AMERISERV FINANCIAL INC /PA/
Form 10-K/A
January 07, 2005

# UNITED STATES
# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

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# FORM 10-K/A

**Amendment #2**

**(Mark One)**

**ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the fiscal year ended December 31, 2003**

**or**

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

**For the transition period from to**

**Commission file number 0-11204**

# AMERISERV FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

| **Pennsylvania**<br>(State or other jurisdiction of<br>incorporation or organization) | **25-1424278**<br>(I.R.S. Employer<br>Identification No.) |
|---|---|
| **Main & Franklin Streets, P.O. Box 430, Johnstown, Pennsylvania**<br>(Address of principal executive offices) | **15907-0430**<br>(Zip Code) |

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

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

| Title of each class | Name of each exchange on which registered |
|---|---|

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

| **Common Stock, $2.50 Par Value**<br>(Title of class) | **Share Purchase Rights**<br>(Title of class) |
|---|---|

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. ý Yes o No

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

Indicate by check mark whether the registrant is an accelerated filer (as described in Rule 12b-2 of the Act). o Yes ý No

The market capitalization was $52,975,796.20 as of June 30, 2003.

State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within 60 days prior to the date of filing. (See definition of affiliate in Rule 405.) $84,608,053.50 as of January 31, 2004.

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

Applicable only to registrants involved in bankruptcy proceedings during the preceding five years: Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13, or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. o Yes o No

(Applicable only to corporate registrants) Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. 13,961,725 shares were outstanding as of January 31, 2004.

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

Portions of the annual shareholders report for the year ended December 31, 2003, are incorporated by reference into Parts I and II.

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

Exhibit Index is located on page 81.

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This amendment is being filed to reflect the restatement of the Company's consolidated financial statements as discussed in Note 27 paragraph 2 thereto, and other information related to such restated consolidated financial statements.

## PART I

### Item 1. *Business*

**General**

AmeriServ Financial, Inc. (the Company) is a bank holding company, organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) on January 5, 1983. The Company also acquired all of the outstanding shares of Three Rivers Bank and Trust Company (Three Rivers Bank) in June 1984, McKeesport National Bank (McKeesport Bank) in December 1985 (which was subsequently merged into Three Rivers Bank), Community Bancorp, Inc. in March 1992 (which was also subsequently merged into Three Rivers Bank in July 1997), and Johnstown Savings Bank (JSB) in June 1994 (which was immediately merged into AmeriServ Financial Bank). In addition, the Company formed AmeriServ Life Insurance Company (AmeriServ Life) in October 1987, AmeriServ Trust and Financial Services Company (the Trust Company) in October 1992, and AmeriServ Associates, Inc. (AmeriServ Associates), in January 1997.

On April 1, 2000, the Company executed its Board approved tax-free spin-off of its Three Rivers Bank subsidiary. Shareholders received one share of the new Three Rivers Bancorp common stock for every two shares of AmeriServ Financial common stock that they owned. The distribution of the Three Rivers Bancorp shares did not change the number of the Company s common shares outstanding.

The Company s principal activities consist of owning and operating its four wholly owned subsidiary entities. At December 31, 2003, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $1.15 billion, $655 million and $74 million, respectively. The Company and the subsidiary entities derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and insurance risk management.

On January 24, 2003, the Company s Board of Directors voluntarily relinquished Financial Holding Company status that it had previously elected under the Gramm-Leach-Bliley Act. The Company had not been using any of the additional powers given to a financial holding company. As previously stated, the Company remains a bank holding company and is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia.

The Company is also under the jurisdiction of the Securities and Exchange Commission (SEC) for matters relating to offering and sale of its securities. The Company is subject to the disclosure and regulatory requirements of the Securities Act of 1933, as amended, and the Securities Exchange Act of 1934, as amended, as administered by the SEC. The Company is listed on the NASDAQ Stock Market under the trading symbol ASRV, and is subject to the rules of NASDAQ for listed companies.

**AmeriServ Financial Banking Subsidiary**

*AmeriServ Financial Bank*

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

operates 27 automated bank teller machines (ATMs) through its 24-Hour Banking Network that is linked with STAR, a regional ATM network and CIRRUS, a national ATM network.

AmeriServ Financial Bank also has a wholly owned mortgage banking subsidiary Standard Mortgage Corporation of Georgia (SMC). SMC is a residential mortgage loan servicer based in Atlanta, GA. Additionally, AmeriServ Financial Services Corporation was formed on May 23, 1997 and engages in the sale of annuities, mutual funds, and insurance.

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

AmeriServ Financial Bank is subject to supervision and regular examination by the Federal Reserve and the Pennsylvania Department of Banking. See Note #24, Regulatory Matters, for a discussion of the Memorandum Of Understanding which the Company and its Board of Directors entered into with its primary regulators. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios at December 31, 2003:

| | | |
|---|---|---|
| Headquarters | | Johnstown, PA |
| Chartered | | 1933 |
| Total Assets | $ | 1,142,421 |
| Total Investment Securities | $ | 549,224 |
| Total Loans (net of unearned income) | $ | 503,387 |
| Total Deposits | $ | 654,597 |
| Total Net Income | $ | 2,200 |
| Asset Leverage Ratio | | 8.00% |
| 2003 Return on Average Assets | | 0.19% |
| 2003 Return on Average Equity | | 2.09% |
| Total Full-time Equivalent Employees | | 342 |

**AmeriServ Financial Non-Banking Subsidiaries**

*AmeriServ Trust and Financial Services Company*

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. The Trust Company offers a complete range of trust and financial services and has $1.1 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. At December 31, 2003, AmeriServ Trust and Financial Services had total assets of $1.6 million and total shareholder s equity of $1.2 million.

*AmeriServ Life*

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company s market area. Operations of AmeriServ Life are conducted in each office of the Company s banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Insurance Department of the Commonwealth of Pennsylvania, and the Federal Reserve. At December 31, 2003, AmeriServ Life had total assets of $1.9 million and total shareholder s equity of $1.2 million.

*AmeriServ Associates*

AmeriServ Associates is a registered investment advisory firm that administers investment portfolios, offers operational support systems and provides asset and liability management services to small and mid-sized financial institutions. At December 31, 2003, AmeriServ Associates had total assets of $346,000 and total shareholder s equity of $266,000.

**Monetary Policies**

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

**Competition**

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

**Market Area**

The Company s local economy has not seen vibrant economic growth compared to national economic growth as reflected by the strong national Gross Domestic Product (GDP) of recent quarters. The economy in Cambria and Somerset counties continue to perform below the 5.7% national unemployment average with local unemployment at 6.3%. Johnstown s unemployment rate remains near the highest of all regions of the Commonwealth. Local market conditions have improved in recent quarters but change comes slowly. The unemployment rate has improved from last year s 7.8% by one and a half percentage points, but jobs in the area have actually declined in absolute number from last year s total. Near-term expectations for future employment point to better days ahead. In 2004, the Company has redefined its primary lending market as approximately a 100 mile radius from Johnstown. This area would include the Johnstown Metro Area, along with State College, Pittsburgh, and Harrisburg. Local loan demand is growing and we expect that given our renewed strategic focus on commercial lending, the Company will experience loan growth in 2004. Overall, economic conditions in the Johnstown Metro Area are expected to slowly improve throughout 2004.

