

AMERISERV FINANCIAL INC /PA/  
Form 10-Q  
May 08, 2009

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

**FORM 10-Q**

**X**

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

For the period ended March 31, 2009

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

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

Commission File Number 0-11204

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

(State or other jurisdiction of incorporation)

25-1424278

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

or organization)

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

(Address of principal executive offices)

(Zip Code)

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

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

Yes

No

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

Yes

No

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

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

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

Yes

No

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

Class

Outstanding at May 1, 2009

Common Stock, par value \$2.50

21,149,352

per share

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

(In thousands)

(Unaudited)

	March 31, <u>2009</u>	December 31, <u>2008</u>
-		
<b>ASSETS</b>		
Cash and due from depository institutions	\$ 17,446	\$ 17,945
Interest bearing deposits	1,665	1,601
Short-term investments in money market funds	<u>10,817</u>	<u>15,578</u>
Total cash and cash equivalents	29,928	35,124
Investment securities:		
Available for sale	124,567	126,781
Held to maturity (market value \$14,784 on March 31, 2009 and \$16,323 on December 31, 2008)	14,286	15,894
Loans held for sale	2,071	1,000
Loans	725,627	706,799
Less: Unearned income	737	691
Allowance for loan losses	<u>10,661</u>	<u>8,910</u>
Net loans	714,229	697,198
Premises and equipment, net	9,279	9,521
Accrued income receivable	3,889	3,735
Goodwill	13,497	13,497
Core deposit intangibles	-	108
Bank owned life insurance	33,179	32,929
Net deferred tax asset	11,986	12,651
Regulatory stock	9,739	9,739
Other assets	<u>8,412</u>	<u>8,752</u>
<b>TOTAL ASSETS</b>	<b><u>\$ 975,062</u></b>	<b><u>\$ 966,929</u></b>

**LIABILITIES**

Non-interest bearing deposits	\$ 118,769	\$ 116,372
Interest bearing deposits	<u>628,044</u>	<u>578,584</u>
Total deposits	<u>746.813</u>	<u>694,956</u>
Short-term borrowings	76,500	119,920
Advances from Federal Home Loan Bank	13,846	13,858
Guaranteed junior subordinated deferrable interest debentures	<u>13,085</u>	<u>13,085</u>
Total borrowed funds	<u>103,431</u>	<u>146,863</u>
Other liabilities	<u>10,564</u>	<u>11,858</u>
<b>TOTAL LIABILITIES</b>	<u>860,808</u>	<u>853,677</u>

**SHAREHOLDERS' EQUITY**

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

authorized; there were 21,000 shares issued

and outstanding for the periods presented 20,475 20,447

Common stock, par value \$2.50 per share; 30,000,000 shares authorized; 26,333,319 shares issued

and 21,144,700 outstanding on March 31,

2009; 26,317,450 shares issued and

21,128,831 outstanding on December 31, 2008 65,833 65,794

Treasury stock at cost, 5,188,619 shares on March

31, 2009 and December 31, 2008 (68,659) (68,659)

Capital surplus 79,315 79,353

Retained earnings 20,807 20,533

Accumulated other comprehensive loss, net (3,517) (4,216)

**TOTAL SHAREHOLDERS' EQUITY** 114,254 113,252

**TOTAL LIABILITIES AND**

**SHAREHOLDERS' EQUITY** \$ 975,062 \$ 966,929

See accompanying notes to unaudited consolidated financial statements.





## AmeriServ Financial, Inc.

## CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

Unaudited

	Three months ended	
	March 31,	March 31,
	<u>2009</u>	<u>2008</u>
<b>INTEREST INCOME</b>		
Interest and fees on loans	\$ 10,349	\$ 10,462
Interest bearing deposits	1	6
Short-term investments in money market funds	14	49
Federal funds sold	-	4
Investment securities:		
Available for sale	1,398	1,523
Held to maturity	<u>173</u>	<u>238</u>
Total Interest Income	<u>11,935</u>	<u>12,282</u>
<b>INTEREST EXPENSE</b>		
Deposits	3,255	4,499
Short-term borrowings	129	632
Advances from Federal Home Loan Bank	130	136
Guaranteed junior subordinated deferrable interest	-	-
debentures	<u>280</u>	<u>280</u>
Total Interest Expense	<u>3,794</u>	<u>5,547</u>
<b>NET INTEREST INCOME</b>	8,141	6,735
Provision for loan losses	<u>1,800</u>	<u>150</u>
<b>NET INTEREST INCOME AFTER PROVISION FOR</b>		
<b>LOAN LOSSES</b>	<u>6,341</u>	<u>6,585</u>
<b>NON-INTEREST INCOME</b>		
Trust fees	1,559	1,790
Net realized gains on investment securities	101	-

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Net gains on loans held for sale	118	89
Service charges on deposit accounts	673	734
Investment advisory fees	137	226
Bank owned life insurance	250	249
Other income	<u>723</u>	<u>750</u>
Total Non-Interest Income	<u>3,561</u>	<u>3,838</u>

**NON-INTEREST EXPENSE**

Salaries and employee benefits	5,092	4,830
Net occupancy expense	722	661
Equipment expense	415	431
Professional fees	920	769
Supplies, postage and freight	294	330
Miscellaneous taxes and insurance	344	353
FDIC deposit insurance expense	32	22
Amortization of core deposit intangibles	108	216
Other expense	<u>1,235</u>	<u>1,167</u>
Total Non-Interest Expense	<u>9,162</u>	<u>8,779</u>

<b>PRETAX INCOME</b>	740	1,644
Income tax expense	<u>207</u>	<u>415</u>
<b>NET INCOME</b>	533	1,229

Preferred stock dividends	<u>259</u>	<u>-</u>
<b>NET INCOME AVAILABLE TO COMMON SHAREHOLDERS</b>	<u>\$ 274</u>	<u>\$ 1,229</u>

**PER COMMON SHARE DATA:**

Basic:		
Net income	\$ 0.01	\$ 0.06
Average number of shares outstanding	21,137	22,060
Diluted:		
Net income	\$ 0.01	\$ 0.06
Average number of shares outstanding	21,137	22,062
Cash dividends declared	\$ 0.00	\$ 0.00

See accompanying notes to unaudited consolidated financial statements.



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

(In thousands)

Unaudited

	Three months ended	Three months ended
	<u>March 31,</u> <u>2009</u>	<u>March 31, 2008</u>
<b>OPERATING ACTIVITIES</b>		
Net income	\$ 533	\$ 1,229
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Provision for loan loss	1,800	150
Depreciation expense	403	365
Amortization expense of core deposit intangibles	108	216
Net amortization of investment securities	20	54
Net realized gains on investment securities available for sale	(101)	-
Net realized gains on loans held for sale	(118)	(89)
Amortization of deferred loan fees	(122)	(105)
Origination of mortgage loans held for sale	(14,051)	(7,810)
Sales of mortgage loans held for sale	13,098	7,699
Decrease (increase) in accrued income receivable	(154)	17
Decrease in accrued expense payable	(923)	(433)
Earnings on bank owned life insurance	(250)	(249)
Net increase in other assets	(670)	(1,042)
Net (decrease) increase in other liabilities	<u>(213)</u>	<u>410</u>
Net cash (used in) provided by operating activities	<u>(640)</u>	<u>412</u>
<b>INVESTING ACTIVITIES</b>		
Purchases of investment securities - available for sale	(6,777)	(11,528)
Purchases of regulatory stock	-	(1,345)
Proceeds from redemption of regulatory stock	-	760
Proceeds from sales of investment securities available for sale	3,433	-
Proceeds from maturities of investment securities available for sale	6,741	21,431
Proceeds from maturities of investment securities held to maturity	1,594	3,754
Long-term loans originated	(35,366)	(18,191)
Principal collected on long-term loans	28,916	21,791
Loans purchased or participated	(15,500)	(2,500)
Loans sold or participated	3,950	2,500

