AMERISERV FINANCIAL INC /PA/
Form 10-Q
August 07, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

X

Quarterly Report Pursuant to Section 13 or 15(d) of the

Securities Exchange Act of 1934

For the period ended __________**June 30, 2006**______________

Transaction Report Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the transaction period from ____________________ to ________________

Commission File Number **0-11204**

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania **25-1424278**

(State or other jurisdiction of incorporation (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.

X Yes

No

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

Large accelerated filer Accelerated filer **X** Non-accelerated filer

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

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

Class	Outstanding at August 1, 2006
Common Stock, par value $2.50 per share	22,147,196

AmeriServ Financial, Inc.

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AmeriServ Financial, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

-	June 30, 2006	December 31, 2005
ASSETS		
Cash and due from banks	$ 24,033	$ 20,762
Interest bearing deposits	300	199
Investment securities:		
Available for sale	188,808	201,569
Held to maturity (market value $20,878 on June 30, 2006 and $30,206 on December 31, 2005)	21,422	30,355

Loans held for sale	262	98
Loans	574,251	551,335
Less: Unearned income	629	831
Allowance for loan losses	8,874	9,143
Net loans	564,748	541,361
Premises and equipment, net	8,094	8,689
Accrued income receivable	4,183	4,125
Goodwill	9,544	9,544
Core deposit intangibles, net	2,271	2,703
Bank owned life insurance	32,156	31,640
Deferred tax asset	15,875	14,976
Assets related to discontinued operations	-	329
Other assets	15,912	13,826
TOTAL ASSETS	$ 887,608	$ 880,176
LIABILITIES		
Non-interest bearing deposits	$ 106,123	$ 109,274
Interest bearing deposits	634,856	603,381
Total deposits	740,979	712,655
Other short-term borrowings	42,064	63,184
Advances from Federal Home Loan Bank	967	987
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Total borrowed funds	56,116	77,256
Liabilities related to discontinued operations	-	14
Other liabilities	6,282	5,777
TOTAL LIABILITIES	803,377	795,702
STOCKHOLDERS' EQUITY		
Preferred stock, no par value; 2,000,000 shares authorized; there were no shares issued and outstanding for the periods presented	-	-
Common stock, par value $2.50 per share; 30,000,000 shares authorized; 26,236,558 shares issued and 22,145,639 outstanding on June 30, 2006; 26,203,192 shares issued and 22,112,273 outstanding on December 31, 2005		

	65,591	65,508
Treasury stock at cost, 4,090,919 shares for both		
periods presented	(65,824)	(65,824)
Capital surplus	78,697	78,620
Retained earnings	11,344	10,236
Accumulated other comprehensive loss, net	(5,577)	(4,066)
TOTAL STOCKHOLDERS' EQUITY	84,231	84,474
TOTAL LIABILITIES AND		
STOCKHOLDERS' EQUITY	$ 887,608	$ 880,176

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands)

Unaudited

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
INTEREST INCOME				
Interest and fees on loans and loans held for sale	$ 9,155	$ 8,105	$ 18,055	$ 16,059
Deposits with banks	8	1	9	4
Investment securities:				
Available for sale	1,959	3,353	4,017	6,822
Held to maturity	292	253	512	518
Total Interest Income	11,414	11,712	22,593	23,403
INTEREST EXPENSE				
Deposits	4,563	3,188	8,589	6,033
Other short-term borrowings	364	549	929	1,262
Advances from Federal Home Loan Bank	16	1,549	32	2,952
Guaranteed junior subordinated deferrable interest	-	-	-	
debentures	280	435	560	870
Total Interest Expense	5,223	5,721	10,110	11,117
NET INTEREST INCOME	6,191	5,991	12,483	12,286
Provision for loan losses	(50)	(275)	(50)	(275)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	6,241	6,266	12,533	12,561

NON-INTEREST INCOME				
Trust fees	1,671	1,506	3,312	2,978
Net realized gains on investment securities	-	-	-	78
Net realized gains on loans held for sale	20	83	43	155
Service charges on deposit accounts	651	704	1,278	1,288
Bank owned life insurance	260	254	516	504
Other income	666	633	1,361	1,325
Total Non-Interest Income	3,268	3,180	6,510	6,328
NON-INTEREST EXPENSE				
Salaries and employee benefits	4,612	4,680	9,427	9,431
Net occupancy expense	591	592	1,246	1,260
Equipment expense	631	622	1,270	1,261
Professional fees	859	938	1,654	1,761
Supplies, postage and freight	290	272	596	552
Miscellaneous taxes and insurance	407	447	821	916
FDIC deposit insurance expense	74	69	147	140
Amortization of core deposit intangibles	216	216	432	432
Other expense	1,097	1,070	2,042	2,096
Total Non-Interest Expense	$ 8,777	$ 8,906	$17,635	$17,849

CONTINUED ON NEXT PAGE

CONSOLIDATED STATEMENTS OF OPERATIONS

CONTINUED FROM PREVIOUS PAGE

(In thousands, except per share data)

Unaudited

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	$ 732	$ 540	$ 1,408	$ 1,040
Provision (benefit) for income taxes	164	96	300	(302)
INCOME FROM CONTINUING OPERATIONS	568	444	1,108	1,342
LOSS FROM DISCONTINUED OPERATIONS NET OF TAX BENEFIT $(38) AND $(72) FOR 2005	- -	(74)	- -	(139)
NET INCOME	$ 568	$ 370	$ 1,108	$ 1,203
PER COMMON SHARE DATA FROM CONTINUING OPERATIONS:				
Basic net income	$ 0.03	$ 0.02	$ 0.05	$ 0.07
Diluted net income	0.03	0.02	0.05	0.07
PER COMMON SHARE DATA FROM DISCONTINUED OPERATIONS:				
Basic net loss	N/A	$ 0.00	N/A	$ (0.01)
Diluted net loss	N/A	0.00	N/A	(0.01)
PER COMMON SHARE DATA:				
Basic:				
Net income	$ 0.03	$ 0.02	$ 0.05	$ 0.06

Average shares outstanding	22,143	19,726	22,131	19,724
Diluted:				
Net income	$ 0.03	$ 0.02	$ 0.05	$ 0.06
Average shares outstanding	22,153	19,765	22,139	19,762
Cash dividends declared	$ 0.00	$ 0.00	$ 0.00	$ 0.00

N/A Not Applicable

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Unaudited

	Six months ended June 30, 2006	Six months ended June 30, 2005
OPERATING ACTIVITIES		
Net income	$ 1,108	$1,203
Loss from discontinued operations	-	(139)
Income from continuing operations	1,108	1,342
Adjustments to reconcile income from continuing operations to net cash provided by (used in) operating activities:		
Provision for loan losses	(50)	(275)
Depreciation expense	924	905
Amortization expense of core deposit intangibles	432	432
Net amortization of investment securities	338	818
Net realized gains on investment securities available for sale	-	(78)
Net realized gains on loans held for sale	(43)	(155)
Amortization of deferred loan fees	(215)	(222)
Origination of mortgage loans held for sale	(5,227)	(12,000)
Sales of mortgage loans held for sale	4,801	11,221
Increase in accrued income receivable	(58)	(233)
Decrease (Increase) in accrued expense payable	210	(456)
Net increase in other assets	(2,357)	(1,486)
Net increase in other liabilities	789	738
Net cash provided by operating activities from continuing operations	652	551
Net cash used in operating activities from discontinued operations	-	(139)
Net cash provided by operating activities	652	412
INVESTING ACTIVITIES		
Purchases of investment securities and other short-term investments - available for sale	(4,400)	(30,828)

