

AMERISERV FINANCIAL INC /PA/  
Form 10-Q  
August 06, 2010

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

**FORM 10-Q**

**X**

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange  
Act of 1934**

For the period ended June 30, 2010

**Transition Report Pursuant to Section 13 or 15(d) of the Securities  
Exchange Act of 1934**

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

Commission File Number 0-11204

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation)

25-1424278

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

or organization)

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

(Address of principal executive offices)

(Zip Code)

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

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

Yes

No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period) that the registrant was required to submit and post such files).

Yes

No

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

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

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

Yes

No

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

Class

**Outstanding at August 2, 2010**

Common Stock, par value \$0.01

21,223,942

per share

INDEX

<b>PART I. FINANCIAL INFORMATION:</b>	<b><u>Page No.</u></b>
<b>Item 1. Financial Statements</b>	
Consolidated Balance Sheets (Unaudited) - June 30, 2010 and December 31, 2009	3
Consolidated Statements of Operations (Unaudited) - Three and Six Months Ended June 30, 2010 and 2009	4
Consolidated Statements of Cash Flows (Unaudited) - Six Months Ended June 30, 2010 and 2009	5
Notes to Unaudited Consolidated Financial Statements	6
<b>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	
	20
<b>Item 3. Quantitative and Qualitative Disclosure About Market Risk</b>	38
<b>Item 4T. Controls and Procedures</b>	38
<b>PART II. OTHER INFORMATION</b>	
<b>Item 1. Legal Proceedings</b>	39
<b>Item 1A. Risk Factors</b>	39
<b>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</b>	39
<b>Item 3. Defaults Upon Senior Securities</b>	39
<b>Item 4. (Removed and Reserved)</b>	39

<b>Item 5.</b> Other Information	39
<b>Item 6.</b> Exhibits	40

**Item 1. Financial Statements****AmeriServ Financial, Inc.****CONSOLIDATED BALANCE SHEETS**

(In thousands)

(Unaudited)

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
<b>ASSETS</b>		
Cash and due from depository institutions	\$ 17,596	\$ 20,835
Interest bearing deposits	1,713	1,707
Federal funds sold	10,160	-
Short-term investments in money market funds	<u>4,216</u>	<u>3,766</u>
Total cash and cash equivalents	33,685	26,308
Investment securities:		
Available for sale	148,096	131,272
Held to maturity (market value \$9,540 on June 30, 2010 and \$11,996 on December 31, 2009)	8,961	11,611
Loans held for sale	5,073	3,790
Loans	689,473	719,785
Less: Unearned income	558	671
Allowance for loan losses	<u>20,737</u>	<u>19,685</u>
Net loans	668,178	699,429
Premises and equipment, net	10,422	9,229
Accrued income receivable	3,703	3,589
Goodwill	12,950	12,950
Bank owned life insurance	34,202	33,690
Net deferred tax asset	15,411	15,925
Regulatory stock	9,739	9,739
Prepaid federal deposit insurance	3,916	4,538
Other assets	<u>7,946</u>	<u>7,956</u>
<b>TOTAL ASSETS</b>	<u>\$ 962,282</u>	<u>\$ 970,026</u>
<b>LIABILITIES</b>		
Non-interest bearing deposits	\$ 128,277	\$ 118,232

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

Interest bearing deposits	<u>680,900</u>	<u>667,779</u>
Total deposits	<u>809,177</u>	<u>786,011</u>
Short-term borrowings	-	25,775
Advances from Federal Home Loan Bank	17,777	25,804
Guaranteed junior subordinated deferrable interest		
debentures	<u>13,085</u>	<u>13,085</u>
Total borrowed funds	<u>30,862</u>	<u>64,664</u>
Other liabilities	<u>14,220</u>	<u>12,097</u>
<b>TOTAL LIABILITIES</b>	<u>854,259</u>	<u>862,772</u>

**SHAREHOLDERS' EQUITY**

Preferred stock, no par value; \$1,000 per share liquidation preference; 2,000,000 shares authorized; there were 21,000 shares issued and outstanding	20,724	20,558
Common stock, par value \$0.01 per share; 30,000,000 shares authorized; 26,412,561 shares issued and 21,223,942 outstanding on June 30, 2010; 26,410,528 shares issued and 21,221,909 outstanding on December 31, 2009	264	264
Treasury stock at cost, 5,188,619 shares on June 30, 2010 and December 31, 2009	(68,659)	(68,659)
Capital surplus	144,746	144,873
Retained earnings	13,624	14,591
Accumulated other comprehensive loss, net	<u>(2,676)</u>	<u>(4,373)</u>
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<u>108,023</u>	<u>107,254</u>

**TOTAL LIABILITIES AND**

<b>SHAREHOLDERS' EQUITY</b>	<u>\$ 962,282</u>	<u>\$ 970,026</u>
-----------------------------	-------------------	-------------------

See accompanying notes to unaudited consolidated financial statements.





## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

(Unaudited)

	Three months ended		Six months ended	
	June 30, <u>2010</u>	June 30, <u>2009</u>	June 30, <u>2010</u>	June 30, <u>2009</u>
<b>INTEREST INCOME</b>				
Interest and fees on loans	\$ 9,984	\$ 10,544	\$ 20,004	\$ 20,893
Interest bearing deposits	-	1	1	2
Short-term investments in money market funds	4	8	7	22
Federal funds sold	1	-	2	-
Investment securities:				
Available for sale	1,353	1,337	2,675	2,735
Held to maturity	<u>108</u>	<u>165</u>	<u>226</u>	<u>338</u>
Total Interest Income	<u>11,450</u>	<u>12,055</u>	<u>22,915</u>	<u>23,990</u>
<b>INTEREST EXPENSE</b>				
Deposits	2,833	3,404	5,760	6,659
Short-term borrowings	4	71	13	200
Advances from Federal Home Loan Bank	125	129	253	259
Guaranteed junior subordinated deferrable interest	-	-	-	-
debentures	<u>280</u>	<u>280</u>	<u>560</u>	<u>560</u>
Total Interest Expense	<u>3,242</u>	<u>3,884</u>	<u>6,586</u>	<u>7,678</u>
<b>NET INTEREST INCOME</b>	8,208	8,171	16,329	16,312
Provision for loan losses	<u>1,200</u>	<u>3,300</u>	<u>4,250</u>	<u>5,100</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR</b>	<u>7,008</u>	<u>4,871</u>	<u>12,079</u>	<u>11,212</u>
<b>LOAN LOSSES</b>				
<b>NON-INTEREST INCOME</b>				
Trust fees	1,373	1,438	2,827	2,997

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

Net realized gains on investment securities	42	63	107	164
Net gains on loans held for sale	159	163	290	281
Service charges on deposit accounts	611	710	1,183	1,383
Investment advisory fees	167	152	354	289
Bank owned life insurance	258	254	512	504
Other income	<u>778</u>	<u>711</u>	<u>1,415</u>	<u>1,434</u>
Total Non-Interest Income	<u>3,388</u>	<u>3,491</u>	<u>6,688</u>	<u>7,052</u>

**NON-INTEREST EXPENSE**

Salaries and employee benefits	5,236	4,983	10,435	10,075
Net occupancy expense	639	641	1,375	1,363
Equipment expense	427	442	845	857
Professional fees	1,114	873	2,216	1,793
Supplies, postage and freight	257	268	541	562
Miscellaneous taxes and insurance	353	329	707	673
FDIC deposit insurance expense	341	691	672	723
Amortization of core deposit intangibles	-	-	-	108
Other expense	<u>1,419</u>	<u>1,409</u>	<u>2,759</u>	<u>2,644</u>
Total Non-Interest Expense	<u>9,786</u>	<u>9,636</u>	<u>19,550</u>	<u>18,798</u>

<b>PRETAX INCOME (LOSS)</b>	610	(1,274)	(783)	(534)
Income tax expense (benefit)	<u>133</u>	<u>(335)</u>	<u>(342)</u>	<u>(128)</u>
<b>NET INCOME (LOSS)</b>	477	(939)	(441)	(406)

Preferred stock dividends	<u>262</u>	<u>263</u>	<u>525</u>	<u>522</u>
---------------------------	------------	------------	------------	------------

**NET INCOME (LOSS) AVAILABLE TO COMMON**

	<u>\$ 215</u>	<u>\$ (1,202)</u>	<u>\$ (966)</u>	<u>\$ (928)</u>
--	---------------	-------------------	-----------------	-----------------

**SHAREHOLDERS**

**PER COMMON SHARE DATA:**

Basic:

Net income (loss)	\$ 0.01	\$ (0.06)	\$ (0.05)	\$ (0.04)
Average number of shares outstanding	21,224	21,151	21,224	21,144

Diluted:

Net income (loss)	\$ 0.01	\$ (0.06)	\$ (0.05)	\$ (0.04)
Average number of shares outstanding	21,245	21,152	21,231	21,144
Cash dividends declared	\$ 0.00	\$ 0.00	\$ 0.00	\$ 0.00

See accompanying notes to unaudited consolidated financial statements.



## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months ended <u>June 30, 2010</u>	Six Months ended <u>June 30, 2009</u>
<b>OPERATING ACTIVITIES</b>		
Net loss	\$ (441)	\$ (406)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Provision for loan loss	4,250	5,100
Depreciation expense	739	813
Amortization expense of core deposit intangibles	-	108
Net amortization of investment securities	135	61
Net realized gains on investment securities available for sale	(107)	(164)
Net realized gains on loans held for sale	(290)	(281)
Amortization of deferred loan fees	(224)	(257)
Origination of mortgage loans held for sale	(26,507)	(41,740)
Sales of mortgage loans held for sale	25,514	36,182
Increase in accrued interest income receivable	(114)	(321)
Decrease in accrued interest expense payable	(1,033)	(530)
Earnings on bank owned life insurance	(512)	(504)
Deferred income taxes	514	155
Stock based compensation expense	39	50
Net increase in other assets	(940)	(1,024)
Net increase in other liabilities	<u>409</u>	<u>1</u>
Net cash provided by (used in) operating activities	<u>1,432</u>	<u>(2,757)</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investment securities - available for sale	(40,890)	(17,241)
Purchases of investment securities - held to maturity	(1,123)	-
Proceeds from sales of investment securities available for sale	1,801	4,746
Proceeds from maturities of investment securities available for sale	27,559	17,580
Proceeds from maturities of investment securities held to maturity	3,769	2,251
Long-term loans originated	(36,698)	(75,628)
Principal collected on long-term loans	65,574	65,436
Loans purchased or participated	(1,345)	(20,500)
Loans sold or participated	-	3,950

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

Net (increase) decrease in other short-term loans	(16)	174
Purchases of premises and equipment	<u>(1,932)</u>	<u>(326)</u>
Net cash provided by (used in) investing activities	<u>16,699</u>	<u>(19,558)</u>
<b>FINANCING ACTIVITIES</b>		
Net increase in deposit accounts	23,572	90,549
Net decrease in other short-term borrowings	(25,775)	(76,052)
Principal borrowings on advances from Federal Home Loan Bank	34,000	-
Principal repayments on advances from Federal Home Loan Bank	(42,026)	(24)
Preferred stock dividends	<u>(525)</u>	<u>(426)</u>
Net cash (used in) provided by financing activities	<u>(10,754)</u>	<u>14,047</u>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	7,377	(8,268)
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<u>26,308</u>	<u>35,124</u>
<b>CASH AND CASH EQUIVALENTS AT JUNE 30</b>	<u>\$ 33,685</u>	<u>\$26,856</u>

See accompanying notes to unaudited consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 18 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$1.3 billion that are not recognized on the Company's balance sheet at June 30, 2010. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

2.

**Basis of Preparation**

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

3.

**Accounting Policies**

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

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

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

In January 2010, the FASB issued ASU 2010-01, *Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash – a consensus of the FASB Emerging Issues Task Force*. ASU 2010-01 clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in EPS prospectively and is not a stock dividend. ASU 2010-01 is effective for interim and annual periods ending on or after December 15, 2009 and was applied on a retrospective basis. The adoption of this guidance did not have a material impact on the Company's financial position or results of operation.

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

will have on the Company's financial position or results of operations.

4.

### Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options and warrants to purchase 1,570,209 common shares, at exercise prices ranging from \$1.80 to \$6.10, and 1,544,509 common shares, at exercise prices ranging from \$2.31 to \$6.10, were outstanding as of June 30, 2010 and 2009, respectively, but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	(In thousands, except per share data)			
<b>Numerator:</b>				
Net income (loss)	\$ 477	\$ (939)	\$ (441)	\$ (406)
Preferred stock dividends	<u>262</u>	<u>263</u>	<u>525</u>	<u>522</u>
Net Income (loss) available to common shareholders	<u>\$ 215</u>	<u>\$ (1,202)</u>	<u>\$ (966)</u>	<u>\$ (928)</u>
<b>Denominator:</b>				
Weighted average common shares outstanding (basic)	21,224	21,151	21,224	21,144
Effect of stock options/warrants	<u>21</u>	<u>1</u>	<u>7</u>	<u>-</u>



Weighted average common  
shares

outstanding (diluted)	<u>21,245</u>	<u>21,152</u>	<u>21,231</u>	<u>21,144</u>
-----------------------	---------------	---------------	---------------	---------------

**Earnings (loss) per common  
share:**

Basic	\$0.01	\$(0.06)	\$(0.05)	\$(0.04)
Diluted	0.01	(0.06)	(0.05)	(0.04)

5.

**Comprehensive Income (Loss)**

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

	Three months ended June 30,		Six months ended June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Net income (loss)	\$ <u>477</u>	\$ <u>(939)</u>	\$ <u>(441)</u>	\$ <u>(406)</u>
Other comprehensive income (loss), before tax:				
Pension obligation change for defined benefit plan	142	118	284	236
Income tax effect	(48)	(40)	(97)	(80)
Reclassification adjustment for gains on available for sale securities included in net income (loss)	(42)	(63)	(107)	(164)
Income tax effect	14	21	36	56
Unrealized holding gains (losses) on available for sale securities arising during period	2,016	(347)	2,395	694
Income tax effect	<u>(685)</u>	<u>118</u>	<u>(814)</u>	<u>(236)</u>

Other comprehensive income (loss)	<u>1,397</u>	<u>(193)</u>	<u>1,697</u>	<u>506</u>
Comprehensive income (loss)	<u>\$ 1,874</u>	<u>\$(1,132)</u>	<u>\$ 1,256</u>	<u>\$ 100</u>

6.

**Consolidated Statement of Cash Flows**

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits, federal funds sold and short-term investments in money market funds. The Company made \$69,000 in income tax payments in the first six months of 2010 as compared to \$111,000 for the first six months of 2009. The Company made total interest payments of \$7,619,000 in the first six months of 2010 compared to \$8,208,000 in the same 2009 period.

7.

**Investment Securities**

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

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

June 30, 2010	Cost <u>Basis</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Agency	\$ 19,899	\$ 172	\$ -	\$ 20,071
U.S. Agency mortgage- backed securities	<u>123,067</u>	<u>4,964</u>	<u>(6)</u>	<u>128,025</u>
Total	<u>\$142,966</u>	<u>\$ 5,136</u>	<u>\$ (6)</u>	<u>\$ 148,096</u>

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

June 30, 2010	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Agency mortgage- backed securities	\$ 7,961	\$ 591	\$ -	\$ 8,552
Other securities	<u>1,000</u>	<u>-</u>	<u>(12)</u>	<u>988</u>
Total	<u>\$ 8,961</u>	<u>\$ 591</u>	<u>\$ (12)</u>	<u>\$ 9,540</u>

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

December 31, 2009	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Agency	\$ 12,342	\$ 26	\$ (76)	\$ 12,292
U.S. Agency mortgage-backed securities	<u>116,088</u>	<u>3,128</u>	<u>(236)</u>	<u>118,980</u>
Total	<u>\$128,430</u>	<u>\$ 3,154</u>	<u>\$ (312)</u>	<u>\$131,272</u>

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

December 31, 2009	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Treasury	\$ 3,009	\$ 13	\$ -	\$ 3,022
U.S. Agency mortgage-backed securities	7,602	373	-	7,975
Other securities	<u>1,000</u>	<u>-</u>	<u>(1)</u>	<u>999</u>
Total	<u>\$ 11,611</u>	<u>\$ 386</u>	<u>\$ (1)</u>	<u>\$ 11,996</u>

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." At June 30, 2010 and December 31, 2009, 99.3% of the portfolio was rated "AAA". None of the portfolio was rated below A or unrated at June 30, 2010. At June 30, 2010, the Company's consolidated investment securities portfolio had a modified duration of approximately 2.0 years. Total proceeds from the sale of AFS securities were \$1.8 million in the first six months of 2010. The gross gains on investment security sales in the first six months of 2010 were \$107,000.

The following tables present information concerning investments with unrealized losses as of June 30, 2010 and December 31, 2009 (in thousands):

**Investment securities available for sale:**

June 30, 2010	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Agency mortgage-backed securities	\$ 1,543	\$ (6)	\$ -	\$ -	\$ 1,543	\$ (6)
Total	\$ 1,543	\$ (6)	\$ -	\$ -	\$ 1,543	\$ (6)

**Investment securities held to maturity:**

June 30, 2010	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Other securities	\$ -	\$ -	\$ 988	\$ (12)	\$ 988	\$ (12)
Total	\$ -	\$ -	\$ 988	\$ (12)	\$ 988	\$ (12)

**Investment securities available for sale:**

December 31, 2009	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Agency	\$ 7,424	\$ (76)	\$ -	\$ -	\$ 7,424	\$ (76)
U.S. Agency mortgage-backed securities	17,525	(236)	-	-	17,525	(236)
Total	\$ 24,949	\$ (312)	\$ -	\$ -	\$ 24,949	\$ (312)

**Investment securities held to maturity:**

December 31, 2009	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Other securities	\$ -	\$ -	\$ 999	\$ (1)	\$ 999	\$ (1)
Total	\$ -	\$ -	\$ 999	\$ (1)	\$ 999	\$ (1)

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase.