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Net increase in other short-term loans	(591)	(78)
Purchases of premises and equipment	<u>(161)</u>	<u>(886)</u>
Net cash (used in) provided by investing activities	<u>(13,761)</u>	<u>15,708</u>
<b>FINANCING ACTIVITIES</b>		
Net increase (decrease) in deposit accounts	53,025	(27,060)
Net (decrease) increase in other short-term borrowings	(43,420)	22,475
Principal borrowings on advances from Federal Home Loan Bank	-	2,000
Principal repayments on advances from Federal Home Loan Bank	(12)	(11)
Purchase of treasury stock	-	(1,101)
Guaranteed junior subordinated deferrable interest debenture dividends paid	(254)	(254)
Preferred stock dividends	(163)	-
Proceeds from stock purchase plan	<u>29</u>	<u>25</u>
Net cash provided by (used in) financing activities	<u>9,205</u>	<u>(3,926)</u>
<b>NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>	(5,196)	12,194
<b>CASH AND CASH EQUIVALENTS AT JANUARY 1</b>	<u>35,124</u>	<u>24,912</u>
<b>CASH AND CASH EQUIVALENTS AT MARCH 31</b>	<u>\$ 29,928</u>	<u>\$37,106</u>

See accompanying notes to unaudited consolidated financial statements.

**NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS**

1.

**Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 18 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at \$1.4 billion that are not recognized on the Company's balance sheet at March 31, 2009. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

2.

**Basis of Preparation**

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

3.

**Accounting Policies**

In February 2008, the FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. Also in February 2008, the FASB issued Staff Position No. 157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In March 2008, the FASB issued FAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, to require enhanced disclosures about derivative instruments and hedging activities. The new standard has revised financial reporting for derivative instruments and hedging activities by requiring more transparency about how and why an entity uses derivative instruments, how derivative instruments and related hedged items are accounted for under FAS No. 133, *Accounting for Derivative Instruments and Hedging Activities*; and how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. FAS No. 161 requires disclosure of the fair values of derivative instruments and their gains and losses in a tabular format. It also requires entities to provide more information about their liquidity by requiring disclosure of derivative features that are credit risk-related. Further, it requires cross-referencing within footnotes to enable financial statement users to locate important information about derivative instruments. FAS No. 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In April 2008, the FASB issued FASB Staff Position No. 142-3, *Determination of the Useful Life of Intangible Assets* ( FSP 142-3 ). FSP 142-3 amends the factors that should be considered in developing assumptions about renewal or extension used in estimating the useful life of a recognized intangible asset under FAS No. 142, *Goodwill and Other Intangible Assets*. This standard is intended to improve the consistency between the useful life of a recognized intangible asset under FAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under FAS No. 141R and other GAAP. FSP 142-3 is effective for financial statements issued for fiscal years beginning after December 15, 2008. The measurement provisions of this standard will apply only to intangible assets of the Company acquired after the effective date. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In June 2008, the FASB issued FSP No. EITF 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities*, to clarify that instruments granted in share-based payment transactions can be participating securities prior to the requisite service having been rendered. A basic principle of the FSP is that unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are participating securities and are to be included in the computation of EPS pursuant to the two-class method. The provisions of this FSP are effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. All prior-period EPS data presented (including interim financial statements, summaries of earnings, and selected financial data) are required to be adjusted retrospectively to conform with the provisions of the FSP. The adoption of this standard did not have a material effect on the Company's results of operations or financial position.

In December 2008, the FASB issued FASB Staff Position (FSP) No. FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*. This FSP amends FASB Statement No. 132 (revised 2003), *Employers' Disclosures about Pensions and Other Postretirement Benefits*, to improve an employer's disclosures about plan assets of a defined benefit pension or other postretirement plan. The disclosures about plan assets required by the FSP are to be provided for fiscal years ending after December 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*. This FSP relates to determining fair values when there is no active market or where the price inputs being used represent distressed sales. It reaffirms the need to use judgment to ascertain if a formerly active market has become inactive and in determining fair values when markets have become inactive. FSP No. FAS 157-4 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 107-1 and APB 28-1, *Interim Disclosures about Fair Value of Financial Instruments*, which relates to fair value disclosures for any financial instruments that are not currently reflected on the balance sheet of companies at fair value. Prior to issuing this FSP, fair values for these assets and liabilities were only disclosed once a year. The FSP now requires these disclosures on a quarterly basis, providing qualitative and quantitative information about fair value estimates for all those financial instruments not measured on the balance sheet at fair value. FSP No. FAS 107-1 and APB 28-1 is effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company's results of operations or financial position.

In April 2009, the FASB issued FSP No. FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*, which provides additional guidance designed to create greater clarity and consistency in accounting for and presenting impairment losses on securities. FSP No. FAS 115-2 and FAS 124-2 are effective for interim and annual periods ending after June 15, 2009, but entities may early adopt this FSP for the interim and annual periods ending after March 15, 2009. The adoption of this FSP is not expected to have a material effect on the Company's results of operations or financial position.



4.

**Earnings Per Common Share**

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options and warrants to purchase 1,544,509 common shares, at exercise prices ranging from \$2.31 to \$6.10, and 220,909 common shares, at exercise prices ranging from \$3.01 to \$6.10, were outstanding as of March 31, 2009 and 2008, respectively, but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends on preferred shares are deducted from net income in the calculation of earnings per common share.

	Three months ended			
	March 31,			
	<u>2009</u>	<u>2008</u>	-	-
	(In thousands, except per share data)			
<b>Numerator:</b>				
Net income	\$ 533	\$ 1,229		
Preferred stock dividends	<u>259</u>	<u>-</u>		
Net Income available to common			-	-
shareholders	<u>\$ 274</u>	<u>\$ 1,229</u>		

**Denominator:**

Weighted average common shares

outstanding (basic)	21,137	22,060		
Effect of stock options/warrants	<u>-</u>	<u>2</u>	-	-
Weighted average common shares				
outstanding (diluted)	<u>21,137</u>	<u>22,062</u>	-	

**Earnings per common share:**

Basic	\$0.01	\$0.06
Diluted	0.01	0.06

5.

**Comprehensive Income**

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

	Three months ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
Net income	<u>\$ 533</u>	<u>\$ 1,229</u>
Other comprehensive income, before tax:		
Pension obligation change for defined benefit plan	117	82
Income tax effect	(40)	(28)
Reclassification adjustment for gains on available for sale securities included in net income	(101)	-
Income tax effect	34	-
Unrealized holding gains on available for sale		

securities arising during period	1,043	1,601
Income tax effect	<u>(354)</u>	<u>(544)</u>
Other comprehensive income	<u>699</u>	<u>1,111</u>
Comprehensive income	<u>\$ 1,232</u>	<u>\$ 2,340</u>

6.

**Consolidated Statement of Cash Flows**

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits, federal funds sold and short-term investments in money market funds. The Company made \$43,000 in income tax payments in the first three months of 2009 as compared to \$137,000 for the first three months of 2008. The Company made total interest payments of \$4,717,000 in the first three months of 2009 compared to \$5,980,000 in the same 2008 period.

7.