Proceeds from maturities of investment securities and other short-term investments available for sale	14,553	32,719
Proceeds from maturities of investment securities and other short-term investments held to maturity	8,877	2,008
Proceeds from sales of investment securities and other short-term investments available for sale	-	10,772
Long-term loans originated	(82,335)	(54,362)
Principal collected on long-term loans	61,255	55,756
Loans purchased or participated	(2,506)	(2,196)
Loans sold or participated	900	1,000
Net increase in other short-term loans	(131)	(423)
Purchases of premises and equipment	(329)	(611)
Net cash provided by (used in) investing activities	(4,116)	13,835
FINANCING ACTIVITIES		
Net increase in deposit accounts	28,324	47,349
Net decrease in federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings	(21,120)	(61,038)
Net principal repayments of advances from Federal Home Loan Bank and hedges	(20)	(19)
Net guaranteed junior subordinated deferrable interest debenture dividends paid	(508)	(812)
Proceeds from dividend reinvestment, stock purchase plan, and stock options exercised	160	62
Costs associated with private placement	-	(81)
Net cash provided by (used in) financing activities	6,836	(14,539)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS FROM CONTINUING AND DISCONTINUED OPERATIONS	3,372	(292)
CASH AND CASH EQUIVALENTS AT JANUARY 1	20,961	20,573
CASH AND CASH EQUIVALENTS AT JUNE 30	$ 24,333	$20,281

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), AmeriServ Associates, Inc., (AmeriServ Associates) and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 22 locations in Pennsylvania. Standard Mortgage Corporation of Georgia (SMC), a former wholly-owned subsidiary of the Bank, was a mortgage banking company whose business included the servicing of mortgage loans. The Company sold its remaining mortgage servicing rights in December 2004 and discontinued operations of this non-core business in 2005. AmeriServ Associates was a registered investment advisory firm that provides investment portfolio and asset/liability management services to small and mid-sized financial institutions. On March 3, 2006, the Company announced the decision to close this investment advisory subsidiary as it no longer fits the Company s strategic direction. Ameriserv Associates ceased normal operations in the second quarter 2006. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance. The Trust Company offers a complete range of trust and financial services and has $1.7 billion in assets under management. The Trust Company also offers the ERECT and BUILD Funds which are collective investment funds for trade union controlled pension fund assets.

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, 2005.

3.

Accounting Policies

In February 2006, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting (FAS) No. 155, *Accounting for Certain Hybrid Instruments, as an amendment of FASB Statements No. 133 and 140.* FAS No. 155 allows financial instruments that have embedded derivatives to be accounted for as a whole (eliminating the need to bifurcate the derivative from its host) if the holder elects to account for the whole instrument on a fair value basis. This statement is effective for all financial instruments acquired or issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

In March 2006, the FASB issued FAS No. 156, *Accounting for Servicing of Financial Assets*. This Statement, which is an amendment to FAS No. 140, will simplify the accounting for servicing assets and liabilities, such as those common with mortgage securitization activities. Specifically, FAS No. 156 addresses the recognition and measurement of separately recognized servicing assets and liabilities and provides an approach to simplify efforts to obtain hedge-like (offset) accounting. FAS No. 156 also clarifies when an obligation to service financial assets should be separately recognized as a servicing asset or a servicing liability, requires that a separately recognized servicing asset or servicing liability be initially measured at fair value, if practicable, and permits an entity with a separately recognized servicing asset or servicing liability to choose either of the amortization or fair value methods for subsequent measurement. The provisions of FAS No. 156 are effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of this standard is not expected to have a material effect on the Company s results of operations or financial position.

In June 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes*. FIN 48 is an interpretation of FAS No. 109, *Accounting for Income Taxes*, and it seeks to reduce the diversity in practice associated with certain aspects of measurement and recognition in accounting for income taxes. In addition, FIN No. 48 requires expanded disclosure with respect to the uncertainty in income taxes and is effective for fiscal years beginning after December 15, 2006. The Company is currently evaluating the impact the adoption of the standard will have on the Company s results of operations.

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 unissued for earnings per share purposes. Options to purchase 283,907 and 141,095 shares of common stock were outstanding as of June 30, 2006 and 2005, respectively, but were not included in the computation of diluted earnings per common share as the options exercise prices were greater than the average market price of the common stock for the respective periods.

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
	(In thousands, except per share data)			
Numerator:				
Income from continuing operations	$ 568	$ 444	$ 1,108	$ 1,342
Loss from discontinued operations	-	(74)	-	(139)
Net Income	$ 568	$ 370	$ 1,108	$ 1,203

Denominator:				
Weighted average common shares				
outstanding (basic)	22,143	19,726	22,131	19,724
Effect of stock options	10	39	8	38
Weighted average common shares				
outstanding (diluted)	22,153	19,765	22,139	19,762
Earnings per share from				
continuing operations:				
Basic	$0.03	$0.02	$0.05	$0.07
Diluted	0.03	0.02	0.05	0.07
Loss per share from discontinued				
operations:				
Basic	N/A	$0.00	N/A	$(0.01)
Diluted	N/A	0.00	N/A	$(0.01)
Earnings per share:				
Basic	$0.03	$0.02	$0.05	$0.06
Diluted	0.03	0.02	0.05	0.06

N/A Not Applicable

5.

Stock-based Compensation

On January 1, 2006, the Company adopted Statement of Financial Accounting Standards (FAS) #123(R) Share-Based Payment using the modified prospective method. Under this method, awards that are granted, modified, or settled after December 31, 2005, are measured and accounted for in accordance with FAS #123(R). As a result of this adoption the Company recognized $36,000 of pretax compensation expense for the first six months of 2006. The fair value of each option grant is estimated on the grant date using the Black-Scholes option pricing model with the following assumptions used for the grants: risk-free interest rates ranging from 3.41% to 4.70%; expected lives of 10 years; expected volatility ranging from 33.39% to 39.65%; and expected dividend yields of $0. Prior to the adoption employee compensation expense under stock options was reported using the intrinsic value method. The following pro forma information for the prior year first quarter regarding net income and earnings per share assumes stock options had been accounted for under the fair value method and the estimated fair value of the options is amortized to expense over the vesting period. The additional disclosure requirements of FAS #123(R) have been omitted due to immateriality. The compensation expense, net of related tax, of $43,000 for the six months ended June 30, 2005, is included in the pro forma net income as reported below (in thousands, except per share data).

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net income, as reported	$ 370	$1,203
Less: Total stock-based compensation cost, net of taxes	21	43
Pro forma net income	$349	$1,160
Earnings per share:		
Basic as reported	$0.02	$0.06
Basic pro forma	0.02	0.06
Diluted as reported	0.02	0.06
Diluted pro forma	0.02	0.06

6.

Comprehensive Loss

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

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Net income	$ 568	$ 370	$ 1,108	$1,203
Other comprehensive income (loss), before tax:				
Unrealized security gains (losses) on available for sale securities arising during period	(1,086)	3,366	(2,290)	(128)
Income tax effect	369	(1,144)	779	44
Reclassification adjustment for gains on available for sale securities included in net income	-	-	-	(78)
Income tax effect	-	-	-	26

Other comprehensive income (loss), net of tax:	(717)	2,222	(1,511)	(136)
Comprehensive income (loss)	$ (149)	$2,592	$ (403)	$1,067

7.

Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold. For the Parent Company, cash and cash equivalents also include short-term investments. The Company made $4,000 in income tax payments in the first six months of 2006 as compared to $48,000 for the first six months of 2005. Total interest expense paid amounted to $9,900,000 in 2006's first six months compared to $11,573,000 in the same 2005 period.

8.

Investment Securities

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

Investment securities available for sale (AFS):

June 30, 2006	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 6,014	$ -	$ (246)	$ 5,768
U.S. Agency	60,574	-	(1,728)	58,846
U.S. Agency mortgage- backed securities	121,056	7	(6,645)	114,418
Equity investment in Federal Home Loan Bank and Federal Reserve Stocks	5,245	-	-	5,245

Other securities	4,500	31	-	4,531
Total	$197,389	$ 38	$ (8,619)	$ 188,808

Investment securities held to maturity (HTM):

June 30, 2006	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 3,253	$ -	$ (119)	$ 3,134
U.S. Agency	3,470	-	(146)	3,324
U.S. Agency mortgage-backed securities	7,949	-	(279)	7,670
Other securities	6,750	-	-	6,750
Total	$ 21,422	$ -	$ (544)	$ 20,878

Investment securities available for sale (AFS):

December 31, 2005	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 5,021	$ -	$ (180)	$ 4,841
U.S. Agency	59,335	12	(1,078)	58,269
U.S. Agency mortgage-backed securities	131,981	2	(5,047)	126,936
Equity investment in Federal Home Loan Bank and Federal Reserve Stocks	6,988	-	-	6,988
Other securities	4,499	36	-	4,535
Total	$ 207,824	$ 50	$ (6,305)	$ 201,569

Investment securities held to maturity (HTM):

December 31, 2005	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasury	$ 3,285	$ -	$ (49)	$ 3,236
U.S. Agency	11,484	-	(110)	11,374
U.S. Agency mortgage-backed securities	8,836	20	(10)	8,846

Other securities	6,750	-	-	6,750
Total	$ 30,355	$ 20	$ (169)	$ 30,206

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." 94.9% and 95.5% of the portfolio was rated "AAA" at June 30, 2006 and December 31, 2005, respectively. Less than 1% of the portfolio was rated below A or unrated at June 30, 2006 and December 31, 2005.

