	(55)	(12)
Net reduction in interest income	**$ 191**	$ 159	$ 201

58

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. PREMISES AND EQUIPMENT

An analysis of premises and equipment follows:

	At December 31, 2007	At December 31, 2006
	(In thousands)	
Land	**$ 1,208**	$ 1,714
Premises	**20,041**	19,198
Furniture and equipment	**15,681**	15,087
Leasehold improvements	**612**	618
Total at cost	**37,542**	36,617
Less: Accumulated depreciation and amortization	**29,092**	28,055
Net book value	**$ 8,450**	$ 8,562

The Company recorded depreciation expense of $1.5 million, $1.7 million and $1.8 million for 2007, 2006 and 2005, respectively.

8. DEPOSITS

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

	At December 31, 2007	At December 31, 2006
	(In thousands)	
Demand:		
Non-interest bearing	**$ 113,380**	$ 107,559
Interest bearing	**63,199**	58,047
Savings	**69,155**	74,452
Money market	**117,973**	174,118
Certificates of deposit in denominations of $100,000 or more	**41,390**	30,580
Other time	**305,342**	296,999
Total deposits	**$ 710,439**	$ 741,755

Interest expense on deposits consisted of the following:

	Year Ended December 31,		
	2007	2006	2005
	(In thousands)		
Interest bearing demand	**$ 1,184**	$ 606	$ 227
Savings	**549**	644	829
Money market	**6,040**	5,743	3,256
Certificates of deposit in denominations of $100,000 or more	**1,774**	1,894	1,378
Other time	**13,264**	10,345	7,295
Total interest expense	**$ 22,811**	$ 19,232	$ 12,985

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table sets forth the balance of other time deposits and certificates of deposit of $100,000 or more as of December 31, 2007 maturing in the periods presented:

Year	Other Time Deposits	Certificates of Deposit of $100,000 or More
	(In thousands)	
2008	$ 197,638	$ 37,519
2009	48,094	2,310
2010	18,776	400
2011	8,640	561
2012	14,411	238
2013 and after	17,783	362
Total	$ 305,342	$ 41,390

The aggregate amount of time certificates of deposit with a minimum denomination of $100,000 and individual retirement accounts with a minimum denomination of $250,000 was $85 million and $968,000, respectively, at December 31, 2007. Time certificates of deposit in excess of $100,000 and individual retirement accounts in excess of $250,000 are not federally insured.

The maturities on certificates of deposit greater than $100,000 or more as of December 31, 2007, are as follows:

MATURING IN:

	(In thousands)
Three months or less	$ 32,692
Over three through six months	18,847
Over six through twelve months	13,821
Over twelve months	19,282
Total	$ 84,642

9. FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

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

	At December 31, 2007	
	Federal Funds Purchased	Other Short-Term Borrowings
	(In thousands, except rates)	
Balance	$	$ 72,210
Maximum indebtedness at any month end	3,430	74,095
Average balance during year	99	19,745
Average rate paid for the year	5.18%	4.89%
Interest rate on year end balance		3.88

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	At December 31, 2006	
	Federal Funds Purchased	Other Short-Term Borrowings
	(In thousands, except rates)	
Balance	$	$ 49,091
Maximum indebtedness at any month end		61,728
Average balance during year	43	32,778
Average rate paid for the year	5.69%	5.10%
Interest rate on year end balance		5.48

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

These borrowing transactions can range from overnight to one year in maturity. The average maturity was two days at the end of 2007 and three days at the end of 2006.

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

Borrowings and advances from the FHLB consist of the following:

	At December 31, 2007	
Maturing	**Weighted Average Yield**	**Balance**
	(In thousands)	
Overnight	**3.88%**	**$ 72,210**
2009	**4.62**	**9,004**
2010 and after	**6.45**	**901**
Total advances	**4.79**	**9,905**
Total FHLB borrowings	**3.99%**	**$ 82,115**

At December 31, 2006
Weighted

Maturing	Maturing Average Yield	Balance
	(In thousands)	
Overnight	5.48%	$ 49,091
2011 and after	6.45	946
Total FHLB borrowings	5.50%	$ 50,037

The Company s subsidiary bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the bank s investment in assets secured by one-to four-family residential real estate. The rate on open repo plus advances, which are typically overnight borrowings, can change daily, while the rate on the advances is fixed until the maturity of the advance. All FHLB stock, along with an interest in certain mortgage loans and mortgage-backed securities, with an aggregate statutory value equal to the amount of the advances, are pledged as collateral to the FHLB of Pittsburgh to support these borrowings.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guaranteed Junior Subordinated Deferrable Interest Debentures:

On April 28, 1998, the Company completed a $34.5 million public offering of 8.45% Trust Preferred Securities, which represent undivided beneficial interests in the assets of a Delaware business trust, AmeriServ Financial Capital Trust I. The Trust Preferred Securities will mature on June 30, 2028, and are callable at par at the option of the Company after June 30, 2003. Proceeds of the issue were invested by AmeriServ Financial Capital Trust I in Junior Subordinated Debentures issued by AmeriServ Financial, Inc. Unamortized deferred issuance costs associated with the Trust Preferred Securities amounted to $318,000 as of December 31, 2007 and are included in other assets on the consolidated balance sheet, and are being amortized on a straight-line basis over the term of the issue. The Trust Preferred securities are listed on NASDAQ under the symbol ASRVP. AmeriServ Financial Capital Trust I was deconsolidated in the first quarter of 2004 in accordance with FASB Interpretation #46(R) Consolidation of Variable Interest Entities (FIN 46(R)). The Company used $22.5 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in 2005 and 2004. The balance as of December 31, 2007 and 2006 was $13.1 million.

Upon the occurrence of certain events, specifically a tax event or a capital treatment event, the Company may redeem in whole, or in part, the Guaranteed Junior Subordinated Deferrable Interest Debentures prior to June 30, 2028. A tax event means that the interest paid by the Company on the subordinated debentures will no longer be deductible for federal income tax purposes. A capital treatment event means that the Trust Preferred Securities no longer qualify as Tier 1 capital for purposes of the capital adequacy guidelines of the Federal Reserve. Proceeds from any redemption of the subordinated debentures would cause mandatory redemption of the Trust Preferred Securities.

11. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Estimated fair values have been determined by the Company using the best available data and an estimation methodology the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2007 and 2006, were as follows:

	2007		2006	
	Estimated Fair Value	**Recorded Book Balance**	**Estimated Fair Value**	**Recorded Book Balance**
	(In thousands)			
FINANCIAL ASSETS:				
Investment securities	**$ 163,319**	**$ 163,474**	$ 196,603	$ 196,200

Regulatory stock	**7,204**	**7,204**	5,355	5,355
Net loans (including loans held for sale), net of allowance for loan loss	**632,609**	**628,903**	579,691	581,343
Bank owned life insurance	**32,864**	**32,864**	32,256	32,256
FINANCIAL LIABILITIES:				
Deposits with no stated maturities	**$ 363,707**	**$ 363,707**	$ 414,176	$ 414,176
Deposits with stated maturities	**347,361**	**346,732**	326,752	327,579
Short-term borrowings	**72,210**	**72,210**	49,091	49,091
All other borrowings	**25,811**	**22,990**	16,181	14,031

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

Financial instruments with stated maturities have been valued using a present value discounted cash flow with a discount rat