**Investment Securities**

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

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

March 31, 2009	Cost <u>Basis</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
U.S. Agency	\$ 10,591	\$ 125	\$ -	\$ 10,716
U.S. Agency mortgage- backed securities	110,875	3,005	(43)	113,837
Other securities	<u>25</u>	<u>-</u>	<u>(11)</u>	<u>14</u>

Total	<u>\$121,491</u>	<u>\$ 3,130</u>	<u>\$ (54)</u>	<u>\$ 124,567</u>
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**Investment securities held to maturity (HTM):**

March 31, 2009	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Treasury	\$ 3,064	\$ 89	\$ -	\$ 3,153
U.S. Agency mortgage- backed securities	9,222	421	-	9,643
Other securities	<u>2,000</u>	<u>-</u>	<u>(12)</u>	<u>1,988</u>
Total	<u>\$ 14,286</u>	<u>\$ 510</u>	<u>\$ (12)</u>	<u>\$ 14,784</u>

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

December 31, 2008	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Agency	\$ 10,387	\$ 188	\$ -	\$ 10,575
U.S. Agency mortgage-backed securities	114,380	2,057	(248)	116,189
Other securities	<u>24</u>	<u>-</u>	<u>(7)</u>	<u>17</u>
Total	<u>\$124,791</u>	<u>\$ 2,245</u>	<u>\$ (255)</u>	<u>\$126,781</u>

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

December 31, 2008	Cost	Gross	Gross	Fair
	<u>Basis</u>	<u>Unrealized</u>	<u>Unrealized</u>	<u>Value</u>
		<u>Gains</u>	<u>Losses</u>	
U.S. Treasury	\$ 3,082	\$ 118	\$ -	\$ 3,200
U.S. Agency mortgage-backed securities	9,562	321	-	9,883
Other securities	<u>3,250</u>	<u>-</u>	<u>(10)</u>	<u>3,240</u>
Total	<u>\$ 15,894</u>	<u>\$ 439</u>	<u>\$ (10)</u>	<u>\$ 16,323</u>

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." At March 31, 2009 and December 31, 2008, 98.5% and 97.7% of the portfolio was rated "AAA", respectively. Less than 1% of the portfolio was rated below A or unrated at March 31, 2009 and December 31, 2008. At March 31, 2009, the Company's consolidated investment securities portfolio had a modified duration of approximately 1.6 years. The gross gains on investment security sales in the first quarter of 2009 were \$101,000. The Company has no exposure to sub-prime mortgage loans in either the loan or investment portfolios.

The following tables present information concerning investments with unrealized losses as of March 31, 2009 and December 31, 2008 (in thousands):

**Investment securities available for sale:**

March 31, 2009	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
U.S. Agency mortgage-backed securities	\$ 3,185	\$ (30)	\$ 6,939	\$ (13)	\$10,124	\$ (43)
Other securities	<u>-</u>	<u>-</u>	<u>14</u>	<u>(11)</u>	<u>14</u>	<u>(11)</u>
Total	<u>\$ 3,185</u>	<u>\$ (30)</u>	<u>\$ 6,953</u>	<u>\$ (24)</u>	<u>\$10,138</u>	<u>\$ (54)</u>

**Investment securities held to maturity:**

March 31, 2009	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Other securities	\$ <u>-</u>	\$ <u>-</u>	\$ 1,988	\$ (12)	\$ 1,988	\$ (12)
Total	\$ <u>-</u>	\$ <u>-</u>	\$ 1,988	\$ (12)	\$ 1,988	\$ (12)

**Investment securities available for sale:**

December 31, 2008	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>

U.S. Agency mortgage-						
backed securities	\$ 31,063	\$ (226)	\$3,375	\$ (22)	\$ 34,438	\$ (248)
Other securities	<u>-</u>	<u>-</u>	<u>17</u>	<u>(7)</u>	<u>17</u>	<u>(7)</u>
Total	<u>\$ 31,063</u>	<u>\$ (226)</u>	<u>\$3,392</u>	<u>\$ (29)</u>	<u>\$ 34,455</u>	<u>\$ (255)</u>

**Investment securities held to maturity:**

December 31, 2008	<u>Less than 12 months</u>		<u>12 months or longer</u>		<u>Total</u>	
	Fair <u>Value</u>	Unrealized <u>Losses</u>	Fair <u>Value</u>	Unrealized <u>Losses</u>	Fair <u>Value</u>	Unrealized <u>Losses</u>
Other securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,240</u>	<u>\$ (10)</u>	<u>\$ 3,240</u>	<u>\$ (10)</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$3,240</u>	<u>\$ (10)</u>	<u>\$ 3,240</u>	<u>\$ (10)</u>

For fixed maturity investments with unrealized losses due to interest rates where the Company has the positive intent and ability to hold the investment for a period of time sufficient to allow a market recovery, declines in value below cost are not assumed to be other than temporary. There are 8 positions that are considered temporarily impaired at March 31, 2009. The Company reviews its position quarterly and has asserted that at March 31, 2009, the declines outlined in the above table represent temporary declines and the Company does have the ability and intent to hold those securities to maturity or to allow a market recovery.

8.

**Disclosures About Fair Value Measurements**

Effective January 1, 2008, the Company adopted the provisions of FAS No. 157, *Fair Value Measurements*, for financial assets and financial liabilities. FAS No. 157 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. The FASB issued Staff Position No. 157-1, *Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13*, which removed leasing transactions accounted for under FAS No. 13 and related guidance from the scope of FAS No. 157. The FASB also issued Staff Position No. 157-2, *Partial Deferral of the Effective Date of Statement 157*, which deferred the effective date of FAS No. 157 for all nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008.

FAS No. 157 establishes a hierarchal disclosure framework associated with the level of pricing observability utilized in measuring assets and liabilities at fair value. The three broad levels defined by FAS No. 157 hierarchy are as follows:

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

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

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

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

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

The following tables present the assets reported on the balance sheet at their fair value as of March 31, 2009 and December 31, 2008, by level within the fair value hierarchy. As required by FAS No. 157, financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

Assets Measured on a Recurring Basis

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

<u>Fair Value Measurements at March 31, 2009 Using</u>		
Quoted Prices in	Significant Other	Significant
Active Markets for	Observable	Unobservable
	Inputs	Inputs

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		Identical Assets (Level 1)	(Level 2)	(Level 3)
	<u>Total</u>			
Assets:				
Available for sale securities	\$124,567	\$ 14	\$ 124,553	\$ -
Loans held for sale	2,071	2,071	-	-
Fair value of swap asset	329	-	329	-

Assets Measured on a Non-recurring Basis

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

	<u>Fair Value Measurements at March 31, 2009 Using</u>		
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Total</u>	(Level 1)	
Assets:			
Impaired loans	\$ 941	\$ -	\$ -
Other real estate owned	1,270	-	1,270
			\$ 941
			-

Assets Measured on a Recurring Basis

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

	<u>Fair Value Measurements at December 31, 2008 Using</u>		
	Quoted Prices in	Significant Other	Significant



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		Active Markets for Identical Assets (Level 1)	Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
	<u>Total</u>			
Assets:				
Available for sale securities	\$126,781	\$ 17	\$ 126,764	\$ -
Loans held for sale	1,000	1,000	-	-
Fair value of swap asset	336	-	336	-

Assets Measured on a Non-recurring Basis

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

	<u>Fair Value Measurements at December 31, 2008 Using</u>			
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	<u>Total</u>			
Assets:				
Impaired loans	\$ 857	\$ -	\$ 857	\$ -
Other real estate owned	1,195	-	1,195	-

Loans considered impaired under FAS 114, *Accounting by Creditors for Impairment of a Loan*, as amended by FAS 118, *Accounting by Creditors for Impairment of a Loan - Income Recognition and Disclosure*, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are reported at fair value of the underlying collateral if the repayment is expected solely from the collateral. Collateral values are estimated using Level 2 inputs based on observable market data or Level 3 input based on the discounting of the collateral. At March 31, 2009, impaired loans with a carrying value of \$1.7 million were reduced by specific valuation allowance totaling \$825,000 resulting in a net fair value of \$941,000, based on Level 3 inputs.

