AMERISERV FINANCIAL INC /PA/
Form 10-K
March 06, 2007

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

FORM 10-K

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2006

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM __________ TO __________

COMMISSION FILE NUMBER 0-11204

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

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

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

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

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

NOTE - Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those sections.

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. [X] Yes [ ] No

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

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

Large accelerated filer [ ]   Accelerated filer [X]   Non-accelerated filer [ ]

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant's most recently completed second fiscal quarter. The aggregate market value was $102,232,167.48 as of June 30, 2006.

NOTE -- If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided that the assumptions are set forth in this Form.

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. [X] Yes [ ] No

(Applicable only to corporate registrants) Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date. There were 22,157,715 shares outstanding as of January 31, 2006.

DOCUMENTS INCORPORATED BY REFERENCE.

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

Portions of the annual shareholders' report for the year ended December 31, 2006, are incorporated by reference into Parts I and II.

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

Exhibit Index is located on page 78.

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PART I

ITEM 1. BUSINESS

GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company, organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) on January 5, 1983. The Company's other wholly owned subsidiaries include AmeriServ Trust and Financial Services Company (the Trust Company) formed in October 1992, AmeriServ Life Insurance Company (AmeriServ Life) formed in October 1987, and AmeriServ Associates, Inc. (AmeriServ Associates), formed in January 1997. In the second quarter 2006, the Company closed AmeriServ Associates since it no longer fit the Company's strategic direction.

The Company's principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2006, the Company had, on a consolidated basis, total assets, deposits, and shareholders' equity of $896 million, $742 million and $85 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and insurance risk management.

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

AMERISERV FINANCIAL BANKING SUBSIDIARY

AmeriServ Financial Bank

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended. Through 21 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland Counties, Pennsylvania, AmeriServ Financial Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, money market accounts, secured and unsecured loans, mortgage loans, safe deposit boxes, holiday club accounts, collection services, money orders, and traveler's checks; (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as real estate-mortgage loans, short- and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 23 automated bank teller machines (ATMs) through its 24-Hour Banking Network that is linked with STAR, a regional ATM network and CIRRUS, a national ATM network.

The Bank had a wholly owned mortgage banking subsidiary -- Standard Mortgage Corporation of Georgia (SMC). SMC was a residential mortgage loan servicer based in Atlanta, GA. The Company concluded that mortgage servicing was not a core community banking business and it did not have the scale nor the earnings power to absorb the volatility and risk associated with this business line. On December 28, 2004, the Company sold all of its remaining mortgage servicing rights and discontinued operations of this non-core business in 2005. Additionally, AmeriServ Financial Services Corporation was formed on May 23, 1997 and engaged in the sale of annuities, mutual funds, and insurance. On December 31, 2004, the Company merged AmeriServ Financial Services Corporation into the Bank.

The Bank's deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. In addition, the loan portfolio is also diversified so that one industry or group of related industries does not comprise a material portion of the loan portfolio. The Bank's business is not seasonal nor does it have any risks attendant to foreign sources.

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

HEADQUARTERS	JOHNSTOWN, PA
Chartered	1933
Total Assets	$886,111
Total Investment Securities	$197,425
Total Loans (net of unearned income)	$589,077
Total Deposits	$741,955
Total Net Income	$ 2,074
Asset Leverage Ratio	9.70%
2006 Return on Average Assets	0.24%
2006 Return on Average Equity	2.33%
Total Full-time Equivalent Employees	304

RISK MANAGEMENT OVERVIEW:

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

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

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

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

Commercial

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

Commercial Loans Secured by Real Estate

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

Real Estate -- Mortgage

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which exhibit more liberal standards. The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default.

Consumer

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

MAJOR TYPES OF INVESTMENTS AND THE ASSOCIATED INVESTMENT POLICIES

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

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

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

Deposits

The Bank has a loyal core deposit base made up of traditional commercial bank products that exhibits little fluctuation, other than Jumbo CDs, which demonstrate some seasonality.

Borrowings

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

Loans

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

Secondary Market Activities

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

AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AmeriServ Trust and Financial Services Company

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. As one of the larger providers of trust and investment management products and services between Pittsburgh and Harrisburg, AmeriServ Trust and Financial Services Company is committed to delivering personalized, professional service to its clients. Its staff of approximately forty professionals administer assets valued at approximately $1.8 billion. The Trust Company has two primary business divisions, traditional trust and union collective investment funds. Traditional trust includes personal trust products and

services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this division. The union collective investment funds, namely the ERECT and BUILD Funds, are designed to invest union pension dollars in construction projects that utilize union labor. At December 31, 2006, AmeriServ Trust and Financial Services had total assets of $2.7 million and total shareholder's equity of $2.5 million. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

The diversification of the revenue-generating divisions within the trust company is one of the primary reasons for its successful profitable growth. The specialized union collective funds have attracted several international labor unions as investors as well as many local unions from a number of states. At the end of 2006, assets in these union funds totaled approximately $400 million.

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

In 2006, the Trust Company continued to be a major contributor of earnings to the corporation. Gross revenue in 2006 amounted to $6.9 million which represents an increase of $416,000 or 6.5% over 2005. The Trust Company's net income contribution was $1.7 million an increase of $303,000 or 22% over 2005.

AmeriServ Life

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company's market area.

Operations of AmeriServ Life are conducted in each office of the Company's banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Insurance Department of the Commonwealth of Pennsylvania, and the Federal Reserve. At December 31, 2006, AmeriServ Life had total assets of $1.3 million and total shareholder's equity of $1.1 million.

AmeriServ Associates

AmeriServ Associates was a registered investment advisory firm that administered investment portfolios, offered operational support systems and provided asset and liability management services to small and mid-sized financial institutions. As of June 30, 2006, the Company closed this subsidiary since it no longer fit the Company's strategic direction.

MONETARY POLICIES

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

COMPETITION

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

MARKET AREA

Nationally, economic growth slowed during 2006 but continues to be positive measuring in excess of 3.3% per annum. The economy in Cambria and Somerset Counties, while growing more slowly, produced an unemployment rate of 5.1% as compared to a national rate of 4.6%. Local markets have shown improvement as jobs in the area have improved causing the unemployment rate to decline from last year's number of 5.7%. Near-term expectations for future employment point to improvements as a result of the arrival of a wind-energy corporation, and the restructuring of the local health care system. Also, greater work on defense projects and the opening of a mortgage servicing company are expected to contribute to economic expansion. It is expected that an additional 2,000 local positions will open up within the next two years. One potential negative development for the local Johnstown economy is the possible closure of a railroad freight car manufacturer that could result in the loss of approximately 500 manufacturing jobs. Local loan demand remains good particularly in the commercial sector. Overall, economic conditions in 2007 are expected to remain positive.

Economic conditions are much better in the State College market. The unemployment rate is 3.3% and one of the lowest of all regions in the Commonwealth. The State College market presents the Company with a more vibrant economic market and a much different demographic. A large percentage of the population in State College falls into the 18 to 34 year old age group, while potential customers in the Cambria/Somerset markets tend to be over 50 years of age. Overall, opportunities in the State College market are quite different and challenging, providing a promising source of business to profitably grow the Company.

Nationally, the economic environment appears strong. Most economists remain hopeful that the economy in 2007 will continue to grow while inflation remains in check.

EMPLOYEES

The Company employed 414 people as of December 31, 2006, in full- and part-time positions. Approximately 250 non-supervisory employees of the Bank are represented by the United Steelworkers of America, AFL-CIO-CLC, Local Union 2635-06. The Bank's current labor contract with the Steelworkers Local will expire on October 15, 2007. The Bank has not experienced a work stoppage since 1979. The Bank is one of 13 union-represented banks nationwide.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT

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

As of December 31, 2006, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. A bank's capital category is determined solely for the purpose of applying the prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank's overall financial condition or prospects for other purposes.

SARBANES-OXLEY ACT OF 2002

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

PRIVACY PROVISIONS OF GRAMM-LEACH-BLILEY ACT

Under Gramm-Leach-Bliley Act (GLB Act) federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about customers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provision of the GLB Act affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors. The Company believes it is in compliance with the various provisions of the GLB Act.

CHECK CLEARING FOR THE 21ST CENTURY ACT

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

STATISTICAL DISCLOSURES FOR BANK HOLDING COMPANIES

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

I. Distribution of Assets, Liabilities, and Stockholders' Equity; Interest Rates and Interest Differential Information. Information required by this section is presented on pages 22-24, and 32-34.

II. Investment Portfolio Information required by this section is presented on pages 9-10 and 50-53.

III. Loan Portfolio Information required by this section appears on pages 10-11 and 26-27.

IV. Summary of Loan Loss Experience Information required by this section is presented on pages 27-28.

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

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

VII. Short-Term Borrowings Information required by this section is presented on pages 11-12.

INVESTMENT PORTFOLIO

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

Investment securities available for sale at:

	AT DECEMBER	
COST BASIS:	2006	2005
	(IN THOUSAN	
U.S. Treasury	$ 6,011	$ 5,021
U.S. Agency	57,636	59,335
Mortgage-backed securities	113,460	131,981
Equity investment in Federal Home Loan Bank and Federal Reserve Bank Stocks	5,355	6,988
Other securities	3,962	4,499
Total cost basis of investment securities available for sale	$186,424	$207,824
Total fair value of investment securities available for sale	$181,498	$201,569

Investment securities held to maturity at:

	AT DECEMBER 31,		
COST BASIS:	2006	2005	2004
	(IN THOUSANDS)		
U.S. Treasury	$ 3,220	$ 3,285	$ 3,348
U.S. Agency	3,471	11,484	11,522
Mortgage-backed securities	7,216	8,836	12,565
Other securities	6,750	6,750	--

Total cost basis of investment securities held to maturity	$20,657	$30,355	$27,435
Total fair value of investment securities held to maturity	$20,460	$30,206	$27,550

LOAN PORTFOLIO

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,				
	2006	2005	2004	2003	2002
	(IN THOUSANDS)				
Commercial	$ 91,746	$ 80,629	$ 72,011	$ 75,738	$ 89,127
Commercial loans secured by real estate	269,781	249,204	225,661	206,204	222,854
Real estate-mortgage(1)	209,728	201,111	201,406	194,605	229,154
Consumer	18,336	20,391	23,285	28,343	32,506
Loans	589,591	551,335	522,363	504,890	573,641
Less: Unearned income	514	831	1,634	2,926	4,881
Loans, net of unearned income	$589,077	$550,504	$520,729	$501,964	$568,760

(1) For each of the periods presented beginning with December 31, 2006, real estate-construction loans constituted 4.4%, 5.5%, 6.3%, 3.2% and 7.2% of the Company's total loans, net of unearned income, respectively.

NON-PERFORMING ASSETS

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2006	2005	2004	2003	2002
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
NON-ACCRUAL LOANS					
Commercial	$ 494	$2,315	$ 802	$ 3,282	$1,783
Commercial loans secured by real estate	195	318	606	5,262	1,864
Real estate-mortgage	1,050	1,070	2,049	1,495	2,784
Consumer	547	446	412	742	360
Total	$ 2,286	$4,149	$3,869	$10,781	$6,791
PAST DUE 90 DAYS OR MORE AND STILL ACCRUING					
Commercial	$ --	$ --	$ --	$ 58	$ --
Commercial loans secured by real estate	--	--	--	10	48
Real estate-mortgage	--	--	--	--	--

Consumer	3	31	--	30	2
Total	$ 3	$ 31	$ --	$ 98	$ 50
OTHER REAL ESTATE OWNED					
Commercial	$ --	$ --	$ --	$ --	$ --
Commercial loans secured by real estate	--	--	--	255	--
Real estate-mortgage	3	130	15	248	89
Consumer	--	5	10	29	34
Total	$ 3	$ 135	$ 25	$ 532	$ 123
TOTAL NON-PERFORMING ASSETS	$ 2,292	$4,315	$3,894	$11,411	$6,964
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.39%	0.78%	0.75%	2.26%	1.22%
Total restructured loans	$ 1,302	$ 258	$5,685	$ 698	$ --

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

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

	YEAR ENDED DECEMBER 31,				
	2006	2005	2004	2003	2002
	(IN THOUSANDS)				
Interest income due in accordance with original terms	$214	$213	$469	$ 670	$470
Interest income recorded	(55)	(12)	(19)	(119)	(14)
Net reduction in interest income	$159	$201	$450	$ 551	$456

DEPOSITS

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

AT DECEMBER 31,

	2006		2005		2004	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	$104,266	--%	$107,018	--%	$106,249	--%
Interest bearing	57,817	1.05	54,695	0.41	53,502	0.29
Savings	81,964	0.78	96,819	0.86	104,187	0.89
Money market	172,029	3.34	156,932	2.07	120,280	1.11
Other time	319,220	3.83	284,951	3.04	279,458	2.83
Total deposits	$735,296	3.05	$700,415	2.18	$663,676	1.85

Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
Interest bearing demand	$ 606	$ 227	$ 154
Savings	644	829	928
Money market	5,743	3,256	1,340
Certificates of deposit in denominations of $100,000 or more	1,894	1,378	1,167
Other time	10,345	7,295	6,747
Total interest expense	$19,232	$12,985	$10,336

Additionally, the following table provides more detailed maturity information regarding certificates of deposit issued in denominations of $100,000 or more as of December 31, 2006:

MATURING IN:

	(IN THOUSANDS)
Three months or less	$17,424
Over three through six months	3,413
Over six through twelve months	5,629
Over twelve months	4,114
Total	$30,580

FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

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

	AT DECEMBER 31, 2006	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	$ --	$49,091
Maximum indebtedness at any month end	--	61,728
Average balance during year	43	32,778
Average rate paid for the year	5.69%	5.10%
Interest rate on year end balance	--	5.48

	AT DECEMBER 31, 2005	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	$ --	$ 63,184
Maximum indebtedness at any month end	--	150,552
Average balance during year	1	78,151
Average rate paid for the year	4.94%	3.32%
Interest rate on year end balance	--	4.25

	AT DECEMBER 31, 2004	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	$ --	$151,935
Maximum indebtedness at any month end	--	170,989
Average balance during year	7	128,010
Average rate paid for the year	2.32%	1.61%
Interest rate on year end balance	--	2.25

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

These borrowing transactions can range from overnight to one year in maturity. The average maturity was three days at the end of 2006, 2005, and 2004.

ITEM 1A. RISK FACTORS

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

FAILURE TO SUCCESSFULLY EXECUTE OUR TURNAROUND STRATEGY WOULD ADVERSELY AFFECT FUTURE EARNINGS.

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

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

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

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

We believe we accomplished the first two elements of the turnaround strategy. The final element requires sustained execution of our business plan. If we are unable to achieve the last element of the turnaround strategy, our financial condition and results of operations will not dramatically improve and may deteriorate.

WEAK LOAN GROWTH MAY HINDER OUR ABILITY TO IMPROVE EARNINGS PERFORMANCE.

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

AMERISERV OPERATES UNDER LIQUIDITY CONSTRAINTS AND MAY DO SO IN THE FUTURE BECAUSE OF LOSSES AT THE BANK.

The payment of dividends by the Bank to us is a primary source of funding for us and is also the principal source of funds for us to pay dividends to our shareholders. Under federal banking law, the Bank may only pay dividends out of accumulated earnings for the current year and the prior two calendar years. Because of the restructuring undertaken in 2005 and 2004, the Bank incurred aggregate losses of $16.6 million. As a consequence, we have relied on dividends from non-bank subsidiaries, a tax refund, inter-company tax payments, and $3.4 million of retained proceeds from the 2004 and 2005 common stock offerings to provide the cash needed to make interest payments on the debentures. We believe we have sufficient cash on hand at the holding company and from these alternative sources to meet our obligations, including our debt service obligations on outstanding debentures until the Bank's dividend authority is restored, which we believe will occur no later than the first quarter of 2008 if the Bank does not suffer future losses. Moreover, we have no significant secondary sources of liquidity such as lines of credit.

WE HAVE UNIONIZED EMPLOYEES, WHICH INCREASES OUR COSTS AND MAY DETER ANY ACQUISITION PROPOSAL.

The Bank is party to a collective bargaining agreement with the United Steelworkers of America, which represents approximately 61% of our employees. A new three year agreement was executed in October 2004 that expires in October 2007. As a result of provisions in the contract, generally known as work rules, we sometimes cannot take steps that would reduce our operating costs. Furthermore, to our knowledge, we are one of only 13 unionized banking institutions in the United States. The banking industry is a consolidating industry in which acquisitions are frequent. However, some banking institutions may be reluctant to buy a unionized bank because of a perception that operating costs may be higher or that it could result in unionization of its work force. Additionally, there is the risk of a work stoppage if a new collective bargaining agreement cannot be negotiated before the end of the current agreement. Therefore, our stock price may be adversely affected because investors may conclude that there is a reduced likelihood that we will be acquired or could be an acquiror.

A SIGNIFICANT PORTION OF OUR TRUST BUSINESS IS DEPENDENT ON A UNION CLIENT BASE.

In an effort to capitalize on the Bank's union affiliation, our Trust Company operates the ERECT Funds and the BUILD Funds that seek to attract investment from union pension funds. These funds then use the investments to make loans on construction projects that use union labor. At December 31, 2006, approximately $400 million was invested by unions in the ERECT and BUILD Funds. This represents approximately 22.5% of the total assets under management held by the Trust Company. Therefore, the Trust Company is dependent on a discrete union client base for a sizable portion of its assets under management and its resulting revenue and net income.

CHANGES IN INTEREST RATES COULD REDUCE OUR INCOME, CASH FLOWS AND ASSET VALUES.

Our income, cash flows and the value of our assets depend to a great extent on the difference between the interest rates we earn on interest-earning assets, such as loans and investment securities, as well as the interest rates we pay on interest-bearing liabilities such as deposits and borrowings. These rates are highly sensitive to many factors which are beyond our control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, will influence not only the interest we receive on our loans and investment securities and the amount of interest we pay on deposits and borrowings, but it also will affect our ability to originate loans and obtain deposits and the value of our investment portfolio. If the rate of interest we pay on our deposits and other borrowings increases more than the rate of interest we earn on our loans and other investments, our net interest income, and therefore our earnings, could be adversely affected. This challenge is particularly evident during periods such as 2006 when the yield curve is flat to inverted. Our earnings also could be adversely affected if the rates on our loans and other investments fall more quickly than those on our deposits and other borrowings.

BECAUSE OUR OPERATIONS ARE CONCENTRATED IN CAMBRIA AND SOMERSET COUNTIES, PENNSYLVANIA, WE ARE SUBJECT TO ECONOMIC CONDITIONS IN THIS AREA, WHICH TYPICALLY LAG BEHIND ECONOMIC ACTIVITY IN OTHER AREAS.

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

WE ARE SUBJECT TO LENDING RISKS.

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

At December 31, 2006, 61.3% of our net loan portfolio consisted of commercial and commercial mortgage loans, including construction loans. Commercial loans are generally viewed as having more risk of default than residential real estate loans or consumer loans. These types of loans also are typically larger than residential real estate loans and consumer loans. Because our loan portfolio contains a significant number of commercial and commercial mortgage loans with relatively large balances, the deterioration of one or a few of these loans would cause a significant increase in nonperforming loans. An increase in nonperforming loans could result in a net loss of earnings from these loans, an increase in our provision for loan losses and an increase in loan charge-offs.

OUR FINANCIAL CONDITION AND RESULTS OF OPERATIONS WOULD BE ADVERSELY AFFECTED IF OUR ALLOWANCE FOR LOAN LOSSES IS NOT SUFFICIENT TO ABSORB ACTUAL LOSSES OR IF WE ARE REQUIRED TO INCREASE OUR ALLOWANCE.

Despite our underwriting criteria, we may experience loan delinquencies and losses for reasons beyond our control, such as general economic conditions. At December 31, 2006, we had nonperforming assets equal to 0.39% of total loans, and loans held for sale, net of unearned income and other real estate owned. In order to absorb losses associated with nonperforming assets, we maintain an allowance for loan losses based on, among other things, historical experience, an evaluation of economic conditions, and regular reviews of delinquencies and loan portfolio quality. Determination of the allowance inherently involves a high degree of subjectivity and requires us to make significant estimates of current credit risks and future trends, all of which may undergo material changes. We may be required to increase our allowance for loan losses for any of several reasons. State and federal regulators, in reviewing our loan portfolio as part of a regulatory examination, may request that we increase our allowance for loan losses. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in our allowance. In addition, if charge-offs in future periods exceed our allowance for loan losses, we will need additional increases in our allowance for loan losses. Any increases in our allowance for loan losses will result in a decrease in our net income and, possibly, our capital, and may materially affect our results of operations in the period in which the allowance is increased.