There are 2 positions that are considered temporarily impaired at June 30, 2010. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information they expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

Contractual maturities of securities at June 30, 2010, are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

Maturity	Available for Sale		Held to Maturity	
	Cost <u>Basis</u>	Fair <u>Value</u>	Cost <u>Basis</u>	Fair <u>Value</u>
0-1 year	\$ 2,075	\$ 2,093	\$ -	\$ -
1-5 years	11,898	11,996	1,000	988
5-10 years	27,815	29,106	-	-
Over 10 years	<u>101,178</u>	<u>104,901</u>	<u>7,961</u>	<u>8,552</u>
Total	<u>\$142,966</u>	<u>\$148,096</u>	<u>\$ 8,961</u>	<u>\$ 9,540</u>

8.

### Loans

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

	June 30, <u>2010</u>	December 31, <u>2009</u>
Commercial	\$ 82,174	\$ 96,158
Commercial loans secured by real estate	382,779	396,787
Real estate mortgage	205,353	207,221
Consumer	<u>19,167</u>	<u>19,619</u>
Total loans	689,473	719,785
Less: Unearned income	<u>558</u>	<u>671</u>
Loans, net of unearned income	<u>\$ 688,915</u>	<u>\$ 719,114</u>

Real estate-construction loans comprised 5.6%, and 6.8% of total loans, net of unearned income, at June 30, 2010 and December 31, 2009, respectively. The Company has no exposure to sub prime mortgage loans in either the loan or investment portfolios.

9.

### Allowance for Loan Losses

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Balance at beginning of period	\$ 21,516	\$ 10,661	\$ 19,685	\$ 8,910
Charge-offs:				
Commercial	(166)	(638)	(205)	(641)
Commercial loans secured by real estate	(1,758)	(200)	(2,951)	(237)
Real estate-mortgage	(78)	(41)	(158)	(67)
Consumer	<u>(50)</u>	<u>(69)</u>	<u>(134)</u>	<u>(120)</u>
Total charge-offs	<u>(2,052)</u>	<u>(948)</u>	<u>(3,448)</u>	<u>(1,065)</u>
Recoveries:				
Commercial	49	567	153	569
Commercial loans secured by real estate	-	-	37	5
Real estate-mortgage	3	4	5	22
Consumer	<u>21</u>	<u>22</u>	<u>55</u>	<u>65</u>
Total recoveries	<u>73</u>	<u>593</u>	<u>250</u>	<u>661</u>
Net charge-offs	(1,979)	(355)	(3,198)	(404)
Provision for loan losses	<u>1,200</u>	<u>3,300</u>	<u>4,250</u>	<u>5,100</u>
Balance at end of period	<u>\$ 20,737</u>	<u>\$ 13,606</u>	<u>\$ 20,737</u>	<u>\$ 13,606</u>
As a percent of average loans and loans held for sale, net of unearned income:				
Annualized net charge-offs	1.13%	0.19%	0.91%	0.11%
Annualized provision for loan losses	0.68	1.81	1.20	1.42

Allowance as a percent of loans and  
loans

held for sale, net of unearned income  
at period end

2.99	1.84	2.99	1.84
------	------	------	------

10.

### Non-performing Assets

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

	June 30, <u>2010</u>	December 31, <u>2009</u>
<u>Non-accrual loans</u>		
Commercial	\$ 3,146	\$ 3,375
Commercial loans secured by real estate	14,549	11,716
Real estate-mortgage	1,088	1,639
Consumer	<u>401</u>	<u>386</u>
Total	<u>19,184</u>	<u>17,116</u>
<u>Other real estate owned</u>		
Commercial loans secured by real estate	405	871
Real estate-mortgage	<u>226</u>	<u>350</u>
Total	<u>631</u>	<u>1,221</u>
Total non-performing assets	<u>\$19,815</u>	<u>\$ 18,337</u>
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income,  and other real estate owned	2.85%	2.53%

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

Three months ended  
June 30,

Six months ended  
June 30,

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

	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Interest income due in accordance with original terms	\$ 293	\$ 61	\$ 537	\$ 110
Interest income recorded	<u>(121)</u>	<u>-</u>	<u>(242)</u>	<u>-</u>
Net reduction in interest income	<u>\$ 172</u>	<u>\$ 61</u>	<u>\$ 295</u>	<u>\$ 110</u>

11.

**Federal Home Loan Bank Borrowings**

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following at June 30, 2010, (in thousands, except percentages):

<u>Type</u>	<u>Maturing</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Open Repo Plus	Overnight	\$ -	-%
Advances	2010	8,000	3.34
	2012	4,000	1.82
	2013	5,000	2.04
	2016 and after	<u>777</u>	6.44
		<u>17,777</u>	2.77
Total FHLB borrowings		<u>\$ 17,777</u>	2.77%

Total Federal Home Loan Bank (FHLB) borrowings and advances consisted of the following at December 31, 2009, (in thousands, except percentages):

<u>Type</u>	<u>Maturing</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Open Repo Plus	Overnight	\$ 25,775	0.62%
Advances	2010	22,000	1.67
	2012	3,000	1.97
	2016 and after	<u>804</u>	6.44
		<u>25,804</u>	1.85



Total FHLB borrowings	<u>\$ 51,579</u>	1.24%
-----------------------	------------------	-------

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

12.

### **Preferred Stock**

On October 3, 2008, the Emergency Economic Stabilization Act of 2008 (initially introduced as the Troubled Asset Relief Program or TARP ) was enacted. On October 14, 2008, the U.S. Treasury announced its intention to inject capital into financial institutions under the TARP Capital Purchase Program (the CPP ). The CPP is a voluntary program designed to provide capital to healthy, well managed financial institutions in order to increase the availability of credit to businesses and individuals and help stabilize the U.S. financial system.

On December 19, 2008, the Company sold to the U.S. Treasury for an aggregate purchase price of \$21 million in cash 21,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D. In conjunction with the purchase of these senior preferred shares, the U.S. Treasury also received a warrant to purchase up to 1,312,500 shares of the Company's common stock. The warrant has a term of 10 years and is exercisable at any time, in whole or in part, at an exercise price of \$2.40 per share. The \$21 million in proceeds was allocated to the Series D Preferred Stock and the warrant based on their relative fair values at issuance (approximately \$20.4 million was allocated to the Series D Preferred Stock and approximately \$600,000 to the warrant). The difference between the initial value allocated to the Series D Preferred Stock of approximately \$20.4 million and the liquidation value of \$21 million will be charged to surplus over the first three years of the contract. Cumulative dividends on Series D Preferred Stock are payable quarterly at 5% through December 19, 2013 and at a rate of 9% thereafter. As a result of the decision by the Company to accept a preferred stock investment under the U.S. Treasury's CPP for a period of three years the Company is no longer permitted to repurchase common stock or declare and pay dividends on common stock without the consent of the U.S. Treasury.

13.

### **Regulatory Capital**

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to

meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of June 30, 2010, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. The Company believes that no conditions or events have occurred that would change this conclusion. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company's tangible common equity ratio was 7.83% at June 30, 2010.

<u>June 30, 2010</u>	<u>Amount</u>	Actual			To Be Well Capitalized Under Prompt Corrective Action Provisions	
		<u>Ratio</u>	For Capital Adequacy Purposes		<u>Amount</u>	<u>Ratio</u>
			<u>Amount</u>	<u>Ratio</u>		
			(In thousands, except ratios)			
Total Capital (to Risk						

W e i g h t e d Assets)						
Consolidated	\$112,401	15.90%	\$ 56,565	8.00%	\$ 70,706	10.00%
Bank	90,001	12.90	55,802	8.00	69,752	10.00
Tier 1 Capital (to Risk						
W e i g h t e d Assets)						
Consolidated	103,405	14.62	28,282	4.00	42,424	6.00
Bank	81,123	11.63	27,901	4.00	41,851	6.00
Tier 1 Capital (to Average Assets)						
Consolidated	103,405	11.08	37,340	4.00	46,674	5.00
Bank	81,123	8.93	36,347	4.00	45,434	5.00

14.

**Segment Results**

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

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, and commercial real-estate loans. The trust segment contains our wealth management businesses, which include the Trust Company and West Chester Capital Advisors, our registered investment advisory firm. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. The Wealth management businesses also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in real estate investments and construction projects that utilize union labor. The investment/parent includes the net results of investment securities and borrowing activities, general corporate

expenses not allocated to the business segments, interest expense on the guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the consolidated results of operations for the three and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	Three months ended		Six months ended		June 30,
	June 30, 2010		June 30, 2010		2010
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 6,413	\$ 341	\$ 12,404	\$ 494	\$ 329,573
Commercial lending	3,350	266	6,666	(806)	472,181
Trust	1,560	47	3,218	69	3,471
Investment/Parent	<u>273</u>	<u>(177)</u>	<u>729</u>	<u>(198)</u>	<u>157,057</u>
Total	<u>\$ 11,596</u>	<u>\$ 477</u>	<u>\$ 23,017</u>	<u>\$ (441)</u>	<u>\$ 962,282</u>

	Three months ended		Six months ended		June 30,
	June 30, 2009		June 30, 2009		2009
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 6,316	\$ 96	\$ 12,329	\$ 473	\$ 329,005
Commercial lending	3,063	(1,319)	6,060	(1,620)	510,270
Trust	1,607	104	3,319	248	3,505
Investment/Parent	<u>676</u>	<u>180</u>	<u>1,656</u>	<u>493</u>	<u>136,119</u>
Total	<u>\$ 11,662</u>	<u>\$ (939)</u>	<u>\$ 23,364</u>	<u>\$ (406)</u>	<u>\$ 978,899</u>

15.