Other real estate owned (OREO) is measured at fair value, less cost to sell at the date of foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less

cost to sell. Income and expenses from operations and changes in valuation allowance are included in the net expenses from OREO.

9.

**Loans**

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

	March 31,	December 31,
	<u>2009</u>	<u>2008</u>
Commercial	\$ 113,691	\$ 110,197
Commercial loans secured by real estate	372,113	353,870
Real estate mortgage	214,349	218,928
Consumer	<u>25,474</u>	<u>23,804</u>
Total loans	725,627	706,799
Less: Unearned income	<u>737</u>	<u>691</u>
Loans, net of unearned income	<u>\$ 724,890</u>	<u>\$ 706,108</u>

Real estate-construction loans comprised 5.8%, and 6.2% of total loans, net of unearned income, at March 31, 2009 and December 31, 2008, respectively. The Company has no exposure to sub prime mortgage loans in either the loan or investment portfolios.

10.

**Allowance for Loan Losses**

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

	Three months ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
Balance at beginning of period	\$ 8,910	\$ 7,252

Charge-offs:		
Commercial	(3)	(6)
Commercial loans secured by real estate	(37)	-
Real estate-mortgage	(26)	(38)
Consumer	<u>(51)</u>	<u>(87)</u>
Total charge-offs	<u>(117)</u>	<u>(131)</u>
Recoveries:		
Commercial	2	5
Commercial loans secured by real estate	5	6
Real estate-mortgage	18	1
Consumer	<u>43</u>	<u>26</u>
Total recoveries	<u>68</u>	<u>38</u>
Net charge-offs	(49)	(93)
Provision for loan losses	<u>1,800</u>	<u>150</u>
Balance at end of period	<u>\$ 10,661</u>	<u>\$ 7,309</u>

As a percent of average loans and loans held

for sale, net of unearned income:		
Annualized net charge-offs	0.03%	0.06%
Annualized provision for loan losses	1.02	0.10
Allowance as a percent of loans and loans		
held for sale, net of unearned income		
at period end	1.47	1.15

11.

### Non-performing Assets

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

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March 31,                      December 31,  
2009                              2008

Non-accrual loans

Commercial	\$ 1,067	\$ 1,128
Commercial loans secured by real estate	699	484
Real estate-mortgage	1,588	1,313
Consumer	<u>475</u>	<u>452</u>
Total	<u>3,829</u>	<u>3,377</u>

Other real estate owned

Commercial loans secured by real estate	776	701
Real estate-mortgage	<u>494</u>	<u>494</u>
Total	<u>1,270</u>	<u>1,195</u>

Total non-performing assets	<u>\$ 5,099</u>	<u>\$ 4,572</u>
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income,  and other real estate owned	0.70%	0.65%

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

Three months ended

March 31,  
2009                      2008

Interest income due in accordance with original terms	\$ 49	\$ 53
Interest income recorded	<u>-</u>	<u>(130)</u>
Net reduction (increase) in interest income	<u>\$ 49</u>	<u>\$ (77)</u>

12.

**Federal Home Loan Bank Borrowings**

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

<u>Type</u>	<u>Maturing</u>	<u>Amount</u>	<u>Weighted Average Rate</u>
Open Repo Plus	Overnight	\$ 26,500	0.67%
Advances	2009	53,004	0.65
	2010	10,000	3.36
	2011 and after	<u>842</u>	6.44
		<u>63,846</u>	1.15
Total FHLB borrowings		<u>\$ 90,346</u>	1.01%

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

13.

### **Preferred Stock**

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

On December 19, 2008, the Company sold to the U.S. Treasury for an aggregate purchase price of \$21 million in cash 21,000 shares of Fixed Rate Cumulative Perpetual Preferred Stock, Series D. In conjunction with the purchase of these senior preferred shares, the U.S. Treasury also received warrants to purchase up to 1,312,500 shares of the Company s common stock. The warrants have a term of 10 years and are exercisable at any time, in whole or in part, at an exercise price of \$2.40 per share. The \$21 million in proceeds was allocated to the Series D Preferred Stock and the warrants based on their relative fair values at issuance (approximately \$20.4 million was allocated to the Series D Preferred Stock and approximately \$600,000 to the warrants). The difference between the initial value allocated to the Series D Preferred Stock of approximately \$20.4 million and the liquidation value of \$21 million will be charged to



Total Capital (to  
RiskW e i g h t e d  
Assets)

Consolidated	\$121,077	16.03%	\$ 60,439	8.00%	\$ 75,549	10.00%
Bank	94,293	12.53	60,183	8.00	75,229	10.00

Tier 1 Capital (to  
RiskW e i g h t e d  
Assets)

Consolidated	111,612	14.77	30,220	4.00	45,329	6.00
Bank	84,867	11.28	30,092	4.00	45,137	6.00

## Tier 1 Capital (to

## Average Assets)

Consolidated	111,612	11.82	37,786	4.00	47,233	5.00
Bank	84,867	9.24	36,734	4.00	45,918	5.00

15.

**Segment Results**

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

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, and commercial real-estate loans. The trust segment has two primary business divisions, traditional trust and union collective investment funds. Traditional trust includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. The union collective investment funds, namely the ERECT and BUILD Funds are designed

to invest union pension dollars in construction projects that utilize union labor. The financial results of West Chester Capital Advisors, a registered investment advisory firm, are also included in the Trust segment. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on the guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the consolidated results of operations for the three months ended March 31, 2009 and 2008 were as follows (in thousands):

	Three months ended		<u>March 31, 2009</u>
	<u>March 31, 2009</u>	<u>March 31, 2009</u>	
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 6,013	\$ 377	\$ 338,758
Commercial lending	2,997	(301)	493,910
Trust	1,712	144	3,541
Investment/Parent	<u>980</u>	<u>313</u>	<u>138,853</u>
Total	<u>\$ 11,702</u>	<u>\$ 533</u>	<u>\$ 975,062</u>

	Three months ended		<u>March 31, 2008</u>
	<u>March 31, 2008</u>	<u>March 31, 2008</u>	
	<u>Total revenue</u>	<u>Net income</u> <u>(loss)</u>	<u>Total assets</u>
Retail banking	\$ 5,808	\$ 380	\$ 343,028
Commercial lending	2,618	730	404,275
Trust	2,041	463	3,079
Investment/Parent	<u>106</u>	<u>(344)</u>	<u>151,967</u>
Total	<u>\$ 10,573</u>	<u>\$ 1,229</u>	<u>\$ 902,349</u>

16.

### **Commitments and Contingent Liabilities**

The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit



and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating \$113.5 million and standby letters of credit of \$12.9 million as of March 31, 2009.

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.

17.

### Pension Benefits

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

	Three months ended	
	March 31,	
	<u>2009</u>	<u>2008</u>
Components of net periodic benefit cost		
Service cost	\$ 232	\$ 241
Interest cost	234	233
Expected return on plan assets	(308)	(309)
Amortization of prior year service cost	3	1
Amortization of transition asset	(4)	(4)
Recognized net actuarial loss	<u>119</u>	<u>85</u>
Net periodic pension cost	<u>\$ 276</u>	<u>\$ 247</u>



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

**2009 FIRST QUARTER SUMMARY OVERVIEW** ..It is apparent that our national economy is going through a period of extreme weakness. The AmeriServ response in these times has been to become even more vigilant in monitoring the strength of our assets, particularly our growing loan portfolio. We were pleased to note that in the first quarter of 2009 net charge-offs amounted to only \$49,000 or just 0.03% of total loans. Non-performing loans, while increasing moderately since year-end 2008, totaled \$5.1 million or just 0.70% of total loans at March 31, 2009. Overall, our asset quality continues to be good by industry standards. However, as a part of our diligent review process, we elected to increase the allowance for loan losses by \$1.8 million in response to the downgrade of the rating classification of one large performing commercial loan and uncertainties in the local and national economy. As we learned a few years ago, it is important to be realistic in analyzing risk and to take the actions which are suggested by both analysis and experience. It is also encouraging to note that the AmeriServ allowance for loan losses now provides coverage of all non-performing assets in the portfolio at 209%. Our goal is to continue to be vigilant and to maintain the appropriate level of reserves for these times.