There are 52 positions that are considered temporarily impaired at June30, 2006. The following tables present information concerning investments with unrealized losses as of June 30, 2006 (in thousands):

Investment securities available for sale:

June 30, 2006	Less than 12 months		12 months or longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ 990	$ (6)	$ 4,778	$ (240)	$ 5,768	$ (246)
U.S. Agency	8,814	(34)	48,281	(1,694)	57,095	(1,728)
U.S. Agency mortgage-backed securities	-	-	113,329	(6,645)	113,329	(6,645)
Total	$ 9,804	$ (40)	$166,388	$(8,579)	$176,192	$(8,619)

Investment securities held to maturity:

June 30, 2006	Less than 12 months		12 months or longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ -	$ -	$3,134	$ (119)	$ 3,134	$ (119)
U.S. Agency	3,324	(146)	-	-	3,324	(146)
U.S. Agency mortgage-backed securities	6,478	(235)	1,192	(44)	7,670	(279)
Total	$ 9,802	$ (381)	$4,326	$ (163)	$14,128	$ (544)

Investment securities available for sale:

December 31, 2005	Less than 12 months		12 months or longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ -	$ -	$ 4,841	$ (180)	$ 4,841	$ (180)

U.S. Agency	20,267	(59)	30,554	(1,019)	50,821	(1,078)
U.S. Agency mortgage-						
backed securities	4,449	(113)	122,330	(4,934)	126,779	(5,047)
Total	$ 24,716	$ (172)	$157,725	$(6,133)	$182,441	$(6,305)

Investment securities held to maturity:

December 31, 2005	Less than 12 months		12 months or longer		Total	
	Market Value	Unrealized Losses	Market Value	Unrealized Losses	Market Value	Unrealized Losses
U.S. Treasury	$ 2,157	$ (20)	$1,079	$ (29)	$ 3,236	$ (49)
U.S. Agency	3,450	(19)	7,924	(91)	11,374	(110)
U.S. Agency mortgage-						
backed securities	1,274	(10)	-	-	1,274	(10)
Total	$ 6,881	$ (49)	$9,003	$ (120)	$15,884	$ (169)

Given the quality of the investment portfolio (greater than 94% rated AAA), the Company believes the unrealized losses that have existed for greater than 12 months are temporary in nature and resulted from interest rate movements. Furthermore, the Company has the ability and intent to hold these securities until maturity or until they recover in value.

9.

Loans

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

	June 30, 2006	December 31, 2005
Commercial	$ 84,220	$ 80,629
Commercial loans secured by real estate	266,896	249,204
Real estate mortgage	203,606	201,111
Consumer	19,529	20,391
Total loans	574,251	551,335
Less: Unearned income	629	831

Loans, net of unearned income	$ 573,622	$ 550,504

Real estate-construction loans comprised 5.7%, and 5.5% of total loans, net of unearned income, at June 30, 2006 and December 31, 2005, respectively. The Company has no direct credit exposure to foreign countries.

10.

Allowance for Loan Losses

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

	Three months ended		Six months ended	
	June 30, 2006	June 30, 2005	June 30, 2006	June 30, 2005
Balance at beginning of period	$9,026	$9,856	$9,143	$9,893
Transfer from reserve for unfunded loan commitments	-	(23)	-	-
Charge-offs:				
Commercial	(106)	-	(124)	(28)
Commercial loans secured by real estate	(1)	(59)	(2)	(59)
Real estate-mortgage	(25)	(10)	(58)	(55)
Consumer	(51)	(105)	(182)	(197)
Total charge-offs	(183)	(174)	(366)	(339)
Recoveries:				
Commercial	31	38	51	63
Commercial loans secured by real estate	-	5	10	11
Real estate-mortgage	13	21	17	33
Consumer	37	32	69	94
Total recoveries	81	96	147	201
Net charge-offs	(102)	(78)	(219)	(138)
Provision for loan losses	(50)	(275)	(50)	(275)
Balance at end of period	$ 8,874	$9,480	$ 8,874	$9,480
As a percent of average loans and loans held for sale, net of unearned income:				
Annualized net charge-offs	0.07%	0.06%	0.08%	0.05%
Annualized provision for loan losses	(0.04)	(0.21)	(0.02)	(0.11)

Allowance as a percent of loans and loans held for sale, net of unearned income at period end	1.55	1.81	1.55	1.81
Allowance as a percent of total classified loans	50.24	43.13	50.24	43.13
Total classified loans	$17,663	16,654	$17,663	$16,654

11.

Non-performing Assets

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

	June 30, 2006	December 31, 2005
Non-accrual loans		
Commercial	$ 3,295	$ 2,315
Commercial loans secured by real estate	190	318
Real estate-mortgage	571	1,070
Consumer	378	446
Total	4,434	4,149
Past due 90 days or more and still accruing		
Consumer	2	31
Total	2	31
Other real estate owned		
Real estate-mortgage	188	130
Consumer	1	5
Total	189	135
Total non-performing assets	$ 4,625	$ 4,315
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.81%	0.78%
Total restructured loans	$ -	$ 258

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

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

	Three months ended June 30,		Six months ended June 30,	
	2006	2005	2006	2005
Interest income due in accordance with original terms	$ 59	$ 51	$ 130	$105
Interest income recorded	-	-	-	(1)
Net reduction in interest income	$ 59	$51	$ 130	$104

12.

Derivative Hedging Instruments

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

The following table summarizes the interest rate swap transactions that impacted the Company s year to date 2005 performance:

2005 Hedge Type	Notional Amount	Fixed Rate Received	Floating Rate Paid	Repricing Frequency	Increase (Decrease) In Interest Expense
Fair value	$50,000,000	2.58%	2.70%	Quarterly	$ 63,043

Fair value	$50,000,000	5.89%	5.27%	Quarterly	(156,764)
					$ (93,721)

The Company had no interest rate swaps, caps, floors or swaptions outstanding as of June 30, 2006.

13.

Federal Home Loan Bank Borrowings

Total Federal Home Loan Bank (FHLB) borrowings and advances consist of the following at June 30, 2006, (in thousands, except percentages):

Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 42,064	5.33%
Advances	2011 and after	967	6.45
Total advances		967	6.45
Total FHLB borrowings		$ 43,031	5.36%

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

14.

Regulatory Matters

MOU Termination

The Company announced on February 21, 2006 that the Federal Reserve Bank of Philadelphia and Pennsylvania Department of Banking terminated the Memorandum of Understanding (MOU) that the Company had been operating under since February 28, 2003.

The MOU was enacted to address the Company s prior deficiencies in asset quality, credit administration, and other matters. The Company s successful actions to improve asset quality, strengthen capital, reduce interest rate risk, and enhance administrative procedures, were the key factors that led to the termination of this regulatory enforcement action. The Company expects that the termination of the MOU will mean lower insurance and regulatory costs and it will reduce the administrative burdens so the Company can focus on the development of new business within the context of a community bank based strategic plan.