Economic conditions are much better in the State College area that comprises Centre County. The unemployment rate in the area is 3.0%, the lowest of all regions in the Commonwealth. The State College market presents the Company with a more vibrant economic market and a different demographic. The 18 to 34 year old age group makes up a much greater percentage of the population in State College than in the Cambria/Somerset market, while the population of people 50 years of age or older is significantly less in State College. Overall, opportunities in the State College market are quite different and challenging, providing a promising source of business to profitably grow the Company.

During 2003, the Company maintained union niche offices in Harrisburg in Dauphin County to the east of Johnstown and west in Pittsburgh in Allegheny County. We have seen slow economic growth in both counties.

Nationally, the economic environment appears promising. With a Presidential Election in 2004, most economists remain hopeful that the economy will continue to grow while inflation and interest rates remain at record low levels for most of the year.

**Employees**

The Company employed 471 people as of December 31, 2003, in full- and part-time positions. Approximately 281 non-supervisory employees of AmeriServ Financial Bank are represented by the United Steelworkers of America, AFL-CIO-CLC, Local Union 2635-06/07. AmeriServ Financial Bank and such employees are parties to a labor contract pursuant to which employees have agreed not to engage in any work stoppage during the term of the contract which will expire on October 15, 2004. AmeriServ Financial Bank has not experienced a work stoppage since 1979.

**Sarbanes-Oxley Act of 2002**

On July 30, 2002, President Bush signed into law the Sarbanes-Oxley Act of 2002, which contains important new requirements for public companies in the area of financial disclosure and corporate governance. In accordance with section 302(a) of the Sarbanes-Oxley act, written certifications by the Company s Chief Executive Officer and Chief Financial Officer are required. These certifications attest that the Company s quarterly and annual reports filed with the SEC do not contain any untrue statement of a material fact. In response to the Sarbanes-Oxley Act of 2002, the Company adopted a series of procedures to further strengthen its corporate governance practices. The Company also requires signed certifications from managers who are responsible for internal controls throughout the Company as to the integrity of the information they prepare. These procedures supplement the Company s Code of Conduct Policy and other procedures that were previously in place.

**Privacy Provisions of Gramm-Leach-Bliley Act**

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

**Statistical Disclosures for Bank Holding Companies**

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

I. Distribution of Assets, Liabilities, and Stockholders Equity; Interest Rates and Interest Differential Information. Information required by this section is presented on pages 17-19, and 26-30.

II. Investment Portfolio Information required by this section is presented on pages 5-6.

III. Loan Portfolio Information required by this section appears on pages 6-7, 19, and 20.

IV. Summary of Loan Loss Experience Information required by this section is presented on pages 20-23.

V. Deposits Information required by this section follows on pages 7-8.

VI. Return on Equity and Assets Information required by this section is presented on page 12.

VII. Short-Term Borrowings Information required by this section is presented on pages 8-9.

**Investment Portfolio**

Investment securities held to maturity are carried at amortized cost while investment securities classified as available for sale are reported at fair value.

The following table sets forth the cost basis and market value of AmeriServ Financial s investment portfolio as of the periods indicated:

Investment securities available for sale at:

| Cost Basis: | | At December 31, 2003 | | 2002 (In thousands) | | 2001 |
|---|---|---|---|---|---|---|
| U.S. Treasury | **$** | **9,498** | $ | 12,514 | $ | 10,972 |
| U.S. Agency | | **13,508** | | 5,600 | | 850 |
| State and Municipal | | | | | | 1,012 |
| Mortgage-backed securities | | **469,086** | | 430,541 | | 439,591 |
| Other securities | | **33,916** | | 33,117 | | 46,154 |
| Total cost basis of investment securities available for sale | **$** | **526,008** | $ | 481,772 | $ | 498,579 |
| Total market value of investment securities available for sale | **$** | **524,573** | $ | 490,701 | $ | 498,626 |

Investment securities held to maturity at:

| Cost Basis: | | At December 31, 2003 | | 2002 (In thousands) | | 2001 |
|---|---|---|---|---|---|---|
| U.S. Treasury | **$** | **1,155** | $ | | $ | |
| U.S. Agency | | **8,096** | | | | |
| Mortgage-backed securities | | **18,838** | | 15,077 | | |
| Total cost basis of investment securities held to maturity | **$** | **28,089** | $ | 15,077 | $ | |
| Total market value of investment securities held to maturity | **$** | **28,095** | $ | 15,320 | $ | |

**Loan Portfolio**

The loan portfolio of the Company consisted of the following:

| | | 2003 | | 2002 | | At December 31 2001 (In thousands) | | 2000 | | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| Commercial | **$** | **75,738** | $ | 89,127 | $ | 123,523 | $ | 116,615 | $ | 152,042 |
| Commercial loans secured by real estate | | **206,204** | | 222,854 | | 209,483 | | 193,912 | | 406,927 |
| Real estate-mortgage(1) | | **194,605** | | 229,154 | | 231,728 | | 242,370 | | 452,507 |
| Consumer | | **28,343** | | 32,506 | | 36,186 | | 35,749 | | 70,983 |
| Loans | | **504,890** | | 573,641 | | 600,920 | | 588,646 | | 1,082,459 |
| Less: Unearned income | | **2,926** | | 4,881 | | 7,619 | | 8,012 | | 8,408 |
| Loans, net of unearned income | **$** | **501,964** | $ | 568,760 | $ | 593,301 | $ | 580,634 | $ | 1,074,051 |

(1) At December 31, 2003 and 2002, real estate-construction loans constituted 3.2% and 7.2% of the Company s total loans, net of unearned income, respectively.

**Non-Performing Assets**

The following table presents information concerning non-performing assets:

| | At December 31 | | | | |
|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** |
| | (In thousands, except percentages) | | | | |
| Non-accrual loans | **$ 10,781** | $ 6,791 | $ 9,303 | $ 5,803 | $ 4,928 |
| Loans past due 90 days or more | **98** | 50 | 208 | | 1,305 |
| Other real estate owned | **532** | 123 | 533 | 158 | 7,126 |
| Total non-performing assets | **$ 11,411** | $ 6,964 | $ 10,044 | $ 5,961 | $ 13,359 |
| Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned | **2.26%** | 1.22% | 1.67% | 1.01% | 1.21% |

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

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

| | Year ended December 31, (In thousands) | | | | |
|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** |
| Interest income due in accordance with original terms | **$ 670** | $ 470 | $ 340 | $ 464 | $ 494 |
| Interest income recorded | **(119)** | (14) | (19) | (139) | (20) |
| Net reduction in interest income | **$ 551** | $ 456 | $ 321 | $ 325 | $ 474 |

**Deposits**

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

| | At December 31 (In thousands) | | | | | |
|---|---|---|---|---|---|---|
| | **2003** | | **2002** | | **2001** | |
| Demand: | | | | | | |
| Non-interest bearing | **$ 104,330** | **%** | $ 105,830 | % | $ 91,033 | % |
| Interest bearing | **51,872** | **0.39** | 49,681 | 0.50 | 47,530 | 0.97 |
| Savings | **103,450** | **0.92** | 100,454 | 1.32 | 91,926 | 1.57 |
| Money market | **123,845** | **1.06** | 129,902 | 1.09 | 134,799 | 4.65 |
| Other time | **282,838** | **3.20** | 300,683 | 4.34 | 303,135 | 5.28 |
| Total deposits | **$ 666,335** | **2.05** | $ 686,550 | 2.76 | $ 668,423 | 4.19 |