OUR FUTURE SUCCESS WILL DEPEND ON OUR ABILITY TO COMPETE EFFECTIVELY IN A HIGHLY COMPETITIVE MARKET AND GEOGRAPHIC AREA.

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

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

- Our ability to build upon existing customer relationships and market position;

- Competitors' interest rates and service fees;

- Our ability to attract and retain a qualified workforce;

- The scope of our products and services;

- The relevance of our products and services to customer needs and demands and the rate at which we and our competitors introduce them;

- Satisfaction of our customers with our customer service; and

- Industry and general economic trends.

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

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

ENVIRONMENTAL LIABILITY ASSOCIATED WITH LENDING ACTIVITIES COULD RESULT IN LOSSES.

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

WE MAY BE ADVERSELY AFFECTED BY GOVERNMENT REGULATION.

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

FEDERAL AND STATE BANKING LAWS, OUR ARTICLES OF INCORPORATION AND OUR BY-LAWS MAY HAVE AN ANTI-TAKEOVER EFFECT.

Federal law imposes restrictions, including regulatory approval requirements, on persons seeking to acquire control over us. Pennsylvania law also has provisions that may have an anti-takeover effect. In addition, our articles of incorporation and bylaws permit our board of directors to issue, without shareholder approval, preferred stock and additional shares of common stock that could adversely affect the voting power and other rights of existing common shareholders.

RISKS ASSOCIATED WITH THE COMPANY'S COMMON STOCK

THE COMPANY'S STOCK PRICE CAN BE VOLATILE.

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

- Actual or anticipated variations in quarterly results of operations;
- Operating and stock price performance of other companies that investors deem comparable to the Company;
- News reports relating to trends, concerns and other issues in the financial services industry;
- Perceptions in the marketplace regarding the Company and/or its competitors;
- New technology used, or services offered, by competitors;
- Changes in government regulations; and
- Geopolitical conditions such as acts or threats of terrorism or military conflicts.

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

THE TRADING VOLUME IN THE COMPANY'S COMMON STOCK IS LESS THAN THAT OF OTHER LARGER FINANCIAL SERVICES COMPANIES.

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

AN INVESTMENT IN OUR COMMON STOCK IS NOT AN INSURED DEPOSIT.

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus eleven floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 15 other locations which are owned Ten additional locations are leased with terms expiring from January 1, 2007 to March 31, 2018.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to a number of asserted and unasserted potential legal claims encountered in the normal course of business. In the opinion of both management and legal counsel, there is no present basis to conclude that the resolution of these claims will have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

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

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

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON STOCK AND RELATED STOCKHOLDER MATTERS

COMMON STOCK

As of January 31, 2007, the Company had 3,589 shareholders of its common stock. AmeriServ Financial, Inc.'s common stock is traded on the NASDAQ National Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH DIVIDENDS DECLARED
	HIGH	LOW	
Year ended December 31, 2006:	$5.00	$4.31	$0.00
First Quarter	5.24	4.50	0.00
Second Quarter	4.96	4.43	0.00
Third Quarter	5.00	4.25	0.00
Fourth Quarter			
Year ended December 31, 2005	$5.84	$4.95	$0.00
First Quarter	5.67	5.04	0.00
Second Quarter	5.43	4.30	0.00
Third Quarter	4.99	4.08	0.00
Fourth Quarter			

PERFORMANCE GRAPH

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

(PERFORMANCE GRAPH)

The following table compares total shareholder returns for the Company over the past five years to the NASDAQ Stock Market and the NASDAQ Bank Stocks assuming a $100 investment made on December 31, 2001. Each of the three measures of cumulative return assumes reinvestment of dividends. The stock performance shown on the graph above is not necessarily indicative of future price performance.

	12/31/01	12/31/02	12/31/03	12/31/04	12/31/05	12/31

AmeriServ Financial, Inc.	$100.00	$ 64.50	$113.10	$116.90	$ 99.10	$111
NASDAQ Stock Market (US Companies)	$100.00	$ 68.80	$103.70	$113.20	$115.60	$127
NASDAQ Bank Stocks	$100.00	$106.90	$142.30	$161.70	$158.50	$180

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DE			
	2006	2005	2004	
	(DOLLARS IN THOUSANDS, EXCEPT P			
SUMMARY OF INCOME STATEMENT DATA:				
Total interest income	$ 46,565	$ 45,865	$ 50,104	$
Total interest expense	22,087	21,753	26,638	
Net interest income	24,478	24,112	23,466	
Provision for loan losses	(125)	(175)	1,758	
Net interest income after provision for loan losses	24,603	24,287	21,708	
Total non-interest income	12,841	10,209	14,012	
Total non-interest expense	34,692	49,420	50,091	
Income (loss) from continuing operations before income taxes	2,752	(14,924)	(14,371)	
Provision (benefit) for income taxes	420	(5,902)	(5,845)	
Income (loss) from continuing operations	2,332	(9,022)	(8,526)	
Loss from discontinued operations, net of income taxes *	--	(119)	(1,193)	
Net income (loss)	$ 2,332	$ (9,141)	$ (9,719)	$
PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:				
Basic earnings (loss) per share	$ 0.11	$ (0.44)	$ (0.58)	$
Diluted earnings (loss) per share	0.11	(0.44)	(0.58)	
PER COMMON SHARE DATA FROM DISCONTINUED OPERATIONS*:				
Basic loss per share	$ --	$ (0.01)	$ (0.08)	$
Diluted loss per share	--	(0.01)	(0.08)	
PER COMMON SHARE DATA:				
Basic earnings (loss) per share	$ 0.11	$ (0.45)	$ (0.66)	$
Diluted earnings (loss) per share	0.11	(0.45)	(0.66)	
Cash dividends declared	0.00	0.00	0.00	
Book value at period end	3.82	3.82	4.32	
BALANCE SHEET AND OTHER DATA:				
Total assets	$895,992	$880,176	$1,009,232	$1,
Loans and loans held for sale, net of unearned income	589,435	550,602	521,416	
Allowance for loan losses	8,092	9,143	9,893	
Investment securities available for sale	181,498	201,569	373,584	
Investment securities held to maturity	20,657	30,355	27,435	
Deposits	741,755	712,665	644,391	
Total borrowings	63,122	77,256	269,169	

Stockholders' equity	84,684	84,474	85,219
Full-time equivalent employees	369	378	406

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

	AT OR FOR THE YEAR ENDED DECEMBER 31,				
	2006	2005	2004	2003	2002
		(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)			
SELECTED FINANCIAL RATIOS:					
Return on average total equity	2.74%	(10.77)%	(11.44)%	0.71%	(6.18)%
Return on average assets	0.27	(0.95)	(0.76)	0.05	(0.43)
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	79.46	77.26	80.92	76.90	85.53
Ratio of average total equity to average assets	9.73	8.80	6.67	6.67	7.00
Common stock cash dividends as a percent of net loss applicable to common stock	--	--	--	--	(80.16)
Interest rate spread	2.67	2.39	2.01	2.02	2.16
Net interest margin	3.12	2.76	2.28	2.31	2.51
Allowance for loan losses as a percentage of loans and loans held for sale, net of unearned income, at period end	1.37	1.66	1.90	2.32	1.75
Non-performing assets as a percentage of loans, loans held for sale and other real estate owned, at period end	0.39	0.78	0.75	2.26	1.22
Net charge-offs as a percentage of average loans and loans held for sale	0.16	0.11	0.68	0.22	0.85
Ratio of earnings to fixed charges and preferred dividends:(1)					
Excluding interest on deposits	1.93X	(1.35)X	0.12X	1.15x	0.84x
Including interest on deposits	1.12	0.05	0.46	1.09	0.90
Cumulative one year interest rate sensitivity gap ratio, at period end	0.85	0.89	0.78	0.96	1.44

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

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2006, 2005, AND 2004

SUMMARY OVERVIEW:

The year 2006 marked the opening of a new phase in the turnaround of AmeriServ Financial. For the year ended December 31, 2006, the Company returned to profitability by reporting net income of $2.3 million or $0.11 per share. This compares favorably to the net loss of $9.1 million or ($0.45) per share reported for 2005 and a net loss of $9.7 million or ($0.66) per share for 2004. It was heartening to note that these positive 2006 earnings were generated from traditional community banking and trust activities with no complex financial transactions or unusual strategies. These earnings are an indication that the operating losses of 2002 and 2003 have ended and that the balance sheet restructuring losses of 2004 and 2005 have accomplished their stated goal - to reconstitute AmeriServ as a safe and sound community bank with a growing trust and asset management subsidiary. As AmeriServ pursues its continuing turnaround it is important to note that the basic metrics of a community bank continue to improve.

- Since December 31, 2005, loans outstanding have increased by $39 million or 7.1%.

- Since December 31, 2005, deposits have increased by $29 million or 4.1%.

- Non-interest expenses in 2006 are 6.6% or $2.4 million lower than 2005 (excluding the 2005 FHLB and hedge prepayment penalties). The Company's continuing focus on cost rationalization and the termination of the Memorandum of Understanding earlier in 2006 were key factors causing the non-interest expense reduction.

- Non-Performing Assets are $2 million less than December 31, 2005, and are now below local and national peer bank averages.

- The Trust Company in 2006 increased its net income contribution by 27% and recorded asset growth of 10.7% when compared to 2005.

- Despite experiencing pressure throughout the year due largely to the flat to inverted yield curve, the 2006 net interest margin has increased by 81 basis points since December 31, 2003 as a result of the balance sheet restructurings completed in the prior two years.

Specifically when analyzing 2005, the successful completion of a $10.3 million private placement common stock offering on September 29, 2005 provided the Company with the capital to facilitate a series of transactions which were designed to significantly improve the Company's interest rate risk position and position the Company for future increased earnings performance. These transactions and their related impact on 2005 earnings were as follows: 1) We retired all remaining $100 million of Federal Home Loan Bank (FHLB) convertible advances that had a cost of approximately 6.0% and a 2010 maturity. The Company incurred a $6.5 million pre-tax prepayment penalty to accomplish this transaction. 2) We terminated all interest rate hedges associated with the FHLB debt. The Company incurred a pre-tax termination fee of $5.8 million to eliminate these hedges on which the Company was a net payer. 3) We sold $112 million of investment securities to provide the additional cash needed by the Bank for these FHLB debt and interest rate swap prepayments. The Company incurred a $2.5 million pre-tax loss on these investment security sales. 4) We redeemed at par $7.2 million of our high coupon trust preferred securities for which the Company incurred a $210,000 charge to write-off related unamortized issuance costs which is included within other expense.

Similar balance sheet repositioning actions were also executed in the fourth quarter of 2004 as a result of $25.8 million of funds provided from a shareholder approved two tranche private placement common stock offering. These transactions and their related impact on 2004 earnings were as follows: 1) We retired $125 million in FHLB term borrowings that had a cost of approximately 6.0% and a 2010 maturity. The Company incurred a $12.6 million pre-tax prepayment penalty to accomplish this transaction. 2) We redeemed at par $15.3 million of outstanding trust preferred securities for which the Company incurred a $476,000 charge to write-off unamortized issuance costs. 3) We sold all remaining mortgage servicing rights and took the necessary steps to terminate operations at Standard Mortgage Corporation in Atlanta, Georgia. The cost of this closing was approximately $800,000 in 2004, but the closing eliminates an activity that lost $1.2 million in 2004. 4) We restored cash reserves at the parent company and closed an outpost branch office in Harrisburg, Pennsylvania for which the Company incurred $170,000 of costs.

These transactions were significant factors that caused the Company to report losses in both 2005 and 2004. However, the execution of these transactions combined with the capital provided from the successful private placement common stock offerings strengthened the Company's balance sheet and reduced its risk profile. At December 31, 2006, the Company's asset leverage ratio improved to 10.54% compared to 7.71% at June 30, 2004 which was the last quarter-end prior to commencing the balance sheet repositioning actions.

As discussed in our strategic direction statement, AmeriServ Financial's focus will be to drive continued meaningful earnings improvement in 2007 and move our financial performance metrics closer to industry norms. The strategic plan is in the early stages of execution and the key is to have every AmeriServ banker involved so customer service excellence becomes synonymous with the name AmeriServ. This customer service focus combined with revenue growth and expense rationalization are the key ingredients needed to improve our earnings performance.

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Income (loss) from continuing operations	$2,332	$(9,022)	$(8,526)
Diluted earnings (loss) per share from continuing operations	0.11	(0.44)	(0.58)
Return on average equity from continuing operations	2.74%	(10.63)%	(11.44)%
NET INCOME (LOSS):			
Net income (loss)	$2,332	$(9,141)	$(9,719)
Diluted earnings (loss) per share	0.11	(0.45)	(0.66)
Return on average equity	2.74%	(10.77)%	(13.04)%

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

The Company reported a net loss of $9.1 million or ($0.45) per share for 2005 compared to a net loss of $9.7 million or ($0.66) per share for 2004. The loss in both years was due largely to the balance sheet repositioning actions discussed above. However, the 2005 performance was positively impacted by increased net interest income and a lower provision for loan losses due to continuing asset quality improvement. Also, the net loss from discontinued operations declined by $1.1 million between years as a result of the closure of the SMC in 2005.

The Company's 2004 performance was negatively impacted by reduced net interest income and lower non-interest revenue when compared to 2003. These negative items were partially offset by a reduced loan loss provision and an increased income tax benefit. A net loss of $1.2 million from discontinued operations is also reflected in the Company's 2004 performance.

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	$46,565	$45,865	$50,104
Interest expense	22,087	21,753	26,638
Net interest income	24,478	24,112	23,466
Tax-equivalent adjustment	96	108	117
Net tax-equivalent interest income	$24,574	$24,220	$23,583
Net interest margin	3.12%	2.76%	2.28%

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

COMPONENT CHANGES IN NET INTEREST INCOME: 2006 VERSUS 2005...Regarding the separate components of net interest income, the Company's total interest income for 2006 increased by $688,000 or 1.5% when compared to 2005. This increase was due to a 69 basis point increase in the earning asset yield to 5.93%, but was partially offset by a $91 million decrease in average earning assets. Within the earning asset base, the yield on the total loan portfolio increased by 39 basis points to 6.64% and reflects the higher interest rate environment in 2006 which has allowed the Company to book new loans at rates moderately higher than those currently in the portfolio. The yield on the total investment securities portfolio increased by 26 basis points to 3.96% due to the repricing of variable rate securities in the higher rate environment and reduced amortization expense on the Company's lower balance of mortgage-backed securities.

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

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

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

2005 NET INTEREST PERFORMANCE OVERVIEW... The Company's 2005 net interest income on a tax equivalent basis increased by $637,000 or 2.7% from 2004. This increase reflects the benefit of an improved net interest margin that has more than offset a sizable decline in the level of average earning assets. Specifically, the net interest margin increased by 48 basis points to 2.76% while the level of average earning assets declined by $153 million. Both of these items reflect the benefits of the previously mentioned balance sheet restructuring where the removal of high cost debt from the Company's balance sheet has resulted in lower levels of both borrowed funds and investment securities. The Company's net interest margin and net interest income also benefited from increased loans in the earning asset mix as total loans outstanding averaged $525 million in 2005, a $28 million or 5.7% increase from 2004. This loan growth was most evident in the commercial loan portfolio as a result of successful new business development efforts. Deposits continued their recovery from the low point reached in the fourth quarter of 2004. Total deposits averaged $700 million in 2005, a $37 million or 5.5% increase from 2004 due to increased deposits from the trust company's operations. This deposit growth also allowed the Company to further reduce FHLB borrowings as these borrowings amounted to only 7.3% of total assets at December 31, 2005 compared to 25% of total assets at December 31, 2004.

COMPONENT CHANGES IN NET INTEREST INCOME: 2005 VERSUS 2004...Regarding the separate components of net interest income, the Company's total interest income for 2005 decreased by $4.2 million or 8.5% when compared to 2004. This decrease was due to a $153 million decline in average earning assets but was partially offset by a 39 basis point increase in the earning asset yield to 5.24%. Within the earning asset base, the yield on the total loan portfolio increased by 26 basis points to 6.25%. This increase reflects the impact of the higher interest rate environment in 2005 as the Federal Reserve has increased short-term interest rates by 225 basis points over the past year. Note that the higher yields reflect the upward repricing of floating rate loans as the yields on fixed rate loans are relatively consistent with the prior year due to the flattening of the yield curve. The yield on the total investment securities portfolio decreased by 4 basis points to 3.70% due to the sale of longer duration higher yielding securities as part of the balance sheet restructuring.

The $153 million decline in average earning assets was due to a $176 million or 33.3% reduction in average investment securities partially mitigated by a $28 million increase in average loans. The average investment securities decline in 2005 reflects the impact of the Company's deleveraging and balance sheet repositioning strategy which began in the second half of 2004 and continued throughout 2005. The increase in average loans reflects successful commercial loan growth as the Company was able to generate new business. This commercial loan growth led to a greater composition of loans in the earning asset mix that favorably impacted the Company's net interest margin.

The Company's total interest expense for 2005 decreased by $4.9 million or 18.3% when compared to 2004. This reduction in interest expense was due to a lower volume of interest bearing liabilities. Total average interest bearing liabilities were $164 million lower in 2005 as we have deleveraged our balance sheet by reducing high cost FHLB debt over the past 15 months. Specifically, in the fourth quarter of 2004 we retired $125 million of high cost FHLB advances and late in the third quarter of 2005 we retired the remaining $100 million of high cost FHLB convertible advances. We also benefited from the retirement of $22.5 million of guaranteed junior subordinated deferrable interest debentures as part of our balance sheet restructuring which favorably reduced interest expense by $1.3 million in 2005.

The total cost of funds for 2005 increased modestly by one basis point to 2.85% and was driven up by higher short-term interest rates when compared to 2004. These higher short-term rates caused a 33 basis point increase in the cost of interest bearing deposits to 2.18%. Note that some of the net-interest margin improvement was masked by the upward repricing of $100 million of interest rate swaps and the remaining short-term borrowings. Specifically, in 2004 the Company was a net receiver of $1.6 million from the interest rate hedges compared to a net payer of $27,000 in 2005 or a net unfavorable change of $1.6 million. We terminated these interest rate hedges as part of the third quarter 2005 balance sheet repositioning.

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

	YEAR ENDED DECEMBER 31,						
	2006			2005			
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	A B
	(IN THOUSANDS, EXCEPT PERCENTAGES)						
Interest earning assets:							
Loans, net of unearned income	$564,173	$37,693	6.64%	$525,401	$33,055	6.25%	$
Deposits with banks	706	23	3.26	770	6	0.78	
Federal funds sold	62	3	5.21	--	--	--	
Investment securities:							
Available for sale	197,256	7,868	3.92	326,533	11,926	3.65	
Held to maturity	24,448	1,074	4.39	25,422	986	3.88	
Total investment securities	221,704	8,942	3.96	351,955	12,912	3.70	
TOTAL INTEREST EARNING ASSETS/ INTEREST INCOME	786,645	46,661	5.93	878,126	45,973	5.24	1,
Non-interest earning assets:							
Cash and due from banks	18,841			21,449			
Premises and equipment	8,324			9,365			
Other assets	68,920			63,401			
Assets of discontinued							

operations	--			1,135			
Allowance for loan losses	(8,750)			(9,613)			
TOTAL ASSETS	$873,980			$963,863			$1,
Interest bearing liabilities:							
Interest bearing deposits:							
Interest bearing demand	$ 57,817	$ 606	1.05%	$ 54,695	$ 227	0.41%	$
Savings	81,964	643	0.78	96,819	829	0.86	
Money market	172,029	5,741	3.34	156,932	3,256	2.07	
Other time	319,220	12,242	3.83	284,951	8,673	3.04	
Total interest bearing deposits	631,030	19,232	3.05	593,397	12,985	2.18	
Federal funds purchased and other short-term borrowings	32,821	1,672	5.09	78,152	2,599	3.32	
Advances from Federal Home Loan Bank	967	63	6.45	73,924	4,510	6.10	
Guaranteed junior subordinated deferrable interest debentures	13,085	1,120	8.57	19,345	1,659	8.58	
TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE	677,903	22,087	3.26	764,818	21,753	2.85	
Non-interest bearing liabilities:							
Demand deposits	104,266			107,018			
Liabilities of discontinued operations	--			379			
Other liabilities	6,765			6,780			
Stockholders' equity	85,046			84,868			
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$873,980			$963,863			$1,
Interest rate spread			2.67			2.39	
Net interest income/net interest margin		24,574	3.12%		24,220	2.76%	
Tax-equivalent adjustment		(96)			(108)		
Net interest income		$24,478			$24,112		

The average balance and yield on taxable securities was $222 million and 3.96%, $352 million and 3.70% and $528 million and 3.74% for 2006, 2005, and 2004, respectively. The Company had no tax-exempt securities in any of the periods presented.