In many ways the first quarter of 2009 saw AmeriServ continue to build on the momentum of 2008. Outstanding loans increased by \$20 million when compared with December 31, 2008. Deposits increased by \$52 million over December 31, 2008. Net interest income declined less than 1% from the fourth quarter 2008 even with the continued low interest rate program by the Federal Reserve. Non-interest income remained relatively stable with the fourth quarter of 2008 even as wealth management fees declined due to the lower level of the equity markets.

Non-interest expense did increase in the first quarter of 2009. Conditions in the financial markets have been such that AmeriServ has regularly sought professional assistance in the legal and consulting areas. This is another price of the vigilance necessary today, and we will continue to avail ourselves of any specialized talent necessary for these times, but there is a price to be paid to bring that talent to bear.

AmeriServ earned \$533,000 or \$0.01 per share in the first quarter of 2009. This performance represented a 57% net income decline from the first quarter of 2008 and, as discussed previously, reflects the strengthening of the allowance for loan losses because of the previously discussed credit issues. This is the fourteenth consecutive quarter of profitable performance which AmeriServ has reported since the balance sheet restructuring in September 2005.

On December 19, 2008, AmeriServ became a participant in the Capital Purchase Program (CPP) of the Treasury Department to stimulate the economy. AmeriServ was encouraged to participate by our primary regulatory authorities given our healthy balance sheet and our importance as a lender in our primary markets. Since that date AmeriServ has reported to the Treasury Department that we continue to be a very active lender with \$87 million of new loan originations, all within our primary markets. Unfortunately the CPP itself has been subjected to strong criticism as poorly conceived and poorly executed by the Treasury Department. We will continue to monitor the program to be certain that it helps AmeriServ do the job of strengthening the local economy. At the same time, we will continue to maintain a dialogue with the regulators about the restrictions that have been put in place to impact companies who have been responsible for the well publicized excesses. Thus far, AmeriServ views our participation as positive to the

region, but we are concerned about future restrictions which might hamper our ability to respond to the needs of our customers.

AmeriServ is stronger today than at any time since the balance sheet restructuring. Capital ratios are above industry standards, asset quality is above industry standards, reserves are strong, and loan and deposit totals are growing. Yet the AmeriServ common stock price reflects none of these easily discernible strengths. Our reaction has been, and will continue to be, to honor the principles that have been central to the AmeriServ Turnaround. It is our responsibility to protect this franchise and to continue to make it stronger and more profitable. We will continue our strategic focus on building a safe and sound community bank and a growing enterprising trust company during these difficult economic times.

### **THREE MONTHS ENDED MARCH 31, 2009 VS. THREE MONTHS ENDED MARCH 31, 2008**

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

	Three months ended <u>March 31, 2009</u>	Three months ended <u>March 31, 2008</u>
Net income	\$ 533	\$ 1,229
Diluted earnings per share	0.01	0.06
Return on average assets (annualized)	0.22%	0.55%
Return on average equity (annualized)	1.90%	5.43%

The Company reported net income of \$533,000 or \$0.01 per diluted common share for the first quarter of 2009. This represents a decrease of \$696,000 or 57% from the first quarter 2008 net income of \$1.2 million or \$0.06 per diluted common share. Diluted earnings per share declined more significantly by 83% due to the preferred dividend requirement on the CPP preferred stock in 2009, which amounted to \$259,000 and reduced the amount of net income available to common shareholders. Further strengthening of our allowance for loan losses was the primary factor causing the decline in earnings between periods. This higher provision for loan losses overshadowed strong growth in net interest income due to increased loans outstanding and effective balance sheet management in a declining interest rate environment.

**.....NET INTEREST INCOME AND MARGIN.....**The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company's earnings, it is

affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the first quarter of 2009 to the first quarter of 2008 (in thousands, except percentages):

	Three months ended	Three months ended		
	<u>March 31, 2009</u>	<u>March 31, 2008</u>	<u>Change</u>	<u>% Change</u>
Interest income	\$ 11,935	\$ 12,282	\$ (347)	(2.8)%
Interest expense	<u>3,794</u>	<u>5,547</u>	<u>(1,753)</u>	(31.6)
Net interest income	<u>\$ 8,141</u>	<u>\$ 6,735</u>	<u>\$ 1,406</u>	20.9
Net interest margin	3.72%	3.32%	0.40	N/M
N/M - not meaningful				

The Company's net interest income in the first quarter of 2009 increased by \$1.4 million or 20.9% from the prior year's first quarter and the net interest margin rose by 40 basis points over the same comparative period. The increased net interest income and margin resulted from a combination of good balance sheet growth and the pricing benefits achieved from a steeper positively sloped yield curve. Specifically, total loans averaged \$714 million in the first quarter of 2009, an increase of \$80 million or 12.7% over the first quarter of 2008. The loan growth was driven by increased commercial and commercial real-estate production. Total deposits averaged \$715 million in the first quarter of 2009, an increase of \$20 million or 2.9% over the same 2008 quarter. We believe that uncertainties in the financial markets and the economy have contributed to growth in both money market and demand deposits as consumers have looked for safety in well capitalized community banks like AmeriServ Financial. Additionally, the Company also benefitted from a favorable decline in interest expense caused by the more rapid downward repricing of both deposits and FHLB borrowings due to the market decline in short-term interest rates.

**.....COMPONENT CHANGES IN NET INTEREST INCOME..** Regarding the separate components of net interest income, the Company's total interest income for the first quarter of 2009 decreased by \$347,000 when compared to the same 2008 quarter. This decrease was due to a 60 basis point decrease in the earning asset yield to 5.48%. Within the earning asset base, the yield on the total loan portfolio decreased by 77 basis points to 5.81% and reflects the lower interest rate environment in 2009 as the Federal Reserve has reduced the federal funds rate by over 300 basis points since last year's first quarter. The total investment securities yield, however, increased by one basis point to 4.23%. The Company took advantage of the positively sloped yield curve in the middle of 2008 to position the investment portfolio for better future earnings by selling some of the lower yielding securities in the portfolio at a loss and replacing them with higher yielding securities with a modestly longer duration. The investment portfolio yield reflected the full benefit of this strategy in the first quarter of 2009.

The \$68 million or 8.4% increase in the volume of average earning assets was due to an \$80 million or 12.7% increase in average loans, partially offset by a \$19 million or 11.1% decrease in average investment securities. This loan growth was driven by increased commercial real estate loans as a result of successful new business development efforts, particularly in the suburban Pittsburgh market. The Company has found increased commercial lending opportunities in the Pittsburgh market due to the retrenchment of several larger competitors as a result of the turmoil in the financial markets. This loan growth caused the Company's loan to deposit ratio to average nearly 100% in the

first quarter of 2009. The decline in investment securities was caused by the call of certain agency securities and ongoing cash flow from mortgage-backed securities. The Company has elected to utilize this cash from lower yielding investment securities to fund higher yielding loans in an effort to improve the Company's earning asset yield.