Interest expense on deposits consisted of the following:

| | Year ended December 31 (In thousands) | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| Interest bearing demand | **$ 201** | $ 249 | $ 434 |
| Savings | **948** | 1,329 | 1,401 |
| Money market | **1,309** | 1,423 | 3,654 |
| Certificates of deposit in denominations of $100,000 or more | **998** | 1,127 | 1,281 |
| Other time | **8,047** | 11,926 | 14,772 |
| Total interest expense | **$ 11,503** | $ 16,054 | $ 21,542 |

Additionally, the following table provides more detailed maturity information regarding certificates of deposit issued in denominations of $100,000 or more as of December 31, 2003:

**Maturing in:**

| | | (In thousands) |
|---|---|---|
| Three months or less | $ | **19,097** |
| Over three through six months | | **1,081** |
| Over six through twelve months | | **2,398** |
| Over twelve months | | **17,373** |
| Total | $ | **39,949** |

**Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings**

The outstanding balances and related information for federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings are summarized as follows:

| | At December 31, 2003 | | |
|---|---|---|---|
| | Federal Funds Purchased | Securities Sold Under Agreements to Repurchase | Other Short-Term Borrowings |
| | (In thousands, except rates) | | |
| Balance | **$** | $ | $ 144,643 |
| Maximum indebtedness at any month end | **12,500** | | 159,260 |
| Average balance during year | **1,732** | | 104,048 |
| Average rate paid for the year | **1.41%** | % | 1.38% |
| Interest rate on year end balance | | | 1.06 |

| | At December 31, 2002 | | |
|---|---|---|---|
| | Federal Funds Purchased | Securities Sold Under Agreements to Repurchase | Other Short-Term Borrowings |
| | (In thousands, except rates) | | |
| Balance | **$ 9,225** | $ | $ 91,563 |
| Maximum indebtedness at any month end | **14,200** | 327 | 124,116 |
| Average balance during year | **2,645** | 64 | 53,924 |
| Average rate paid for the year | **1.93%** | 1.07% | 1.78% |
| Interest rate on year end balance | **1.50** | | 1.48 |

| | At December 31, 2001 | | |
|---|---|---|---|
| | Federal Funds Purchased | Securities Sold Under Agreements to Repurchase | Other Short-Term Borrowings |
| | (In thousands, except rates) | | |
| Balance | $ 6,275 | $ 392 | $ 6,187 |
| Maximum indebtedness at any month end | 11,050 | 424 | 116,463 |
| Average balance during year | 2,889 | 275 | 51,053 |
| Average rate paid for the year | 4.22% | 2.72% | 3.57% |
| Interest rate on year end balance | 1.82 | 1.25 | 1.50 |

Average amounts outstanding during the year represent daily averages. Average interest rates represent interest expense divided by the related average balances. Collateral related to securities sold under agreements to repurchase are maintained within the Company s investment portfolio.

These borrowing transactions can range from overnight to one year in maturity. The average maturity was two days at the end of 2003 and 2002 and 16 days at the end of 2001.

**Item 2.** ***Properties***

The principal offices of the Company and AmeriServ Financial Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus nine floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 16 other locations which are owned in fee. Thirteen additional locations are leased with terms expiring from February 14, 2004 to March 31, 2018.

**Item 3.** ***Legal Proceedings***

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

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

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

**PART II**

**Item 5.** ***Market for the Registrant s Common Stock and Related Stockholder Matters***

As of January 31, 2004, the Company had 4,782 shareholders of its Common Stock. On February 28, 2003, the Company and the Bank entered into a Memorandum of Understanding (MOU) with the Federal Reserve Bank of Philadelphia (Federal Reserve) and the Pennsylvania Department of Banking (Department). Under the terms of the MOU, the Company and the Bank cannot declare dividends, the Company may not redeem any of its own stock, and the Company cannot incur any additional debt other than in the ordinary course of business, in each case, without the prior written approval of the Federal Reserve and the Department. Accordingly, the Board of Directors of the Company cannot reinstate the previously suspended common stock dividend, or reinstitute its stock repurchase program without the concurrence of the Federal Reserve and the Department.

**Common Stock**

AmeriServ Financial, Inc. s Common Stock is traded on the NASDAQ National Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

| | Closing Prices | | Cash Dividends Declared |
|---|---|---|---|
| | High | Low | |
| **Year ended December 31, 2003:** | | | |
| First Quarter | **$ 3.90** | **$ 2.41** | **$ 0.00** |
| Second Quarter | **3.90** | **3.10** | **0.00** |
| Third Quarter | **4.17** | **3.46** | **0.00** |
| Fourth Quarter | **5.16** | **4.27** | **0.00** |
| Year ended December 31, 2002: | | | |
| First Quarter | $ 5.15 | $ 4.40 | $ 0.09 |
| Second Quarter | 5.24 | 4.50 | 0.09 |
| Third Quarter | 4.79 | 2.30 | 0.09 |
| Fourth Quarter | 3.42 | 2.25 | 0.03 |