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

	2006 VS. 2005			
	INCREASE (DECREASE) DUE TO CHANGE IN:			
	AVERAGE VOLUME	RATE	TOTAL	AVE VO
			(IN THOUSAN	
INTEREST EARNED ON:				
Loans, net of unearned income	$ 2,513	$ 2,125	$ 4,638	$ 1
Deposits with banks	--	17	17	
Federal funds sold	3	--	3	
Investment securities:				
Available for sale	(4,990)	932	(4,058)	(6
Held to maturity	(36)	124	88	
Total investment securities	(5,026)	1,056	(3,970)	(6
Total interest income	(2,510)	3,198	688	(5
INTEREST PAID ON:				
Interest bearing demand deposits	13	366	379	
Savings deposits	(116)	(70)	(186)	
Money market	337	2,148	2,485	
Other time deposits	1,139	2,430	3,569	
Federal funds purchased and other short-term borrowings	(1,964)	1,037	(927)	
Advances from Federal Home Loan Bank	(4,721)	274	(4,447)	(8
Guaranteed junior subordinated deferrable interest debentures	(537)	(2)	(539)	(1
Total interest expense	(5,849)	6,183	334	(9
Change in net interest income	$ 3,339	$(2,985)	$ 354	$ 4

LOAN QUALITY. . .AmeriServ Financial's written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. Credit reviews are mandatory for all commercial loans and for all commercial mortgages in excess of $250,000 within a 12-month period. In addition, due to the secured nature of residential mortgages and the smaller balances of individual installment loans, sampling techniques are used on a continuing basis for credit reviews in these loan areas. The following table sets forth information concerning AmeriServ Financial's loan delinquency and other non-performing assets.

	AT DECEMBER 31,		
	2006	2005	2004

	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total loan delinquency (past due 30 to 89 days)	$2,991	$4,361	$3,311
Total non-accrual loans	2,286	4,149	3,869
Total non-performing assets(1)	2,292	4,315	3,894
Loan delinquency as a percentage of total loans and loans held for sale, net of unearned income	0.51%	0.79%	0.64%
Non-accrual loans as a percentage of total loans and loans held for sale, net of unearned income	0.39	0.75	0.74
Non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.39	0.78	0.75

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

Each of the Company's loan quality metrics displayed in the above table demonstrated improvement between 2006 and 2005. This improvement resulted from the Company's diligent focus on improving asset quality as one of the core strategies of the Company's turnaround. Loan delinquency levels have now remained below 1% for the past three years and reflect the improved loan portfolio quality. Non-performing asset levels also declined by $2.0 million between 2006 and 2005 to $2.3 million or 0.39% of total loans due to the successful work-out of the Company's largest problem credit during 2006.

Overall, the Company had one loan totaling $1.3 million at December 31, 2006, that had been restructured which involved granting loan rates less than that of the market rate.

While we are pleased with the noted improvement in asset quality, we continue to closely monitor the portfolio given the number of relatively large sized commercial and commercial real estate loans within the portfolio. As of December 31, 2006, the 25 largest credits represented 31.5% of total loans outstanding. This portfolio characteristic combined with the limited seasoning of recent new loan production are some of the factors that the Company considered in maintaining a $761,000 general risk reserve within the allowance for loan losses at December 31, 2006.

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

	YEAR ENDED DECEMB		
	2006	2005	2004
	(IN THOUSANDS, EXCEPT RATIOS		
Balance at beginning of year	$ 9,143	$ 9,893	$ 11,682
Transfer to reserve for unfunded loan commitments	--	--	(122)
Charge-offs:			
Commercial	(769)	(214)	(1,107)
Commercial loans secured by real estate	(2)	(113)	(1,928)
Real estate-mortgage	(76)	(145)	(139)
Consumer	(397)	(403)	(867)
Total charge-offs	(1,244)	(875)	(4,041)
Recoveries:			
Commercial	115	77	410
Commercial loans secured by real estate	41	15	7
Real estate-mortgage	19	52	65
Consumer	143	156	134
Total recoveries	318	300	616
Net charge-offs	(926)	(575)	(3,425)
Provision for loan losses	(125)	(175)	1,758
Balance at end of year	$ 8,092	$ 9,143	$ 9,893
Loans and loans held for sale, net of unearned income:			
Average for the year	$567,435	$528,545	$503,742
At December 31	589,435	550,602	521,416
As a percent of average loans and loans held for sale:			
Net charge-offs	0.16%	0.11%	0.68%
Provision for loan losses	(0.02)	(0.03)	0.35
Allowance for loan losses	1.43	1.73	1.96
Allowance as a percent of each of the following:			
Total loans and loans held for sale, net of unearned income	1.37	1.66	1.90
Total delinquent loans (past due 30 to 89 days)	270.54	209.65	298.79
Total non-accrual loans	353.98	220.37	255.70
Total non-performing assets	353.05	211.89	254.06
Allowance as a multiple of net charge-offs	8.74x	15.90x	2.89x
Total classified loans	$ 15,163	$ 20,208	$ 22,921

As a result of improved asset quality, we were able to reverse a portion of the allowance for loan losses into earnings in both 2006 and 2005. The loan loss provision benefit amounted to $125,000 in 2006 and $175,000 in 2005. Both of these amounts compare favorably to the $1.8 million loan loss provision recognized in 2004 as the Company was in the earlier stages of working out of several larger problem credits during that year. Non-performing assets decreased to $2.3 million or 0.39% of total loans at December 31, 2006 compared to $4.3 million or 0.78% of total loans at December 31, 2005. Classified loans have also now declined for three consecutive years from a high point of $35.1 million at December 31, 2003 to $15.2 million at December 31, 2006. For the year ended December 31, 2006, net charge-offs amounted to $926,000 or 0.16% of total loans compared to net charge-offs of $575,000 or 0.11% of total loans in 2005, and $3.4 million or 0.68% of total loans in 2004.

Additionally, at December 31, 2006, the loan loss reserve as a percentage of total loans amounted to 1.37% compared to 1.66% at December 31, 2005 and 1.90% at December 31, 2004. The drop in this ratio since December 31, 2004 is due to a decrease in the size of the loan loss reserve combined with an increase in total loans. The Company's loan loss reserve coverage of non-performing assets amounted to 353% at December 31, 2006 compared to 212% at December 31, 2005 and 254% at December 31, 2004. The drop in non-performing assets was a key factor contributing to the improvement in this ratio over the past several years.

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

	AT DECEMBER 31,							
	2006		2005		2004		2003	
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO LOANS	AMOUNT	PERCENT LOANS I EACH CATEGOR TO LOANS
	(IN THOUSANDS, EXCEPT PERCENTAGES)							
Commercial	$2,361	15.6%	$3,312	14.6%	$2,173	13.8%	$ 2,623	15.0%
Commercial loans secured by real estate	3,546	45.8	3,644	45.3	5,519	43.2	7,120	41.0
Real estate-mortgage	424	35.6	381	36.5	346	38.9	376	38.9
Consumer	1,000	3.0	1,022	3.6	1,074	4.1	853	5.1
Allocation to general risk	761	--	784	--	781	--	710	--
Total	$8,092	100.0%	$9,143	100.0%	$9,893	100.0%	$11,682	100.0%

Even though residential real estate-mortgage loans comprise 35.6% of the Company's total loan portfolio, only $424,000 or 5.2% of the total allowance for loan losses is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company's five-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company's historical loss experience in these categories, and other qualitative factors.

Based on the Company's loan loss reserve methodology and the related assessment of the inherent risk factors contained within the Company's loan portfolio, we believe that the allowance for loan losses was adequate at December 31, 2006 to cover losses within the Company's loan portfolio.

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

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

- a $390,000 or 6.4% increase in trust fees due to continued successful business development efforts in both the union and traditional trust product lines. Over the past year, the fair market value of trust customer assets has grown by 10.7% to $1.8 billion at December 31, 2006.

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

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

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

Non-interest income for 2005 totaled $10.2 million; a $3.8 million or 27.1% decrease from the 2004 performance. Factors contributing to the net decrease in non-interest income in 2005 included:

- the Company realized $2.5 million of investment security losses in 2005 compared to investment security gains of $816,000 in 2004, or a net unfavorable change of $3.3 million. The 2005 net loss resulted from the previously discussed third quarter balance sheet restructuring that included the sale of $112 million of securities.

- other income declined by $915,000 in 2005 or 25.6% as the Company benefited from $578,000 of additional gains on the sale of other real estate owned properties in 2004. Lower mortgage production related revenues also contributed to the decrease in other income in 2005 and a $142,000 decline in gains on loan sales into the secondary market.

- a $766,000 or 14.3% increase in trust fees due to continued successful union and non-union new business development efforts and the full year benefit of new customer fee schedules that were implemented in the fourth quarter of 2004.

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

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

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

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

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

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

Overall, the termination of the Memorandum of Understanding in 2006 was a key factor causing the Company to begin realizing expense savings within professional fees, other expenses, and FDIC insurance in the second half of the year. Also, the loss from discontinued operations declined from $119,000 in 2005 to $0 in 2006 as the Company completed the exit from its mortgage servicing operation in 2005.

Non-interest expense for 2005 totaled $49.4 million, a $671,000 or 1.3% decrease from the 2004 performance. Factors contributing to the net decrease in non-interest expense in 2005 included:

- the Company incurred as part of the balance sheet restructuring measures FHLB and interest rate hedge prepayment penalties of $12.3 million in 2005 compared to similar penalties of $12.6 million in 2004 or a decline between years of $350,000.

- other expense declined by $456,000 or 8.8% in 2005 as the Company wrote off $210,000 of unamortized trust preferred issuance costs in 2005 compared to $476,000 of unamortized issuance costs written off in 2004. The Company also incurred $170,000 in costs associated with the Harrisburg branch office closing in 2004 and there were no such costs incurred in 2005.

- a $285,000 decrease in amortization of core deposit intangibles as the premium associated with the 1994 acquisition of Johnstown Savings Bank has been fully recognized.

- professional fees increased by $545,000 or 14.7% in 2005 due to the costs associated with implementing Sarbanes-Oxley Section 404.

INCOME TAX EXPENSE. . . The Company recognized income tax expense of $420,000 or an effective rate of 15.3% in 2006 compared to an income tax benefit of approximately $5.9 million for both 2005 and 2004. As part of the 2006 tax expense, the Company did benefit from the elimination of a $100,000 income tax valuation allowance related to the deductibility of charitable contributions that management determined was no longer needed given the level of taxable income generated by the Company in 2006. As part of the income tax benefit in 2005 and 2004, the Company lowered its tax expense by $475,000 and $680,000, respectively, due to a reduction in reserves for prior year tax contingencies as a result of the successful conclusion of an IRS examination on several open tax years. The Company's largest source of tax-free income is from bank owned life insurance which is the primary reason why the effective tax rate is lower than the statutory rate in all years.

SEGMENT RESULTS. . . Retail banking's net income contribution was $1.3 million in 2006 compared to $499,000 for 2005. The retail banking net income contribution was up from the prior year due to lower non-interest expense. This more than offset reduced net interest income. The reduced net interest income reflected increased deposit costs due to the negative impact that the flat to inverted yield curve had on shifting customers into higher cost certificates of deposit. When 2005 is compared to 2004, the retail banking net income contribution was down $831,000 due to reduced net interest income and lower non-interest revenue.

The trust segment's net income contribution in 2006 amounted to $1.7 million which was up $303,000 from the prior year due to increased revenue and controlled expenses. Successful new business development efforts in both the traditional trust and union product lines contributed to the higher revenue. Since December 31, 2005, the fair market value of trust customer assets has increased by $172 million or 10.7% to $1.8 billion at December 31, 2006. The trust segment's net income contribution in 2005 amounted to $1.4 million. This represented an increase of $535,000 from the $860,000 net income contribution earned in 2004 also due to an increase in fee revenue. The diversification of the revenue-generating divisions within the trust segment is one of the primary reasons for its successful profitable growth over the past several years. The specialized union collective investment funds, namely the ERECT and BUILD Funds are designed to invest union pension dollars in construction projects that utilize union labor. This unique growth niche has attracted several international labor unions as investors as well as many local unions from a number of states. The value of assets in these union funds totaled approximately $400 million at December 31, 2006.

The commercial lending segment's net income contribution in 2006 amounted to $2.6 million which was up $1.2 million when compared to the net income of $1.4 million reported in 2005. The improved performance in 2006 was caused by increased net interest income resulting from the greater level of commercial loans outstanding and improved asset quality. Assets within the commercial lending segment increased by $38 million or 12.9% during 2006. The improved asset quality also allowed the Company to release a portion of our allowance for loan losses into earnings in both 2006 and 2005. When 2005 is compared to 2004, the commercial lending segment significantly increased its profitability by $1.5 million when compared to the $93,000 net loss experienced in 2004. The 2005 net income improvement was also caused by increased net interest income and a lower provision for loan losses.

The investment/parent segment reported a net loss of $3.2 million in 2006 which was significantly less than the net loss of $12.2 million realized in 2005 and the net loss of $10.7 million realized in 2004. Note that the losses in 2005 and 2004 were due primarily to the previously discussed balance sheet restructuring actions which were executed to reduce the Company's risk profile and improve our earnings power. Specifically in 2005, these restructuring actions included $12.3 million of FHLB debt and interest rate hedge prepayment penalties and $2.6 million of losses realized on investment security sales. In 2004, the Company incurred $12.6 million of FHLB debt prepayment penalties. There were no such charges realized in 2006. Note that the Company also benefited from a reduction in interest expense on the guaranteed junior subordinated debentures that amounted to $539,000 in 2006 and $1.3 million in 2005 as a portion of this high cost debt was retired in conjunction with the private placement common stock offerings.

The increased net loss in the other fee based segment resulted from the Company's strategic decision to close AmeriServ Associates in the second quarter of 2006. This subsidiary previously provided asset liability management and investment consulting services to smaller community banks. Additionally, on December 28, 2004, the Company sold all of its remaining mortgage servicing rights and discontinued operations of this non-core business. The Company concluded that mortgage servicing was not a core community banking business and we did not have the scale nor the earnings power to absorb the volatility and risk associated with this business line. The Company reduced its loss from discontinued operations from $1.2 million in 2004 to $119,000 in 2005 to $0 in 2006.

For greater discussion on the future strategic direction of the Company's key business segments, see Forward Looking Statement which begins on page 36.

BALANCE SHEET. . . The Company's total consolidated assets were $896 million at December 31, 2006, compared with $880 million at December 31, 2005, which represents an increase of $15.8 million or 1.8%. This higher level of assets resulted primarily from an increased level of loans. The Company's loans totaled $589 million at December 31, 2006, an increase of $39 million or 7.1% from year-end 2005 due to commercial and commercial real-estate loan growth. Investment securities declined by $28 million in 2006 as investment portfolio cash flow has been used to either paydown borrowings or fund loan growth.

The Company's deposits totaled $742 million at December 31, 2006, which was $29 million or 4.1% higher than December 31, 2005. $20 million of this increase was caused by greater Trust Company controlled money market deposits in the Bank. The remainder of the deposit increase was due to increased certificates of deposit as customers have opted for this product given higher short-term interest rates. Total borrowed funds decreased by $14 million due to the previously discussed strategy to reduce the Company's borrowed funds with investment securities cash flow if this cash is not first needed to fund loans. Total stockholders' equity remained constant at approximately $85 million at December 31, 2006 and December 31, 2005, as the capital provided from the 2005 private placement basically offset the $9.1 million net loss experienced during 2005. In 2006, a $2.4 million decline in accumulated other comprehensive income due to the recognition of a minimum pension liability resulting from the adoption of FAS #158 was basically offset by $2.3 million of retained net income. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at December 31, 2006 of 10.54%. The Company's book value per share at December 31, 2006 was $3.82.

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

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by $2.7 million from December 31, 2005, to December 31, 2006, due primarily to $7.6 million of cash provided by financing activities and $5.1 million of cash provided by operating activities. This was offset by $10.0 million of cash used in investing activities. Within investing activities, proceeds from investment security maturities exceeded cash used for limited purchases of new investment securities by $31 million. This reflected the Company's ongoing strategy of using cash from the investment portfolio to fund loans. Cash advanced for new loan fundings and purchases totaled $152 million and was $39 million more than the cash received from loan principal payments and sales. Within financing activities, the Company experienced a net $23 million growth in deposits with these funds used to paydown short-term borrowings and fund loans as the Company has consciously reduced its interest rate risk position by eliminating debt.

The Company used $1.0 million of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in 2006. This was $530,000 less than the cash used for this purpose in 2005 due to the retirement of $7 million of these securities as part of the 2005 balance sheet restructuring. The liquidity position of the parent company has improved significantly as a result of the successful private placement common stock offerings completed in 2005 and 2004 which provided $32 million of net cash after paying offering expenses. The parent company retained $3.4 million of the offering proceeds to provide ongoing liquidity and support the reduced debt service on the remaining trust preferred securities. There was no cash used for common stock cash dividends payments to shareholders in any of the past three years. The parent company had $3.2 million of cash at December 31, 2006.

Dividend payments from non-bank subsidiaries and the settlement of the inter-company tax position, also provide ongoing cash to the parent. Longer term, however, the reinstatement of any common dividend or treasury stock repurchase program is dependent upon the subsidiary bank maintaining and improving profitability so that it can resume upstreaming dividends to the parent company under applicable law. The subsidiary bank must first recoup $6.5 million in net losses that it incurred over the past two years before it can consider resuming dividend upstreams or wait until the first quarter of 2008 when prior losses are no longer factored into the regulatory dividend upstream calculation.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositor and borrower customers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, banker's acceptances, and commercial paper. These assets totaled $8 million at December 31, 2006 compared to $26 million at December 31, 2005. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the Federal Home Loan Bank systems. The Company utilizes a variety of these methods of liability liquidity. Additionally, the Company's subsidiary bank is a member of the Federal Home Loan Bank which provides the opportunity to obtain short- to longer-term advances based upon the Bank's investment in assets secured by one- to four-family residential real estate. At December 31, 2006, the bank had immediately available $218 million of overnight borrowing capability at the FHLB and a $10 million unsecured federal funds line with a correspondent bank. The Company believes it has ample liquidity available to fund outstanding loan commitments if they were fully drawn upon.

CAPITAL RESOURCES. . . The Company exceeds all regulatory capital ratios for each of the periods presented. The Company continues to be considered well capitalized as the asset leverage ratio was 10.54% at December 31, 2006 compared to 10.24% at December 31, 2005. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At December 31, 2006, accumulated other comprehensive loss amounted to $6.4 million. Additionally, the amortization of $865,000 of core deposit intangible assets has favorably impacted tangible capital. The tangible equity to asset ratio was 8.29% at December 31, 2006. We anticipate that we will further build our capital ratios during 2007 due to the retention of earnings and limited change in the overall size of the balance sheet.