The Company's total interest expense for the first quarter of 2009 decreased by \$1.8 million or 31.6% when compared to the same 2008 quarter. This decrease in interest expense was due to a lower cost of funds as the cost of both deposits and borrowings repriced downward with the reductions in short-term interest rates. Specifically, the cost of interest bearing deposits declined by 91 basis points to 2.19% while the cost of all FHLB borrowings dropped by 246 basis points to 0.96%. This decrease in funding costs more than offset the additional interest expense associated with a \$38 million increase in the volume of interest bearing liabilities. Additionally, the Company's funding mix also benefited from a \$2.7 million increase in non-interest bearing demand deposits.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended March 31, 2009 and March 31, 2008 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) AmeriServ Financial's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) AmeriServ Financial's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as, interest recorded on certain non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

**Three months ended March 31** (In thousands, except percentages)

	<u>2009</u>			<u>2008</u>		
	Average	Interest	Yield/	Average	Interest	Yield/
	<u>Balance</u>	<u>Income/</u>	<u>Rate</u>	<u>Balance</u>	<u>Income/</u>	<u>Rate</u>
		<u>Expense</u>			<u>Expense</u>	
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	\$714,253	\$ 10,360	5.81 %	\$633,809	\$ 10,483	6.58 %
Deposits with banks	3,158	1	0.12	498	6	3.24
Short-term investment in money						
market funds	10,112	14	0.55	6,252	49	3.13
Federal funds sold	55	-	-	424	4	3.50
Investment securities AFS	132,483	1,398	4.22	148,860	1,523	4.09
Investment securities HTM	<u>15,982</u>	<u>173</u>	4.33	<u>18,199</u>	<u>238</u>	5.23
Total investment securities	<u>148,465</u>	<u>1,571</u>	4.23	<u>167,059</u>	<u>1,761</u>	4.22
<b>Total interest earning</b>						
<b>assets/interest income</b>	876,043	11,946	5.48	808,042	12,303	6.08
Non-interest earning assets:						
Cash and due from banks	15,488			17,935		
Premises and equipment	9,446			8,886		
Other assets	71,004			69,735		
Allowance for loan losses	<u>(9,144)</u>			<u>(7,309)</u>		
<b>TOTAL ASSETS</b>	<u>\$962,837</u>			<u>\$897,289</u>		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	\$ 62,355	\$ 75	0.49 %	\$ 64,310	\$ 222	1.38 %
Savings	71,759	134	0.76	68,666	131	0.77
Money markets	141,442	581	1.67	104,180	697	2.68
Other time	<u>326,221</u>	<u>2,465</u>	3.06	<u>347,134</u>	<u>3,450</u>	3.99
Total interest bearing deposits	601,777	3,255	2.19	584,290	4,500	3.10
Short-term borrowings:						
Federal funds purchased,						
securities sold under						
agreements to repurchase and						
other short-term borrowings						

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	94,901	129	0.55	76,997	631	3.24
Advances from Federal						
Home Loan Bank	13,853	130	3.79	11,718	136	4.66
Guaranteed junior subordinated deferrable interest debentures						
	<u>13,085</u>	<u>280</u>	8.57	<u>13,085</u>	<u>280</u>	8.57
<b>Total interest bearing</b>						
<b>liabilities/interest expense</b>	723,616	3,794	2.12	686,090	5,547	3.24
Non-interest bearing liabilities:						
Demand deposits	113,298			110,645		
Other liabilities	12,265			9,526		
Shareholders' equity	<u>113,658</u>			<u>91,028</u>		
<b>TOTAL LIABILITIES AND</b>						
<b>SHAREHOLDERS' EQUITY</b>	<u>\$962,837</u>			<u>\$897,289</u>		
Interest rate spread			3.36			2.84
Net interest income/						
Net interest margin		8,152	3.72 %		6,756	3.32 %
Tax-equivalent adjustment		<u>(11)</u>			<u>(21)</u>	
<b>Net Interest Income</b>		<u>\$ 8,141</u>			<u>\$ 6,735</u>	

**..PROVISION FOR LOAN LOSSES.....** The Company recorded a \$1.8 million provision for loan losses in the first quarter of 2009 compared to a \$150,000 provision in the first quarter of 2008, an increase of \$1.65 million. When determining the provision for loan losses, the Company considers a number of factors, some of which include periodic credit reviews, delinquency and charge-off trends, concentrations of credit, loan volume trends and broader local and national economic trends. The higher loan provision in the first quarter of 2009 was caused by the Company's decision to strengthen its allowance for loan losses due to the downgrade of the rating classification of an \$11 million performing commercial loan and uncertainties in the local and national economies. The Company's net charge-offs in the first quarter of 2009 amounted to only \$49,000 or 0.03% of total loans. This amount was comparable with the net charge-offs of \$93,000 or 0.06% of total loans experienced in the first quarter of 2008. Non-performing assets increased moderately to \$5.1 million or 0.70% of total loans at March 31, 2009 compared to \$4.6 million or 0.65% of total loans at December 31, 2008. Overall, the allowance for loan losses provided 209% coverage of non-performing assets and was 1.47% of total loans at March 31, 2009 compared to 195% of non-performing assets and 1.26% of total loans at December 31, 2008. Note also that the Company has no direct exposure to sub-prime mortgage loans in either its loan or investment portfolios.

**.....NON-INTEREST INCOME.....** Non-interest income for the first quarter of 2009 totaled \$3.6 million; a decrease of \$277,000 or 7.2% from the first quarter 2008 performance. Factors contributing to this reduced level of non-interest income in 2009 included:



\* a \$320,000 decline in trust and investment advisory fees due to reductions in the market value of assets managed due to lower equity and real estate values in the first quarter of 2009.

\* a \$101,000 gain realized on the sale of investment securities as the Company took advantage of market opportunities to profitably sell securities in order to provide additional liquidity to fund the strong loan growth.

\* a \$61,000 decrease in deposit service charges due to a reduced level of overdraft fees in the first quarter of 2009.

\* a \$29,000 or 32.6% increase in gains realized on residential mortgage loan sales into the secondary market in the first quarter of 2009. As a result of increased mortgage purchase and refinance activity in the Company's primary market, there were \$13 million of residential mortgage loans sold into the secondary market in the first quarter of 2009 compared to \$8 million in the first quarter of 2008.

.....**NON-INTEREST EXPENSE**.....Non-interest expense for the first quarter of 2009 totaled \$9.2 million and increased by \$383,000 or 4.4% from the prior year's first quarter. Total salaries and benefits expense increased by \$262,000 or 5.4% due to greater incentive compensation and health care costs. The other main factor causing the increase in non-interest expense was a \$151,000 increase in professional fees. The increased professional fees resulted primarily from higher legal, consulting and other professional fees in the first quarter of 2009.

.....**INCOME TAX EXPENSE**.....The Company recorded an income tax expense of \$207,000 in the first three months of 2009 which reflects an estimated effective tax rate of approximately 28.0%. The income tax expense recorded in the first three months of 2008 was \$415,000 and reflected an effective tax rate of approximately 25.2%. The Company's deferred tax asset declined to \$12.0 million at March 31, 2009 due to the ongoing utilization of net operating loss carryforwards and improved market value of the AFS investment portfolio.

..**SEGMENT RESULTS**..Retail banking's net income contribution was \$377,000 in the first

quarter of 2009 compared to \$380,000 for the same comparable period of 2008. The 2009 net income performance is comparable to the 2008 performance due to the positive impact of increased net interest income and reduced non-interest expense, which has been basically offset by an increased provision for loan losses.

The commercial lending segment reported a net loss for the first quarter of 2009 of \$301,000 compared to \$730,000 of net income earned in the first quarter of 2008. The reduced earnings in 2009 was caused by an increased provision for

loan losses due to the previously discussed strengthening of the allowance for loan losses. This higher provision more than offset an increased level of net interest income due to the strong commercial real-estate loan growth achieved over the past year.