**Item 6.** ***Selected Consolidated Financial Data***

**SELECTED TEN-YEAR CONSOLIDATED FINANCIAL DATA**

| | At or for the year ended December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2003** | **2002*** | **2001*** | **2000**** | **1999** | **1998** | **1997** | **1996** | **1995** | **1994** |
| | (Dollars in thousands, except per share data) | | | | | | | | | |
| **Summary of Income Statement Data:** | | | | | | | | | | |
| Total interest income | **$ 55,005** | $ 66,015 | $ 81,659 | $ 107,298 | $ 165,188 | $ 158,958 | $ 154,788 | $ 137,333 | $ 129,715 | $ 102,811 |
| Total interest expense | **30,360** | 38,647 | 53,461 | 69,839 | 99,504 | 93,728 | 87,929 | 76,195 | 73,568 | 46,993 |
| Net interest income | **24,645** | 27,368 | 28,198 | 37,459 | 65,684 | 65,230 | 66,859 | 61,138 | 56,147 | 55,818 |
| Provision for loan losses | **2,961** | 9,265 | 1,350 | 2,096 | 1,900 | 600 | 158 | 90 | 285 | (2,765) |
| Net interest income after provision for loan losses | **21,684** | 18,103 | 26,848 | 35,363 | 63,784 | 64,630 | 66,701 | 61,048 | 55,862 | 58,583 |
| Total non-interest income | **16,929** | 19,687 | 18,075 | 16,609 | 24,374 | 23,689 | 20,203 | 18,689 | 16,543 | 8,187 |
| Total non-interest expense | **38,277** | 46,367 | 42,536 | 51,734 | 60,815 | 59,520 | 54,104 | 52,474 | 50,557 | 49,519 |
| Income (loss) before income taxes | **336** | (8,577) | 2,387 | 238 | 27,343 | 28,799 | 32,800 | 27,263 | 21,848 | 17,251 |
| Provision (benefit) for income taxes | **(213)** | (3,425) | 412 | (1,478) | 6,922 | 7,655 | 9,303 | 7,244 | 6,045 | 5,931 |
| Net income (loss) | **$ 549** | $ (5,152) | $ 1,975 | $ 1,716 | $ 20,421 | $ 21,144 | $ 23,497 | $ 20,019 | $ 15,803 | $ 11,320 |
| **Per Common Share Data:(1)** | | | | | | | | | | |
| Basic earnings (loss) per share | **$ 0.04** | $ (0.37) | $ 0.15 | $ 0.13 | $ 1.53 | $ 1.51 | $ 1.56 | $ 1.28 | $ 0.96 | $ 0.73 |
| Diluted earnings (loss) per share | **0.04** | (0.37) | 0.15 | 0.13 | 1.52 | 1.48 | 1.54 | 1.28 | 0.96 | 0.73 |
| Cash dividends declared | **0.00** | 0.30 | 0.36 | 0.42 | 0.59 | 0.60 | 0.53 | 0.46 | 0.35 | 0.32 |
| Book value at period end | **5.32** | 5.77 | 6.01 | 5.83 | 8.46 | 10.48 | 10.77 | 9.97 | 9.45 | 8.19 |
| **Balance Sheet and Other Data:** | | | | | | | | | | |
| Total assets | **$ 1,147,886** | $ 1,175,550 | $ 1,198,859 | $ 1,254,261 | $ 2,467,479 | $ 2,377,081 | $ 2,239,110 | $ 2,087,112 | $ 1,885,372 | $ 1,788,890 |
| Loans and loans held | **503,387** | 572,977 | 599,481 | 590,271 | 1,095,804 | 1,066,321 | 989,575 | 939,726 | 834,634 | 868,004 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| for sale, net of unearned income | | | | | | | | | | |
| Allowance for loan losses | **11,682** | 10,035 | 5,830 | 5,936 | 10,350 | 10,725 | 12,113 | 13,329 | 14,914 | 15,590 |
| Investment securities available for sale | **524,573** | 490,701 | 498,626 | 550,232 | 1,187,335 | 661,491 | 580,115 | 455,890 | 427,112 | 259,462 |
| Investment securities held to maturity | **28,089** | 15,077 | | | | 508,142 | 536,608 | 546,318 | 463,951 | 524,638 |
| Deposits | **654,597** | 669,929 | 676,346 | 659,064 | 1,230,941 | 1,176,291 | 1,139,527 | 1,138,738 | 1,177,858 | 1,196,246 |
| Total borrowings | **410,206** | 410,135 | 424,665 | 500,580 | 1,099,842 | 1,026,570 | 913,056 | 770,102 | 534,182 | 432,735 |
| Stockholders equity | **74,270** | 80,256 | 81,990 | 78,407 | 112,557 | 141,670 | 158,180 | 151,917 | 150,492 | 137,136 |
| Full-time equivalent employees | **413** | 422 | 475 | 477 | 745 | 762 | 765 | 759 | 742 | 780 |

* Certain balance sheet items and financial ratios for these years were restated to reflect a $2.5 million prior period adjustment which increased retained earnings and reduced deferred tax liabilities. See Note #27 to the consolidated financial statements for further discussion. Earlier years were not restated as the amounts were not material to any of the individual years presented.

** The Company spun-off its Three Rivers Bank subsidiary on April 1, 2000.

(1) All per share and share data have been adjusted to reflect a 3 for 1 stock split in the form of a 200% stock dividend which was distributed on July 31, 1998, to shareholders of record on July 16, 1998.

| | At or for the year ended December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | 2002* | 2001* | 2000** | 1999 | 1998 | 1997 | 1996 | 1995 | 1994 |
| | (Dollars in thousands, except per share data) | | | | | | | | | |
| **Selected Financial Ratios:** | | | | | | | | | | |
| Return on average total equity | **0.71%** | (6.18)% | 2.37% | 2.11% | 15.48% | 14.13% | 15.00% | 13.36% | 11.03% | 8.92% |
| Return on average assets | **0.05** | (0.43) | 0.15 | 0.11 | 0.83 | 0.93 | 1.09 | 1.03 | 0.87 | 0.75 |
| Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end | **76.90** | 85.53 | 88.64 | 89.56 | 89.02 | 87.09 | 86.84 | 82.52 | 70.86 | 72.56 |
| Ratio of average total equity to average assets | **6.67** | 7.00 | 6.51 | 5.20 | 5.39 | 6.58 | 7.28 | 7.69 | 7.85 | 8.39 |
| Common stock cash dividends as a percent of net income (loss) applicable to common stock | | (80.16) | 247.29 | 327.27 | 38.51 | 41.00 | 34.00 | 35.28 | 36.43 | 44.57 |
| Common and preferred stock cash dividends as a percent of net income (loss) | | (80.16) | 247.29 | 327.27 | 38.51 | 41.00 | 34.00 | 35.28 | 36.43 | 44.57 |
| Interest rate spread | **2.02** | 2.16 | 2.08 | 2.26 | 2.59 | 2.58 | 2.97 | 3.06 | 2.94 | 3.47 |
| Net interest margin | **2.31** | 2.51 | 2.45 | 2.63 | 2.96 | 3.17 | 3.43 | 3.52 | 3.45 | 4.03 |
| Allowance for loan losses as a percentage of loans and loans held for sale, net of unearned income, at period end | **2.32** | 1.75 | 0.97 | 1.01 | 0.94 | 1.01 | 1.22 | 1.42 | 1.79 | 1.80 |
| Non-performing assets as a percentage of loans and loans held for sale and other real estate owned, at period end | **2.26** | 1.22 | 1.67 | 1.01 | 1.21 | 0.77 | 0.89 | 0.92 | 1.13 | 0.91 |
| Net charge-offs as a percentage of average loans and loans held for sale | **0.22** | 0.85 | 0.26 | 0.21 | 0.21 | 0.19 | 0.14 | 0.20 | 0.08 | 0.04 |
| Ratio of earnings to fixed charges and preferred dividends:(2) | | | | | | | | | | |
| | **1.02x** | 0.62x | 1.07x | 1.01x | 1.47x | 1.54x | 1.72x | 1.7x | 1.77x | 2.3x |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Excluding interest on deposits | | | | | | | | | | |
| Including interest on deposits | **1.01** | 0.78 | 1.04 | 1.00 | 1.27 | 1.31 | 1.37 | 1.36 | 1.30 | 1.37 |
| Cumulative one year GAP ratio, at period end | **0.96** | 1.44 | 1.30 | 1.01 | 0.59 | 1.03 | 0.88 | 0.79 | 0.86 | 0.79 |

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* Certain balance sheet items and financial ratios for these years were restated to reflect a $2.5 million prior period adjustment which increased retained earnings and reduced deferred tax liabilities. See Note #27 to the consolidated financial statements for further discussion. Earlier years were not restated as the amounts were not material to any of the individual years presented.