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

The following table presents a summary of the Company's static GAP positions at December 31, 2006:

OVER OVER

INTEREST SENSITIVITY PERIOD	3 MONTHS OR LESS	3 MONTHS THROUGH 6 MONTHS	6 MONTHS THROUGH 1 YEAR	OVER 1 YEAR
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGE			
RATE SENSITIVE ASSETS:				
Loans	$221,085	$ 25,963	$ 48,326	$285,969
Investment securities	38,503	11,262	13,897	138,493
Short-term assets	413	--	--	--
Bank owned life insurance	--	--	32,256	--
Total rate sensitive assets	$260,001	$ 37,225	$ 94,479	$424,462
RATE SENSITIVE LIABILITIES:				
Deposits:				
Non-interest bearing deposits	$ --	$ --	$ --	$107,559
NOW and Super NOW	8,850	--	--	59,608
Money market	151,666	--	--	12,041
Other savings	18,613	--	--	55,839
Certificates of deposit of $100,000 or more	17,424	3,413	5,629	4,114
Other time deposits	83,941	26,591	96,330	90,137
Total deposits	280,494	30,004	101,959	329,298
Borrowings	49,101	11	22	13,988
Total rate sensitive liabilities	$329,595	$ 30,015	$101,981	$343,286
INTEREST SENSITIVITY GAP:				
Interval	(69,594)	7,210	(7,502)	81,176
Cumulative	$(69,594)	$(62,384)	$(69,886)	$ 11,290
Period GAP ratio	0.79X	1.24X	0.93X	1.24X
Cumulative GAP ratio	0.79	0.83	0.85	1.02
Ratio of cumulative GAP to total assets	(7.77)%	(6.96)%	(7.80)%	1.26%

When December 31, 2006, is compared to December 31, 2005, the ratio of the cumulative GAP to total assets up to the one year time frame became more negative increasing from -5.15% to -7.80%. This increase was due to customer preference for shorter term certificates of deposit in 2006 as a result of the inverted yield curve with short term rates higher than intermediate to longer term interest rates.

Management places primary emphasis on simulation modeling to manage and measure interest rate risk. The Company's asset/liability management policy seeks to limit net interest income variability over the first twelve months of the forecast period to +/-5.0% which include interest rate movements of 100 basis points. Additionally, the Company also uses market value sensitivity measures to further evaluate the balance sheet exposure to changes in interest rates. The Company monitors the trends in market value of portfolio equity sensitivity analysis on a quarterly basis.

The following table presents an analysis of the sensitivity inherent in the Company's net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company's base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 basis points. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

	VARIABILITY OF	CHANGE IN
	NET INTEREST	MARKET VALUE OF
INTEREST RATE SCENARIO	INCOME	PORTFOLIO EQUITY
200 bp increase	(0.4)%	7.1%
100 bp increase	1.0	4.6
100 bp decrease	(0.2)	(9.7)
200 bp decrease	(3.7)	(28.5)

As indicated in the table, the 2005 balance sheet restructuring has sharply reduced the earnings volatility in the Company's balance sheet as a result of the Company's reduced level of borrowed funds. The variability of net interest income is 1.0% or less in both of the 100 basis point interest rate shock scenarios. The market value of portfolio equity increased by 4.6% in a 100 basis point upward rate shock due to increased value of the Company's core deposit base. Negative variability of market value of portfolio equity occurred in both downward rate shocks due to a reduced value for core deposits.

Within the investment portfolio at December 31, 2006, 90% of the portfolio is classified as available for sale and 10% as held to maturity. The available for sale classification provides management with greater flexibility to manage the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity to fund loan growth if needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity but has no impact on regulatory capital. Furthermore, it is the Company's intent to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market. The Company also periodically sells 15-year fixed rate mortgage loans into the secondary market as well.

The amount of loans outstanding by category as of December 31, 2006, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

		MORE		
		THAN ONE		
	ONE	YEAR		
	YEAR OR	THROUGH	OVER FIVE	TOTAL
	LESS	FIVE YEARS	YEARS	LOANS
	(IN THOUSANDS, EXCEPT RATIOS)			
Commercial	$ 29,615	$ 48,853	$ 13,278	$ 91,746
Commercial loans secured by real estate	47,363	90,993	131,425	269,781
Real estate-mortgage	47,920	84,898	77,268	210,086
Consumer	3,591	5,456	9,289	18,336
Total	$128,489	$230,200	$231,260	$589,949

Loans with fixed-rate	$ 64,725	$162,014	$130,394	$357,133
Loans with floating-rate	63,764	68,186	100,866	232,816
Total	$128,489	$230,200	$231,260	$589,949
Percent composition of maturity	21.8%	39.0%	39.2%	100.0
Fixed-rate loans as a percentage of total loans				60.5
Floating-rate loans as a percentage of total loans				39.5

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

CONTRACTUAL OBLIGATIONS. . .The following table presents, as of December 31, 2006, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

	PAYMENTS DUE IN			
	NOTE REFERENCE	ONE YEAR OR LESS	ONE TO THREE YEARS	THREE TO FIVE YEARS
			(IN THOUSANDS)	
Deposits without a stated maturity	8	$414,176	$ --	$ --
Certificates of deposit*	8	242,054	53,985	24,811
Borrowed funds*	10	51,827	115	144
Guaranteed junior subordinated deferrable interest debentures*	10	--	--	--
Pension obligation	13	1,500	--	--
Lease commitments	14	828	954	693

* Includes interest based upon interest rates in effect at December 31, 2006. Future changes in market interest rates could materially affect contractual amounts to be paid.

OFF BALANCE SHEET ARRANGEMENTS. . . The Bank incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various

outstanding commitments to extend credit approximating $125,863,000 and standby letters of credit of $8,472,000 as of December 31, 2006. The Company can also use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. As of December 31, 2006, there were no interest rate contracts outstanding.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES. . . The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses and income taxes are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions different than those used by the Company could result in material changes in the Company's financial position or results of operation.

ACCOUNT -- Allowance for Loan Losses

BALANCE SHEET REFERENCE -- Allowance for Loan Losses

INCOME STATEMENT REFERENCE -- Provision for Loan Losses

DESCRIPTION

The allowance for loan losses is calculated with the objective of maintaining reserve levels believed by management to be sufficient to absorb estimated probable credit losses. Management's determination of the adequacy of the allowance is based on periodic evaluations of the credit portfolio and other relevant factors. However, this evaluation is inherently subjective as it requires material estimates, including, among others, likelihood of customer default, loss given default, exposure at default, the amounts and timing of expected future cash flows on impaired loans, value of collateral, estimated losses on consumer loans and residential mortgages, and general amounts for historical loss experience. This process also considers economic conditions, uncertainties in estimating losses and inherent risks in the various credit portfolios. All of these factors may be susceptible to significant change. Also, the allocation of the allowance for credit losses to specific loan pools is based on historical loss trends and management's judgment concerning those trends.

Commercial and commercial mortgages are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $5.8 million, or 72%, of the total allowance for credit losses at December 31, 2006 has been allotted to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, recent regulatory examination results, trends in loan volume, terms of loans and risk of potential estimation or judgmental errors. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

ACCOUNT -- Income Taxes

BALANCE SHEET REFERENCE -- Deferred Tax Asset and Current Taxes Payable

INCOME STATEMENT REFERENCE -- Provision for Income Taxes

DESCRIPTION

In accordance with the liability method of accounting for income taxes specified in Statement of Financial Accounting Standards (FAS) #109, "Accounting for Income Taxes" the provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of asset and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related timing of the expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of December 31, 2006, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered.

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

ACCOUNT -- Investment Securities

BALANCE SHEET REFERENCE -- Investment Securities

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

DESCRIPTION

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is to be considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operation. At December 31, 2006, 100% of the unrealized losses in the available-for-sale security portfolio were comprised of securities issued by Government agencies, U.S. Treasury or Government sponsored agencies. The Company believes the price movements in these securities are dependent upon the movement in market interest rates. The Company's management also maintains the intent and ability to hold securities in an unrealized loss position to the earlier of the recovery of losses or maturity.

FORWARD LOOKING STATEMENT. . .

THE STRATEGIC FOCUS:

During the three-year life of the MOU, the focus of the company was on satisfying the regulatory criticisms and improving the quality of the balance sheet. But now the emphasis has changed. The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and our growing Trust Company. Our new focus encompasses the following:

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

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

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

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

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

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

in building a position of substance in the vast world of union managed pension funds. Resources will continue to be channeled to the Trust Company so that this kind of creativity can continue to lead to new opportunities.

This Form 10-K contains various forward-looking statements and includes assumptions concerning the Company's beliefs, plans, objectives, goals, expectations, anticipations estimates, intentions, operations, future results, and prospects, including statements that include the words "may," "could," "should," "would," "believe," "expect," "anticipate," "estimate," "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 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

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

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

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

For information regarding the market risk of the Company's financial instruments, see Interest Rate Sensitivity in the MD&A presented on pages 32-34. The Company's principal market risk exposure is to interest rates.

ITEM 8. CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

CONSOLIDATED BALANCE SHEETS

ASSETS
Cash and cash equivalents
Interest bearing deposits

Cash and due from depository institutions

Investment securities:
Available for sale
Held to maturity (market value $20,460 at December 31, 2006 and $30,206 at December 31, 2005)
Loans held for sale
Loans
Less: Unearned income
Allowance for loan losses

Net loans

Premises and equipment, net
Accrued income receivable
Goodwill
Core deposit intangibles
Bank owned life insurance
Net deferred tax asset
Assets related to discontinued operations
Other assets

TOTAL ASSETS

LIABILITIES
Non-interest bearing deposits
Interest bearing deposits

Total deposits

Short-term borrowings
Advances from Federal Home Loan Bank
Guaranteed junior subordinated deferrable interest debentures

Total borrowed funds

Liabilities related to discontinued operations
Other liabilities

TOTAL LIABILITIES

STOCKHOLDERS' EQUITY
Preferred stock, no par value; 2,000,000 shares authorized; there were no shares issued and outstanding on December 31, 2006, and 2005
Common stock, par value $2.50 per share; 30,000,000 shares authorized; 26,247,013 shares issued a 22,156,094 shares outstanding on December 31, 2006; 26,203,192 shares issued and 22,112,273 sh outstanding on December 31, 2005
Treasury stock at cost, 4,090,919 shares on December 31, 2006 and 2005
Capital surplus
Retained earnings
Accumulated other comprehensive loss, net

TOTAL STOCKHOLDERS' EQUITY

TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DEC	
	2006	2005
	(IN THOUS EXCEPT PER SH	
INTEREST INCOME		
Interest and fees on loans:		
Taxable	$37,366	$ 32,68
Tax exempt	231	26
Deposits with banks	23	
Federal funds sold	3	-
Investment securities:		
Available for sale	7,868	11,92
Held to maturity	1,074	98
Total Interest Income	46,565	45,86

INTEREST EXPENSE

Deposits	19,232	12,98
Short-term borrowings	1,672	2,59
Advances from Federal Home Loan Bank	63	4,51
Guaranteed junior subordinated deferrable interest debentures	1,120	1,65
Total Interest Expense	22,087	21,75
Net Interest Income	24,478	24,11
Provision for loan losses	(125)	(17
Net Interest Income after Provision for Loan Losses	24,603	24,28
NON-INTEREST INCOME		
Trust fees	6,519	6,12
Net gains on loans held for sale	105	20
Net realized gains (losses) on investment securities	--	(2,49
Service charges on deposit accounts	2,561	2,70
Bank owned life insurance	1,207	1,01
Other income	2,449	2,65
Total Non-Interest Income	12,841	10,20
NON-INTEREST EXPENSE		
Salaries and employee benefits	18,669	19,06
Net occupancy expense	2,410	2,55
Equipment expense	2,349	2,50
Professional fees	3,208	4,24
Supplies, postage, and freight	1,167	1,15
Miscellaneous taxes and insurance	1,567	1,76
FDIC deposit insurance expense	192	28
Amortization of core deposit intangibles	865	86
Federal Home Loan Bank and hedge prepayment penalties	--	12,28
Other expense	4,265	4,69
Total Non-Interest Expense	34,692	49,42
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	2,752	(14,92
Provision (benefit) for income taxes	420	(5,90
INCOME (LOSS) FROM CONTINUING OPERATIONS	2,332	(9,02
LOSS FROM DISCONTINUED OPERATIONS NET OF TAX BENEFIT $(0), $(61), AND $(648), RESPECTIVELY	--	(11
NET INCOME (LOSS)	$ 2,332	$ (9,14
PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:		
Basic:		
Income (loss)	$ 0.11	$ (0.4
Average number of shares outstanding	22,141	20,34
Diluted:		
Income (loss)	$ 0.11	$ (0.4
Average number of shares outstanding	22,149	20,34
PER COMMON SHARE DATA:		
Basic:		
Net income (loss)	$ 0.11	$ (0.4
Average number of shares outstanding	22,141	20,34
Diluted:		
Net income (loss)	$ 0.11	$ (0.4
Average number of shares outstanding	22,149	20,34
Cash dividends declared	$ 0.00	$ 0.0

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
COMPREHENSIVE INCOME (LOSS)			
Net income (loss)	$2,332	$(9,141)	$ (9,719)
Other comprehensive income (loss)			
Unrealized holding gains (losses) on available for sale securities arising during period	1,309	(3,605)	(2,882)
Income tax effect	(444)	1,226	1,008
Reclassification adjustment for losses (gains) on available for sale securities included in net loss	--	2,499	(816)
Income tax effect	--	(850)	286
Other comprehensive income (loss)	865	(730)	(2,404)
Comprehensive income (loss)	$3,197	$(9,871)	$(12,123)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
PREFERRED STOCK			
Balance at beginning of period	$ --	$ --	$ --
Balance at end of period	--	--	--
COMMON STOCK			
Balance at beginning of period	65,508	59,522	45,121
Stock options exercised/new shares issued	110	67	72
Shares issued from private offerings	--	5,919	14,329
Balance at end of period	65,618	65,508	59,522
TREASURY STOCK			

Balance at beginning of period	(65,824)	(65,824)	(65,824)
Balance at end of period	(65,824)	(65,824)	(65,824)
CAPITAL SURPLUS			
Balance at beginning of period	78,620	75,480	66,809
Stock options exercised/new shares issued	64	66	77
Stock option expense due to FAS #123R	55	--	--
Shares issued from private offerings, net of issuance costs	--	3,074	8,594
Balance at end of period	78,739	78,620	75,480
RETAINED EARNINGS			
Balance at beginning of period	10,236	19,377	29,096
Net income (loss)	2,332	(9,141)	(9,719)
Balance at end of period	12,568	10,236	19,377
ACCUMULATED OTHER COMPREHENSIVE LOSS			
Balance at beginning of period	(4,066)	(3,336)	(932)
Cumulative effect of adoption of change in accounting for pension obligation, net of tax effect	(3,216)	--	--
Other comprehensive income (loss)	865	(730)	(2,404)
Balance at end of period	(6,417)	(4,066)	(3,336)
TOTAL STOCKHOLDERS' EQUITY	$ 84,684	$ 84,474	$ 85,219

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31		
	2006	2005	2004
		(IN THOUSANDS)	
OPERATING ACTIVITIES			
Net income (loss)	$ 2,332	$ (9,141)	$ (9,719)
Loss from discontinued operations	--	(119)	(1,193)
Income (loss) from continuing operations	2,332	(9,022)	(8,526)
Adjustments to reconcile net income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Provision for loan losses	(125)	(175)	1,758
Depreciation and amortization expense	1,700	1,817	1,867
Amortization expense of core deposit intangibles	865	865	1,150
Net amortization of investment securities	597	1,560	2,237
Net realized losses (gains) on investment securities --			

available for sale	--	2,499	(816)
Net realized gains on loans held for sale	(105)	(209)	(351)
Amortization of deferred loan fees	(393)	(421)	(281)
Loss on prepayment of interest rate swaps	--	5,825	--
Origination of mortgage loans held for sale	(11,714)	(16,807)	(28,257)
Sales of mortgage loans held for sale	11,454	17,298	27,510
Write-off of debt issuance costs	--	210	476
(Increase) decrease in accrued interest receivable	(40)	163	634
Increase (decrease) in accrued interest payable	1,029	(707)	(207)
Net increase in other assets	(1,148)	(10,605)	(846)
Net increase in other liabilities	627	889	1,901
Net cash provided by (used in) operating activities from continuing operations	5,079	(6,820)	(1,751)
Net cash used in operating activities from discontinued operations	--	(597)	(254)
Net cash provided by (used in) operating activities	5,079	(7,417)	(2,005)
INVESTING ACTIVITIES			
Purchase of investment securities -- available for sale ..	(8,823)	(32,469)	(311,410)
Purchase of investment securities -- held to maturity	(1,500)	--	(17,050)
Proceeds from maturities of investment securities -- available for sale	29,721	60,086	76,999
Proceeds from maturities of investment securities -- held to maturity	11,104	3,701	6,497
Proceeds from sales of investment securities -- available for sale	--	132,595	391,488
Long-term loans originated	(142,247)	(119,012)	(188,874)
Principal collected on long-term loans	112,027	110,991	145,339
Loans purchased or participated	(10,004)	(22,104)	(9,437)
Loans sold or participated	1,600	1,000	31,500
Net increase in other short-term loans	(377)	(497)	(83)
Purchases of premises and equipment	(1,597)	(1,028)	(766)
Proceeds from sale of premises and equipment	50	210	216
Net cash (used in) provided by investing activities from continuing operations	(10,046)	133,473	124,419
Net cash provided by investing activities from discontinued operations	--	--	915
Net cash (used in) provided by investing activities	$ (10,046)	$ 133,473	$ 125,334

See accompanying notes to consolidated financial statements.

(continued on next page)

CONSOLIDATED STATEMENTS OF CASH FLOWS

(continued from previous page)

YEAR ENDED DECEMBER 31

	2006	2005	2004
		(IN THOUSANDS)	
FINANCING ACTIVITIES			
Net increase (decrease) in deposit accounts	$ 22,608	$ 68,264	$ (10,206)
Net (decrease) increase in other short-term borrowings ...	(14,093)	(88,751)	7,292
Net principal repayments on advances from Federal Home Loan Bank	(41)	(100,039)	(130,037)
Cancellation payment of interest rate swaps	--	(5,825)	--
Guaranteed junior subordinated deferrable interest debenture dividends paid	(1,016)	(1,546)	(2,860)
Redemption of guaranteed junior subordinated deferrable interest debentures	--	(7,200)	(14,215)
Proceeds from dividend reinvestment and stock purchase plan and stock options exercised	173	133	149
Private placement issuance of common stock	--	10,300	25,792
Costs associated with private placement	--	(1,482)	(2,687)
Net cash provided by (used in) financing activities	7,631	(126,146)	(126,772)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,664	(90)	(3,443)
CASH AND CASH EQUIVALENTS AT JANUARY 1	21,240	21,330	24,773
CASH AND CASH EQUIVALENTS AT DECEMBER 31	$ 23,904	$ 21,240	$ 21,330

See accompanying notes to consolidated financial statements.

AMERISERV FINANCIAL, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS AT AND FOR THE YEARS ENDED DECEMBER 31, 2006, 2005 AND 2004

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS AND NATURE OF OPERATIONS:

AmeriServ Financial, Inc. (the Company) is a bank holding company, headquartered in Johnstown, Pennsylvania. Through its banking subsidiary the Company operates 21 banking locations in five Pennsylvania counties. These branches provide a full range of consumer, mortgage, and commercial financial products. The AmeriServ Trust and Financial Services Company (Trust Company) offers a complete range of trust and financial services and administers assets valued at approximately $1.8 billion at December 31, 2006. The Trust Company administers the ERECT and BUILD Funds which are collective investment funds for trade union controlled pension fund assets.

PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of AmeriServ Financial, Inc. and its wholly-owned subsidiaries, AmeriServ Financial Bank (the Bank), Trust Company, AmeriServ Associates, Inc. (AmeriServ Associates), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 21 locations in Pennsylvania. Standard Mortgage Corporation of Georgia (SMC), a former wholly-owned subsidiary of the Bank, was a mortgage banking company whose business included the servicing of mortgage loans. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued the operations of this non-core business in 2005 (see Note 23). AmeriServ Associates, based in State College, was a registered investment advisory firm that provided investment portfolio and asset/liability management services to small and mid-sized financial institutions. As of June 30, 2006, the Company closed this subsidiary since it no longer fit the Company's strategic direction. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

INVESTMENT SECURITIES:

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/depreciation excluded from income and credited/charged to accumulated other comprehensive income/loss within stockholders' equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/depreciation included in income on a net of tax basis. The Company does not engage in trading activity. Realized gains or losses on securities sold are computed upon the adjusted cost of the specific securities sold. Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery.