Capital Requirements

The Company is subject to various capital requirements administered by the federal banking agencies. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of June 30, 2006, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

June 30, 2006	Actual Amount	Ratio	For Capital Adequacy Purposes Amount	Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	Ratio
	(In thousands, except ratios)					
Total Capital (to Risk Weighted Assets)						
Consolidated	$ 97,965	15.43%	$ 50,808	8.00%	$ 63,510	10.00%
Bank	89,831	14.30	50,239	8.00	62,799	10.00
Tier 1 Capital (to Risk Weighted Assets)						
Consolidated	90,011	14.17	25,404	4.00	38,106	6.00
Bank	81,965	13.05	25,119	4.00	37,679	6.00
Tier 1 Capital (to Average Assets)						
Consolidated	90,011	10.54	34,168	4.00	42,710	5.00
Bank	81,965	9.70	33,807	4.00	42,258	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, other fee based businesses and investment/parent. The Company sold it remaining mortgage servicing rights in December 2004 and discontinued the operations of this non-core business in 2005. The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, commercial real-estate loans, and commercial leasing (excluding certain small business lending through the branch network).

The trust segment has two primary business divisions, traditional trust and union collective investment funds. Traditional trust includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. The union collective investment funds, namely the ERECT and BUILD Funds are designed to invest union pension dollars in construction projects that utilize union labor. Other fee based businesses include AmeriServ Associates and AmeriServ Life.

The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on the guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the consolidated results of operations for the three and six months ended June 30, 2006 and 2005 were as follows (in thousands, except ratios):

	Three months ended June 30, 2006		Six months ended June 30, 2006		June 30, 2006
	Total revenue	Net income (loss)	Total revenue	Net income (loss)	Total assets
Retail banking	$ 6,126	$ 294	$ 12,134	$ 413	$ 355,129
Commercial lending	1,976	626	3,758	1,077	317,730
Trust	1,749	449	3,476	884	2,995
Other fee based	(4)	(71)	106	(79)	1,524
Investment/Parent	(388)	(730)	(481)	(1,187)	210,230
Total	$ 9,459	$ 568	$ 18,993	$ 1,108	$ 887,608

	Three months ended June 30, 2005	Six months ended June 30, 2005	June 30, 2005
	Total revenue	Total revenue	Total assets

		Net income (loss)		Net income (loss)	
Retail banking	$ 6,368	$ 392	$ 12,585	$ 858	$ 345,886
Commercial lending	1,439	419	2,877	840	260,004
Trust	1,609	324	3,133	625	1,991
Other fee based	97	(14)	252	10	1,898
Investment/Parent	(342)	(677)	(233)	(991)	385,398
Total from continuing Operations	9,171	444	18,614	1,342	995,177
Total from discontinued Operations	120	(74)	232	(139)	1,609
Total	$ 9,291	$ 370	$ 18,846	$ 1,203	$ 996,786

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 $92.7 million and standby letters of credit of $9.2 million as of June 30, 2006.

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

17.

Private Placement Offering

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

The Company contributed $1.0 million of the net proceeds to the capital of the Bank and $1.0 million of the net proceeds to the capital of the Trust Company. The Company used the remaining $7.2 million of net proceeds to redeem outstanding 8.45% Trust Preferred Securities, which will result in annual pre-tax savings of approximately $600,000 in interest expense.

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

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

2006 SECOND QUARTER SUMMARY OVERVIEW The second quarter of 2006 marked the third consecutive quarter that AmeriServ (ASRV) reported increasing earnings with every dollar earned from traditional community banking activities. ASRV reported second quarter net income of $569,000 or $0.03 per share. To provide some perspective, this performance is 54% higher than the second quarter of 2005 and more than double the second quarter of 2004. This result was based on some encouraging trends:

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Loan outstandings have increased each quarter for four consecutive quarters.

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Deposits have increased in five of the last six quarters.

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Federal Home Loan Bank advances and short-term borrowings, which only a year ago represented more than 19% of total assets, now represent less than 5% of total assets.

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Non-interest expenses (reflecting both continuing and discontinued operations) continue to decline with the first six months of 2006, $657,000 less than the comparable period in 2005 and over $1 million less than the comparable period in 2004.

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The Trust Company reported another record quarter with a pre-tax profit margin of 37.13%. The fair market value of trust assets closed the quarter at $1.68 billion.

Additionally as further proof of our commitment to return to basic community banking, ASRV announced plans to construct a new state of the art branch bank in Nanty Glo where the Company has provided a full range of banking services for over 45 years.

The termination of the regulatory Memorandum of Understanding in February 2006 permitted us to focus fully on our customers again. Therefore, on June 30 we mailed a questionnaire to 6,970 of our retail customers asking their opinion of our service. We want a report card from those we have promised to serve. The results will be used as input to our strategic planning process. It is our goal to finish this process by the end of the third quarter and we will be providing more information on the revised strategic plan later in 2006.

During the second quarter the Audit Committee of the Board retained S. R. Snodgrass of Wexford, Pennsylvania as the outside accountants replacing Deloitte & Touche. Snodgrass specializes in community bank audits and brings a strong local focus to the assignment. This change was just one part of a concerted effort throughout the Company to be certain that every professional advisor and every vendor provides the appropriate expertise and financial value for the restructured AmeriServ.

The current flat to inverted yield curve makes this a more difficult operating environment for community banks. The continuing Federal Reserve rate increases are a challenge, the competition among local financial institutions is fierce, and ASRV continues to resist anything that resembles the kind of quick fixes that hurt the Company severely in the past. But it remains the determination of the Company to focus on basic community banking. It is our firm belief that there is a place in this market for a strong community bank which focuses on customer service and a trust company which provides a high performance alternative to the giant banks and investment houses. We do not underestimate the challenges which exist in the long road ahead but we believe that there are beginning to be signs of progress appearing.

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THREE MONTHS ENDED JUNE 30, 2006 VS. THREE MONTHS ENDED JUNE 30, 2005

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

	Three months ended June 30, 2006	Three months ended June 30, 2005
FROM CONTINUING OPERATIONS:		
Net income	$ 568	$ 444
Diluted earnings per share	0.03	0.02
Return on average equity (annualized)	2.71%	2.10%
FROM DISCONTINUED OPERATIONS:		
Net loss	N/A	$ (74)
Diluted loss per share	N/A	(0.00)

TOTAL RESULTS:		
Net income	$ 568	$ 370
Diluted earnings per share	0.03	0.02
Return on average equity (annualized)	2.71%	1.75%

N/A Not Applicable

The Company reported net income of $568,000 or $0.03 per diluted share for the second quarter of 2006. This compares to net income of $370,000 or $0.02 per diluted share for the second quarter of 2005. The key factors that caused a $198,000 increase in income between the second quarter of 2006 and 2005 were a combination of increased revenues and reduced non-interest expenses. Also, there was no loss from discontinued operations in 2006 due to closure of the Company s mortgage servicing operation in 2005.

.....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 second quarter of 2006 to the second quarter of 2005 (in thousands, except percentages):

	Three months ended June 30, 2006	Three months ended June 30, 2005	Change	% Change
Interest income	$ 11,414	$ 11,712	$(298)	(2.5)%
Interest expense	5,223	5,721	(498)	(8.7)
Net interest income	$ 6,191	$5,991	$ 200	3.3
Net interest margin	3.16%	2.63%	0.53	N/M

N/M - not meaningful

The Company s net interest income in the second quarter of 2006 increased by $200,000 from the prior year s second quarter. This improvement reflects the benefits from an increased net interest margin which more than offset a reduced level of earning assets. Specifically, for the second quarter of 2006 the net interest margin increased by 53 basis points to 3.16% while the level of average earning assets declined by $131 million or 14.4%. Both of these items reflect the deleverage of high cost debt from the Company s balance sheet which has resulted in lower levels of both borrowed funds and investment securities. The Company s net interest margin also benefited from increased loans in the earning asset mix as total loans outstanding averaged $553 million in the second quarter of 2006, a 6.7% increase from the same 2005 period. Total deposits averaged $733 million for the second quarter of 2006, a 3.0% increase from the same 2005 period due primarily to increased deposits from the trust company s operations. This deposit growth also allowed the Company to further reduce FHLB borrowings as these wholesale borrowings averaged only 3.4% of total assets in the second quarter of 2006 compared to 17.0% of total assets in the second quarter of 2005. Overall, the Company has been able to generate increased net interest income from a smaller but stronger balance sheet despite the negative impact resulting from a flatter yield curve in 2006.