** The Company spun-off its Three Rivers Bank subsidiary on April 1, 2000.

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

**SELECTED QUARTERLY CONSOLIDATED FINANCIAL DATA**

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

| | 2003 Quarter Ended | | | |
|---|---|---|---|---|
| | Dec. 31 | Sept. 30 | June 30 | March 31 |
| | (In thousands, except per share data) | | | |
| Interest income | **$ 12,957** | **$ 13,079** | **$ 14,226** | **$ 14,743** |
| Non-interest income | **3,857** | **3,982** | **5,095** | **3,995** |
| Total revenue | **16,814** | **17,061** | **19,321** | **18,738** |
| Interest expense | **7,089** | **7,383** | **7,792** | **8,096** |
| Provision for loan losses | **384** | **384** | **534** | **1,659** |
| Non-interest expense | **9,259** | **9,112** | **9,786** | **10,120** |
| Income (loss) before income taxes | **82** | **182** | **1,209** | **(1,137)** |
| Provision (benefit) for income taxes | **(98)** | **(67)** | **294** | **(342)** |
| Net income(loss) | **$ 180** | **$ 249** | **$ 915** | **$ (795)** |
| Basic earnings (loss) per common share | **$ 0.01** | **$ 0.02** | **$ 0.07** | **$ (0.06)** |
| Diluted earnings (loss) per common share | **0.01** | **0.02** | **0.07** | **(0.06)** |
| Cash dividends declared per common share | **0.00** | **0.00** | **0.00** | **0.00** |

| | 2002 Quarter Ended | | | |
|---|---|---|---|---|
| | Dec. 31 | Sept. 30 | June 30 | March 31 |
| | (In thousands, except per share data) | | | |
| Interest income | $ 15,482 | $ 16,202 | $ 17,071 | $ 17,260 |
| Non-interest income | 5,086 | 4,929 | 5,024 | 4,648 |
| Total revenue | 20,568 | 21,131 | 22,095 | 21,908 |
| Interest expense | 8,798 | 9,408 | 9,764 | 10,677 |
| Provision for loan losses | 4,530 | 3,380 | 815 | 540 |
| Non-interest expense | 10,371 | 15,005 | 11,056 | 9,935 |
| Income (loss) before income taxes | (3,131) | (6,662) | 460 | 756 |
| Provision (benefit) for income taxes | (1,169) | (2,438) | 52 | 130 |
| Net income (loss) | $ (1,962) | $ (4,224) | $ 408 | $ 626 |
| Basic earnings (loss) per common share | $ (0.14) | $ (0.31) | $ 0.03 | $ 0.05 |
| Diluted earnings (loss) per common share | (0.14) | (0.31) | 0.03 | 0.05 |
| Cash dividends declared per common share | 0.03 | 0.09 | 0.09 | 0.09 |

**Item 7.** ***Management s Discussion and Analysis of Consolidated Financial Condition and Results of Operations (M. D. & A.)***

The following discussion and analysis of financial condition and results of operations of AmeriServ Financial should be read in conjunction with the consolidated financial statements of AmeriServ Financial, including the related notes thereto, included elsewhere herein. As discussed in Note #27 to the consolidated financial statements the Company's 2003, 2002, and 2001 consolidated financial statements have been restated. Management s discussion and analysis gives effect to this restatement.

**Results of Operations for the Years Ended December 31, 2003, 2002, and 2001**

**2003 SUMMARY OVERVIEW:**

During 2003, the Company has slowly improved its situation. At the close of 2002, the Company had recorded a loss of $5.2 million and watched its stock price hover at about 50% of book value. It had been criticized by regulatory authorities and had accepted the resignations of three of its most senior executives, including its Chief Executive Officer and its Chief Operating Officer. It was operating under an interim CEO and was facing an uncertain future.

With the conclusion of 2003, the Company can look at a series of improvements:

It has recorded three consecutive quarters of profitability and full year net income of $549,000.

It has met its debt service requirements on its guaranteed junior subordinated deferrable interest debentures (trust preferred securities).

It continues to meet the requirements of the regulatory Memorandum of Understanding (See Note #24 to the Consolidated Financial Statements).

It has refocused itself as a community bank and a market leader in its primary retail markets.

It has redefined its primary lending market as approximately a 100 mile radius from Johnstown.

But perhaps most importantly, it has stabilized the three areas of most concern at the end of 2002.

1. As 2002 ended the level of classified loans was growing and exceeded the loan loss reserve However, during 2003 the loan loss reserve continued to strengthen and as the year progressed, the level of non-performing loans has stabilized. The entire loan portfolio is being monitored closely. All lending procedures have been reviewed and strengthened and the commercial lending area has been completely restructured in an effort to prevent a reoccurrence of the growth in non-performing loans that the Company experienced in recent years.

2. A struggling mortgage-servicing operation that was experiencing significant losses Even though stabilizing interest rates had reduced the threat of further impairment losses, there was an inherent volatility in mortgage servicing portfolios that endangered the Company. But at the end of 2003, the mortgage banking segment is 75% smaller, thus reducing its ability to significantly threaten future earnings of AmeriServ although it continues to incur operating losses. It is the intent of the Company to develop a strategy to exit the mortgage servicing business as economic conditions permit.

3. A $376 million borrowing from the Federal Home Loan Bank (FHLB) with maturities through 2010 Even with 38% of the borrowing on an overnight basis, the cost of borrowing was above 4%. However, at the conclusion of 2003, the portfolio has undergone a stringent strategic review. The investment portfolio contains AAA issues that comprise 97% of its holdings; it has a short investment duration of approximately two years; it has $100 million of hedges in place to protect against falling rates and it is positioned to benefit from rising rates with its short investment duration. By recording $3.8 million of security gains in 2003, the Company has demonstrated its ability to manage this portfolio in a volatile rate environment. This would suggest that the inherent risks are being managed carefully. It is the strategic intent of the Company to reduce the asset leverage program to less than 25% of total assets over a three- to five-year period.

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

**Year ended December 31**

| | 2003 | 2002 | 2001 |
|---|---|---|---|
| | (In thousands, except per share data and ratios) | | |
| Net income (loss) | **$ 549** | $ (5,152) | $ 1,975 |
| Diluted earnings (loss) per share | **0.04** | (0.37) | 0.15 |
| Return on average equity | **0.71%** | (6.18)% | 2.37% |

The Company reported net income of $549,000 or $0.04 per share in 2003. This represents significant improvement and a dramatic turnaround from the net loss of $5.2 million or $0.37 per share in 2002. Additionally, the Company reported three consecutive quarters of profitability after a net loss in the first quarter of 2003. The continuation of the turnaround contributed to the improved performance in virtually every facet of the operation. The sharply improved net income in 2003 when compared to 2002 resulted from reduced non-interest expenses and a lower provision for loan losses. These positive items more than offset reduced revenue from both net interest income and non-interest income and a lower income tax benefit.

The Company reported a net loss of $5.2 million or $0.37 per share in 2002 compared to net income of $2.0 million or $0.15 per share in 2001. The Company s 2002 performance was negatively impacted by an increased provision for loan losses, higher non-interest expense, and reduced net interest income. Specifically, the provision for loan losses totaled $9.3 million in 2002; an increase of $7.9 million over the 2001 provision. The higher 2002 provision reflected actions taken to strengthen the allowance for loan losses as a result of continued weakness in the economy and deterioration in credit quality. Non-interest expense in 2002 increased due in part to additional mortgage servicing impairment charges and a $920,000 restructuring charge. Net interest income declined by $830,000 as a smaller level of earning assets more than offset the benefit of an increased net interest margin. These negative items were partially offset by increased non-interest income and a benefit for income taxes.