The trust segment's net income contribution in the first quarter of 2009 amounted to \$144,000 compared to \$463,000 for the same 2008 period. The major reason for the decrease between years was due to less wealth management revenue as a result of fewer assets under management due to the declines experienced in the equity markets during the past year. This segment has also experienced an increase in non-interest expenses due to increased personnel costs and higher legal and consulting fees.

The investment/parent segment reported net income of \$313,000 in the first quarter of 2009, which was an improvement over the net loss of \$344,000 realized in the first quarter of 2008. The Company's balance sheet positioning allowed it to benefit from the significant Federal Reserve reductions in short-term interest rates and the return to a more traditional positively sloped yield curve, which has caused net interest income in this segment to increase. Also, the previously discussed investment portfolio repositioning to improve the portfolio yield benefitted the results of this segment.

**.....BALANCE SHEET.....**The Company's total consolidated assets were \$975 million at March 31, 2009, which was modestly up by \$8.1 million or 0.8% from the \$967 million level at December 31, 2008. The Company's loans totaled \$727 million at March 31, 2009, an increase of \$19.9 million or 2.8% as a result of continued growth in the commercial loan portfolio. Note that the Company's commercial loan pipelines remain good as we enter the second quarter of 2009 so we expect to see continued loan growth in the second quarter. Investment securities and short-term money market investments declined by \$8.6 million so far in 2009 due to principal repayments in the mortgage backed securities portfolio and \$3.4 million of investment security sales in the first quarter. The Company has elected to utilize this cash to fund loan growth.

The Company's deposits totaled \$747 million at March 31, 2009, which was \$51.9 million or 7.5% higher than December 31, 2008 due to an increase in money market deposits, certificates of deposit and demand deposit account balances. We believe that uncertainties in the financial markets and the economy have contributed to growth in our deposits as consumers have looked for safety in well capitalized community banks like AmeriServ Financial. As a result of this deposit growth, we were able to reduce short-term FHLB borrowings by \$43.4 million during the first quarter of 2009. Total FHLB borrowings now represent 9.3% of total assets compared to 13.8% at December 31, 2008. The Company's total shareholders' equity has increased by \$1.0 million since year-end 2008, and the Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at March 31, 2009 of 11.82%. The Company's tangible book value per common share at March 31, 2009 was \$3.80 and its tangible common equity to tangible assets ratio was 8.35%.

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

	March 31, <u>2009</u>	December 31, <u>2008</u>	March 31, <u>2008</u>
Total loan delinquency (past due 30 to 89 days)	\$ 3,772	\$4,396	\$ 3,866
Total non-accrual loans	3,829	3,377	2,834
Total non-performing assets*	5,099	4,572	3,050
Total classified loans	24,145	13,235	8,984
Total restructured loans	17,619	1,360	1,313
Loan delinquency, as a percentage			
of total loans and loans held for sale, net of unearned income	0.52%	0.62%	0.61%
Non-accrual loans, as a percentage			
of total loans and loans held for sale, net of unearned income	0.53	0.48	0.45
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned			
Non-performing assets as a percentage of total assets	0.70	0.65	0.48
	0.52	0.47	0.34

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

As a result of the weakening economy, non-performing assets have trended upward over the past year and now total \$5.1 million or 0.70% of total loans. The increase in both classified loans and restructured loans in the first quarter of 2009 was largely due to the downgrade of an \$11 million performing commercial loan in the restaurant industry to a substandard rating. The Company restructured this loan at its maturity by entering into a forbearance agreement with the borrower to make reduced payments over a six-month period in an effort to give the borrower greater flexibility to restructure its operations to improve its cash flows during this difficult economic period. The Company has never had any payment delinquency with this borrower. Overall, loan delinquency levels have remained below 1.0% during all periods presented and reflect the continued good loan portfolio quality. While we are pleased with our asset quality, we continue to closely monitor the portfolio given the recessionary economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of March 31, 2009, the 25 largest credits represented 30.9% of total loans outstanding.

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

	March 31, <u>2009</u>	December 31, <u>2008</u>	March 31, <u>2008</u>
Allowance for loan losses	\$10,661	\$8,910	\$7,309
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	1.47%	1.26%	1.15%
total delinquent loans (past due 30 to 89 days)	282.64	202.68	189.06
total non-accrual loans	278.43	263.84	257.90
total non-performing assets	209.08	194.88	239.64

The allowance for loan losses provided 209% coverage of non-performing assets at March 31, 2009 compared to 195% coverage at December 31, 2008, and 240% coverage at March 31, 2008. The allowance for loan losses to total loans ratio increased to 1.47% since year-end 2008 as the loan loss provision significantly exceeded net charge-offs in the first quarter of 2009. The Company decided to build its allowance for loan losses over the past year due to the downgrade of the rating classification of several performing commercial loans and uncertainties in the local and national economies.

.....**LIQUIDITY**.....The Bank's liquidity position has been strong during the last several years when the Bank was undergoing a turnaround and a return to traditional community banking. Our core retail deposit base remained stable throughout the early part of this period and has recently shown nice growth which has been adequate to fund the Bank's operations. Cash flow from maturities, prepayments and amortization of securities was also used to fund the strong net loan growth that the Company has achieved over the past several years. With our loan to deposit ratio now operating near 100%, we plan to focus on continuing to raise deposits in 2009 to fund future loan growth. FHLB borrowings should remain near their current level in 2009.

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by \$5.2 million from December 31, 2008, to March 31, 2009, due to \$14.4 million of cash used in investing activities and operating activities. This was partially offset by \$9.2 million of cash provided by financing activities. Within investing activities, cash provided by investment security maturities and sales exceeded purchases of new investment securities by \$5.0 million. Cash advanced for new loan fundings and purchases totaled \$50.9 million and was \$18.0 million higher than the \$32.9 million of cash received from loan principal payments and sales. Within financing activities, deposits increased by \$53 million, which was used to paydown short-term borrowings by \$43.4 million and help fund the previously mentioned loan growth.

The Parent Company had \$23 million of cash, short-term investments, and securities at March 31, 2009, which was comparable with the year-end 2008 total. We have elected to retain the majority of the \$21 million of funds received from the CPP preferred stock at the Parent Company to provide us with greater liquidity and financial flexibility. Additionally, dividend payments from our subsidiaries also provide ongoing cash to the Parent. At March 31, 2009, the subsidiary bank had \$2.4 million of cash available for immediate dividends to the Parent per the applicable regulatory formulas.

.....**CAPITAL RESOURCES**.....The Company continues to be considered well capitalized as the asset leverage ratio was 11.82% and the Tier 1 capital ratio was 14.77% at March 31, 2009. Note that the impact of other comprehensive loss is excluded from the regulatory capital ratios. At March 31, 2009, accumulated other comprehensive loss amounted to \$3.5 million. The Company's tangible common equity to tangible assets ratio was 8.35% at March 31, 2009. We anticipate that our strong capital ratios may further increase in 2009 due to the retention of all earnings, which will be partially offset by preferred dividend requirements and growth of the balance sheet.

Our decision to accept the \$21 million CPP preferred stock investment in December 2008 did strengthen our capital ratios. However as a result of this decision, for a period of three years we are no longer permitted to repurchase stock or declare and pay common dividends without the consent of the U.S. Treasury.

.....**INTEREST RATE SENSITIVITY**.....The following table presents an analysis of the sensitivity inherent in the Company's net interest income and market value of portfolio equity. The interest rate scenarios in the table compare

the Company's base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate changes of 100 and 200 basis points. Note that we suspended the 200 basis point downward rate shock since it has little value due to the absolute low level of interest rates. Each rate scenario contains unique prepayment and repricing assumptions that are applied to the Company's existing balance sheet that was developed under the flat interest rate scenario.