...COMPONENT CHANGES IN NET INTEREST INCOME Regarding the separate components of net interest income, the Company's total interest income for the second quarter of 2006 decreased by $298,000 or 2.5% when compared to the same 2005 quarter. This decrease was due to a $131 million decline in average earning assets but was partially offset by a 70 basis point increase in the earning asset yield to 5.84%. Within the earning asset base, the yield on the total loan portfolio increased by 35 basis points to 6.55% and reflects the higher interest rate environment in 2006 which has allowed the Company to book new loans at rates higher than those currently in the portfolio. The yield on the total investment securities portfolio increased by 32 basis points to 4.01% due to the repricing of variable rate securities in the higher rate environment and reduced amortization expense on mortgage-backed securities.

The $131 million decline in the volume of average earning assets was due to a $166 million or 42.5% reduction in average investment securities partially offset by a $34.7 million increase in average loans. The average investment securities decline in the second quarter of 2006 reflects the impact of the Company s deleveraging and balance sheet repositioning strategies which began in the second half of 2004 and continued throughout 2005. These repositioning strategies involved selling investment securities and using the proceeds to retire borrowings. The increase in average loans reflects successful commercial loan growth as the Company was able to generate new business. This commercial loan growth led to a greater composition of loans in the earning asset mix that favorably impacted the Company s net interest income and net interest margin.

The Company's total interest expense for the second quarter of 2006 decreased by $498,000 or 8.7% when compared to the same 2005 quarter. This reduction in interest expense was due to a lower volume of interest bearing liabilities. Total average interest bearing liabilities were $126 million lower in the second quarter of 2006, as we have deleveraged our balance sheet by reducing high cost FHLB debt and trust preferred securities in the second half of 2005. The average balance of total borrowings has decreased by $147 million or 77.5% from the second quarter of 2005. The total cost of funds for the second quarter of 2006 did increase by 26 basis points to 3.13% and was due to the increased volume of deposits when compared to the second quarter 2005. Specifically, total average deposits increased by $21.6 million or 3.0% compared to the second quarter of 2005, while the cost of interest bearing deposits increased by 81 basis points to 2.92%. The increased cost of deposits reflects the higher short-term interest rate environment as well as a customer movement of funds from lower cost savings accounts into higher yielding certificates of deposit.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended June 30, 2006 and June 30, 2005 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) AmeriServ Financial's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) AmeriServ Financial's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances do not include non-accrual loans, but interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as, interest recorded on non-accrual loans as cash is received. Additionally, a tax rate of 34% is used to compute tax-equivalent yields.

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

	2006 Average Balance	2006 Interest Income/ Expense	2006 Yield/ Rate		2005 Average Balance	2005 Interest Income/ Expense	2005 Yield/ Rate
Interest earning assets:							
Loans and loans held for sale, net of unearned income	$ 553,476	$ 9,178	6.55	%	$ 518,735	$ 8,133	6.20 %
Deposits with banks	645	8	4.93		524	1	0.75
Investment securities AFS	199,279	1,959	3.93		365,177	3,353	3.67
Investment securities HTM	25,533	292	4.57		25,895	253	3.69
Total investment securities	224,812	2,251	4.01		391,072	3,606	3.69
Total interest earning assets/interest income	778,933	11,437	5.84		910,331	11,740	5.14
Non-interest earning assets:							
Cash and due from banks	18,549				20,290		
Premises and equipment	8,307				9,523		
Assets of discontinued operations	-				1,718		
Other assets	69,191				61,513		
Allowance for loan losses	(8,957)				(9,841)		
TOTAL ASSETS	$866,023				$ 993,534		
Interest bearing liabilities:							
Interest bearing deposits:							
Interest bearing demand	$ 57,630	$ 149	1.04	%	$ 54,089	$ 47	0.35 %
Savings	85,886	168	0.78		99,410	214	0.86
Money markets	169,819	1,368	3.23		163,391	795	1.95
Other time	313,381	2,878	3.68		288,499	2,132	2.96
Total interest bearing deposits	626,716	4,563	2.92		605,389	3,188	2.11
Short-term borrowings:							
Federal funds purchased, securities sold under							

agreements to repurchase and other short-term borrowings	28,570	364	5.05	68,212	549	3.18
Advances from Federal						
Home Loan Bank	972	16	6.46	101,011	1,549	6.15
Guaranteed junior subordinated deferrable interest debentures	13,085	280	8.57	20,285	435	8.58
Total interest bearing						
liabilities/interest expense	669,343	5,223	3.13	794,897	5,721	2.87
Non-interest bearing liabilities:						
Demand deposits	106,512			106,234		
Liabilities of discontinued						
operations	-			612		
Other liabilities	6,156			6,959		
Stockholders' equity	84,012			84,832		
TOTAL LIABILITIES AND						
STOCKHOLDERS' EQUITY	$866,023			$ 993,534		
Interest rate spread			2.72			2.27
Net interest income/						
net interest margin		6,214	3.16 %		6,019	2.63 %
Tax-equivalent adjustment		(23)			(28)	
Net Interest Income		$ 6,191			$ 5,991	

..PROVISION FOR LOAN LOSSES..... As a result of continued sound asset quality, the Company was able to reverse a small portion of its allowance for loan losses into earnings in the second quarter of 2006. This loan loss provision benefit amounted to $50,000 in the second quarter of 2006 which was lower than a similar loan loss provision benefit of $275,000 reversed into earnings in the second quarter of 2005. Non-performing assets have remained in a range of $3.3 to $4.6 million for the past six quarters and ended the second quarter of 2006 at $4.6 million or 0.81% of total loans. Classified loans have declined from $20.2 million at December 31, 2005 to $17.7 million at June 30, 2006. Net charge-offs in the second quarter of 2006 amounted to $102,000 or 0.07% of total loans which was up from the net charge-offs of $78,000 or 0.06% of total loans in the same prior year period. The allowance for loan losses provided 192% coverage of non-performing assets at June 30, 2006 compared to 212% coverage at December 31, 2005.

.....NON-INTEREST INCOME..... Non-interest income for the second quarter of 2006 totaled $3.3 million; an $88,000 or 2.8% increase from the second quarter 2005 performance. Factors contributing to the net increase in non-interest income in 2006 included:

* a $165,000 or 11.0% increase in trust fees due to continued successful new business development efforts in both the union and traditional trust product lines. Trust assets under management totaled $1.68 billion at June 30, 2006.

* a $63,000 or 75.9% decrease in gains realized on loans sales into the secondary market due to weaker residential mortgage loan production in the second quarter of 2006.

* a $53,000 or 7.5% decrease in service charges on deposit accounts due to fewer overdraft penalty fees.

.....NON-INTEREST EXPENSE..... Non-interest expense for the second quarter of 2006 totaled $8.8 million; a $129,000 or 1.4% decrease from the second quarter 2005 performance. This improved expense performance occurred despite the Company absorbing the final closure costs associated with AmeriServ Associates which approximated $100,000. Factors contributing to the net decrease in non-interest expense in 2006 included:

* salaries and employee benefits decreased by $68,000 due primarily to 13 fewer full time equivalent employees in the second quarter of 2006.

* professional fees decreased $79,000 as a result of lower legal costs and recruitment fees.

* miscellaneous taxes and insurance declined by $40,000 due largely to reduced premium costs for directors and officers insurance.

SIX MONTHS ENDED JUNE 30, 2006 VS. SIX MONTHS ENDED JUNE 30, 2005

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

	Six months ended June 30, 2006	Six months ended June 30, 2005
FROM CONTINUING OPERATIONS:		
Net income	$ 1,108	$ 1,342
Diluted earnings per share	0.05	0.07
Return on average equity (annualized)	2.65%	3.18%
FROM DISCONTINUED OPERATIONS:		
Net loss	N/A	$ (139)
Diluted loss per share	N/A	(0.01)
TOTAL RESULTS:		
Net income	$ 1,108	$1,203
Diluted earnings per share	0.05	0.06
Return on average equity (annualized)	2.65%	2.85%

N/A Not Applicable

The Company reported net income of $1.1 million or $0.05 per diluted share for the first six months of 2006. This compares to net income of $1.2 million or $0.06 per diluted share for the first six months of 2005. Note that for comparative purposes the first six months of 2005 results included a one-time income tax benefit of $475,000. There was no such tax benefit in the first six months of 2006. Also, there was no loss from discontinued operations in 2006 due to closure of the Company s mortgage servicing operation in 2005.