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

| | Year ended December 31 | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| | | **(In thousands, except ratios)** | |
| Interest income | **$ 55,005** | $ 66,015 | $ 81,659 |
| Interest expense | **30,360** | 38,647 | 53,461 |
| Net interest income | **24,645** | 27,368 | 28,198 |
| Tax-equivalent adjustment | **39** | 72 | 1,023 |
| Net tax-equivalent interest income | **$ 24,684** | $ 27,440 | $ 29,221 |
| Net interest margin | **2.31%** | 2.51% | 2.45% |

**2003 NET INTEREST PERFORMANCE OVERVIEW. . .**The Company s 2003 net interest income on a tax-equivalent basis decreased by $2.8 million or 10.0% from 2002 due to a lower level of earning assets and a 20 basis point drop in the net interest margin to 2.31%. Loan portfolio shrinkage experienced during 2003 was a predominant factor contributing to both the lower level of earning assets and the net interest margin contraction. The overall net decrease in average loans outstanding reflects significant prepayments caused by the low interest rate environment and the Company s internal focus on improving asset quality. The Company completed the restructuring of its lending division during the third quarter of 2003 and did report modest growth in total loans in the fourth quarter of 2003 for the first time in six quarters.

Additionally, the net interest margin compression also reflects increased mortgage-related cash flows in the investment securities portfolio as a result of the record level of mortgage refinancings in 2003. This reduced the securities portfolio yield due in part to accelerated amortization of premiums on mortgage-backed securities to correlate with the heightened prepayments and the reinvestment of this cash into new shorter duration securities with lower yields.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2003 VERSUS 2002. . .**Regarding the separate components of net interest income, the Company s total tax-equivalent interest income for 2003 decreased by $11.0 million or 16.7% when compared to 2002. This decrease was due to a $29.4 million decline in earning assets and a 90 basis point drop in the earning asset yield to 5.15%. Within the earning asset base, the yield on the total investment securities portfolio dropped by 103 basis points to 3.99% while the yield on the total loan portfolio decreased by 63 basis points to 6.30%. Both of these declines reflect the low interest rate environment in place in 2003 as the Federal Reserve reduced the

federal funds rate by 550 basis points since the beginning of 2001 in an effort to stimulate economic growth. These significant rate reductions have caused accelerated asset prepayments as borrowers have elected to refinance their higher fixed rate loans into lower cost loans. Additionally, floating or variable rate assets have also repriced downward.

The $29.4 million decline in the volume of earning assets was due to a $69 million or 11.8% decrease in average loans outstanding which more than offset growth in both available for sale (AFS) and held to maturity (HTM) investment securities. The loan decline in 2003 reflected the heightened prepayment pressures and occurred in both commercial loans and residential mortgage loans. The drop in residential mortgage loans was also partially due to

the Company s decision to sell approximately $62 million or 61% of the new mortgage loan production into the secondary market for interest rate risk management purposes. The drop in commercial loans was also caused by reduced new loan production as management was inwardly focused on reorganizing its commercial lending division during 2003. This reorganization included the hiring of a new chief lending officer in February of 2003 and the hiring of four experienced commercial lenders through the end of the third quarter of 2003. The Company did reverse the trend of net loan portfolio shrinkage during the fourth quarter of 2003 and anticipates that it will achieve meaningful commercial loan growth in 2004. This commercial loan growth should lead to a greater composition of loans in the earning asset mix which should contribute to increased net interest income and net interest margin in 2004.

The Company s total interest expense for 2003 decreased by $8.3 million or 21.4% when compared to 2002. This reduction in interest expense was due to a lower volume of interest bearing liabilities and a reduced cost of funds. Total average interest bearing liabilities were $26.9 million or 2.7% lower in 2003 as fewer deposits and borrowings were needed to fund a smaller earning asset base.

The total cost of funds declined by 76 basis points to 3.13% and was driven down by a reduced cost of both deposits and borrowings. Specifically, the cost of interest bearing deposits decreased by 71 basis points to 2.05% and the cost of short-term borrowings and FHLB advances declined by 89 basis points to 4.29%. The reduced deposit cost was caused by lower rates paid particularly for savings accounts and certificates of deposit. The lower cost of borrowings reflects the downward repricing of maturing FHLB advances to lower current market rates as a result of the previously discussed decline in interest rates and the favorable impact that fair value hedges had on reducing interest expense. (See Note #22, Derivative Hedging Instruments, for further discussion).

The Company s ratio of FHLB advances and short-term borrowings to total assets averaged 32.2% in 2003 which was comparable with the 31.9% average in 2002. The total revenue contribution from leverage assets (including investment security gains and hedging activity) amounted to $2.8 million in 2003 compared to $3.6 million in 2002. The Company presently anticipates that the size of the leverage program in 2004 will be comparable with 2003 and approximate $375 million or 32% of total assets. Longer-term the Company would like to reduce the size of its leverage program to 25% of total assets.

**2002 NET INTEREST PERFORMANCE OVERVIEW. . .**The Company s 2002 net interest income on a tax-equivalent basis decreased by $1.8 million or 6.1% from 2001 due to a lower level of earning assets. This decline more than offset the benefit to net interest income of a six basis point increase in the net interest margin to 2.51%. The reduced level of earning assets was due to a $107 million reduction in the investment securities portfolio. This decrease resulted from the Company s decision to reduce its interest rate risk by delevering its balance sheet in the fourth quarter of 2001 and maintaining this lower borrowed funds position in 2002. As a result of this action, the Company s level of FHLB advances and short-term borrowings to total assets averaged 31.9% in 2002 compared to 37.4% in 2001.

**COMPONENT CHANGES IN NET INTEREST INCOME: 2002 VERSUS 2001. . .**Regarding the separate components of net interest income, the Company s total tax-equivalent interest income for 2002 decreased by $16.6 million or 20.1% when compared to 2001. This decrease was due to an $88 million decline in earning assets and a 92 basis point drop in the earning asset yield. Within the earning asset base, the yield on the total investment securities portfolio dropped by 107 basis points to 5.02% while the yield on the total loan portfolio decreased by 104 basis points to 6.93%. Both of these declines reflect the lower interest rate environment in place in 2002 as the Federal Reserve reduced the federal funds rate by 475 basis points during 2001 and by an additional 50 basis points in the fourth quarter of 2002 in an effort to stimulate economic growth. These significant rate reductions caused accelerated asset prepayments as borrowers elected to refinance their higher fixed rate loans into lower cost borrowings. Additionally, the downward repricing of floating rate assets also contributed to the lower earning asset yield.

The $88 million decline in the volume of earning assets was due to a $107 million reduction in investment securities. The Company took advantage of the lower interest rate environment to reposition and profitably reduce the size of its investment securities portfolio during the fourth quarter of 2001 and throughout 2002. This decline in investment securities was partially offset by a $22 million or 4.0% increase in total average loans outstanding. The

loan growth occurred primarily in commercial real-estate loans in the State College market. The Company also successfully grew its variable rate open-end home equity product during 2002.

The Company s total interest expense for 2002 decreased by $14.8 million or 27.7% when compared to 2001. This reduction in interest expense was due to a lower volume of interest bearing liabilities (specifically borrowed funds) and a reduced cost of funds. Total average borrowed funds were $101 million or 19.7% lower in 2002 as fewer borrowings were needed to fund a smaller earning asset base which stemmed from managements decision to delever the balance sheet.