### Commitments and Contingent Liabilities

The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had

various outstanding commitments to extend credit approximating \$96.3 million and standby letters of credit of \$11.5 million as of June 30, 2010.

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

16.

### Pension Benefits

The Company has a noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. Plan assets are primarily debt securities (including U.S. Treasury and Agency securities, corporate notes and bonds), listed common stocks (including shares of AmeriServ Financial, Inc. common stock which is limited to 10% of the plan's assets), mutual funds, and short-term cash equivalent instruments. The net periodic pension cost for the three and six months ended June 30, 2010 and 2009 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
Components of net periodic benefit cost				
Service cost	\$ 255	\$ 232	\$ 510	\$ 464
Interest cost	265	234	530	468
Expected return on plan assets	(309)	(308)	(618)	(616)

Amortization of prior year service cost	4	3	8	6
Amortization of transition asset	(4)	(4)	(8)	(8)
Recognized net actuarial loss	<u>142</u>	<u>119</u>	<u>284</u>	<u>238</u>
Net periodic pension cost	<u>\$ 353</u>	<u>\$ 276</u>	<u>\$ 706</u>	<u>\$ 552</u>

17.

### Disclosures About Fair Value Measurements

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

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

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

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

Securities classified as available for sale are reported at fair value utilizing Level 2 inputs. For these securities, the Company obtains fair value measurements from an independent pricing service. The fair value measurements consider observable data that may include dealer quoted market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other things. This applies to all available for sale securities except U.S. Treasury and equity securities which are considered to be Level 1.

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

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

The following tables present the assets reported on the balance sheet at their fair value as of June 30, 2010 and December 31, 2009, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured on a Recurring Basis

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

		<u>Fair Value Measurements at June 30, 2010 Using</u>		
		Quoted Prices in	Significant	
		Active Markets for	Significant Other	Unobservable
		Identical Assets	Observable	Inputs
		(Level 1)	Inputs	(Level 3)
			(Level 2)	
	<u>Total</u>			
U.S. Agency securities	\$ 20,071	\$ -	\$ 20,071	\$ -
U . S . A g e n c y mortgage-backed securities	128,025	-	128,025	-
Loans held for sale	5,073	5,073	-	-
Fair value of swap asset	439	-	439	-

		<u>Fair Value Measurements at December 31, 2009 Using</u>		
		Quoted Prices in	Significant	
		Active Markets for	Significant Other	Unobservable
		Identical Assets	Observable	Inputs
		(Level 1)	Inputs	(Level 3)
			(Level 2)	
	<u>Total</u>			

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

U.S. Agency securities	\$ 12,292	\$ -	\$ 12,292	\$ -
U . S . A g e n c y mortgage-backed securities	118,980	-	118,980	-
Loans held for sale	3,790	3,790	-	-
Fair value of swap asset	154	-	154	-

Loans considered impaired are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data which at times are discounted. At June 30, 2010, impaired loans with a carrying value of \$17.7 million were reduced by a specific valuation allowance totaling \$6.3 million resulting in a net fair value of \$11.4 million.

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

Assets Measured on a Non-recurring Basis

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

	<u>Total</u>	<u>Fair Value Measurements at June 30, 2010 Using</u>		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans	\$ 11,435	\$ -	\$ 11,435	\$ -
Other real estate owned	631	-	631	-



	<u>Fair Value Measurements at December 31, 2009 Using</u>			
	Quoted Prices in			Significant
	Active Markets for	Significant Other		Unobservable
	Identical Assets	Observable Inputs		Inputs
	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Impaired loans	\$10,091	\$ -	\$10,091	\$ -
Other real estate owned	1,221	-	1,221	-

#### 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 independent third party valuations that use the best available data (Level 2) and an estimation methodology (Level 3) the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values based off of US GAAP measurements, and recorded book balances at June 30, 2010 and December 31, 2009, were as follows (in thousands):

	June 30, 2010		December 31, 2009	
	<u>Estimate Fair Value</u>	<u>Recorded Book Balance</u>	<u>Estimate Fair Value</u>	<u>Recorded Book Balance</u>
<b>FINANCIAL ASSETS:</b>				
Cash and cash equivalents	\$ 33,685	\$ 33,685	\$ 26,308	\$ 26,308
Investment securities	157,635	157,057	143,268	142,883
Regulatory stock	9,739	9,739	9,739	9,739
Net loans (including loans held for sale), net of allowance for loan loss	673,932	673,251	699,770	703,219
Accrued income receivable	3,703	3,703	3,589	3,589
Bank owned life insurance	34,202	34,202	33,690	33,690

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

Fair value swap asset	439	439	154	154
FINANCIAL LIABILITIES:				
Deposits with no stated maturities	\$ 444,707	\$444,707	\$ 433,220	\$ 433,220
Deposits with stated maturities	368,424	364,470	357,275	352,791
Short-term borrowings	-	-	25,775	25,775
All other borrowings	34,276	30,862	41,272	38,889
Accrued interest payable	3,103	3,103	4,136	4,136
Fair value swap liability	439	439	154	154

The fair value of cash and cash equivalents is equal to the current carrying value.

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

The fair value of regulatory stock is equal to the current carrying value.

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

The fair value of accrued income receivable is equal to the current carrying value.

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

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

The fair value of short-term borrowings is equal to the current carrying value.

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

The fair value of accrued interest payable is equal to the current carrying value.

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

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

**Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ("M.D. & A.")**

**2010 SECOND QUARTER SUMMARY OVERVIEW** .. The recession continues. From its beginnings in the narrow field of sub-prime mortgages in 2007, it has become a global calamity which even strains the financial capabilities of sovereign nations. We are told regularly that the worst is now behind us and that the latest legislative act or administrative regulation will set us on the right track. But unemployment in the nation is still at 9.5%, in Pennsylvania it is 9.1% and in the primary markets served by AmeriServ it was 10.0% on May 30, 2010. All of this is to say that here at AmeriServ we are continuing on the same course. Our Asset Quality Task Force meets weekly to search out new signs of weakening loans. As always, should new weaknesses appear, we will dedicate a portion of our strong capital to the task of building reserves to counterbalance these weaknesses. In times such as these, we must exercise great care to work to help troubled customers who are experiencing difficulties while always remembering to protect the AmeriServ franchise from the type of severe losses that so many community banks are reporting.

Considering the difficulties of these times, AmeriServ reported for the second quarter 2010 net income of \$477,000 or \$ 0.01 per share. This represented a substantial turnaround from the 2010 first quarter loss of \$918,000 or \$ 0.06 per share. While this means that for the first six months of the year 2010, AmeriServ has now reported a net loss of \$441,000 or \$0.05 per share, it also means that after four consecutive quarters of losses AmeriServ has returned to profitability. We do believe that this bottom line turnaround of \$1.4 million from first quarter to second quarter is an indication that our heightened vigilance is having a positive effect. But please understand that this welcome return to profitability has not led to any celebrations or any relaxation of our vigilance. We will spend our days attempting to build on top of this turnaround quarter.

Still, it is encouraging to note that during the second quarter 2010 non-performing assets declined by over \$500,000 from March 31 and that the quarterly provision to the allowance for loan losses was smaller by \$1.9 million. This marks the third consecutive quarter during which we have been able to reduce the absolute dollar level provided to the allowance for loan losses. One of the tangible benefits of the Asset Quality Task Force is its ability to regularly gauge the quality of the portfolio as a whole while also being able to recommend a very specific level of action on a specific loan.

The impact of the recession can be noticed in the very real decline in customers seeking loans. During the second quarter, loans decreased by \$19 million which is the second consecutive quarter of decline. Yet deposits continued to grow. The \$7 million of deposit growth caused the Loan-to-Deposit ratio to drop to 85.8% which indicates we have strong liquidity on our balance sheet.

A few other interesting points in the quarter

Total FHLB borrowings now amount to just 1.85% of total assets because deposit growth has been so strong.

The net interest margin reached 3.83%, the highest level of any quarter since the fourth quarter of 2008. This has allowed us to report a consistent level of net interest income during a period in which earning assets declined.

As loans have declined, so investments have grown by \$9 million during the second quarter.

During 2010 while the Asset Quality Task Force has continued to focus on asset quality, the rest of the Company has been taking actions to upgrade management and to fix anything that needs to be fixed. A recession is a perfect time to rebuild and retool so that the Company will be ready to move ahead when the long awaited recovery really appears. We also continue to carefully monitor the following key metrics which are important indicators of our overall balance sheet strength.

The coverage ratio of Non-Performing Loans by the Allowance for Loan Losses was 108.1% on June 30, 2010.

The Company's regulatory capital ratios throughout the second quarter of 2010 are meaningfully in excess of the well capitalized requirements.

The Company continues to have strong liquidity on both sides of its balance sheet.