.....NET INTEREST INCOME AND MARGIN..... The following table compares the Company's net interest income performance for the first six months of 2006 to the first six months of 2005 (in thousands, except percentages):

	Six months ended June 30, 2006	Six months ended June 30, 2005	Change	% Change
Interest income	$ 22,593	$ 23,403	$ (810)	(3.5)%
Interest expense	10,110	11,117	(1,007)	(9.1)
Net interest income	$ 12,483	$12,286	$ 197	1.6
Net interest margin	3.18%	2.69%	0.49	N/M

N/M - not meaningful

The Company s net interest income in the first six months of 2006 increased by $197,000 when compared to the first six months of 2005. This improvement reflects the benefits from an increased net interest margin which more than offset a reduced level of earning assets. Specifically, for the first six months of 2006 the net interest margin increased by 49 basis points to 3.18% while the level of average earning assets declined by $132 million or 14.4%. Both of these items reflect the deleverage of high cost debt from the Company s balance sheet which has resulted in lower levels of both borrowed funds and investment securities. The Company s net interest margin also benefited from increased loans in the earning asset mix as total loans outstanding averaged $551 million in the first six months of 2006 a 6.2% increase from the same 2005 period. This loan growth was most evident in the commercial loan portfolio. Total deposits averaged $726 million for the first six months of 2006, a 4.4% increase from the same 2005 period due primarily to increased deposits from the trust company s operations and increased certificates of deposit.

...COMPONENT CHANGES IN NET INTEREST INCOME Regarding the separate components of net interest income, the Company's total interest income for the first six months of 2006 decreased by $810,000 or 3.5% when compared to the same 2005 period. This decrease was due to a $132 million decline in average earning assets but was partially offset by a 64 basis point increase in the earning asset yield to 5.77%. Within the earning asset base, the yield on the total loan portfolio increased by 35 basis points to 6.51% and the yield on the total investment securities portfolio increased by 13 basis points to 3.89%. Both of these increases reflect the higher interest rate environment in 2006 as the Federal Reserve has increased short-term interest rates by 175 basis points over the past year. Note the higher yields also reflect the upward repricing of floating rate assets.

The $132 million decline in the volume of average earning assets was due to a $164 million or 41.6% reduction in average investment securities partially offset by a $32.2 million increase in average loans. Commercial loan growth led to a greater composition of loans in the earning asset mix that favorably impacted the Company s net interest income and net interest margin.

The Company's total interest expense for the first six months of 2006 decreased by $1.0 million or 9.1% when compared to the same 2005 period. This reduction in interest expense was due to a lower volume of interest bearing liabilities. Total average interest bearing liabilities were $127 million lower in the first six months of 2006 as we have deleveraged our balance sheet by reducing high cost FHLB debt and trust preferred securities in the second half of

2005. The lower balance of guaranteed junior subordinated deferrable interest debentures favorably reduced interest expense by $310,000 in the first half of 2006. The total cost of funds for the first six months of 2006 did increase by 24 basis points to 3.02% and was due to the increased volume of deposits when compared to the first six months of 2005. Specifically, total average deposits increased by $30.3 million or 4.4% compared to the first six months of 2005, while the cost of interest bearing deposits increased by 73 basis points to 2.79%. The increased cost of deposits reflects the higher short-term interest rate environment as well as a customer movement of funds from lower cost savings accounts into higher yielding certificates of deposit.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the six month periods ended June 30, 2006 and June 30, 2005. For a detailed discussion of the components and assumptions included in the table, see the paragraph before the quarterly table on page 21.

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

	2006 Average Balance	2006 Interest Income/ Expense	2006 Yield/ Rate	2005 Average Balance	2005 Interest Income/ Expense	2005 Yield/ Rate
Interest earning assets:						
Loans and loans held for sale,						
net of unearned income	$ 551,225	$18,102	6.51 %	$ 519,060	$ 16,116	6.16 %
Deposits with banks	726	9	4.68	922	4	0.88
Investment securities AFS	201,821	4,017	3.98	367,067	6,822	3.75
Investment securities HTM	27,828	512	3.68	26,416	518	3.92
Total investment securities	229,649	4,529	3.89	393,483	7,340	3.76
Total interest earning						
assets/interest income	781,600	22,640	5.77	913,465	23,460	5.13
Non-interest earning assets:						
Cash and due from banks	18,889			21,216		
Premises and equipment	8,462			9,603		
Assets of discontinued						
operations	-			1,775		
Other assets	69,512			62,343		
Allowance for loan losses	(9,013)			(9,854)		
TOTAL ASSETS	$869,450			$998,548		
Interest bearing liabilities:						
Interest bearing deposits:						
Interest bearing demand	$ 56,717	$ 252	0.90 %	$ 53,923	$ 89	0.33 %
Savings	86,022	339	0.79	99,509	429	0.87
Money markets	172,776	2,627	3.07	154,142	1,405	1.84
Other time	304,948	5,371	3.55	282,791	4,110	2.93
Total interest bearing deposits	620,463	8,589	2.79	590,365	6,033	2.06
Short-term borrowings:						
Federal funds purchased,						
securities sold under						

agreements to repurchase and other short-term borrowings	38,623	929	4.78	88,666	1,262	2.83
Advances from Federal						
Home Loan Bank	977	32	6.50	101,017	2,952	5.89
Guaranteed junior subordinated deferrable interest debentures	13,085	560	8.57	20,285	870	8.58
Total interest bearing						
liabilities/interest expense	673,148	10,110	3.02	800,333	11,117	2.78
Non-interest bearing liabilities:						
Demand deposits	105,758			105,538		
Liabilities of discontinued						
operations	-			624		
Other liabilities	6,347			6,829		
Stockholders' equity	84,197			85,224		
TOTAL LIABILITIES AND						
STOCKHOLDERS' EQUITY	$869,450			$998,548		
Interest rate spread			2.75			2.35
Net interest income/						
net interest margin		12,530	3.18 %		12,343	2.69 %
Tax-equivalent adjustment		(47)			(57)	
Net Interest Income		$12,483			$ 12,286	

..PROVISION FOR LOAN LOSSES..... As a result of continued sound asset quality, the Company was able to reverse a small portion of its allowance for loan losses into earnings in the first six months of 2006. This loan loss provision benefit amounted to $50,000 in the first six months of 2006 which was $225,000 lower than a similar loan loss provision benefit of $275,000 reversed into earnings in the first six months of 2005. Net charge-offs in the first six months of 2006 amounted to $219,000 or 0.08% of total loans which was up from the net charge-offs of $138,000 or 0.05% of total loans in the same prior year period. The allowance for loan losses as a percentage of total loans amounted to 1.55% at June 30, 2006 compared to 1.66% at December 31, 2005.

.....NON-INTEREST INCOME..... Non-interest income for the first six months of 2006 totaled $6.5 million; an $182,000 or 2.9% increase from the first six months of 2005 performance. Factors contributing to the net increase in non-interest income in 2006 included:

* a $334,000 or 11.2% increase in trust fees due to continued successful new business development efforts in both the

union and traditional trust product lines.

* a $78,000 decrease in realized gains on investment security sales as there were no investment security sales executed in the first six months of 2006.

* a $112,000 decrease in gains realized on loans sales into the secondary market due to weaker residential mortgage loan production in the first six months of 2006. Overall, there were $6.4 million fewer loans sold into the secondary market in the first half of 2006 when compared to the first half of 2005.

.....NON-INTEREST EXPENSE..... Non-interest expense for the first six months of 2006 totaled $17.6 million; a $214,000 or 1.2% decrease from the first six months 2005 performance. Factors contributing to the net decrease in non-interest expense in 2006 included:

* other expenses decreased $54,000 as our continuing focus on containing costs has resulted in numerous expense reductions in categories such as telephone, advertising, collection costs and other real estate owned expense.

* professional fees decreased by $107,000 or 6.1% due to lower legal costs and recruitment fees.