Interest Rate Scenario	Variability of Net <u>Interest Income</u>	Change In Market Value of <u>Portfolio Equity</u>
200bp increase	3.9%	10.6%
100bp increase	4.0	8.4
100bp decrease	(11.1)	(17.5)

The variability of net interest income is negative in the 100 basis point downward rate scenario as the Company has more exposure to assets repricing downward to a greater extent than liabilities due to the absolute low level of interest rates with the fed funds rate currently at 0.25%. The variability of net interest income is positive in the upward rate shocks as the Company has better diversified its loan portfolio over the past year with more loans now tied to LIBOR. The market value of portfolio equity increases in the upward rate shocks due to the improved value of the Company's core deposit base. Negative variability of market value of portfolio equity occurs in the downward rate shocks due to a reduced value for core deposits.

**....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 \$113.5 million and standby letters of credit of \$12.9 million as of March 31, 2009.

**....CRITICAL ACCOUNTING POLICIES AND ESTIMATES.....**The accounting and reporting policies of the Company are in accordance with Generally Accepted Accounting Principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses, goodwill, income taxes, and investment securities are deemed critical because they involve the use of estimates and require significant management judgments. Application of assumptions that differ from actual performance could result in material changes in the Company's financial position or results of operation.

**Account** Allowance for Loan Losses

**Balance Sheet Reference** Allowance for Loan Losses

**Income Statement Reference** Provision for Loan Losses

### **Description**

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

Commercial loans and commercial mortgages are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately \$9.1 million, or 86%, of the total allowance for credit losses at March 31, 2009 has been allocated to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, economic trends, delinquencies, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

**Account** Goodwill and core deposit intangibles

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

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

## Description

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

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

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

Goodwill which has an indefinite useful life is tested for impairment at least annually and written down and charged to results of operations only in periods in which the recorded value is more than the estimated fair value. The Company's testing in 2008 indicated that its goodwill was not impaired. However, deteriorating economic conditions could result in impairment, which would adversely affect earnings in future periods.

**Account** Income Taxes

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



**Income Statement Reference** Provision for Income Taxes

**Description**

In accordance with the liability method of accounting for income taxes specified in Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes the provision for income taxes is the sum of income taxes both currently payable and deferred. The changes in deferred tax assets and liabilities are determined based upon the changes in differences between the basis of assets and liabilities for financial reporting purposes and the basis of assets and liabilities as measured by the enacted tax rates that management estimates will be in effect when the differences reverse.

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related time of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of March 31, 2009, we believe that all of the deferred tax assets recorded on our balance sheet will ultimately be recovered and no valuation allowances were needed.

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

**ACCOUNT** Investment Securities

**BALANCE SHEET REFERENCE** Investment Securities

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

**DESCRIPTION**

Available-for-sale and held-to-maturity securities are reviewed quarterly for possible other-than-temporary impairment. The review includes an analysis of the facts and circumstances of each individual investment such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and the Company's intent and ability to hold the security to recovery. A decline in value that is to be considered to be other-than-temporary is recorded as a loss within non-interest income in the Consolidated Statements of Operation. At March 31, 2009, nearly 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:**

The challenge for the future is to improve earnings performance to peer levels through a disciplined focus on community banking and our growing Trust Company. In accordance with our strategic plan, AmeriServ will maintain its focus as a community bank delivering banking and trust services to the best of our ability. AmeriServ does not intend to succumb to the lure of quick fixes and fancy financial gimmicks. We have seen where that path leads, and have marveled at how many knowledgeable people fall victim. Additionally, we expect to face increased regulatory costs and higher FDIC insurance expense in the future (in the form of both higher regular premiums and special FDIC assessments). Despite these expected challenges, it is our plan to continue to build AmeriServ into a potent banking force in this region and in this industry. Our focus encompasses the following:

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

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

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

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 had a successful 2008 and is positioned to continue to grow. It has a solid array of banking services that includes deposit gathering, consumer lending and residential mortgages. With its broad distribution of community offices in its primary market, this business unit provides a solid foundation for the company to grow from.

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 with record loan production in each of the past two years. The challenge is to maintain this momentum and to continue 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. The Trust Company has created a niche in the vast market 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. However, synergies need to be developed between the Trust Company and West Chester Capital Advisors so that revenue growth can be further enhanced.

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

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

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

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

**Item 4.....CONTROLS AND PROCEDURES.....**(a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of March 31, 2009, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of March 31, 2009, are effective.

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



## **Part II Other Information**

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

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

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

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008.

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

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

### **Item 3. Defaults Upon Senior Securities**

None

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

None

### **Item 5. Other Information**

None

**Item 6. Exhibits**

-

- 3.1 Articles of Incorporation as amended on January 3, 2005, exhibit 3.1 to 2004 Form 10-K filed on March 10, 2005
- 3.2 Bylaws, Exhibit 3.2 to the Registrant's Form 8-K filed September 19, 2008.
- 3.3 Certificate of Designation of Rights of Fixed Rate Cumulative Perpetual Preferred Stock, Series D (Incorporated by reference to Exhibit 3.3 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2008.)

- 15.1 Report of S.R. Snodgrass, A.C. regarding unaudited interim financial statement information.
- 31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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

AmeriServ Financial, Inc.

Registrant

Date: May 7, 2009

/s/Allan R. Dennison

Allan R. Dennison

President and Chief Executive Officer

Date: May 7, 2009

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and Chief Financial Officer





**STATEMENT OF MANAGEMENT RESPONSIBILITY**

May 7, 2009

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

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

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

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

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

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

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

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

**Exhibit 99.1**

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

AmeriServ Financial, Inc.

We have reviewed the accompanying consolidated balance sheet of AmeriServ Financial, Inc. and its consolidated subsidiaries as of March 31, 2009; the related consolidated statements of operations for the three-months ended March 31, 2009 and 2008; and the consolidated statement of cash flows for the three-months ended March 31, 2009 and 2008. These consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2008, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for the year then ended (not presented herein), and in our report dated March 2, 2009, we expressed an unqualified opinion on those consolidated financial statements.

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

Wexford, PA

May 7, 2009

**Exhibit 15.1**

May 7, 2009

AmeriServ Financial, Inc.

216 Franklin Street

PO Box 520

Johnstown, PA 15907-0520

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of AmeriServ Financial, Inc. for the period ended March 31, 2009, as indicated in our report dated May 7, 2009. Because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended March 31, 2009, is incorporated by reference in the following Registration Statements:

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

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

Registration Statement No. 33-55845 on Form S-8

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

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

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

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

Registration Statement No. 333-120022 on Form S-3

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

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

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

Sincerely,

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

**Exhibit 31.1**

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

I, Allan R. Dennison, certify that:

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



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

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

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

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

Date: May 8, 2009

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

**Exhibit 31.2**

CERTIFICATION OF THE CHIEF FINANCIAL OFFICER

PURSUANT TO RULES 13a-14 AND 15d-14 OF THE SECURITIES EXCHANGE ACT OF

1934 AND SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Jeffrey A. Stopko, certify that:

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

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

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

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

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

Date: May 8, 2009

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

**Exhibit 32.1**

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company ) on Form 10-Q for the period ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Allan R. Dennison, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Allan R. Dennison

Allan R. Dennison

President and

Chief Executive Officer

May 8, 2009

**Exhibit 32.2**

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company ) on Form 10-Q for the period ended March 31, 2009, as filed with the Securities and Exchange Commission on the date hereof (the Report ), I, Jeffrey A. Stopko, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and

Chief Financial Officer

May 8, 2009