The total cost of funds declined by 100 basis points to 3.89% and was driven down by a reduced cost of both deposits and borrowings. Specifically, the cost of interest bearing deposits decreased by 97 basis points to 2.76% and the cost of borrowings declined by 74 basis points to 5.46%. The lower deposit cost was caused by lower rates paid in all deposit categories particularly for money market deposits and certificates of deposit. The April 15, 2002 maturity of an $80 million interest rate swap that had fixed the cost of certain FHLB borrowings at 6.93% was a key factor responsible for the reduced cost of borrowings. Those hedged borrowings repriced to market with an average cost of approximately 1.79% in 2002.

The lower deposit costs did not negatively impact the Company s deposit generation strategies, as total average deposits were $18 million or 2.7% higher in 2002 as compared to 2001. This growth in deposits occurred despite the third quarter 2001 strategic sale of approximately $16 million of deposits associated with the Company s Coalport Branch.

The table that follows provides an analysis of net interest income on a tax-equivalent basis setting forth (i) average assets, liabilities, and stockholders equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) net interest margin (net interest income as a percentage of average total interest earning assets). Additionally, a tax rate of approximately 35% is used to compute tax-equivalent yields. Certain balance sheet items for the years 2002 and 2001 were restated to reflect a $2.5 million prior period adjustment. See Note #27 to the consolidated financial statements for further discussion.

| | Year ended December 31 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | | 2002 | | | 2001 | | |
| | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate | Average Balance | Interest Income/ Expense | Yield/ Rate |
| | (In thousands, except percentages) | | | | | | | | |
| Interest earning assets: | | | | | | | | | |
| Loans, net of unearned income | **$ 516,250** | **$ 33,346** | **6.30%** | $ 585,646 | $ 41,082 | 6.93% | $ 563,392 | $ 45,568 | 7.97% |
| Deposits with banks | **5,294** | **54** | **1.01** | 14,859 | 281 | 1.89 | 17,173 | 552 | 3.17 |
| Federal funds sold and securities purchased under agreements to resell | **29** | | **0.96** | 542 | 9 | 1.56 | 1,087 | 32 | 2.97 |
| Investment securities: | | | | | | | | | |
| Available for sale | **517,030** | **20,548** | **3.97** | 491,552 | 24,685 | 5.02 | 599,427 | 36,530 | 6.09 |
| Held to maturity | **25,159** | **1,096** | **4.40** | 594 | 30 | 5.09 | | | |
| Total investment securities | **542,189** | **21,644** | **3.99** | 492,146 | 24,715 | 5.02 | 599,427 | 36,530 | 6.09 |
| **Total interest earning assets/ interest income** | **1,063,762** | **55,044** | **5.15** | 1,093,193 | 66,087 | 6.05 | 1,181,079 | 82,682 | 6.97 |
| Non-interest earning assets: | | | | | | | | | |
| Cash and due from banks | **22,371** | | | 22,700 | | | 21,627 | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Premises and equipment | **11,950** | | | 13,165 | | | 13,348 | | |
| Other assets | **66,005** | | | 67,359 | | | 68,192 | | |
| Allowance for loan losses | **(11,431)** | | | (5,997) | | | (5,798) | | |
| **TOTAL ASSETS** | **$ 1,152,657** | | | $ 1,190,420 | | | $ 1,278,448 | | |
| Interest bearing liabilities: | | | | | | | | | |
| Interest bearing deposits: | | | | | | | | | |
| Interest bearing demand | **$ 51,872** | **$ 201** | **0.39%** | $ 49,681 | $ 249 | 0.50% | $ 47,530 | $ 434 | 0.91% |
| Savings | **103,450** | **948** | **0.92** | 100,454 | 1,329 | 1.32 | 91,926 | 1,401 | 1.52 |
| Money market | **123,845** | **1,309** | **1.06** | 129,902 | 1,423 | 1.09 | 134,799 | 3,654 | 2.71 |
| Other time | **282,838** | **9,045** | **3.20** | 300,683 | 13,053 | 4.34 | 303,135 | 16,053 | 5.30 |
| Total interest bearing deposits | **562,005** | **11,503** | **2.05** | 580,720 | 16,054 | 2.76 | 577,390 | 21,542 | 3.73 |
| | | | | | | | | | |
| Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | **105,780** | **1,464** | **1.37** | 56,633 | 1,015 | 1.79 | 54,217 | 1,950 | 3.60 |
| Advances from Federal Home Loan Bank | **265,184** | **14,433** | **5.44** | 322,557 | 18,618 | 5.77 | 423,767 | 26,961 | 6.36 |
| Guaranteed junior subordinated deferrable interest debentures | **34,500** | **2,960** | **8.58** | 34,500 | 2,960 | 8.58 | 34,500 | 2,960 | 8.58 |
| Long-term debt | | | | | | | 2,543 | 48 | 1.89 |
| **Total interest bearing liabilities/interest expense** | **967,469** | **30,360** | **3.13** | 994,410 | 38,647 | 3.89 | 1,092,417 | 53,461 | 4.89 |
| Non-interest bearing liabilities: | | | | | | | | | |
| Demand deposits | **104,330** | | | 105,830 | | | 91,033 | | |
| Other liabilities | **3,961** | | | 6,856 | | | 11,717 | | |
| Stockholders equity | **76,897** | | | 83,324 | | | 83,281 | | |
| **TOTAL LIABILITIES AND STOCKHOLDERS EQUITY** | **$ 1,152,657** | | | $ 1,190,420 | | | $ 1,278,448 | | |
| Interest rate spread | | | **2.02** | | | 2.16 | | | 2.08 |
| Net interest income/net interest margin | | **24,684** | **2.31%** | | 27,440 | 2.51% | | 29,221 | 2.45% |
| Tax-equivalent adjustment | | **(39)** | | | (72) | | | (1,023) | |
| Net interest income | | **$ 24,645** | | | $ 27,368 | | | $ 28,198 | |

The average balance and yield on taxable securities was $542 million and 3.99%, $491 million and 5.02%, and $571 million and 6.10% for 2003, 2002, and 2001, respectively. The Company had no tax-exempt securities in 2003. The average balance and tax-equivalent yield on tax-exempt securities was $1 million and 5.5% and $29 million and 6.0% for 2002 and 2001, respectively.