These are not easy times for any of us. During these difficult times we have been communicating to our elected leaders to trust American toughness, to not encumber us with bureaucratic rules and, most of all, do not enact new rules that punish the innocent with or instead of the guilty. We know that the future of AmeriServ as an employer, as an investment, as a source of strength for the region, requires hard work and careful planning. The board of directors and management team believe that we are ready for the challenge. Our goal is a strong future for AmeriServ in a strong and vibrant America.

**THREE MONTHS ENDED JUNE 30, 2010 VS. THREE MONTHS ENDED JUNE 30, 2009**

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

	Three months ended <u>June 30, 2010</u>	Three months ended <u>June 30, 2009</u>
Net income (loss)	\$ 477	\$ (939)
Diluted earnings (loss) per share	0.01	(0.06)
Return on average assets (annualized)	0.20%	(0.39)%
Return on average equity (annualized)	1.79%	(3.29)%

The Company reported second quarter 2010 net income of \$477,000 or \$0.01 per diluted common share. This represents an increase of \$1.4 million from the second quarter 2009 net loss of \$939,000 or \$0.06 per diluted common share. Stabilization in our asset quality allowed us to record a lower provision for loan losses which was an important factor causing the increase in earnings between periods. Diluted earnings per share were impacted by the preferred dividend requirement on the CPP preferred stock which amounted to \$262,000 and reduced the amount of net income available to common shareholders.

.....**NET INTEREST INCOME AND MARGIN**.....The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company's earnings, and it is affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the second quarter of 2010 to the second quarter of 2009 (in thousands, except percentages):

	Three months ended <u>June 30, 2010</u>	Three months ended <u>June 30, 2009</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 11,450	\$ 12,055	\$ (605)	(5.0)%
Interest expense	<u>3,242</u>	<u>3,884</u>	<u>(642)</u>	(16.5)
Net interest income	<u>\$ 8,208</u>	<u>\$ 8,171</u>	<u>\$ 37</u>	0.5
Net interest margin	3.83%	3.66%	0.17	N/M
N/M - not meaningful				

The Company's net interest income in the second quarter of 2010 was comparable with the prior year second quarter as it increased by only \$37,000 or 0.5%. The Company's second quarter 2010 net interest margin of 3.83% was 17 basis points better than the 2009 second quarter margin of 3.66% and five basis points better than the more recent first quarter 2010 net interest margin of 3.78%. The improved margin performance and stable level of net interest income is reflective of the Company's strong liquidity position and its ability to reduce its funding costs during a period of deposit growth. Specifically, total deposits averaged \$802 million in the second quarter of 2010, an increase of \$34 million or 4.4% over the second quarter of 2009. The Company believes that uncertainties in the economy have contributed to growth in money market accounts, certificates of deposit and demand deposits as consumers and businesses have looked for safety in well capitalized community banks like AmeriServ Financial. The net interest margin also benefitted from approximately \$150,000 in loan prepayment penalties in 2010 as the Company has focused on reducing its commercial real estate exposure during this period of economic weakness. Overall, total average loans outstanding have dropped by \$29 million or 4.0% since December 31, 2009. We believe that this declining loan trend will continue and it will have a negative impact on the net interest margin in the second half of 2010.

**....COMPONENT CHANGES IN NET INTEREST INCOME..** Regarding the separate components of net interest income, the Company's total interest income for the second quarter of 2010 decreased by \$605,000 or 5.0% when compared to the same 2009 quarter. This decrease was due to a six basis point decline in the earning asset yield to 5.36% and a \$19.2 million or 2.2% drop in average earning assets between periods due to the previously mentioned decline in loans. Within the earning asset base, the yield on the total loan portfolio decreased by 11 basis points to 5.61% while the yield on total investment securities dropped by 35 basis points to 3.80%. Both of these yield declines reflect the impact of the lower interest rate environment that has now been in place for well over 18 months. New investment securities and loans that are being booked typically have yields that are below the rate on the maturing instruments that they are replacing.

The Company's total interest expense for the second quarter of 2010 decreased by \$642,000 or 16.5% when compared to the same 2009 quarter. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 31 basis points to 1.82%. Management's decision to reduce interest rates paid on all deposit categories has not had any negative impact on deposit growth as consumers have sought the safety provided by well-capitalized community banks like AmeriServ Financial. This decrease in funding costs was aided by a drop in interest expense associated with a \$19.5 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by \$45.7 million, but was partially offset by a \$26.2 million increase in interest bearing deposits. Additionally, the Company's funding mix also benefited from a \$7.8 million increase in non-interest bearing demand deposits. Overall, in the second quarter of 2010 the Company had the discipline to further reduce its use of borrowings as a funding source as wholesale borrowings averaged only 2.1% of total assets.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended June 30, 2010 and June 30, 2009 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) AmeriServ Financial's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) AmeriServ Financial's net interest margin (net interest income as a

percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.



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

	<u>2010</u>			<u>2009</u>		
	Average	Interest		Average	Interest	
	<u>Balance</u>	<u>Income/</u>	<u>Yield/</u>	<u>Balance</u>	<u>Income/</u>	<u>Yield/</u>
		<u>Expense</u>	<u>Rate</u>		<u>Expense</u>	<u>Rate</u>
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	\$705,288	\$ 9,992	5.61 %	\$732,568	\$ 10,553	5.72 %
Interest bearing deposits	1,743	-	0.02	1,715	1	0.23
Short-term investment in money						
market funds	3,403	4	0.42	10,579	8	0.29
Federal funds sold	2,683	1	0.11	-	-	-
Investment securities AFS	147,761	1,353	3.75	130,256	1,337	4.11
Investment securities HTM	<u>9,629</u>	<u>108</u>	4.55	<u>14,607</u>	<u>165</u>	4.52
Total investment securities	<u>157,390</u>	<u>1,461</u>	3.80	<u>144,863</u>	<u>1,502</u>	4.15
<b>Total interest earning</b>						
<b>assets/interest income</b>	870,507	11,458	5.36	889,725	12,064	5.42
Non-interest earning assets:						
Cash and due from banks	14,534			14,005		
Premises and equipment	9,940			9,122		
Other assets	79,894			72,074		
Allowance for loan losses	<u>(22,075)</u>			<u>(11,101)</u>		
<b>TOTAL ASSETS</b>	<u>\$952,800</u>			<u>\$973,825</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 58,361	\$ 45	0.31 %	\$ 61,316	\$ 64	0.42 %
Savings	78,778	126	0.64	72,988	138	0.76
Money markets	183,850	451	0.98	171,019	704	1.65
Other time	<u>357,938</u>	<u>2,211</u>	2.48	<u>347,422</u>	<u>2,498</u>	2.88
Total interest bearing deposits	678,927	2,833	1.67	652,745	3,404	2.09
Short-term borrowings:						
Federal funds purchased,						
securities sold under						

agreements to repurchase and other short-term borrowings	2,140	4	0.70	52,358	71	0.55
Advances from Federal						
Home Loan Bank	18,332	125	2.73	13,840	129	3.74
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>280</u>	8.57	<u>13,085</u>	<u>280</u>	8.57
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	712,484	3,242	1.82	732,028	3,884	2.13
Non-interest bearing liabilities:						
Demand deposits	123,064			115,248		
Other liabilities	10,625			11,914		
Shareholders' equity	<u>106,627</u>			<u>114,635</u>		
<b>TOTAL LIABILITIES AND</b>						
<b>SHAREHOLDERS' EQUITY</b>	<u>\$952,800</u>			<u>\$973,825</u>		
Interest rate spread			3.54			3.29
Net interest income/						
Net interest margin		8,216	3.83 %		8,180	3.66 %
Tax-equivalent adjustment		<u>(8)</u>			<u>(9)</u>	
<b>Net Interest Income</b>		<u>\$ 8,208</u>			<u>\$ 8,171</u>	

**..PROVISION FOR LOAN LOSSES.....** The Company appropriately strengthened its allowance for loan losses over the past year in response to ongoing careful monitoring of the commercial loan and commercial real estate portfolios. A weak economic environment caused higher levels of nonperforming loans and classified loans. When determining the provision for loan losses, the Company considers a number of factors some of which include periodic credit reviews, non-performing, delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends.

The Company recorded a \$1.2 million provision for loan losses in the second quarter of 2010 compared to a \$3.3 million provision in the second quarter of 2009, or a decrease of \$2.1 million. For the second quarter 2010, net charge-offs amounted to \$2.0 million or 1.13% of total loans compared to net charge-offs of \$355,000 or 0.19% of total loans for the second quarter 2009. The higher net charge-offs in the second quarter of 2010 relate primarily to a \$1.8 million charge-down of a non-performing student housing project which we currently expect to resolve through a note sale during the second half of 2010. The original balance of this loan was \$5 million. Overall, during the second

quarter, total non-performing assets declined modestly to \$19.8 million or 2.85% of total loans. In summary, the allowance for loan losses provided 108% coverage of non-performing loans at June 30, 2010 compared to 115% coverage of non-performing loans at December 31, 2009.

**.....NON-INTEREST INCOME.....**Non-interest income for the second quarter of 2010 totaled \$3.4 million; a decrease of \$103,000 or 3.0% from the second quarter 2009 performance. Factors contributing to this reduced level of non-interest income in 2010 included:

\* a \$65,000 decrease in trust fees as a result of reductions in the market value of real estate assets managed due to lower values in the union specialty real estate funds in 2010.