* miscellaneous taxes and insurance declined by $95,000 due largely to reduced premium costs for directors and officers insurance.

.....INCOME TAX EXPENSE..... The Company recorded an income tax expense of $300,000 in the first six months of 2006 which reflects an estimated effective tax rate of approximately 21.3%. This is higher than the Company s 2005 income tax expense as the prior year performance was favorably impacted by an income tax benefit. Specifically in the first six months of 2005, the Company lowered its income tax expense by $475,000 due to a reduction in reserves for prior year tax contingencies as a result of the successful conclusion of an IRS examination on several open tax years.

..SEGMENT RESULTS. . Retail banking s net income contribution was $413,000 in the first six months of 2006 and $294,000 in the second quarter of 2006. The retail banking net income contribution is down from the same prior year periods due to reduced net interest income contribution as a result of increased deposit costs and the large income tax benefit in the first six months of 2005 resulting from a reduction in reserves for prior year tax contingencies. These items more than offset the positive impact of reduced non-interest expenses in retail banking resulting from a diligent focus on cost control.

The trust segment s net income contribution in the first six months of 2006 amounted to $884,000 which was up $259,000 from the prior year period. Second quarter 2006 trust net income was $449,000 which was $125,000 higher than the second quarter 2005. Successful new business development in both traditional trust and the union related products caused revenues to increase in 2006 while expenses were relatively consistent between periods. The fair value of trust assets since December 31, 2005 increased by $73 million or 4.5% to $1.68 billion at June 30, 2006. The diversification of the revenue-generating divisions within the trust segment is also one of the primary reasons for its successful growth. The specialized union collective funds are expected to continue to be a unique growth niche for the trust company. The union collective investment funds, namely the ERECT and BUILD Funds, are designed to invest union pension dollars in construction projects that utilize union labor. The union funds have attracted several international labor unions as investors as well as many local unions from a number of states. The value of assets in these union funds totaled $379 million at June 30, 2006.

The commercial lending segment increased its profitability in the first six months of 2006 by generating net income of $1.1 million compared to $840,000 of net income earned in the first six months of 2005. Similar improvement was noted in the second quarter of 2006 as commercial lending increased its profitability to $626,000 compared to $419,000 for the second quarter of 2005. The improved performance for both periods was caused by increased revenue resulting from the greater level of commercial loans outstanding. This more than offset higher non-interest expenses and a lower negative loan loss provision in 2006.

The investment/parent segment reported a net loss of $1.2 million in the first six months of 2006 which was greater than the net loss of $991,000 realized in the first six months of 2005. The second quarter 2006 net loss was $730,000 compared to a net loss of $677,000 in the second quarter of 2005. The increased loss between years was due to the reduced size of the investment portfolio, the flatter yield curve, and no gains from investment security sales in the first six months of 2006. The $79,000 loss in the other fee based segment reflects $100,000 of closure costs for AmeriServ Associates which ceased operations in the second quarter of 2006 due to the Company s strategic decision to exit this business.

.....BALANCE SHEET..... The Company's total consolidated assets were $888 million at June 30, 2006, compared with $880 million at December 31, 2005, which represents an increase of $7.4 million or 0.8%. This higher level of assets resulted primarily from an increased level of loans in 2006. Specifically, the Company s loans totaled $574 million at June 30, 2006, an increase of $23.3 million or 4.2% from year-end due to commercial loan growth in the first six months of 2006. Investment securities declined by $22 million so far in 2006 as investment portfolio cash flow continued to be used to paydown borrowings. The Company s deferred tax asset totaled $15.9 million at quarter-end and grew by $899,000 from December 31, 2005.

The Company s deposits totaled $741 million at June 30, 2006, which was $28 million or 4.0% higher than December 31, 2005. The deposit increase was due largely to increased certificates of deposit as customers have opted for this product given higher short-term interest rates. Total borrowed funds decreased by $21 million due to the previously discussed strategy to reduce the Company s borrowed funds with investment securities cash flow if this cash is not first needed to fund loans. Total stockholders equity remained constant at $84 million at June 30, 2006 and December 31, 2005. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at June 30, 2006 of 10.54%. The Company s book value per share at June 30, 2006 was $3.80.

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

	June 30, 2006	December 31, 2005	June 30, 2005
Total loan delinquency (past due 30 to 89 days)	$ 2,545	$4,361	$ 3,965
Total non-accrual loans	4,434	4,149	3,203
Total non-performing assets*	4,625	4,315	3,334
Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income	0.44%	0.79%	0.76%
Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income	0.77	0.75	0.61
Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	0.81	0.78	0.64

*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 some of which are insured for credit loss, and (iii) other real estate owned.

Loan delinquency as a percentage of total loans has remained below 1% for over two years and reflects the improved loan portfolio quality. Non-performing assets have remained in a range of $3.3 to $4.6 million for the past five quarters and ended the second quarter of 2006 at $4.6 million or 0.81% of total loans which was up modestly from the December 31, 2006 amount.

While we are pleased with this consistency in asset quality, we continue to closely monitor the portfolio given the number of relatively large sized commercial loans within the portfolio. As of June 30, 2006, the 25 largest credits represented 34.9% of total loans outstanding. This portfolio characteristic combined with the limited seasoning of recent new loan production are some of the factors that the Company considered in maintaining an $826,000 general unallocated reserve within the allowance for loan losses at June 30, 2006.

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

	June 30, 2006	December 31, 2005	June 30, 2005
Allowance for loan losses	$8,874	$9,143	$9,480
Allowance for loan losses as a percentage of each of the following:			
total loans and loans held for sale, net of unearned income	1.55%	1.66%	1.81%
total delinquent loans (past due 30 to 89 days)	348.68	209.65	239.09
total non-accrual loans	200.14	220.37	295.97
total non-performing assets	191.87	211.89	284.34

The allowance for loan losses provided 192% coverage of non-performing assets at June 30, 2006 compared to 212% coverage at December 31, 2005, and 284% coverage at June 30, 2005. The allowance for loan losses to total loans ratio decreased to 1.55% since the prior year second quarter due to a drop in the size of the loan loss reserve combined with an increase in the level of total loans outstanding.

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

Liquidity can also be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents increased by $3.4 million from December 31, 2005, to June 30, 2006, due to $6.8 million of cash provided by financing activities and $652,000 of cash provided by operating activities. This was offset by $4.1 million of cash used in investing activities. Within investing activities, cash provided by investment security maturities exceeded minimal purchases of new investment securities by $19.0 million. Cash advanced for new loan fundings and purchases totaled $90.1 million and was $23.1 million greater than the $67.0 million of cash received from loan principal payments and sales. Within financing activities, the Company experienced a net $28.3 million growth in deposits with these funds used to fund the previously mentioned loan growth. The Company also used the net cash provided from investment securities activities to paydown borrowings.

The Company used $508,000 of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in the first six months of 2006. This was $304,000 less than the cash used for this purpose in the prior year due to the retirement of $7.2 million of these securities as part of the third quarter 2005 balance sheet restructuring. As a result of the successful $25.8 million private placement of common stock in the fourth quarter of 2004 and the $10.3 million private placement in the third quarter of 2005, the liquidity position of the Parent Company has improved significantly. The parent company had $2.8 million of cash at June 30, 2006.

Dividend payments from non-bank subsidiaries and the settlement of the inter-company tax position, also provide ongoing cash to the parent. Longer term, however, the resumption of a common dividend is dependent upon the subsidiary bank maintaining and improving profitability so that it can resume upstreaming dividends to the Parent Company. The subsidiary bank must first recoup $15.7 million in net losses that it incurred over the past two years before it can consider resuming dividend upstreams or wait until the first quarter of 2008 when these losses are no longer factored into the regulatory dividend upstream calculation.

.....CAPITAL RESOURCES..... The Company continues to be considered well capitalized as the asset leverage ratio was 10.54% and the Tier 1 capital ratio was 14.17% at June 30, 2006 compared to 9.92% and 16.20% at June 30, 2005. The capital ratios also benefited from the $109 million shrinkage in the size of the balance sheet over the past twelve months. Note that the impact of other comprehensive income (loss) is excluded from the regulatory capital ratios. At June 30, 2006, accumulated other comprehensive income (loss) amounted to ($5.6) million. Additionally, the amortization of $432,000 of core deposit intangible assets has favorably increased tangible capital within the Tier I calculation in 2006. We anticipate that we will continue to build our capital ratios during the remainder of 2006 through the retention of earnings and limited change in the overall size of the balance sheet.