LOANS:

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

LOAN FEES:

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

LOANS HELD FOR SALE:

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

PREMISES AND EQUIPMENT:

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

ALLOWANCE FOR LOAN LOSSES AND CHARGE-OFF PROCEDURES:

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

- review of all criticized and impaired loans with balances over $250,000 ($100,000 for loans classified as doubtful or worse) to determine if any specific reserve allocations are required on an individual loan basis. The specific reserve established for these criticized and impaired loans is based on careful analysis of the loan's performance, the related collateral value, cash flow considerations and the financial capability of any guarantor. For impaired loans the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

- The application of formula driven reserve allocations for all commercial and commercial real-estate loans by using a three-year migration analysis of net losses incurred within each risk grade for the entire commercial loan portfolio. The difference between estimated and actual losses is reconciled through the nature of the migration analysis.

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

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

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

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

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

The Company's policy is to individually review, as circumstances warrant, each of its commercial and commercial mortgage loans to determine if a loan is impaired. At a minimum, credit reviews are mandatory for all commercial and commercial mortgage loans with balances in excess of $250,000 within a 12-month period. The Company defines classified loans as those loans rated substandard or doubtful. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business loans $100,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment.

RESERVE FOR UNFUNDED LOAN COMMITMENTS AND LETTERS OF CREDIT:

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

TRUST FEES:

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

BANK-OWNED LIFE INSURANCE:

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

INTANGIBLE ASSETS:

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

PURCHASED AND ORIGINATED MORTGAGE SERVICING RIGHTS:

The Company recognized as assets the rights to service mortgage loans for others whether the servicing rights were acquired through purchases or originations. Purchased mortgage servicing rights were capitalized at cost. For loans originated and sold where servicing rights had been retained, the Company allocated the cost of originating the loan to the loan (without the servicing rights) and the servicing rights retained based on their relative fair market values if it was practicable to estimate those fair values. Where it was not practicable to estimate the fair values, the entire cost of originating the loan was allocated to the loan without the servicing rights.

The fair value of originated Mortgage Servicing Rights (MSRs) was estimated by calculating the present value of estimated future net servicing cash flows, taking into consideration actual and expected mortgage loan prepayment rates, discount rates, servicing costs, and other economic factors, which were determined based on current market conditions. The expected and actual rates of mortgage loan prepayments were the most significant factors driving the value of MSRs. Increases in mortgage loan prepayments reduced estimated future net servicing cash flows because the life of the underlying loan was reduced. In determining the fair value of the MSRs, mortgage interest rates, which were used to determine prepayment rates, and discount rates were held constant over the estimated life of the portfolio. Expected mortgage loan prepayment rates were derived from a third-party model and adjusted to reflect AmeriServ's actual prepayment experience.

For purposes of evaluating and measuring impairment, the Company stratified the rights based on risk characteristics. If the discounted projected net cash flows of a stratum were less than the carrying amount of the stratum, the stratum was written down to the amount of the discounted projected net cash flows through a valuation account. The Company had determined that the predominant risk characteristics of its portfolio were loan type and interest rate. For the purposes of evaluating impairment, the

Company had stratified its portfolio in 200 basis point tranches by loan type. Mortgage servicing rights were amortized in proportion to, and over the period of, estimated net servicing income. Servicing fees, net of amortization, impairment, and related gains and losses on sales were recorded in individual lines on the Consolidated Statement of Operations within the Discontinued Operations (See Note 23). The value of mortgage servicing rights was subject to interest rate and prepayment risk.

EARNINGS PER COMMON SHARE:

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options to purchase 213,974, 134,349 and 131,095 shares of common stock were outstanding during 2006, 2005 and 2004, respectively, but were not included in the computation of diluted earnings per common share as the options' exercise prices were greater than the average market price of the common stock for the respective periods.

STOCK-BASED COMPENSATION:

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (FAS) #123(R) "Share-Based Payment" using the "modified prospective" method. Under this method, awards that are granted, modified, or vested after December 15, 2005, are measured and accounted for in accordance with FAS #123(R). As a result of this adoption the Company recognized $56,000 of pretax compensation expense for the year 2006. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for the grants: risk-free interest rates ranging from 3.41% to 4.70%; expected lives of 10 years; expected volatility ranging from 33.39% to 39.65% and expected dividend yields of 0%. Prior to the adoption, employee compensation expense under stock options was reported using the intrinsic value method.

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

PRO FORMA NET LOSS
AND LOSS PER SHARE

	YEAR ENDED DECEMBER 31,	
	2005	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
Net loss, as reported	$(9,022)	$(8,526)
Less: Total stock compensation expense determined under the fair value method for all awards, net of related tax effects	(74)	(72)
Pro forma net loss	$(9,096)	$(8,598)
Loss per share:		
Basic as reported	$ (0.44)	$ (0.58)
Basic pro forma	(0.45)	(0.58)
Diluted as reported	(0.44)	(0.58)
Diluted pro forma	(0.45)	(0.58)

COMPREHENSIVE LOSS:

For the Company, comprehensive loss includes net income and unrealized holding gains and losses from available for sale investment securities. The balances of accumulated other comprehensive loss were $(6,417,000), $(4,066,000) and $(3,336,000) at December 31, 2006, 2005 and 2004, respectively.

CONSOLIDATED STATEMENT OF CASH FLOWS:

On a consolidated basis, cash and cash equivalents include cash and due from banks, interest bearing deposits with banks, and federal funds sold and securities purchased under agreements to resell.

The Company made $169,000 in income tax payments in 2006; $54,000 in 2005; and $3,837,000 in 2004. The Company made total interest payments of $21,058,000 in 2006; $22,460,000 in 2005; and $26,845,000 in 2004.

INCOME TAXES:

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

INTEREST RATE CONTRACTS:

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

The interest rate contracts involve no exchange of principal either at inception or upon maturity; rather, they involve the periodic exchange of interest payments arising from an underlying notional principal amount. For interest rate swaps, the interest differential to be paid or received was accrued by the Company and recognized as an adjustment to interest income or interest expense of the underlying assets or liabilities being hedged. Because only interest payments are exchanged, the cash requirement and exposure to credit risk are significantly less than the notional amount.

Any premium or transaction fee incurred to purchase interest rate caps or floors was deferred and amortized to interest income or interest expense over the term of the contract. Unamortized premiums related to the purchase of caps and floors are included in other assets on the consolidated balance sheets. There were no interest rate swaps, caps or floors in place at December 31, 2006 or December 31, 2005.

RECENT ACCOUNTING STANDARDS:

In December 2004, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting ("FAS") #123 (revised 2004), "Share-Based Payment," which revises FAS #123, "Accounting for Stock-Based Compensation," and supersedes APB Opinion #25, "Accounting for Stock issued to Employees." This Statement focuses primarily on accounting for transactions in which an entity obtains employee services in share-based payment transactions. This Statement does not address the accounting for employee share ownership plans, which are subject to AICPA Statement of Position 93-6, "Employers' Accounting for Stock Ownership Plans." This Statement requires an entity to recognize the cost of employee services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. The Company adopted this standard in the first quarter of 2006 and it did not have a material impact on the Company's financial condition, results of operations, or cash flows.

In June, 2005, the FASB issued FAS #154, "Accounting Changes and Error Corrections - a replacement of APB Opinion #20, Accounting Changes, and FAS #3, Reporting Accounting Changes in Interim financial statements." Under the provisions of FAS #154, voluntary changes in accounting principles are applied retrospectively to prior periods' financial statements unless it would be impractical. FAS #154 supersedes APB opinion #20, which required that most voluntary changes in accounting principles be recognized by including in the current period's net income the cumulative effect of the change. FAS #154 also makes a distinction between "retrospective application" of a change in accounting principle and the "restatement" of financial statements to reflect the correction of an error. The provisions of FAS #154 are effective for accounting changes made in fiscal years beginning after December 15, 2005. The adoption of this standard did not have a material impact on the consolidated financial statements, results of operations or liquidity of the Company.

In November 2005, the FASB issued FASB Staff Position (FSP) FAS #115-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." This FSP clarified and reaffirmed existing guidance as to when an investment is considered impaired, whether that impairment is other than temporary, and the measurement of an impairment loss. Certain disclosures about unrealized losses on available for sale debt and equity securities that have not been recognized as other-than -temporary impairments are required under FSP 115-1. The FSP is effective for fiscal years beginning after December 15, 2005. As the FSP reaffirms existing guidance, the adoption of this FSP did not have a significant impact on our consolidated financial statements, results of operations or liquidity of the Company. At December 31, 2006, gross unrealized losses on investment securities were $5.2 million.

In February 2006, the FASB issued FAS #155, "Accounting for Certain Hybrid Instruments, as an amendment of FASB Statements operations. #133 and 140". FAS #155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity's first fiscal year that begins after September 15, 2006. The adoption of this standard did not have a material impact on the Company's results of

In March 2006, the FASB issued FAS #156, "Accounting for Servicing of Financial Assets". This Statement, which is an amendment to FAS #140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, FAS #156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. FAS #156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability, requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either of the amortization or fair value methods for subsequent measurement. The provisions of FAS #156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this standard did not have a material impact on the Company's results of operations.

In June 2006, the FASB issued FASB Interpretation #48 ("FIN 48"), "Accounting for Uncertainty in Income Taxes". FIN 48 is an interpretation of FAS #109, "Accounting for Income Taxes", and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. This Interpretation clarifies that management is expected to evaluate an income tax position taken or expected to be taken for likelihood of realization before recording any amounts for such position in the financial statement. FIN 48 requires expanded disclosure with respect to income tax positions taken that are not certain to be realized. This Interpretation is effective for fiscal years beginning after December 15, 2006, and will require management to evaluate every open tax position that exists in every jurisdiction on the date of initial adoption. The Company is currently evaluating the impact the adoption of the standard will have on the Company's results of operations or financial condition.

In September 2006, the FASB issued FAS #157, "Fair Value Measurements", which provides enhanced guidance for using fair value to measure assets and liabilities. The standard applies whenever other standards require or permit assets or liabilities to be measured at fair value. The Standard does not expand the use of fair value in any new circumstances. FAS #157 is effective for financial statements issued for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this standard is not expected to have a material effect on the Company's results of operations or financial position.

In September 2006, the FASB reached consensus on the guidance provided by Emerging Issues Task Force Issue 06-5 ("EITF 06-5"), Accounting for Purchases of Life Insurance--Determining the Amount That Could Be Realized in Accordance with FASB Technical Bulletin #85-4, Accounting for Purchases of Life Insurance. EITF 06-5 states that a policyholder should consider any additional amounts included in the contractual terms of the insurance policy other than the cash surrender value in determining the amount that could be realized under the insurance contract. EITF 06-5 also states that a policyholder should determine the amount that could be realized under the life insurance contract assuming the surrender of an individual-life by individual-life policy (or certificate by certificate in a group policy). EITF 06-5 is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company's results of operations or financial condition.

In September 2006, the FASB issued FAS #158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements # 87, 88, 106 and 132(R)." FAS #158 requires that a company recognize the overfunded or underfunded status of its defined benefit post retirement plans (other than multiemployer plans) as an asset or liability in its statement of financial position and that it recognize changes in the funded status in the year in which the changes occur through other comprehensive income. FAS #158 also requires the measurement of defined benefit plan assets and obligations as of the fiscal year-end, in addition to footnote disclosures. On December 31, 2006, the Company adopted FAS #158, except for the measurement provisions, which are effective for fiscal years ending after December 15, 2008. The adoption of the remaining provisions of the standard is not expected to have a material effect on the Company's results of operations or financial position.

2. CASH AND DUE FROM BANKS

Cash and due from banks at December 31, 2006 and 2005, included $8,481,000 and $8,162,000, respectively, of reserves required to be maintained under Federal Reserve Bank regulations.

3. INVESTMENT SECURITIES

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

Investment securities available for sale:

	AT DECEMBER 31, 2006			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury	$ 6,011	$--	$ (164)	$ 5,847
U.S. Agency	57,636	7	(1,021)	56,622
U.S. Agency mortgage-backed securities	113,460	22	(3,800)	109,682
Equity investment in Federal Home Loan Bank and Federal Reserve Bank Stocks	5,355	--	--	5,355
Other securities	3,962	30	--	3,992
Total	$186,424	$59	$(4,985)	$181,498

Investment securities held to maturity:

	AT DECEMBER 31, 2006			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury	$ 3,220	$--	$ (69)	$ 3,151
U.S. Agency	3,471	--	(75)	3,396
U.S. Agency mortgage-backed securities	7,216	--	(53)	7,163
Other securities	6,750	--	--	6,750
Total	$20,657	$--	$(197)	$20,460

Investment securities available for sale:

	AT DECEMBER 31, 2005			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury	$ 5,021	$--	$ (180)	$ 4,841
U.S. Agency	59,335	12	(1,078)	58,269
U.S. Agency mortgage-backed securities	131,981	2	(5,047)	126,936
Equity investment in Federal Home Loan Bank and Federal Reserve Bank Stocks	6,988	--	--	6,988
Other securities	4,499	36	--	4,535
Total	$207,824	$50	$(6,305)	$201,569

Investment securities held to maturity:

	AT DECEMBER 31, 2005			
	COST BASIS	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury	$ 3,285	$--	$ (49)	$ 3,236
U.S. Agency	11,484	--	(110)	11,374
U.S. Agency mortgage-backed securities	8,836	20	(10)	8,846
Other securities	6,750	--	--	6,750
Total	$30,355	$20	$(169)	$30,206

Realized gains and losses are calculated by the specific identification method. At December 31, 2005, the Company transferred $6.8 million of other securities from available for sale to held to maturity because it is the intent of the Company to hold these securities to maturity.

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investors Service or Standard & Poor's rating of A. At December 31, 2006, 94.8% of the portfolio was rated AAA as compared to 95.5% at December 31, 2005. Less than 1.0% of the

portfolio was rated below A or unrated on December 31, 2006. The Company and its subsidiaries, collectively, did not hold securities of any single issuer, excluding U.S. Treasury and U.S. Agencies, that exceeded 10% of shareholders' equity at December 31, 2006.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was $182,552,000 at December 31, 2006, and $210,085,000 at December 31, 2005. The Company had realized no security gains or losses on available for sale securities in 2006. The Company realized $78,000 and $1,768,000 of gross investment security gains and $2,577,000 and $952,000 of gross investment security losses on available for sale securities in 2005 and 2004, respectively. On a net basis, the realized (losses) gains amounted to ($1,649,000), and $539,000 in 2005 and 2004, respectively, after factoring in tax (benefit) expense of ($850,000) and $277,000 for each of those same years. The Company realized no gross investment security gains and losses on held to maturity securities in 2006, 2005 or 2004. Proceeds from sales of investment securities during 2006, 2005 and 2004 were $0, $133 million and $391 million, respectively.

The following table sets forth the contractual maturity distribution of the investment securities, cost basis and market values, and the weighted average yield for each type and range of maturity as of December 31, 2006. Yields are not presented on a tax-equivalent basis, but are based upon the cost basis and are weighted for the scheduled maturity. Average maturities are based upon the original contractual maturity dates with the exception of mortgage-backed securities for which the average lives were used. At December 31, 2006, the Company's consolidated investment securities portfolio had a modified duration of approximately 2.39 years. The weighted average expected maturity for available for sale securities at December 31, 2006 for U.S. Treasury, U.S. Agency, U.S. Agency Mortgage-Backed, Federal Home Loan Bank (FHLB) and Federal Reserve Bank Stocks, and other securities was 1.8, 2.1, 4.1, 1.0, and 0.2 years, respectively. The weighted average expected maturity for held to maturity securities at December 31, 2006 for U.S. Treasury, U.S. Agency, U.S. Agency Mortgage-Backed and other securities was 2.8, 5.9, 5.3 and 2.3 years.

Investment securities available for sale:

AT DECEMBER 31, 2006

AFTER 1 YEAR	AFTER 5 YEARS
BUT WITHIN	BUT WITHIN

	WITHIN 1 YEAR		5 YEARS		10 YEARS		AFTER 10 YEA	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIE
					(IN THOUSANDS, EXCEPT YIELDS)			
COST BASIS								
U.S. Treasury	$ --	--%	$ 6,011	3.11%	$ --	--%	$ --	
U.S. Agency	24,597	4.14	33,039	4.96	--	--	--	
U.S. Agency mortgage-backed securities	200	2.80	94,650	4.02	11,716	4.11	6,894	4.
Equity investment in Federal Home Loan Bank and Federal Reserve Bank Stocks	5,355	5.25	--	--	--	--	--	
Other securities	3,962	4.45	--	--	--	--	--	
Total investment securities available for sale	$34,114	4.34%	$133,700	4.21%	$11,716	4.11%	$6,894	4.
FAIR VALUE								
U.S. Treasury	$ --		$ 5,847		$ --		$ --	
U.S. Agency	24,568		32,054		--		--	
U.S. Agency mortgage-backed securities	199		91,464		11,355		6,664	
Equity investment in Federal Home Loan Bank and Federal Reserve Bank Stocks	5,355		--		--		--	
Other securities	3,992		--		--		--	
Total investment securities available for sale	$34,114		$129,365		$11,355		$6,664	

Investment securities held to maturity:

	AT DECEMBER 31, 2006							
	WITHIN 1 YEAR		AFTER 1 YEAR BUT WITHIN 5 YEARS		AFTER 5 YEARS BUT WITHIN 10 YEARS		AFTER 10 YEA	
	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIELD	AMOUNT	YIE
				(IN THOUSANDS, EXCEPT YIELDS)				
COST BASIS								
U.S. Treasury	$ --	--%	$ 3,220	3.97%	$ --	--%	$--	
U.S. Agency	--	--	--	--	3,471	5.22	--	
U.S. Agency mortgage-backed securities	--	--	6,047	5.46	1,169	--	--	
Other securities	1,000	6.51	5,750	5.89	--	5.52	--	

Total investment securities held to maturity	$1,000	6.51%	$15,017	5.31%	$4,640	5.30%	$--
FAIR VALUE							
U.S. Treasury	$ --		$ 3,151		$ --		$--
U.S. Agency	--		--		3,396		--
U.S. Agency mortgage-backed securities	--		6,004		1,159		--
Other securities	1,000		5,750		--		--
Total investment securities held to maturity	$1.000		$14,905		$4,555		$--

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

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	
U.S. Treasury	$ 996	$(2)	$ 4,851	$ (162)	$
U.S. Agency	--	--	49,554	(1,021)	
U.S. Agency mortgage-backed securities	1,948	(5)	105,151	(3,795)	1
Total investment securities available for sale	$2,944	$(7)	$159,556	$(4,978)	$1

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		
	COST BASIS	UNREALIZED LOSSES	COST BASIS	UNREALIZED LOSSES	
U.S. Treasury	$ --	$ --	$ 3,151	$ (69)	$
U.S. Agency	--	--	3,396	(75)	
U.S. Agency mortgage-backed securities	3,005	(17)	4,158	(36)	
Total investment securities held to maturity	$3,005	$(17)	$10,705	$(180)	$

The following tables present information concerning investments with unrealized losses as of December 31, 2005 (in thousands):

Investment securities available for sale:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		
	FAIR VALUE	UNREALIZED LOSSES	FAIR VALUE	UNREALIZED LOSSES	
U.S. Treasury	$ --	$ --	$ 4,841	$ (180)	$
U.S. Agency	20,267	(59)	30,554	(1,019)	
U.S. Agency mortgage-backed securities	4,449	(113)	122,330	(4,934)	
Total investment securities available for sale	$24,716	$(172)	$157,725	$(6,133)	$

Investment securities held to maturity:

	LESS THAN 12 MONTHS		12 MONTHS OR LONGER		
	COST BASIS	UNREALIZED LOSSES	COST BASIS	UNREALIZED LOSSES	COS BAS
U.S. Treasury	$2,157	$(20)	$1,079	$ (29)	$ 3,
U.S. Agency	3,450	(19)	7,924	(91)	11,
U.S. Agency mortgage-backed securities	1,274	(10)	--	--	1,
Total investment securities held to maturity	$6,881	$(49)	$9,003	$(120)	$15,

For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. There are 50 positions that are temporarily impaired at December 31, 2006. The Company reviews its position quarterly and has asserted that at December 31, 2006, the declines outlined in the above table represent temporary declines and the Company does have the intent and ability to hold those securities to maturity or to allow a market recovery.