\* a \$99,000 decline in deposit service charges due to a reduced volume of overdraft fees. Customers have maintained higher balances in their checking accounts which has resulted in fewer overdraft fees in 2010.

**.....NON-INTEREST EXPENSE.....**Non-interest expense for the second quarter of 2010 totaled \$9.8 million and increased by \$150,000 or 1.6% from the prior year's second quarter. Factors contributing to the higher non-interest expense in 2010 included:

\* a \$253,000 or 5.1% increase in salaries and employee benefits expense due to increased medical insurance costs and higher pension expense in 2010.

\* a \$241,000 increase in professional fees due primarily to increased consulting expenses and recruitment costs in the Trust company and higher legal fees and workout costs at the Bank in 2010.

\* a \$350,000 decrease in FDIC deposit insurance expense due to the recognition of a special five basis point or \$435,000 assessment in the second quarter of 2009 to strengthen the deposit insurance fund.

**SIX MONTHS ENDED JUNE 30, 2010 VS. SIX MONTHS ENDED JUNE 30, 2009**

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

	Six months ended <u>June 30, 2010</u>	Six months ended <u>June 30, 2009</u>
Net loss	\$ (441)	\$ (406)
Diluted loss per share	(0.05)	(0.04)
Return on average assets (annualized)	(0.09)%	(0.08)%
Return on average equity (annualized)	(0.83)%	(0.72)%

The Company reported for the first six months of 2010 a net loss of \$441,000 or \$0.05 per diluted common share which was comparable with the net loss of \$406,000 or \$0.04 per diluted common share reported for the first six months of 2009. The benefit of a lower loan loss provision in 2010 was offset by higher non-interest expense and a reduced amount of non-interest income. Diluted earnings per share also declined by the preferred dividend requirement on the CPP preferred stock which amounted to \$525,000 and increased the amount of the net loss available to common shareholders.

.....**NET INTEREST INCOME AND MARGIN**..... The following table compares the Company's net interest income performance for the first six months of 2010 to the first six months of 2009 (in thousands, except percentages):

	Six months ended <u>June 30, 2010</u>	Six months ended <u>June 30, 2009</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 22,915	\$ 23,990	\$ (1,075)	(4.5)%
Interest expense	<u>6,586</u>	<u>7,678</u>	<u>(1,092)</u>	(14.2)
Net interest income	<u>\$ 16,329</u>	<u>\$ 16,312</u>	<u>\$ 17</u>	0.1
Net interest margin	3.81%	3.69%	0.12	N/M
N/M - not meaningful				

The Company's net interest income in the first half of 2010 was comparable with the same prior year period as it increased by only \$17,000 or 0.1%. Careful management of funding costs during a period when interest revenues are declining has allowed the Company to increase its net interest margin by 12 basis points to 3.81% for the first six months of 2010. This relative stability in net interest income and improved margin performance is reflective of the Company's strong liquidity position and its ability to reduce its funding costs during a period of deposit growth. Specifically, total deposits averaged \$795 million in the first six months of 2010, an increase of \$53 million or 7.1%

over the first half of 2009. Overall, these effective balance sheet management strategies caused the cost of funds to decrease by 28 basis points while the earning asset yield dropped by a lesser amount of nine basis points.

**.....COMPONENT CHANGES IN NET INTEREST INCOME..** Regarding the separate components of net interest income, the Company's total interest income for the first six months of 2010 decreased by \$1.1 million or 4.5% when compared to the same 2009 period. This decrease was due to a nine basis point decline in the earning asset yield to 5.36% coupled with a drop in average earning assets which was \$10.5 million between periods. Within the earning asset base, the yield on the total loan portfolio decreased by 16 basis points to 5.61% while the yield on total investment securities dropped by 39 basis points to 3.80%. Both of these yield declines reflect the impact of the lower interest rate environment that has now been in place for well over 18 months. New investment securities and loans that are being booked typically have yields that are below the rate on the maturing instruments that they are replacing. Also the asset mix shifted with fewer dollars invested in loans and more dollars invested in lower yielding short duration investment securities also negatively impacts the earning asset yield. We expect this trend to continue during the second half of 2010 as we are focused on reducing our exposure to commercial real estate. Consequently, we expect to book fewer new commercial real estate loans which will cause the loan portfolio to shrink further through normal amortization and some anticipated early loan pay-offs.

The Company's total interest expense for the first half of 2010 decreased by \$1.1 million or 14.2% when compared to the same 2009 period. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 28 basis points to 1.85%. Management's decision to reduce interest rates paid on all deposit categories has not had any negative impact on deposit growth as consumers have sought the safety provided by well-capitalized community banks like AmeriServ Financial. This decrease in funding costs was aided by a drop in interest expense associated with an \$11.0 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by \$58.2 million, but was partially offset by a \$47.3 million increase in interest bearing deposits.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the six month periods ended June 30, 2010 and June 30, 2009. For a detailed discussion of the components and assumptions included in the table, see the paragraph before the quarterly table on page 23.

**Six months ended June 30** (In thousands, except percentages)

	<u>2010</u>			<u>2009</u>		
	Average	Interest		Average	Interest	
	<u>Balance</u>	<u>Income/</u>	<u>Yield/</u>	<u>Balance</u>	<u>Income/</u>	<u>Yield/</u>
		<u>Expense</u>	<u>Rate</u>		<u>Expense</u>	<u>Rate</u>
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	\$711,267	\$ 20,021	5.61 %	\$723,410	\$ 20,913	5.77 %
Interest bearing deposits	1,776	1	0.12	1,731	2	0.23
Short-term investment in money						
market funds	3,925	7	0.37	11,051	22	0.40
Federal funds sold	2,539	2	0.11	28	-	0.19
Investment securities AFS	142,803	2,675	3.70	131,369	2,735	4.07
Investment securities HTM	<u>10,091</u>	<u>226</u>	4.48	<u>15,295</u>	<u>338</u>	4.42
Total investment securities	<u>152,894</u>	<u>2,901</u>	3.80	<u>146,664</u>	<u>3,073</u>	4.19
<b>Total interest earning</b>						
<b>assets/interest income</b>	872,401	22,932	5.36	882,884	24,010	5.45
Non-interest earning assets:						
Cash and due from banks	14,984			14,747		
Premises and equipment	9,694			9,284		
Other assets	79,769			71,539		
Allowance for loan losses	<u>(21,434)</u>			<u>(10,123)</u>		
<b>TOTAL ASSETS</b>	<u>\$955,414</u>			<u>\$968,331</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 57,863	\$ 90	0.31 %	\$ 61,836	\$ 139	0.45 %
Savings	77,032	245	0.64	72,373	272	0.76
Money markets	185,563	897	0.97	156,231	1,285	1.66
Other time	<u>354,084</u>	<u>4,528</u>	2.58	<u>336,821</u>	<u>4,963</u>	2.97
Total interest bearing deposits	674,542	5,760	1.72	627,261	6,659	2.14
Short-term borrowings:						
Federal funds purchased,						
securities sold under						

agreements to repurchase and other short-term borrowings	3,815	13	0.68	73,629	200	0.54
Advances from Federal						
Home Loan Bank	25,413	253	1.99	13,847	259	3.76
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>560</u>	8.57	<u>13,085</u>	<u>560</u>	8.57
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	716,855	6,586	1.85	727,822	7,678	2.13
Non-interest bearing liabilities:						
Demand deposits	120,009			114,273		
Other liabilities	11,623			12,090		
Shareholders' equity	<u>106,927</u>			<u>114,146</u>		
<b>TOTAL LIABILITIES AND</b>						
<b>SHAREHOLDERS' EQUITY</b>	<u>\$955,414</u>			<u>\$968,331</u>		
Interest rate spread			3.51			3.32
Net interest income/						
Net interest margin		16,346	3.81 %		16,332	3.69 %
Tax-equivalent adjustment		<u>(17)</u>			<u>(20)</u>	
<b>Net Interest Income</b>		<u>\$ 16,329</u>			<u>\$ 16,312</u>	

**..PROVISION FOR LOAN LOSSES.....** The Company recorded a \$4.3 million provision for loan losses in the first half of 2010 compared to a \$5.1 million provision in the first half of 2009, or a decrease of \$850,000. Actual credit losses realized through charge-offs in 2010, however, are running below the provision level but are higher than the prior year. For the first six months of 2010, net charge-offs amounted to \$3.2 million or 0.91% of total loans compared to net charge-offs of \$404,000 or 0.11% of total loans for the first half of 2009. The higher charge-offs in 2010 primarily relate to two non-performing commercial real-estate loans, one of which was completely resolved in the first quarter and the second of which relates to a student housing project which the Company currently expects to resolve through a note sale during the second half of 2010. The allowance for loan losses was 2.99% of total loans at June 30, 2010, compared to 2.72% of total loans at December 31, 2009.