The Company announced on January 24, 2003 that it suspended its common stock cash dividend. While the Company had not repurchased any of its own shares since the year 2000, the Company has also suspended its treasury stock repurchase program.

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

Interest Rate Scenario	Variability of Net Interest Income	Change In Market Value of Portfolio Equity
100bp increase	2.2%	6.2%
100bp decrease	(0.1)%	(9.7)%

As indicated in the table, the third quarter 2005 balance sheet restructuring has sharply reduced the earnings volatility in the Company s balance sheet. Variability of net interest income is now positive in the 100 basis point upward rate shock due to the removal of the interest rate hedges and lower short-term FHLB borrowings. The market value of portfolio equity increased by 6.2% in a 100 basis point upward rate shock due to increased value of the Company s core deposit base. Negative variability of market value of portfolio equity occurred in a 100 basis point downward rate shock due to a reduced value for core deposits.

.....OFF BALANCE SHEET ARRANGEMENTS .. The Bank incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. Such commitments and standby letters of credit involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated financial statements. The Company s exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Bank uses the same credit and collateral policies in making commitments and conditional obligations as for all other lending. The Company had various outstanding commitments to extend credit approximating $92.7 million and standby letters of credit of $9.2 million as of June 30, 2006.

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

Account Allowance for Loan Losses

Balance Sheet Reference Allowance for Loan Losses

Income Statement Reference Provision for Loan Losses

Description

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

Commercial and commercial mortgages are the largest category of credits and the most sensitive to changes in assumptions and judgments underlying the determination of the allowance for loan loss. Approximately $6.6 million, or 74%, of the total allowance for credit losses at June 30, 2006 has been allotted to these two loan categories. This allocation also considers other relevant factors such as actual versus estimated losses, regional and national economic conditions, business segment and portfolio concentrations, recent regulatory examination results, trends in loan volume, terms of loans and risk of potential estimation or judgmental errors. To the extent actual outcomes differ from management estimates, additional provision for credit losses may be required that would adversely impact earnings in future periods.

Account Income Taxes

Balance Sheet Reference Deferred Tax Asset and Current Taxes Payable

Income Statement Reference Provision for Income Taxes

Description

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

In relation to recording the provision for income taxes, management must estimate the future tax rates applicable to the reversal of tax differences, make certain assumptions regarding whether tax differences are permanent or temporary and the related time of expected reversal. Also, estimates are made as to whether taxable operating income in future periods will be sufficient to fully recognize any gross deferred tax assets. If recovery is not likely, we must increase our provision for taxes by recording a valuation allowance against the deferred tax assets that we estimate will not ultimately be recoverable. Alternatively, we may make estimates about the potential usage of deferred tax assets that decrease our valuation allowances. As of June 30, 2006, we believe that all of the deferred tax assets recorded on our balance sheet, which are net of a $100,000 valuation allowance, will ultimately be recovered.

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

.....FORWARD LOOKING STATEMENT.....

The stabilization of the Company in 2003 and the infusion of new capital in 2004 and 2005 have enabled the Board and management to complete the first significant Turnaround goal of restructuring the balance sheet into that of a traditional community bank. The next step in the Turnaround is to attack financial performance with the same level of intensity that has been directed at balance sheet restructuring and regulatory compliance. 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. The Company is coalescing around this next phase of the Turnaround and we believe that the Company has a solid franchise and can create greater institutional value.

The Company has re-affirmed its roots as a community bank. It has strengthened its core units: the Retail Bank, Commercial Lending and the Trust Company. It has contained and/or corrected its troubled units. The Company recognizes that it suffered from a lack of focus and poor execution. However, the speed with which the Company took steps to right itself in 2003 and the success of the private placement common stock offerings in 2004 and 2005 helped the Company address longstanding structural impediments. Therefore, the future direction of AmeriServ Financial, Inc. will be highlighted by efforts to continue to strengthen our balance sheet, to control and leverage our non-interest expenses and to place strong emphasis on our three key business units. The fundamental goal is to build an increasing level of net income from these core units.

This Form 10-Q contains various forward-looking statements and includes assumptions concerning the Company s beliefs, plans, objectives, goals, expectations, anticipations estimates, intentions, operations, future results, and prospects, including statements that include the words may, could, should, would, believe, expect, anticipat 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.

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

.....CONTROLS AND PROCEDURES..... (a) Evaluation of Disclosure Controls and Procedures. The Company s management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company s disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of June 30, 2006, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company s disclosure controls and procedures as of June 30, 2006, are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be in the Company s periodic filings under the Exchange Act.

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

Part II Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the fiscal year ended December 31, 2005.

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

None

Item 3. Defaults Upon Senior Securities

None

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

The annual meeting of the shareholders of AMERISERV FINANCIAL, Inc. was held on April 25, 2006. The result of the item submitted for a vote was as follows:

	Number of Votes Cast for Class II Director	**% of Total Outstanding Shares Voted**
J. Michael Adams, Jr.	14,733,029	93.9

Edward J. Cernic, Sr.	14,700,280	93.7
Margaret A. O Malley	14,764,078	94.1
Mark E. Pasquerilla	14,709,322	93.7
Thomas C. Slater	14,662,020	93.4

Item 5. Other Information

None

Item 6. Exhibits

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3.1 Articles of Incorporation as amended on January 3, 2005, exhibit 3.1 to 2004 Form 10-K filed on March 10, 2005

3.2 Bylaws, Exhibit 3.2 to the Registrant s Form 8-K filed January 26, 2005.

15.1 Report of S.R. Snodgrass, A.C. regarding unaudited interim financial statement

information.

31.1 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification pursuant to Rule 13a-14(a)/15d-14(a), as adopted pursuant to section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certification pursuant to 18 U.S.C. section1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. section1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

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

	AmeriServ Financial, Inc.
	Registrant
Date: August 3, 2006	/s/Allan R. Dennison
	Allan R. Dennison
	President and Chief Executive Officer
Date: August 3, 2006	/s/Jeffrey A. Stopko
	Jeffrey A. Stopko
	Senior Vice President and Chief Financial Officer

STATEMENT OF MANAGEMENT RESPONSIBILITY

August 3, 2006

To the Stockholders and

Board of Directors of

AmeriServ Financial, Inc.

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

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

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

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

____

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Audit Committee

Ameriserv Financial, Inc.

We have reviewed the accompanying consolidated balance sheet of Ameriserv Financial, Inc. and its consolidated subsidiaries as of June 30, 2006, and the related consolidated statements of operations for the three-month and six-month periods ended June 30, 2006, and the consolidated statement of cash flows for the six-month period ended June 30, 2006. 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.

The financial statements of Ameriserv Financial, Inc. as of December 31, 2005, and for the year then ended, were audited by other auditors whose report, dated March 6, 2006, expressed an unqualified opinion on those financial statements.

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

Wexford, PA

July 14, 2006

Exhibit 15.1

August 3, 2006

Ameriserv Financial, Inc.

216 Franklin Street

PO Box 520

Johnstown, PA 15907-0520

We have reviewed, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the unaudited interim financial information of Ameriserv Financial, Inc. for the period ended June 30, 2006, as indicated in our report dated July 14, 2006; because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, is incorporated by reference in the following Registration Statements:

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

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

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

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

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

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

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

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

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

Sincerely,

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

Exhibit 31.1

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: August 7, 2006	/s/Allan R. Dennison
	Allan R. Dennison
	President & CEO

Exhibit 31.2

I, Jeffrey A. Stopko, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AmeriServ Financial, Inc. (ASF);

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;

4. ASF s other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for ASF and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of ASF's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

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

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

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

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

Date: August 7, 2006	/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 June 30, 2006, 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

August 7, 2006

Exhibit 32.2

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company) on Form 10-Q for the period ended June 30, 2006, 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

August 7, 2006

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