4. LOANS

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
Commercial	$ 91,746	$ 80,629
Commercial loans secured by real estate	269,781	249,204
Real estate-mortgage	209,728	201,111

Consumer	18,336	20,391
Loans	589,591	551,335
Less: Unearned income	514	831
Loans, net of unearned income	$589,077	$550,504

Real estate construction loans comprised 4.4% and 5.5% of total loans net of unearned income at December 31, 2006 and 2005, respectively. The Company has no direct credit exposure to foreign countries. Additionally, the Company has no significant industry lending concentrations. As of December 31, 2006 and 2005, loans to customers engaged in similar activities and having similar economic characteristics, as defined by standard industrial classifications, did not exceed 10% of total loans. In the ordinary course of business, the subsidiaries have transactions, including loans, with their officers, directors, and their affiliated companies. These transactions were on substantially the same terms as those prevailing at the time for comparable transactions with unaffiliated parties and do not involve more than the normal credit risk. These loans totaled $3,977,000 and $4,250,000 at December 31, 2006 and 2005, respectively. An analysis of these related party loans follows:

	YEAR ENDED DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
Balance January 1	$4,250	$4,147
New loans	350	555
Payments	(623)	(452)
Balance December 31	$3,977	$4,250

5. ALLOWANCE FOR LOAN LOSSES

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
Balance January 1	$ 9,143	$9,893	$11,682
Provision for loan losses	(125)	(175)	1,758
Recoveries on loans previously charged-off	318	300	616
Loans charged-off	(1,244)	(875)	(4,041)
Transfer to reserve for unfunded loan commitments	--	--	(122)
Balance December 31	$ 8,092	$9,143	$ 9,893

6. NON-PERFORMING ASSETS

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

The following tables present information concerning non-performing assets:

	AT DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
NON-ACCRUAL LOANS			
Commercial	$ 494	$2,315	$ 802
Commercial loans secured by real estate	195	318	606
Real estate-mortgage	1,050	1,070	2,049
Consumer	547	446	412
Total	$2,286	$4,149	$3,869
PAST DUE 90 DAYS OR MORE AND STILL ACCRUING			
Consumer	$ 3	$ 31	$ --
Total	$ 3	$ 31	$ --
OTHER REAL ESTATE OWNED			
Real estate-mortgage	$ 3	$ 130	$ 15
Consumer	--	5	10
Total	$ 3	$ 135	$ 25
TOTAL NON-PERFORMING ASSETS	$2,292	$4,315	$3,894
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.39%	0.78%	0.75%
Total restructured loans	$1,302	$ 258	$5,685

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

The Company had loans totaling $9,582,000 and $14,825,000 being specifically identified as impaired and a corresponding allocation reserve of $1,835,000 and $2,560,000 at December 31, 2006 and 2005, respectively. The average outstanding balance for loans being specifically identified as impaired was $10,872,000 for 2006 and $12,388,000 for 2005. All of the impaired loans are collateral dependent, therefore the fair value of the collateral of the impaired loans is evaluated in measuring the impairment. The interest income recognized on impaired loans during 2006, 2005 and 2004 was $725,000, $833,000 and $635,000, respectively.

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

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
Interest income due in accordance with original terms	$214	$213	$469
Interest income recorded	(55)	(12)	(19)
Net reduction in interest income	$159	$201	$450

7. PREMISES AND EQUIPMENT

An analysis of premises and equipment follows:

	AT DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
Land	$ 1,714	$ 1,714
Premises	19,198	18,547
Furniture and equipment	15,087	16,608
Leasehold improvements	618	1,072
Total at cost	36,617	37,941
Less: Accumulated depreciation and amortization	28,055	29,252
Net book value	$ 8,562	$ 8,689

The Company recorded depreciation expense was $1.7 million, $1.8 million and $1.9 million at December 31, 2006, 2005 and 2004, respectively.

8. DEPOSITS

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

	AT DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
Demand:		
Non-interest bearing	$107,559	$109,274
Interest bearing	58,047	54,067
Savings	74,452	87,702
Money market	174,118	172,569
Certificates of deposit in denominations of $100,000 or more	30,580	33,836
Other time	296,999	255,207
Total deposits	$741,755	$712,655

Interest expense on deposits consisted of the following:

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
		(IN THOUSANDS)	
Interest bearing demand	$ 606	$ 227	$ 154
Savings	644	829	928
Money market	5,743	3,256	1,340
Certificates of deposit in denominations of $100,000 or more	1,894	1,378	1,167
Other time	10,345	7,295	6,747
Total interest expense	$19,232	$12,985	$10,336

The following table sets forth the balance of other time deposits and certificates of deposit of $100,000 or more as of December 31, 2006 maturing in the periods presented:

YEAR	OTHER TIME DEPOSITS	CERTIFICATES OF DEPOSIT OF $100,000 OR MORE
	(IN THOUSANDS)	
2007	$206,862	$26,466
2008	32,808	3,001
2009	12,620	108
2010	12,281	200
2011	7,874	547
2012 and after	24,554	258
Total	$296,999	$30,580

Additionally, the following table provides more detailed maturity information regarding certificates of deposit issued in denominations of $100,000 or more as of December 31, 2006.

MATURING IN:

	(IN THOUSANDS)
Three months or less	$17,424
Over three through six months	3,413
Over six through twelve months	5,629
Over twelve months	4,114
Total	$30,580

9. FEDERAL FUNDS PURCHASED AND OTHER SHORT-TERM BORROWINGS

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

	AT DECEMBER 31, 2006	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	$ --	$49,091
Maximum indebtedness at any month end	--	61,728
Average balance during year	43	32,778
Average rate paid for the year	5.69%	5.10%
Interest rate on year end balance	--	5.48

	AT DECEMBER 31, 2005	
	FEDERAL FUNDS PURCHASED	OTHER SHORT-TERM BORROWINGS
	(IN THOUSANDS, EXCEPT RATES)	
Balance	$ --	$ 63,184
Maximum indebtedness at any month end	--	150,552

Average balance during year	1	78,151
Average rate paid for the year	4.94%	3.32%
Interest rate on year end balance	--	4.25

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

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

The Company's subsidiary bank is a member of the FHLB which provides this subsidiary with the opportunity to obtain short to longer-term advances based upon the bank's investment in assets secured by one- to four-family residential real estate.

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

Borrowings and advances from the FHLB consist of the following:

	AT DECEMBER 31, 2006	
MATURING	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS)	
Overnight	5.48%	$49,091
2011 and after	6.45	946
Total FHLB borrowings	5.50%	$50,037

	AT DECEMBER 31, 2005	
MATURING	WEIGHTED AVERAGE YIELD	BALANCE
	(IN THOUSANDS)	
Overnight	4.25%	$63,184
2011 and after	6.45	987
Total FHLB borrowings	4.28%	$64,171

The rate on open repo plus advances can change daily, while the rate on the advances is fixed until the maturity of the advance. All FHLB stock, along with an interest in certain mortgage loans and mortgage-backed securities, with an aggregate statutory value equal to the amount of the advances, have been delivered as collateral to the FHLB of Pittsburgh to support these borrowings.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the FHLB systems. The Company utilizes a variety of these methods of liability liquidity. These lines of credit enable the Company's banking subsidiary to purchase funds for short-term needs at current market rates. Additionally, the Company's subsidiary bank is a member of the FHLB which provides the opportunity to obtain short- to

longer-term advances based upon the Bank's investment in assets secured by one- to four-family residential real estate. At December 31, 2006, the bank had immediately available $218 million of overnight borrowing capability at the FHLB. On January 11, 2007, the Bank was released from full collateral delivery status by the FHLB due to its improved financial condition.

GUARANTEED JUNIOR SUBORDINATED DEFERRABLE INTEREST DEBENTURES:

On April 28, 1998, the Company completed a $34.5 million public offering of 8.45% Trust Preferred Securities, which represent undivided beneficial interests in the assets of a Delaware business trust, AmeriServ Financial Capital Trust I. The Trust Preferred Securities will mature on June 30, 2028, and are callable at par at the option of the Company after June 30, 2003. Proceeds of the issue were invested by AmeriServ Financial Capital Trust I in Junior Subordinated Debentures issued by AmeriServ Financial, Inc. Net proceeds from the $34.5 million offering were used for general corporate purposes, including the repayment of debt, the repurchase of AmeriServ Financial common stock, and investments in and advances to the Company's subsidiaries. Unamortized deferred issuance costs associated with the Trust Preferred Securities amounted to $334,000 as of December 31, 2006 and are included in other assets on the consolidated balance sheet, and are being amortized on a straight-line basis over the term of the issue. The Trust Preferred securities are listed on NASDAQ under the symbol ASRVP. AmeriServ Financial Capital Trust I was deconsolidated in the first quarter of 2004 in accordance with FASB Interpretation #46(R) Consolidation of Variable Interest Entities (FIN 46(R)). The Company used $7.2 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in the fourth quarter of 2005. The Company used $15.3 million of proceeds from a private placement of common stock to redeem Trust Preferred Securities in the fourth quarter of 2004.

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

11. DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Estimated fair values have been determined by the Company using the best available data and an estimation methodology the Company believes is suitable for each category of financial instruments. Management believes that cash, cash equivalents, and loans and deposits with floating interest rates have estimated fair values which approximate the recorded book balances. The estimation methodologies used, the estimated fair values, and recorded book balances at December 31, 2006 and 2005, were as follows:

	2006		2005	
	ESTIMATED FAIR VALUE	RECORDED BOOK BALANCE	ESTIMATED FAIR VALUE	RECORDED BOOK BALANC
	(IN THOUSANDS)			
FINANCIAL ASSETS:				
Investment securities	$201,958	$202,155	$231,775	$231,924
Net loans (including loans held for sale), net of allowance for loan loss	579,691	581,343	545,448	550,602
FINANCIAL LIABILITIES:				
Deposits with no stated maturities	$414,176	$414,176	$423,612	$423,612
Deposits with stated maturities	326,752	327,579	286,987	289,043
Short-term borrowings	49,091	49,091	63,184	63,184
All other borrowings	16,181	14,031	16,554	14,072

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

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

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.

There is not a material difference between the notional amount and the estimated fair value of the off-balance sheet items which total $125.9 million at December 31, 2006, and are primarily comprised of unfunded loan commitments which are generally priced at market at the time of funding.

Management believes that reported fair values by different financial institutions may not be comparable due to the wide range of assumptions, methodologies and other uncertainties used in estimating fair values, and the absence of active secondary markets for many of the financial instruments. This lack of uniform valuation methodologies also introduces a greater degree of subjectivity to these estimated fair values.

12. INCOME TAXES

The expense (benefit) for income taxes is summarized below:

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
Current	$ 76	$ (471)	$ (87)
Deferred	344	(5,431)	(5,758)
Income tax expense (benefit) from continuing operations	420	(5,902)	(5,845)
Deferred income tax benefit from discontinued operations	--	(61)	(648)
Income tax expense (benefit)	$420	$(5,963)	$(6,493)

The reconciliation between the federal statutory tax rate and the Company's effective consolidated income tax rate is as follows:

	YEAR ENDED DECEMBER			
	2006		2005	
	AMOUNT	RATE	AMOUNT	RATE
	(IN THOUSANDS, EXCEPT PER			
Income tax expense (benefit) based on federal statutory rate	$ 936	34.0%	$(5,074)	(34.0)%
Tax exempt income	(478)	(17.4)	(424)	(2.8)
Reversal of valuation allowance	(100)	(3.6)	--	--
Reversal of contingency reserves	--	--	(475)	(3.2)
Other	62	2.3	71	0.5
Income tax expense (benefit) from continuing operations	420	15.3	(5,902)	(39.6)
Income tax benefit from discontinued operations	--	--	(61)	(33.9)
Total expense (benefit) for income taxes	$ 420	15.3%	$(5,963)	(39.5)%

December 31, 2006 and 2005, deferred taxes are included in the accompanying Consolidated Balance Sheets. The following table highlights the major components comprising the deferred tax assets and liabilities for each of the periods presented:

	AT DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	

DEFERRED TAX ASSETS:		
Allowance for loan losses	$ 2,863	$ 3,193
Premises and equipment	431	--
Accrued pension obligation	108	--
Unrealized investment security losses	1,675	2,127
Net operating loss carryforwards	10,318	12,232
Alternative minimum tax credits	994	872
Other	274	355
Total tax assets	16,663	18,779
DEFERRED TAX LIABILITIES:		
Investment accretion	(26)	(8)
Lease accounting	(702)	(2,239)
Prepaid pension obligation	--	(1,405)
Other	(98)	(51)
Total tax liabilities	(826)	(3,703)
Valuation allowance	--	(100)
Net deferred tax asset	$15,837	$14,976

As part of the 2006 tax expense, the Company did benefit from the elimination of a $100,000 income tax valuation allowance related to the deductibility of charitable contributions that management determined was no longer needed given the level of taxable income generated by the Company in 2006.

The change in net deferred tax assets and liabilities consist of the following:

	YEAR ENDED DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
Investment write-(ups)downs due to FAS #115, charged to equity	$ (452)	$ 382
Cumulative effect of adoption of change in accounting for pension obligation	1,657	--
Reversal of valuation allowance	100	--
Deferred (provision) benefit for income taxes	(444)	5,492
Net increase	$ 861	$5,874

The Company has alternative minimum tax credit carryforwards of approximately $994,000 at December 31, 2006. These credits have an indefinite carryforward period. The Company also has a $30.3 million net operating loss carryforward that will begin to expire in the year 2024.

13. EMPLOYEE BENEFIT PLANS

PENSION PLANS:

The Company has a trusteed, noncontributory defined benefit pension plan covering all employees who work at least 1,000 hours per year and who have not yet reached age 60 at their employment date. The benefits of the plan are based upon the employee's years of service and average annual earnings for the highest five consecutive calendar years during the final ten year period of employment. The Company's funding policy has been to contribute annually an amount that will ensure that the total value of the plans assets will exceed the accumulated benefit obligation. 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 valued at $656,000 and is limited to 10% of the plans assets), mutual funds, and short-term cash equivalent instruments.

PENSION BENEFITS:

	YEAR ENDED DECEMBER 31,	
	2006	2005
	(IN THOUSANDS, EXCEPT PERCENTAGES)	
CHANGE IN BENEFIT OBLIGATION:		
Benefit obligation at beginning of year	$14,158	$13,256
Service cost	882	855
Interest cost	816	806
Deferred asset gain	85	688
Benefits paid	(531)	(1,447)
Benefit obligation at end of year	$15,410	$14,158
CHANGE IN PLAN ASSETS:		
Fair value of plan assets at beginning of year	$12,956	$11,984
Actual return on plan assets	1,166	455
Employer contributions	1,500	2,000
Benefits paid	(531)	(1,447)
Expenses paid	--	(36)
Fair value of plan assets at end of year	15,091	12,956
Funded status of the plan--under funded	$ (319)	$(1,202)
AMOUNTS NOT YET RECOGNIZED AS A COMPONENT OF NET PERIODIC PENSION COST:		
Amounts recognized in accumulated other comprehensive income (loss) consists of:		
Transition asset	(109)	--
Prior service cost	(17)	--
Net actuarial loss	4,998	--
Amounts not recognized in accumulated other comprehensive income (loss) consists of:		
Transition asset	--	(126)
Prior service cost	--	(12)
Net actuarial loss	--	5,469

Total	$ 4,872	$ 5,331

The following table sets forth the incremental effect of applying FAS #158, "Employers' Accounting for Defined Benefit Pension and Other Post-Retirement Plans", on individual line items in the Consolidated Balance Sheet at December 31, 2006:

	BEFORE APPLICATION OF FASB #158	ADJUSTMENTS	AFTER APPLICATION OF FASB #158
		(IN THOUSANDS)	
Deferred tax asset	$ 14,181	$ 1,656	$ 15,837
Other assets	20,941	(4,553)	16,388
Total assets	898,889	(2,897)	895,992
Other liabilities	6,112	319	6,431
Total liabilities	810,989	319	811,308
Accumulated other comprehensive income (loss)	(3,201)	(3,216)	(6,417)
Total stockholders' equity	87,900	(3,216)	84,684
Total liabilities and stockholders' equity	898,889	(2,897)	895,992

	YEAR ENDED DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
ACCUMULATED BENEFIT OBLIGATION:		
Accumulated benefit obligation	$13,486	$12,300

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
		(IN THOUSANDS)	
COMPONENTS OF NET PERIODIC BENEFIT COST:			
Service cost	$ 882	$ 855	$ 840
Interest cost	816	806	734
Expected return on plan assets	(1,007)	(924)	(875)
Amortization of prior year service cost	4	4	4
Amortization of transition asset	(17)	(17)	(17)
Recognized net actuarial loss	398	383	339
Net periodic pension cost	$ 1,076	$1,107	$1,025

The estimated net loss, prior service cost and transition asset for the defined benefit pension plan that will amortized from accumulated other comprehensive income (loss) into net periodic benefit cost over the next year are $378,000, $4,000, and ($17,000), respectively.

	YEAR ENDED DECEMBER 31,		
	2006	2006	2006
	(PERCENTAGES)		
WEIGHTED AVERAGE ASSUMPTIONS:			
Discount rate	6.00%	6.00%	6.00%
Expected return on plan assets	8.00	8.00	8.00
Rate of compensation increase	2.50	2.50	3.00

The Company has assumed an 8% long-term expected return on plan assets. This assumption was based upon the plan's historical investment performance over a longer-term period of 15 years combined with the plan's investment objective of balanced growth and income. Additionally, this assumption also incorporates a targeted range for equity securities of 50% to 60% of plan assets.

PLAN ASSETS:

The plan's measurement date is December 31, 2006. This plan's asset allocations at December 31, 2006 and 2005, by asset category are as follows:

ASSET CATEGORY:	2006	2005
Equity securities	64%	59%
Debt securities	36	41
Total	100%	100%

The investment strategy objective for the pension plan is a balance of growth and income. This objective seeks to develop a portfolio for acceptable levels of current income together with the opportunity for capital appreciation. The balanced growth and income objective reflects a relatively equal balance between equity and fixed income investments such as debt securities. The allocation between equity and fixed income assets may vary by a moderate degree but the plan typically targets a range of equity investments between 50% and 60% of the plan assets. This means that fixed income and cash investments typically approximate 40% to 50% of the plan assets. The plan is also able to invest in ASRV common stock up to a maximum level of 10% of the market value of the plan assets (at December 31, 2006, 4.4% of the plan assets were invested in ASRV common stock). This asset mix is intended to ensure that there is a steady stream of cash from maturing investments to fund benefit payments.

CASH FLOWS:

The Bank presently expects that the contribution to be made to the Plan in 2007 will be comparable with recent years of approximately $1.5 million.

ESTIMATED FUTURE BENEFIT PAYMENTS:

The following benefit payments, which reflect future service, as appropriate, are expected to be paid (in thousands).

2007	$ 1,265
2008	1,288
2009	1,329
2010	1,699
2011	1,848
Years 2012--2016	10,835

401(k) PLAN:

The Bank maintains a qualified 401(k) plan that allows for participation by Bank employees. Under the plan, employees may elect to make voluntary, pretax contributions to their accounts, and the Bank contributes 4% of salaries for union members who are in the plan. Contributions by the Bank charged to operations were $195,000 and $201,000 for the years ended December 31, 2006 and 2005, respectively. The fair value of plan assets includes $580,000 pertaining to the value of the Company's common stock that is held by the plan at December 31, 2006.

Except for the above benefit plans, the Company has no significant additional exposure for any other post-retirement or post-employment benefits.