**.....NON-INTEREST INCOME.....**Non-interest income for the first six months of 2010 totaled \$6.7 million; a decrease of \$364,000 or 5.2% from the first six months 2009 performance. Factors contributing to this reduced level of non-interest income in 2010 included:

\* a \$200,000 decline in deposit service charges due to a reduced volume of overdraft fees. Customers have maintained higher balances in their checking accounts which has resulted in fewer overdraft fees in 2010. Volumes were also impacted by both winter weather related issues and a greater negative media focus on this product.

\* a \$170,000 decrease in trust fees as a result of reductions in the market value of certain real estate assets we manage in our specialty real estate funds in 2010.

\* a \$65,000 increase in investment advisory fees due to improved equity values in the first half of 2010 when compared to 2009.

**.....NON-INTEREST EXPENSE.....**Non-interest expense for the first six months of 2010 totaled \$19.6 million and increased by \$752,000 or 4.0% from the prior year's first six months. Factors contributing to the higher non-interest expense in 2010 included:

\* a \$360,000 or 3.6% increase in salaries and employee benefits expense due to increased medical insurance costs and higher pension expense in 2010.

\* a \$423,000 increase in professional fees due primarily to increased consulting expenses and recruitment costs in the Trust company and higher legal fees and workout costs at the Bank.

\* a \$115,000 increase in other expenses as a result of increased funding of the Company's reserve for unfunded commitments in 2010.

**.....INCOME TAX EXPENSE.....**The Company recorded an income tax benefit of \$342,000 in the first half of 2010 which reflects an estimated effective tax rate of approximately 43.7%. The income tax benefit recorded in the first half of 2009 was \$128,000 and reflected an effective tax rate of approximately 24.0%. The Company's deferred tax asset was \$15.4 million at June 30, 2010 and relates primarily to net operating loss carryforwards and the allowance for loan losses.

**..SEGMENT RESULTS.** Retail banking's net income contribution was \$341,000 and \$494,000 in the second quarter and first six months of 2010 compared to \$96,000 and \$473,000 for the same comparable periods of 2009. The improved performance in 2010 is due to increased net interest income generated on the higher level of deposits and a lower provision for loan losses. These positive items more than offset reduced revenue from overdraft fees and



deposit service charges.

The commercial lending segment reported for 2010 a net income for the second quarter of \$266,000 and a net loss of \$806,000 for the first six months compared to net losses of \$1.3 million in the second quarter and \$1.6 million for the first six months of 2009. The increased earnings in 2010 was caused primarily by a reduced provision for loan losses due to the previously discussed stabilization in asset quality.

The trust segment's net income contribution in the second quarter amounted to \$47,000 and \$69,000 for the first half of 2010 compared to \$104,000 and \$248,000 for the same 2009 periods. The major reason for the decrease between years was due to less trust revenue as a result of declines experienced in the real estate markets during the past year. Specifically, the most significant decline has been in the value of real-estate assets in the Build and Erect Funds (funds that invest union pension dollars in real estate investments and construction projects that utilize union labor) where the market value of assets has declined from \$221 million at June 30, 2009 to \$184 million at June 30, 2010.

This segment has also experienced an increase in non-interest expenses due to increased legal, consulting fees and recruitment costs.

The investment/parent segment reported net losses of \$177,000 in the second quarter and \$198,000 for the first six months of 2010 compared to the net income earned of \$180,000 and \$493,000 realized in the same periods of 2009.

The weaker performance in 2010 reflects lower non-interest revenue and higher non-interest expense. For example, the Company realized \$107,000 of investment security gains in the first half of 2010 compared to gains of \$164,000 realized in the first half of 2009. Also, declining yields in the investment securities portfolio have also negatively impacted this segment.

**.....BALANCE SHEET.....**The Company's total consolidated assets were \$962 million at June 30, 2010, which was down modestly by \$7.7 million or 0.8% from the \$970 million level at December 31, 2009. The Company's loans totaled \$694 million at June 30, 2010, a decrease of \$28.9 million or 4.0% as a result of net portfolio run-off since year-end. We plan to further reduce our commercial real estate loan concentration through the funding of fewer new commercial real estate loans in the second half of 2010 so we expect the loan portfolio to shrink further this year.

Investment securities, fed funds sold, and short-term money market investments increased by \$24.8 million so far in 2010 due to principal repayments in the loan portfolio being reinvested in the investment securities portfolio. We also expect this trend to continue in the second half of 2010.

The Company's deposits totaled \$809 million at June 30, 2010, which was \$23.2 million or 2.9% higher than December 31, 2009, due to an increase in almost all deposit categories. We believe that uncertainties in the financial markets and the economy have contributed to growth in our deposits as consumers and businesses have looked for safety in well capitalized community banks like AmeriServ Financial. As a result of this deposit growth, we were able to reduce total FHLB borrowings by \$33.8 million during the first half of 2010. Total FHLB borrowings now represent only 1.8% of total assets compared to 5.3% at December 31, 2009. The Company's total shareholders' equity has increased by \$769,000 since year-end 2009 mainly due to the increase in market value of the securities portfolio in the first half of 2010. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at June 30, 2010 of 11.08%. The Company's tangible book value per common share at June 30, 2010

was \$3.50, and its tangible common equity to tangible assets ratio was 7.83%.

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

	June 30, <u>2010</u>	December 31, <u>2009</u>	June 30, <u>2009</u>
Total loan delinquency (past due 30 to 89 days)	\$ 4,244	\$ 11,408	\$ 6,843
Total non-accrual loans	19,184	17,116	11,832
Total non-performing assets*	19,815	18,337	14,670
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	0.61%	1.58%	0.93%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	2.76	2.37	1.60
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	2.85	2.53	1.98
Non-performing assets as a percentage of total assets	2.06	1.89	1.50
Total classified loans (loans rated substandard or doubtful)	45,960	48,689	25,426

\*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.

As a result of the recessionary economy, non-performing assets have trended upward over the past year and now total \$19.8 million or 2.85% of total loans. The following three credits comprise the majority of the non-performing asset balance: 1) In response to the 2009 Shared National Credit Examination, the Company transferred a \$10 million commercial loan relationship to a borrower in the restaurant industry to non-accrual status. The Company restructured

this loan at its maturity by entering into a forbearance agreement with the borrower to make reduced payments over a six-month period in an effort to give the borrower greater flexibility to restructure its operations to improve its cash flows during this difficult economic period. The Company has never had any payment delinquency with this borrower. Recently, the borrower has resumed making normal principal and interest payments in accordance with a new loan agreement and has paid down the balance of the loan to \$8.4 million. A \$3.4 million specific reserve has been established against this credit. We currently anticipate that this loan will be removed from non-performing assets by year-end 2010. 2) A \$2.8 million loan to a borrower in the heavy construction equipment rental business. This borrower was experiencing cash flow difficulties that caused payment delinquency. We were able to obtain \$120,000 in payments from the borrower during the second quarter of 2010. A \$1.1 million specific reserve has been established against this credit. 3) In the first quarter of 2010, we transferred a \$5 million commercial real estate loan that is secured by newly constructed student housing into non-accrual status since the project has not yet stabilized to support the required principal payments on the loan. We are a participant in this loan with two larger banks and our share represents 12.5% of the total loan balance. During the second quarter we charged this loan down by \$1.8 million and continue to maintain a \$925,000 specific reserve allocation. We currently expect this problem credit to be resolved through a note sale during the second half of 2010.

The remainder of the increase in classified loans was caused by the downgrade of the rating classification of several commercial loans that are experiencing operating weakness in the recessionary economy but are still performing. However, overall loan delinquency levels have been relatively consistent and moved back below 1.0% as of June 30, 2010. We continue to closely monitor the portfolio given the weakness in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of June 30, 2010, the 25 largest credits represented 33.5% of total loans outstanding. Additionally, the Company had no performing loans that were considered restructured for the periods presented.

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

	June 30, <u>2010</u>	December 31, <u>2009</u>	June 30, <u>2009</u>
Allowance for loan losses	\$20,737	\$19,685	\$13,606
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	2.99%	2.72%	1.84%
total delinquent loans (past due 30 to 89 days)	488.62	172.55	198.83
total non-accrual loans	108.10	115.01	114.99
total non-performing assets	104.65	107.35	92.75

The allowance for loan losses provided 108% coverage of non-accrual loans at June 30, 2010 compared to 115% coverage at December 31, 2009, and June 30, 2009. The allowance for loan losses to total loans ratio increased to 2.99% since year-end 2009 as the loan loss provision exceeded net charge-offs in the first half of 2010 and the size of the loan portfolio has declined. The Company decided to build its allowance for loan losses over the past year due to the increase in non-performing loans, the downgrade of the rating classification of numerous performing commercial loans, and the weakness in the local and national economies.

.....**LIQUIDITY**.....The Bank's liquidity position has been strong during the last several years. Our core retail deposit base remained stable throughout the early part of this period and has recently shown nice growth, which has been more than adequate to fund the Bank's operations. Cash flow from maturities, prepayments and amortization of securities was also used to either fund loan growth or paydown borrowings. We strive to operate our loan to deposit ratio in a range of 85% to 95%. At June 30, 2010, the Bank's loan to deposit ratio was 85.8%.

Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by \$7.4 million from December 31, 2009, to June 30, 2010, due to \$16.7 million of cash provided by investing activities and \$1.4 million of cash provided by operating activities. This was partially offset by \$10.8 million of cash used in financing activities. Within investing activities, cash used for new investment security purchases exceeded maturities and sales by \$8.9 million. Cash advanced for new loan fundings and purchases totaled \$38 million and was \$27.5 million lower than the \$65.6 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by \$23.6 million, which was used to help pay down short-term borrowings by \$25.8 million.

The Parent Company had \$17.5 million of cash, short-term investments, and securities at June 30, 2010, which was down \$2.4 million from the year-end 2009 total. We have elected to retain \$14 million of the total \$21 million in funds received from the CPP preferred stock at the Parent Company to provide us with greater liquidity and financial flexibility. (\$7 million of the CPP funds were downstreamed to our subsidiary bank to help the Bank maintain compliance with our own internal capital guidelines.) Additionally, dividend payments from our subsidiaries can also provide ongoing cash to the Parent. At June 30, 2010, however, the subsidiary bank did not have any cash available for immediate dividends to the Parent under the applicable regulatory formulas because of the loss it incurred in 2009. The Bank will not provide any dividend support to the Parent Company in 2010. As such, the Parent Company will use its ample supply of cash and short term investments to continue to meet its trust preferred debt service requirements and preferred stock dividends which approximate \$2.1 million annually.

.....**CAPITAL RESOURCES**.....The Company continues to be considered well capitalized as the asset leverage ratio was 11.08% and the risk based capital ratio was 15.9% at June 30, 2010. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At June 30, 2010, accumulated other comprehensive loss amounted to \$2.7 million. The Company's tangible common equity to tangible assets ratio was 7.83% at June 30, 2010. We anticipate that our strong capital ratios should grow modestly in the second half of 2010 due to the retention of all earnings and no expected balance sheet growth which will be partially offset by preferred dividend requirements.

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

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

Interest Rate Scenario	Variability of Net <u>Interest Income</u>	Change in Market Value of <u>Portfolio Equity</u>
200bp increase	7.9%	14.0%
100bp increase	6.3	11.0
100bp decrease	(11.3)	(19.6)

The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The variability of net interest income is positive in the upward rate shocks as the Company has better diversified its loan portfolio over the past year with the interest rate on more loans now tied to LIBOR. Also, the Company expects that it will not have to reprice its core deposit accounts up as quickly when interest rates rise. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shock due to a reduced value for core deposits.

.....**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 \$96.3 million and standby letters of credit of \$11.5 million as of June 30, 2010.

.....**CRITICAL ACCOUNTING POLICIES AND ESTIMATES**.....The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, goodwill, income taxes, and investment securities are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions that differ from actual performance 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 loans 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 \$18.2 million, or 88%, of the total allowance for credit losses at June 30, 2010 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

**Account** Goodwill and core deposit intangibles

**Balance Sheet Reference** Goodwill and core deposit intangibles

**Income Statement Reference** Goodwill impairment and amortization of core deposit intangibles

## **Description**

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

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

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

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. The Company's testing in 2009 indicated that its goodwill was not impaired. However, deteriorating economic conditions could result in impairment, which would adversely affect earnings in future periods. During the third quarter of 2009, the Company did reduce the goodwill allocated to West Chester Capital Advisors (WCCA) by \$547,000. This reduction

resulted from a purchase price adjustment as the principals of WCCA did not fully earn a deferred contingent payment that had been accrued for at the time of acquisition.

**Account** Income Taxes

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

**Income Statement Reference** Provision for Income Taxes

### **Description**

The provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related time of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of June 30, 2010, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and no valuation allowances were needed.

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

**ACCOUNT** Investment Securities



**BALANCE SHEET REFERENCE** Investment Securities

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

**DESCRIPTION**

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operations. At June 30, 2010, all of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by government agencies, the U.S. Treasury or government sponsored agencies. The Company believes the unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the fair value of securities will decrease; as market yields fall, the fair value of securities will increase. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

**....FORWARD LOOKING 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 improving the profitability of our Trust Company. In accordance with our strategic plan, AmeriServ will maintain its focus as a community bank delivering banking and trust services to the best of our ability. This Company will not succumb to the lure of quick fixes and fancy financial gimmicks. It is our plan to continue to build AmeriServ into a potent banking force in this region and in this industry. Our focus encompasses the following:

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

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

Expense Rationalization - despite the set back in 2009 due to higher FDIC insurance and OREO expense, AmeriServ Financial remains focused on trying to rationalize expenses. This has not been a program of broad based cuts, but has been targeted so AmeriServ stays strong but spends less. However, this initiative takes on new importance because it is critical to be certain that future expenditures are directed to areas that are playing a positive role in the drive to improve revenues.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations, estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipate, intend, plan or similar expressions. These forward-looking statements are based upon current expectations and are subject to risk and uncertainties. In connection with the safe harbor provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

Such factors include the following: (i) the effect of changing regional and national economic conditions; (ii) the effects of trade, monetary and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System; (iii) significant changes in interest rates and prepayment speeds; (iv) inflation, stock and bond market, and monetary fluctuations; (v) credit risks of commercial, real estate, consumer, and other lending activities; (vi) changes in federal and state banking and financial services laws and regulations; (vii) the presence in the Company's market area of competitors with greater financial resources than the Company; (viii) the timely development of competitive new products and services by the Company and the acceptance of those products and services by customers and regulators (when required); (ix) the willingness of customers to substitute competitors products and services for those of the Company and vice versa; (x) changes in consumer spending and savings habits; (xi) unanticipated regulatory or judicial proceedings; and (xii) other external developments which could materially impact the Company's operational and financial performance.

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

**Item 3.....QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK.....**The Company manages market risk, which for the Company is primarily interest rate risk, through its asset liability management process and committee, see further discussion in Interest Rate Sensitivity section of this M.D. & A.

**Item 4T.....CONTROLS AND PROCEDURES.....**(a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2010, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of June 30, 2010, are effective.

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

## **Part II Other Information**

### **Item 1. Legal Proceedings**

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

### **Item 1A. Risk Factors**

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2009.

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

As a result of the decision by the Company to accept a preferred stock investment under the U.S. Treasury's CPP for a period of three years the Company is no longer permitted to repurchase stock or declare and pay dividends on common stock without the consent of the U.S. Treasury.

**Item 3. Defaults Upon Senior Securities**

None

**Item 4. (Removed and Reserved)**

**Item 5. Other Information**

None

**Item 6. Exhibits**

-

- 3.1 Amended and Restated Articles of Incorporation as amended through December 23, 2009, exhibit 3.1 to Form 8-K filed on December 23, 2009.
- 3.2 Bylaws, as amended and restated on December 17, 2009, Exhibit 3.2 to the Form 8-K filed December 23, 2009.
- 3.3 Certificate of Designation of Rights of Fixed Rate Cumulative Perpetual Preferred Stock, Series D (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2009.)
- 15.1 Report of S.R. Snodgrass, A.C. regarding unaudited interim financial statement information.
- 31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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

AmeriServ Financial, Inc.

Registrant

Date: August 6, 2010

/s/Glenn L. Wilson

Glenn L. Wilson

President and Chief Executive Officer

Date: August 6, 2010

/s/Jeffrey A. Stopko

Jeffrey A. Stopko



**Exhibit 99.1**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

AmeriServ Financial, Inc.

We have reviewed the accompanying consolidated balance sheet of AmeriServ Financial, Inc. and its consolidated subsidiaries as of June 30, 2010; the related consolidated statements of operations for the three- and six-month periods ended June 30, 2010 and 2009; and the consolidated statement of cash flows for the six-month periods ended June 30, 2010 and 2009. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2009, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated February 26, 2010, we expressed an unqualified opinion on those consolidated financial statements.

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

Wexford, PA

August 5, 2010



**Exhibit 15.1**

August 5, 2010

AmeriServ Financial, Inc.

216 Franklin Street

PO Box 520

Johnstown, PA 15907-0520

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of AmeriServ Financial, Inc. for the period ended June 30, 2010, as indicated in our report dated August 5, 2010. Because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2010, is incorporated by reference in the following Registration Statements:

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

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

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

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

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

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

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

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

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

Sincerely,

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

**Exhibit 31.1**

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

I, Glenn L. Wilson, certify that:

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

(d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and

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

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

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

Date: August 6, 2010

/s/Glenn L. Wilson  
Glenn L. Wilson  
President & CEO

**Exhibit 31.2**

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

I, Jeffrey A. Stopko, certify that:

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

(d) Disclosed in this report any change in ASF's internal control over financial reporting that occurred during ASF's most recent fiscal quarter (ASF's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, ASF's internal control over financial reporting; and

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

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

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

Date: August 6, 2010

/s/Jeffrey A. Stopko  
Jeffrey A. Stopko  
Executive Vice President & CFO

**Exhibit 32.1**

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company ) on Form 10-Q for the period ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Glenn L. Wilson, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Glenn L. Wilson

Glenn L. Wilson

President and

Chief Executive Officer

August 6, 2010

**Exhibit 32.2**

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company ) on Form 10-Q for the period ended June 30, 2010, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Jeffrey A. Stopko, Executive Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Executive Vice President and

Chief Financial Officer

August 6, 2010