14. LEASE COMMITMENTS

The Company's obligation for future minimum lease payments on operating leases at December 31, 2006, is as follows:

YEAR	FUTURE MINIMUM LEASE PAYMENTS
	(IN THOUSANDS)
2007	$828
2008	496
2009	458
2010	394
2011	299
2012 and thereafter	673

In addition to the amounts set forth above, certain of the leases require payments by the Company for taxes, insurance, and maintenance. Rent expense included in total non-interest expense amounted to $423,000, $388,000 and $366,000, in 2006, 2005, and 2004, respectively.

15. COMMITMENTS AND CONTINGENT LIABILITIES

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. Commitments to extend credit are obligations to lend to a customer as long as there is no violation of any condition established in the loan agreement. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Because many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. Collateral which secures these types of commitments is the same as for other types of secured lending such as accounts receivable, inventory, and fixed assets.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including normal business activities, bond financings, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Letters of credit are issued both on an unsecured and secured basis. Collateral securing these types of transactions is similar to collateral securing the Bank's commercial loans.

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. At December 31, 2006 the Company had various outstanding commitments to extend credit approximating $125,863,000 and standby letters of credit of $8,472,000, compared to commitments to extend credit of $98,294,000 and standby letters of credit of $10,230,000 at December 31, 2005. Standby letters of credit had terms ranging from 1 to 4 years. Standby letters of credit of approximately $5.6 million were secured as of December 31, 2006 and approximately $7.9 million at December 31, 2005. The carrying amount of the liability for AmeriServ obligations related to standby letters of credit was $330,000 at December 31, 2006 and $248,000 at December 31, 2005.

Pursuant to its bylaws, the Company provides indemnification to its directors and officers against certain liabilities incurred as a result of their service on behalf of the Company. In connection with this indemnification obligation, the Company advances on behalf of covered individuals costs incurred in defending against certain claims. 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. PRIVATE PLACEMENT OFFERINGS

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

The Company contributed $1.0 million of the net proceeds to the capital of the Bank and $1.0 million of the net proceeds to the capital of the Trust Company. The Company used the remaining $7.2 million of net proceeds to redeem outstanding 8.45% Trust

Preferred Securities, which resulted in annual pre-tax savings of approximately $600,000 in interest expense.

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

On October 8, 2004, the Company announced that it entered into agreements with institutional investors on a $25.8 million private placement of common stock. The agreements secured commitments from investors to purchase 5.7 million shares at a price of $4.50 per share. The private placement was funded in two tranches. The first tranche for 2.8 million shares, or $12.6 million, closed on October 8, 2004. The second tranche of 2.9 million shares, or $13.2 million, closed on December 13, 2004. The funding of the second tranche was subject to shareholder approval, which was obtained on December 10, 2004.

The Company received net proceeds of $22.8 million after payment of offering expenses of $3.0 million and used the proceeds to strengthen its balance sheet. The specific actions included a $125 million reduction in high-cost, long-term borrowings from the FHLB, the repurchase or redemption of $15.3 million of outstanding AmeriServ Trust Preferred Stock, and the closure of Standard Mortgage Corporation of Georgia. The Company incurred penalties in connection with the prepayment of the advances, and expenses associated with reducing the amount of Trust Preferred Stock, and the closure of Standard Mortgage Corporation of Georgia totaling approximately $10.0 million, after-tax.

17. STOCK COMPENSATION PLANS

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (FAS) #123(R) "Share-Based Payment" using the "modified perspective" method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured and accounted for in accordance with FAS #123(R). As a result of this adoption the Company recognized $56,000 of pretax compensation expense for the year 2006.

In 2001, the Company's Board of Directors adopted a shareholder approved Stock Incentive Plan (the Plan) authorizing the grant of options or restricted stock covering 800,000 shares of common stock. This Plan replaced the expired 1991 Stock Option Plan. Under the Plan, options or restricted stock can be granted (the Grant Date) to directors, officers, and employees that provide services to the Company and its affiliates, as selected by the compensation committee of the Board of Directors. The option price at which a stock option may be exercised shall not be less than 100% of the fair market value per share of common stock on the Grant Date. The maximum term of any option granted under the Plan cannot exceed 10 years. Generally, under the Plan on or after the first anniversary of the Grant Date, one-third of such options may be exercised. On or after the second anniversary of the Grant Date, two-thirds of such options may be exercised minus the aggregate number of such options previously exercised. On or after the third anniversary of the Grant Date, the remainder of the options may be exercised.

A summary of the status of the Company's Stock Incentive Plan at December 31, 2006, 2005, and 2004, and changes during the years then ended is presented in the table and narrative following:

	YEAR ENDED DECEMBER 31,				
	2006		2005		
	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHARES	WEIGHTED AVERAGE EXERCISE PRICE	SHAR
Outstanding at beginning of year	372,645	$5.33	393,848	$5.31	337,1
Granted	1,233	4.70	11,492	5.34	75,0
Exercised	(21,667)	3.21	(3,352)	4.27	(2,3
Forfeited	(105,003)	6.46	(29,343)	5.23	(15,9
Outstanding at end of year	247,208	5.03	372,645	5.33	393,8
Exercisable at end of year	223,314	4.93	303,653	5.25	285,1
Weighted average fair value of options granted in current year		$2.69		$2.99	

A total of 223,314 of the 247,208 options outstanding at December 31, 2006, have exercise prices between $2.31 and $6.21, with a weighted average exercise price of $4.93 and a weighted average remaining contractual life of 4.65 years. Options outstanding at December 31, 2006 reflect option ranges of: $2.31 to $3.49 totaling 13,334 options which have a weighted average exercise price of $2.71 and a weighted average remaining contractual life of 6.1 years; and $4.02 to $6.21 totaling 209,980 options which have a weighted average exercise price of $5.07 and a weighted average remaining contractual life of 4.6 years. All of these options are exercisable. The remaining 23,894 options have exercise prices between $4.70 and $6.10, with a weighted average exercise price of $5.97 and a weighted average remaining contractual life of 7.5 years. The fair value of each option grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions used for grants in 2006, 2005, 2004, and 2003, respectively: risk-free interest rate for 2006 options was 4.70%, and risk-free interest rates ranging from 3.95% to 4.19% for 2005 options, 3.50% to 4.20% for 2004 options and 3.40% to 4.40% for 2003 options; expected lives of 10.0 years for 2006, 2005, 2004 and 2003 options; expected volatility of 37.22% for 2006 options, and expected volatility ranging from 37.34% to 38.63% for 2005 options, 39.24% to 39.65% for 2004 options, and 33.39% to 33.64% for 2003 options; and expected dividend yields of 0% for 2006, 2005, 2004, and 2003 options.

18. DIVIDEND REINVESTMENT AND COMMON STOCK PURCHASE PLAN

The Company's Dividend Reinvestment and Common Stock Purchase Plan (the Purchase Plan) provides each record holder of Common Stock with a simple and convenient method of purchasing additional shares without payment of any brokerage commissions, service charges or other similar expense. A participant in the Purchase Plan may purchase shares of Common Stock by electing either to (1) reinvest dividends on all of his or her shares of Common Stock (if applicable) or (2) make optional cash payments of not less than $10 and up to a maximum of $2,000 per month and continue to receive regular dividend payments on his or her other shares. A participant may withdraw from the Purchase Plan at any time.

In the case of purchases from AmeriServ Financial, Inc. of treasury or newly-issued shares of Common Stock, the average market price is determined by averaging the high and low sale price of the Common Stock as reported on the NASDAQ on the relevant investment date. At December 31, 2006, the Company issued 22,154 shares and had 113,069 unissued reserved shares available under the Purchase Plan. In the case of purchases of shares of Common Stock on the open market, the average market price will be the weighted average purchase price of shares purchased for the Purchase Plan in the market for the relevant investment date.

19. INTANGIBLE ASSETS

The Company's consolidated balance sheet shows both tangible assets (such as loans, buildings, and investments) and intangible assets (such as goodwill and core deposits). Goodwill and other intangible assets with indefinite lives are not amortized. Instead such intangibles are evaluated for impairment at the reporting unit level at least annually in the third quarter. Any resulting impairment would be reflected as a non-interest expense. The Company's goodwill of $9.5 million is allocated to the retail banking segment and was evaluated for impairment on its annual impairment evaluation date. The result of this evaluation indicated that the Company's goodwill had no impairment. The Company's only intangible asset, other than goodwill, is its core deposit intangible, which the Company currently believes has a remaining finite life of approximately 2 years.

As of December 31, 2006, the Company's core deposit intangibles had an original cost of $17.6 million with accumulated amortization of $15.7 million. The weighted average amortization period of the Company's core deposit intangibles at December 31, 2006, is 2.10 years. Estimated amortization expense for the next three years is summarized as follows (in thousands):

YEAR	EXPENSE (IN THOUSANDS)
2007	$865
2008	865
2009	108

A reconciliation of the Company's intangible asset balances for 2006 and 2005 is as follows (in thousands):

	AT DECEMBER 31,			
	2006	2005	2006	2005
	CORE DEPOSIT INTANGIBLES		GOODWILL	
Balance January 1	$2,703	$3,568	$9,544	$9,544
Amortization expense	(865)	(865)	--	--
Balance December 31	$1,838	$2,703	$9,544	$9,544

20. DERIVATIVE HEDGING INSTRUMENTS

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

The following table summarizes the interest rate swap transactions that impacted the Company's 2005 and 2004 performance:

2005

HEDGE TYPE	NOTIONAL AMOUNT	FIXED RATE RECEIVED	FLOATING RATE PAID	REPRICING FREQUENCY	INCREASE (DECREASE) IN INTEREST EXPENSE
FAIR VALUE	$50,000,000	2.58%	2.70%	QUARTERLY	$ 175,000
FAIR VALUE	50,000,000	5.89	5.27	QUARTERLY	(148,000)
					$ 27,000

2004

HEDGE TYPE	NOTIONAL AMOUNT	FIXED RATE RECEIVED	FLOATING RATE PAID	REPRICING FREQUENCY	DECREASE IN INTEREST EXPENSE

FAIR VALUE	$50,000,000	2.58%	1.47%	QUARTERLY	$ (564,000)
FAIR VALUE	50,000,000	5.89	3.91	QUARTERLY	(1,001,000)
					$(1,565,000)

The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of $500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors. The Company had no interest rate swaps, caps or floors outstanding at December 31, 2006 and December 31, 2005.

21. SEGMENT RESULTS

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability measurement system which produces line of business results and key performance measures. The Company's major business units include retail banking, commercial lending, trust, other fee based businesses and investment/parent. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued the operations of this non-core business (mortgage banking) in 2005(see Note 23). The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, commercial real-estate loans, and commercial leasing (excluding certain small business lending through the branch network). The trust segment has two primary business divisions, traditional trust and union collective investment funds. Traditional trust includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. The union collective investment funds, namely the ERECT and BUILD Funds are designed to invest union pension dollars in construction projects that utilize union labor. Other fee based businesses include AmeriServ Associates and AmeriServ Life. As of June 30, 2006, the Company closed AmeriServ Associates since it no longer fit the Company's strategic direction. 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 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 were as follows:

YEAR ENDED DECEMBER 31, 2006

(IN THOUSANDS)

	RETAIL BANKING	COMMERCIAL LENDING	MORTGAGE BANKING	TRUST	INVESTMENT/ PARENT	OTHER FEE BASED
Net interest income	$ 18,772	$ 7,328	$ --	$ 343	$ (2,015)	$ 50
Provision for loan loss	(34)	(91)	--	--	--	--
Non-interest income	5,607	540	--	6,521	48	125
Non-interest expense	22,814	4,735	--	4,291	2,546	306
Income (loss) before income taxes	1,599	3,224	--	2,573	(4,513)	(131)
Income taxes (benefit)	310	626	--	875	(1,346)	(45)
Net income (loss)	$ 1,289	$ 2,598	$ --	$1,698	$ (3,167)	$ (86)
Total assets	$355,799	$331,849	$ --	$2,716	$204,344	$1,284

YEAR ENDED DECEMBER 31, 2005

(IN THOUSANDS)

	RETAIL BANKING	COMMERCIAL LENDING	MORTGAGE BANKING	TRUST	INVESTMENT/ PARENT	OTHER FEE BASED
Net interest income	$ 19,237	$ 5,538	$ --	$ 319	$ (1,025)	$ 43
Provision for loan loss	(56)	(119)	--	--	--	--
Non-interest income	5,607	442	--	6,129	(2,624)	655
Non-interest expense	24,879	4,418	--	4,334	15,014	775
Income (loss) before income taxes	21	1,681	--	2,114	(18,663)	(77)
Income taxes (benefit)	(478)	309	--	719	(6,426)	(26)
Income (loss) from continuing operations	499	1,372	--	1,395	(12,237)	(51)
Loss from discontinued operations	--	--	(119)	--	--	--
Net income (loss)	$ 499	$ 1,372	$(119)	$1,395	$(12,237)	$ (51)
Total assets	$349,255	$293,997	$ 329	$2,890	$231,924	$1,781

YEAR ENDED DECEMBER 31, 2004

RETAIL BANKING	COMMERCIAL LENDING	MORTGAGE BANKING	TRUST	INVESTMENT/ PARENT	OTHER FEE BASED

(IN THOUSANDS)

Net interest income	$ 20,065	$ 4,548	$ --	$ 93	$ (1,272)	$ 32
Provision for loan loss	473	1,285	--	--	--	--
Non-interest income	6,586	640	--	5,364	561	861
Non-interest expense	25,008	4,155	--	4,151	16,065	712
Income (loss) before income taxes	1,170	(252)	--	1,306	(16,776)	181
Income taxes (benefit)	(160)	(159)	--	446	(6,033)	61
Income (loss) from continuing operations	1,330	(93)	--	860	(10,743)	120
Loss from discontinued operations	--	--	(1,193)	--	--	--
Net income (loss)	$ 1,330	$ (93)	$(1,193)	$ 860	$(10,743)	$ 120
Total assets	$349,999	$253,406	$ 1,941	$1,691	$401,019	$1,920

22. REGULATORY MATTERS

The Company announced on February 21, 2006, that the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking have terminated the Memorandum of Understanding (MOU) that the Company had been operating under since February 28, 2003. The MOU was enacted to address prior deficiencies in asset quality, credit administration, and other matters. The Company's successful actions to improve asset quality, strengthen capital, reduce interest rate risk, and enhance administrative procedures were the key factors that led to the termination of this regulatory enforcement action.

The Company 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 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 I capital to risk-weighted assets, and of Tier I capital to average assets. As of December 31, 2006 and 2005, 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 I risk-based, and Tier I leverage ratios as set forth in the table.

	AS OF DECEMBER 31, 2006					
					TO BE WELL	
			FOR CAPITAL		CAPITALIZED UNDER	
			ADEQUACY		PROMPT CORRECTIVE	
	ACTUAL		PURPOSES		ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)						
Consolidated	$99,881	15.34%	$52,097	8.00%	$65,121	10.00%
AmeriServ Financial Bank	91,555	14.25	51,391	8.00	64,239	10.00
Tier 1 Capital (To Risk Weighted Assets)						
Consolidated	91,737	14.09	26,048	4.00	39,073	6.00
AmeriServ Financial Bank	83,520	13.00	25,696	4.00	38,543	6.00
Tier 1 Capital (To Average Assets)						
Consolidated	91,737	10.54	34,800	4.00	43,500	5.00
AmeriServ Financial Bank	83,520	9.70	34,428	4.00	43,035	5.00

	AS OF DECEMBER 31, 2005					
					TO BE WELL	
			FOR CAPITAL		CAPITALIZED UNDER	
			ADEQUACY		PROMPT CORRECTIVE	
	ACTUAL		PURPOSES		ACTION PROVISIONS	
	AMOUNT	RATIO	AMOUNT	RATIO	AMOUNT	RATIO
	(IN THOUSANDS, EXCEPT RATIOS)					
Total Capital (To Risk Weighted Assets)						
Consolidated	$96,001	15.61%	$49,215	8.00%	$61,518	10.00%
AmeriServ Financial Bank	88,195	14.48	48,730	8.00	60,913	10.00
Tier 1 Capital (To Risk Weighted Assets)						
Consolidated	88,311	14.36	24,607	4.00	36,911	6.00
AmeriServ Financial Bank	80,581	13.23	24,365	4.00	36,548	6.00
Tier 1 Capital (To Average Assets)						
Consolidated	88,311	10.24	34,509	4.00	43,136	5.00
AmeriServ Financial Bank	80,581	9.48	34,011	4.00	42,513	5.00

23. DISCONTINUED OPERATIONS

As of December 28, 2004, SMC entered into an agreement to sell its remaining mortgage servicing rights. This action resulted in the closing of this non-core business which exposed the Company to greater balance sheet market risk and earnings volatility. The assets and liabilities are separately identified in the December 31, 2005 Consolidated Balance Sheets as Assets and Liabilities from discontinued operations. SMC completed the transfer of all files related to the servicing rights in the first half of 2005 and ceased operations as of June 30, 2005. The major asset and liability categories of net discontinued operations as of December 31, 2005 are as follows:

AT DECEMBER 31, 2005

	(IN THOUSANDS)
Cash and due from banks	$279
Other assets	50
Other liabilities	(14)
Net assets of discontinued operations	$315

SMC's operations had previously been reported as the Company's mortgage banking segment. All results have been removed from the Company's continuing operations for all periods presented. The results of SMC presented as discontinued operations in the Consolidated Statement of Operations are as follows:

	YEAR ENDED DECEMBER 31,	
	2005	2004
	(IN THOUSANDS, EXCEPT PER SHARE DATA)	
NET INTEREST INCOME	$ --	$ --
Provision for loan losses	--	--
Net Interest Income after Provision for Loan Losses	--	--
NON-INTEREST INCOME		
Net mortgage servicing fees	50	179
Loss on sale of mortgage servicing rights	--	(376)
Other income	311	300
Total Non-Interest Income	361	103
NON-INTEREST EXPENSE		
Salaries and employee benefits	240	786
Net occupancy expense	208	179
Equipment expense	49	237
Professional fees	22	30
Supplies, postage, and freight	23	109
Miscellaneous taxes and insurance	(1)	4
Impairment credit for mortgage servicing rights	--	(26)
Other expense	--	625
Total Non-Interest Expense	541	1,944
LOSS FROM DISCONTINUED OPERATIONS BEFORE INCOME TAXES	(180)	(1,841)
Benefit for income taxes	(61)	(648)
LOSS FROM DISCONTINUED OPERATIONS	$ (119)	$(1,193)
PER COMMON SHARE DATA FROM DISCONTINUED OPERATIONS:		
Basic:		
Net loss	$ (0.01)	$ (0.08)
Average number of shares outstanding	20,340	14,783

Diluted:		
Net loss	$ (0.01)	$ (0.08)
Average number of shares outstanding	20,340	14,783

24. PARENT COMPANY FINANCIAL INFORMATION

The parent company functions primarily as a coordinating and servicing unit for all subsidiary entities. Provided services include general management, accounting and taxes, loan review, internal auditing, investment advisory, marketing, insurance risk management, general corporate services, and financial and strategic planning. The following financial information relates only to the parent company operations:

BALANCE SHEETS

	AT DECEMBER 31,	
	2006	2005
	(IN THOUSANDS)	
ASSETS		
Cash and investments	$ 3,212	$ 2,492
Equity investment in banking subsidiaries	88,468	88,746
Equity investment in non-banking subsidiaries	4,645	4,906
Guaranteed junior subordinated deferrable interest debenture issuance costs	334	349
Other assets	1,717	1,594
TOTAL ASSETS	$98,376	$98,087
LIABILITIES		
Guaranteed junior subordinated deferrable interest debentures	$13,085	$13,085
Other liabilities	607	528
TOTAL LIABILITIES	13,692	13,613
STOCKHOLDERS' EQUITY		
Total stockholders' equity	84,684	84,474
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$98,376	$98,087

STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		

INCOME			
Inter-entity management and other fees	$2,351	$ 2,411	$ 2,351
Dividends from non-banking subsidiaries	1,722	1,186	1,017
Interest and dividend income	120	94	29
TOTAL INCOME	4,193	3,691	3,397
EXPENSE			
Interest expense	1,121	1,659	2,985
Salaries and employee benefits	2,008	1,834	1,899
Dividends downstreamed to banking subsidiary	--	1,000	4,000
Dividends downstreamed to non-banking subsidiaries	--	1,000	250
Other expense	1,184	1,532	1,815
TOTAL EXPENSE	4,313	7,025	10,949
LOSS BEFORE INCOME TAXES AND EQUITY IN UNDISTRIBUTED EARNINGS OF SUBSIDIARIES	(120)	(3,334)	(7,552)
Benefit for income taxes	640	837	1,693
Equity in undistributed earnings of subsidiaries	1,812	(6,644)	(3,860)
NET INCOME (LOSS)	$2,332	$(9,141)	$(9,719)

STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2006	2005	2004
	(IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income (loss)	$ 2,332	$(9,141)	$ (9,719)
Adjustment to reconcile net income (loss) to net cash (used in) provided by operating activities:			
Equity in undistributed (gains) losses of subsidiaries	(1,812)	6,644	3,860
Other -- net	1,043	1,422	2,916
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	1,563	(1,075)	(2,943)
INVESTING ACTIVITIES			
Purchase of short-term investments - available for sale	(3,112)	--	--
NET CASH USED IN INVESTING ACTIVITIES	(3,112)	--	--
FINANCING ACTIVITIES			
Proceeds from issuance of common stock	173	133	149
Proceeds from private offering, net of issuance costs	--	8,818	23,105
Guaranteed junior subordinated deferrable interest debentures dividends paid	(1,016)	(1,546)	(2,860)
Retirement of Trust Preferred Securities	--	(7,200)	(14,215)
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	(843)	205	6,179

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(2,392)	(870)	3,236
CASH AND CASH EQUIVALENTS AT JANUARY 1	2,492	3,362	126
CASH AND CASH EQUIVALENTS AT DECEMBER 31	$ 100	$ 2,492	$ 3,362

The ability of the subsidiary bank to upstream cash to the parent company is restricted by regulations. Federal law prevents the parent company from borrowing from its subsidiary bank unless the loans are secured by specified assets. Further, such secured loans are limited in amount to ten percent of the subsidiary bank's capital and surplus. In addition, the Bank is subject to legal limitations on the amount of dividends that can be paid to its shareholder. The dividend limitation generally restricts dividend payments to a bank's retained net income for the current and preceding two calendar years. Cash may also be upstreamed to the parent company by the subsidiaries as an inter-entity management fee. At December 31, 2006, the subsidiary bank was not permitted to upstream any cash dividends to the parent company. The subsidiary bank had a combined $77,691,000 of restricted surplus and retained earnings at December 31, 2006.

25. SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA

The following table sets forth certain unaudited quarterly consolidated financial data regarding the Company:

	2006 QUARTER ENDED			
	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	$12,077	$11,895	$11,414	$11,179
Interest expense	6,181	5,796	5,223	4,887
Net interest income	5,896	6,099	6,191	6,292
Provision for loan losses	(75)	--	(50)	--
Net interest income after provision for loan losses	5,971	6,099	6,241	6,292
Non-interest income	3,084	3,247	3,268	3,242
Non-interest expense	8,493	8,564	8,777	8,858
Income before income taxes	562	782	732	676
Provision (benefit) for income taxes	(19)	139	164	136
Net income	$ 581	$ 643	$ 568	$ 540
Basic earnings per common share	0.03	0.03	0.03	0.02
Diluted earnings per common share	0.03	0.03	0.03	0.02
Cash dividends declared per common share	0.00	0.00	0.00	0.00

2005 QUARTER ENDED

	DEC. 31	SEPT. 30	JUNE 30	MARCH 31
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
Interest income	$10,989	$ 11,473	$11,712	$11,691
Interest expense	4,621	6,015	5,721	5,396
Net interest income	6,368	5,458	5,991	6,295
Provision for loan losses	--	100	(275)	--
Net interest income after provision for loan losses	6,368	5,358	6,266	6,295
Non-interest income	3,223	658	3,180	3,148
Non-interest expense	9,293	22,278	8,906	8,943
Income (loss) before income taxes	298	(16,262)	540	500
Provision (benefit) for income taxes	89	(5,689)	96	(398)
Income (loss) from continuing operations	209	(10,573)	444	898
Income (loss) from discontinued operations, net of income taxes *	11	9	(74)	(65)
Net income (loss)	$ 220	$(10,564)	$ 370	$ 833
Basic earnings (loss) per common share from continuing operations	$ 0.01	$ (0.53)	$ 0.02	$ 0.05
Diluted earnings (loss) per common share from continuing operations	0.01	(0.53)	0.02	0.05
Basic earnings (loss) per common share	0.01	(0.53)	0.02	0.04
Diluted earnings (loss) per common share	0.01	(0.53)	0.02	0.04
Cash dividends declared per common share	0.00	0.00	0.00	0.00

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

26. SUBSEQUENT EVENT

The Company announced on January 22, 2007, that it has signed a Definitive Agreement to acquire West Chester Capital Advisors (WCCA) of West Chester, Pennsylvania. WCCA is registered investment advisor with expertise in large cap stocks, and currently has $215 million in assets under management. WCCA was formed in 1994.

When the acquisition is completed, WCCA will be a wholly owned subsidiary of AmeriServ Financial Bank. Because this will be a cash transaction, the Company will not be issuing any stock to execute the purchase. Therefore, there will be no ownership dilution to current AmeriServ stockholders, and the Company expects the transaction to be accretive to earnings in year one. The transaction which is subject to regulatory approval, is scheduled to close sometime during the first quarter 2007.

REPORT ON MANAGEMENT'S ASSESSMENT OF INTERNAL CONTROL OVER FINANCIAL REPORTING

AmeriServ Financial, Inc. is responsible for the preparation, integrity, and fair presentation of the consolidated financial statements included in this annual report. The consolidated financial statements and notes included in this annual report have been prepared in conformity with United States generally accepted accounting principles and necessarily include some amounts that are based on management's best estimates and judgments.

We, as management of AmeriServ Financial, Inc., are responsible for establishing and maintaining effective internal control over financial reporting that is designed to produce reliable financial statements in conformity with United States generally accepted accounting principles. The system of internal control over financial reporting as it relates to the financial statements is evaluated for effectiveness by management and tested for reliability through a program of internal audits. Actions are taken to correct potential deficiencies as they are identified. Any system of internal control, no matter how well designed, has inherent limitations, including the possibility that a control can be circumvented or overridden and misstatements due to error or fraud may occur and not be detected. Also, because of changes in conditions, internal control effectiveness may vary over time. Accordingly, even an effective system of internal control will provide only reasonable assurance with respect to financial statement preparation.

Management assessed the Company's system of internal control over financial reporting as of December 31, 2006, in relation to criteria for effective internal control over financial reporting as described in "Internal Control - Integrated Framework," issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management concludes that, as of December 31, 2006, its system of internal control over financial reporting is effective and meets the criteria of the "Internal Control - Integrated Framework". S.R. Snodgrass A.C., independent registered public accounting firm, has issued an attestation report on management's assessment of the Company's internal control over financial reporting.

/s/ ALLAN R. DENNISON	/s/ JEFFREY A. STOPKO
Allan R. Dennison President & Chief Executive Officer	Jeffrey A. Stopko Senior Vice President & Chief Financial Officer

Johnstown, PA
February 22, 2007

STATEMENT OF MANAGEMENT RESPONSIBILITY

February 22, 2007

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

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

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

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

The Audit Committee of the Company's Board of Directors consists solely of outside directors. The Audit Committee meets periodically with management and the independent auditors to discuss audit, financial reporting, and related matters. S.R. Snodgrass A.C. and the Company's internal auditors have direct access to the Audit Committee.

/s/ ALLAN R. DENNISON	/s/ JEFFREY A. STOPKO
Allan R. Dennison President & Chief Executive Officer	Jeffrey A. Stopko Senior Vice President & Chief Financial Officer

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
AmeriServ Financial, Inc.

We have audited the consolidated balance sheet of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statements of operation, comprehensive loss, changes in stockholders' equity, and cash flows for the year then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit. The accompanying consolidated financial statements of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2005, and for each of the years in the two-year period ended December 31, 2005, were audited by other auditors whose report thereon dated March 6, 2006, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2006, and the consolidated results of their operations and cash flows in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, AmeriServ Financial, Inc. changed its method of accounting for defined benefit pension plans as of December 31, 2006, in accordance with Financial Accounting Standards Board Statement No. 158, Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of AmeriServ Financial, Inc.'s and subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in "Internal Control--Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission. Our report dated February 26, 2007, expressed an unqualified opinion on management's assessment of the effectiveness of AmeriServ Financial, Inc.'s and subsidiaries' internal control over financial reporting and an unqualified opinion on the effectiveness of AmeriServ Financial, Inc.'s and subsidiaries' internal control over financial reporting.

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

Wexford, Pennsylvania
February 26, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Shareholders
AmeriServ Financial, Inc.

We have audited management's assessment, included in the accompanying Report on Management's Assessment of Internal Control Over Financial Reporting, that AmeriServ Financial, Inc. (the "Company") maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in "Internal Control--Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). AmeriServ Financial, Inc.'s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that AmeriServ Financial, Inc. maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also in our opinion, AmeriServ Financial, Inc., maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of AmeriServ Financial, Inc. and subsidiaries as of December 31, 2006, and the related consolidated statement of operations, changes in stockholders' equity, and cash flows for the year then ended, and our report dated February 26, 2007, expressed an unqualified opinion.

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

Wexford, Pennsylvania
February 26, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Audit Committee of the Board of Directors
of AmeriServ Financial, Inc.
Johnstown, Pennsylvania

We have audited the accompanying consolidated balance sheet of AmeriServ Financial, Inc. and subsidiaries (the "Company") as of December 31, 2005, and the related consolidated statements of operations, comprehensive loss, changes in stockholders' equity, and cash flows for each of the two years in the period ended December 31, 2005. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2005, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2005, in conformity with accounting principles generally accepted in the United States of America.

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania
March 6, 2006

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES. As of December 31, 2006, an evaluation was performed under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, on the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on that evaluation, the Company's management, including the Chief Executive Officer and Chief Financial Officer, concluded that the Company's disclosure controls and procedures were effective as of December 31, 2006.

Disclosure controls and procedures are the controls and other procedures that are designed to ensure that the information required to be disclosed by the Company in its reports filed and submitted under the Securities Exchange Act of 1934, as amended ("Exchange Act") is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by the Company in its reports filed under the Exchange Act is accumulated and communicated to the Company's management, including the principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING. The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. Management's assessment of internal control over financial reporting for the fiscal year ended December 31, 2006 is included in Item 8.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this section relative to Directors of the Registrant is presented in the "Election of ASRV Directors" section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this section is presented in the "Compensation Paid to Executive Officers" section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information required by this section is presented in the "Security Ownership of Management" section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this section is presented in the "Transactions with Management" section of the Proxy Statement for the Annual Meeting of Shareholders.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

Information required by this section is presented in the "Audit Committee Report" section of the Proxy Statement for the Annual Meeting of Shareholders.

PART IV

ITEM 15. EXHIBITS, CONSOLIDATED FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

CONSOLIDATED FINANCIAL STATEMENTS FILED:

The consolidated financial statements listed below are from the 2006 Form 10-K and Part II -- Item 8. Page references are to said Form 10-K.

CONSOLIDATED FINANCIAL STATEMENTS:

AmeriServ Financial, Inc. and Subsidiaries

Consolidated Balance Sheets, 38
Consolidated Statements of Operations, 39
Consolidated Statements of Comprehensive Loss, 40
Consolidated Statements of Changes in Stockholders' Equity, 41
Consolidated Statements of Cash Flows, 42-43
Notes to Consolidated Financial Statements, 44
Report on Management's Assessment of Internal Control Over Financial Reporting, 71
Statement of Management Responsibility, 72
Independent Registered Public Accounting Firm Opinion on Internal Control Over Financial Reporting, 73
Report of Independent Registered Public Accounting Firm, 74

CONSOLIDATED FINANCIAL STATEMENT SCHEDULES:

These schedules are not required or are not applicable under Securities and Exchange Commission accounting regulations and therefore have been omitted.

EXHIBITS:

The exhibits listed below are filed herewith or to other filings.

EXHIBIT NUMBER	DESCRIPTION	
3.1	Amended and Restated Articles of Incorporation as amended through January 5, 2005.	Exhi on M
3.2	Bylaws, as amended and restated on January 26, 2005.	Exhi 8-K
10.3	Agreement, dated May 24, 2002, between AmeriServ Financial, Inc. and Jeffrey A. Stopko.	Exhi Augu
10.5	2001 Stock Incentive Plan dated February 23, 2001.	2000 2001
10.6	Agreement, dated December 1, 1994, between AmeriServ Financial, Inc. and Ronald W. Virag.	Exhi Marc
10.7	Agreement, dated February 1, 2004, between AmeriServ Financial, Inc. and Allan R. Dennison	Exhi Marc
10.8	Agreement, dated May 24, 2002, between AmeriServ Financial, Inc. and Dan L. Hummel	Exhi Marc
21	Subsidiaries of the Registrant.	Belo
23	Consent of Independent Registered Public Accounting Firm	Belo
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.	Belo
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.	Belo
32.1	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Belo
32.2	Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.	Belo

EXHIBIT A

(21) SUBSIDIARIES OF THE REGISTRANT

NAME	PERCENT OF OWNERSHIP	JURISDICTION OF ORGANIZATION
AmeriServ Financial Bank 216 Franklin Street P.O. Box 520 Johnstown, PA 15907	100%	Commonwealth of Pennsylvania
AmeriServ Life Insurance Company 101 N. First Avenue #2460 Phoenix, AZ 85003	100%	State of Arizona
AmeriServ Trust and Financial Services Company 216 Franklin Street P.O. Box 520 Johnstown, PA 15907	100%	Commonwealth of Pennsylvania

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AmeriServ Financial, Inc.
(Registrant)

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

Date: February 22, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on February 22, 2007:

/s/ Craig G. Ford Craig G. Ford	Chairman Director
/s/ Allan R. Dennison	President, CEO & Director

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Allan R. Dennison


/s/ J. Michael Adams, Jr.           Director
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J. Michael Adams, Jr.


/s/ Edward J. Cernic, Sr.           Director
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Edward J. Cernic, Sr.


/s/ Daniel R. DeVos                 Director
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Daniel R. DeVos


/s/ James C. Dewar                  Director
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James C. Dewar


/s/ Bruce E. Duke, III              Director
---------------------------------
Bruce E. Duke, III, M.D.


/s/ James M. Edwards, Sr.           Director
---------------------------------
James M. Edwards, Sr.


/s/ Kim W. Kunkle                   Director
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Kim W. Kunkle


/s/ Jeffrey A. Stopko               SVP & CFO
---------------------------------
Jeffrey A. Stopko


/s/ Margaret A. O'Malley            Director
---------------------------------
Margaret A. O'Malley


/s/ Very Rev. Christian R. Oravec   Director
---------------------------------
Very Rev. Christian R. Oravec


/s/ Mark E. Pasquerilla             Director
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Mark E. Pasquerilla


/s/ Howard M. Picking, III          Director
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Howard M. Picking, III
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/s/ Sara A. Sargent                Director
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Sara A. Sargent


/s/ Thomas C. Slater               Director
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Thomas C. Slater


/s/ Robert L. Wise                 Director
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Robert L. Wise
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AMERISERV FINANCIAL
BANK
OFFICE LOCATIONS

* Main Office Downtown
216 Franklin Street
P.O. Box 520
Johnstown, PA 15907-0520
1-800-837-BANK(2265)

+* Westmont Office
110 Plaza Drive
Johnstown, PA 15905-1211

+* University Heights Office
1404 Eisenhower Boulevard
Johnstown, PA 15904-3218

* East Hills Teller Express Office
1213 Scalp Avenue
Johnstown, PA 15904-3150

* Eighth Ward Office
1059 Franklin Street
Johnstown, PA 15905-4303

* West End Office
163 Fairfield Avenue
Johnstown, PA 15906-2347

* Carrolltown Office
101 South Main Street
Carrolltown, PA 15722-0507

* Northern Cambria Office
4206 Crawford Avenue Suite 1
Northern Cambria, PA 15714-1342

* Ebensburg Office
104 South Center Street
Ebensburg, PA 15931-0209

+* Lovell Park Office
179 Lovell Avenue
Ebensburg, PA 15931-0418

* Nanty Glo Office
1383 Shoemaker Street
Nanty Glo, PA 15943-1254

+* Galleria Mall Office
500 Galleria Drive Suite 100
Johnstown, PA 15904-8911

* St. Michael Office
900 Locust Street
St. Michael, PA 15951-0393

* Seward Office
6858 Route 711, Suite 1
Seward, PA 15954-9501

* Windber Office
1501 Somerset Avenue
Windber, PA 15963-1745

Central City Office
104 Sunshine Avenue
Central City, PA 15926-1129

* Somerset Office
108 W. Main Street
Somerset, PA 15501-2035

* Derry Office
112 South Chestnut Street
Derry, PA 15627-1938

* South Atherton Office
734 South Atherton Street
State College, PA 16801-4628

* Pittsburgh Office
60 Boulevard of the Allies
Suite 100
Pittsburgh, PA 15222-1232

* Benner Pike Office
763 Benner Pike
State College, PA 16801-7313

* = 24-Hour ATM Banking
Available

+ = Seven Day a Week Banking
Available

REMOTE ATM

BANKING LOCATIONS

Main Office, 216 Franklin Street, Johnstown
The Galleria, Johnstown
Gogas Service Station, Cairnbrook

AMERISERV RESIDENTIAL LENDING LOCATIONS

Greensburg Office
Oakley Park II, 4963 Route 30
Greensburg, PA 15601-9560

Altoona Office
87 Logan Boulevard
Altoona, PA 16602-3123

Mt. Nittany Mortgage Company
2300 South Atherton Street
State College, PA 16801-7613

Pittsburgh Loan Center
300 Penn Center Boulevard
Suite 613
Pittsburgh, PA 15235-5507

SHAREHOLDER INFORMATION

SECURITIES MARKETS

AmeriServ Financial, Inc. Common Stock is publicly traded and quoted on the NASDAQ National Market System. The common stock is traded under the symbol of "ASRV." The listed market makers for the stock are:

Citigroup SmithBarney
969 Eisenhower Boulevard
Oak Ridge East
Johnstown, PA 15904
Telephone: (814) 266-7900

Ryan Beck & Company
Liberty Center
1001 Liberty Avenue, Suite 900
Pittsburgh, PA 15222
Telephone: (973) 549-4217

UBS Financial Services, Inc.
1407 Eisenhower Boulevard
Johnstown, PA 15904
Telephone: (814) 269-9211

Keefe Bruyette & Woods, Inc.
787 Seventh Avenue
Equitable Bldg -- 4th Floor
New York, NY 10019
Telephone: (800) 966-1559

Knight Trading Group, Inc.
525 Washington Boulevard
Jersey City, NJ 07310
Telephone: (800) 544-7508

Parker/Hunter, Inc.
416 Main Street
Johnstown, PA 15901
Telephone: (215) 665-6000

Sandler O'Neill & Partners, L.P.
919 Third Avenue
6th Floor
New York, NY 10022
Telephone: (800) 635-6860

CORPORATE OFFICES

The corporate offices of AmeriServ Financial, Inc. are located at 216 Franklin Street, Johnstown, PA 15901. Mailing address:

P.O. Box 430
Johnstown, PA 15907-0430
(814) 533-5300

AGENTS

The transfer agent and registrar for AmeriServ Financial, Inc.'s common stock is:

Computershare Investor Services
P O Box 43010
Providence, RI 02940-3023
Shareholder Inquiries: 1-800-730-4001
Internet Address: http://www. Computershare.com

INFORMATION

Analysts, investors, shareholders, and others seeking financial data about AmeriServ Financial, Inc. or any of its subsidiaries' annual and quarterly reports, proxy statements, 10-K, 10-Q, 8-K, and call reports -- are asked to contact Jeffrey A. Stopko, Senior Vice President & Chief Financial Officer at (814) 533-5310 or by e-mail at JStopko@AMERISERVFINANCIAL.com. The Company also maintains a website (www.AmeriServFinancial.com) that makes available current financial information, such as press releases and SEC documents, as well as the corporate governance documents under the Investor Relations tab on the Company's website.