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

| | 2003 vs. 2002 Increase (decrease) due to change in: | | | 2002 vs. 2001 Increase (decrease) due to change in: | | |
|---|---|---|---|---|---|---|
| | Average Volume | Rate | Total | Average Volume | Rate | Total |
| | | | (In thousands) | | | |
| **Interest earned on:** | | | | | | |
| Loans, net of unearned income | **$ (4,378)** | **$ (3,358)** | **$ (7,736)** | $ 1,947 | $ (6,433) | $ (4,486) |
| Deposits with banks | **(132)** | **(95)** | **(227)** | (68) | (203) | (271) |
| Federal funds sold and securities purchased under agreements to resell | **(6)** | **(3)** | **(9)** | (12) | (11) | (23) |
| Investment securities: | | | | | | |
| Available for sale | **1,363** | **(5,500)** | **(4,137)** | (5,966) | (5,879) | (11,845) |
| Held to maturity | **1,070** | **(4)** | **1,066** | 4 | 26 | 30 |
| Total investment securities | **2,433** | **(5,504)** | **(3,071)** | (5,962) | (5,853) | (11,815) |
| Total interest income | **(2,083)** | **(8,960)** | **(11,043)** | (4,095) | (12,500) | (16,595) |
| **Interest paid on:** | | | | | | |
| Interest bearing demand deposits | **12** | **(60)** | **(48)** | 21 | (206) | (185) |
| Savings deposits | **42** | **(423)** | **(381)** | 175 | (248) | (73) |
| Money market | **(72)** | **(42)** | **(114)** | (128) | (2,105) | (2,233) |
| Other time deposits | **(739)** | **(3,269)** | **(4,008)** | (128) | (2,869) | (2,997) |
| Federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | **615** | **(166)** | **449** | 91 | (1,026) | (935) |
| Advances from Federal Home Loan Bank | **(3,167)** | **(1,018)** | **(4,185)** | (6,009) | (2,334) | (8,343) |
| Long-term debt | | | | (24) | (24) | (48) |
| Total interest expense | **(3,309)** | **(4,978)** | **(8,287)** | (6,002) | (8,812) | (14,814) |
| Change in net interest income | **$ 1,226** | **$ (3,982)** | **$ (2,756)** | $ 1,907 | $ (3,688) | $ (1,781) |

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

| | At December 31 | | |
|---|---|---|---|
| | 2003 | 2002 | 2001 |
| | | (In thousands, except percentages) | |
| Total loan delinquency (past due 30 to 89 days) | **$ 14,636** | $ 17,878 | $ 11,905 |
| Total non-accrual loans | **10,781** | 6,791 | 9,303 |
| Total non-performing assets(1) | **11,411** | 6,964 | 10,044 |
| Loan delinquency as a percentage of total loans and loans held for sale, net of unearned income | **2.91%** | 3.12% | 1.99% |
| Non-accrual loans as a percentage of total loans and loans held for sale, net of unearned income | **2.14** | 1.19 | 1.55 |

| | | | |
|---|---|---|---|
| Non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned | **2.26** | 1.22 | 1.67 |

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

Between December 31, 2002, and December 31, 2003, total loan delinquency decreased by $3.2 million to 2.91% of total loans. This decline was due primarily to the transfer of a $4.8 million commercial mortgage loan into non-accrual status. The transfer of this $4.8 million commercial mortgage loan into non-accrual status was also the primary cause of the noted increase in non-accrual loans and non-performing assets and the corresponding ratios. This loan is to a borrower in the personal care industry and is supported by an 80% deficiency guarantee by the U.S.

Department of Agriculture and is secured by a first mortgage on the personal care facility. The 20% unguaranteed portion was rated doubtful and the Company had established an allocation of $500,000 within the allowance for loan losses for this credit at December 31, 2003. The Company took possession of the facility in the first quarter of 2004 and will accordingly transfer the property into other real estate owned and continue to list it as a non-performing asset until it is sold. The Company expects to finalize a sale by June 30, 2004 and continues to believe that the loss allocation is appropriate.

In addition to the non-performing assets, the Company is carefully monitoring the performance of a $4.3 million commercial exposure to a borrower in the hotel industry. As of December 31, 2003, the borrower is in default of the contractual payments. This credit is secured by a first mortgage on the hotel. At December 31, 2003, the Company classified this loan as substandard and had established a standard allocation of $750,000 within the allowance for loan losses for this credit. It is likely that this loan will move into non- performing status by March 31, 2004.

Between December 31, 2001, and December 31, 2002, total loan delinquency increased sharply by $6 million to 3.12% of total loans. The majority of the increase was in commercial mortgage loans that were between 30 and 60 days delinquent. The increasing trend for loan delinquency reflected weaker economic conditions experienced both nationally and in the Company s local markets. The Company s level of non-performing assets dropped from $10.0 million or 1.67% of total loans at December 31, 2001 to $7.0 million or 1.22% of total loans at December 31, 2002. The decline between years was mainly due to increased net charge-offs in 2002 rather than improved credit quality.

At December 31, 2003, the Company had two loans totaling $698,000 that have been restructured involving forgiving a portion of the interest or principal on these loans and granting loan rates less than that of the market rate.

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

The actions taken to strengthen the allowance for loan losses over the past two years resulted from a concerted effort to carefully review the Company s loan portfolio in light of deterioration in credit quality and the weakness in the economy. Additionally, in the fourth quarter of 2002, the Company concluded that although its credit and credit administration policies are sound, adherence to these policies had not been consistent. This resulted in incomplete or dated information in credit files. The obtaining of updated borrower financial information and its subsequent analysis led to rating downgrades for numerous credits which contributed to an increased level of classified loans. Specifically, since December 31, 2001 classified loans increased by $21 million or 155% to $35 million. The Company, however, has noted a stabilization in classified loans over the second half of 2003 and has kept its borrower financial information current and exceptions within policy guidelines during 2003. As a result of the increased provisioning, the balance in the allowance for loan losses and key loan portfolio coverage ratios grew. Specifically, at

December 31, 2003, the loan loss reserve as a percentage of total loans amounted to 2.32% compared to 1.75% at December 31, 2002 and 0.97% at December 31, 2001. The Company s loan loss reserve coverage of non-performing assets amounted to 103% at December 31, 2003 compared to 144% at December 31, 2002 and 58% at December 31, 2001. The following table sets forth changes in the allowance for loan losses and certain ratios for the periods ended.

| | Year ended December 31 | | | | |
|---|---|---|---|---|---|
| | **2003** | **2002** | **2001** | **2000** | **1999** |
| | (In thousands, except ratios and percentages) | | | | |
| Balance at beginning of year | **$ 10,035** | $ 5,830 | $ 5,936 | $ 10,350 | $ 10,725 |
| Reduction due to spin-off of Three Rivers Bank | | | | (5,028) | |
| Transfer to reserve for unfunded loan commitments | **(139)** | | | | |
| Charge-offs: Commercial | **(425)** | (5,119) | (1,147) | (792) | (1,802) |
| Real estate-mortgage | **(503)** | (516) | (220) | (1,038) | (625) |
| Consumer | **(645)** | (348) | (453) | (332) | (576) |
| Total charge-offs | **(1,573)** | (5,983) | (1,820) | (2,162) | (3,003) |
| Recoveries: | | | | | |
| Commercial | **170** | 584 | 133 | 53 | 295 |
| Real estate-mortgage | **65** | 160 | 65 | 451 | 199 |
| Consumer | **163** | 179 | 166 | 176 | 234 |
| Total recoveries | **398** | 923 | 364 | 680 | 728 |
| Net charge-offs | **(1,175)** | (5,060) | (1,456) | (1,482) | (2,275) |
| Provision for loan losses | **2,961** | 9,265 | 1,350 | 2,096 | 1,900 |
| Balance at end of year | **$ 11,682** | $ 10,035 | $ 5,830 | $ 5,936 | $ 10,350 |
| Loans and loans held for sale, net of unearned income: | | | | | |
| Average for the year | **$ 525,604** | $ 592,686 | $ 563,392 | $ 722,633 | $ 1,063,409 |
| At December 31 | **503,387** | 572,977 | 599,481 | 590,271 | 1,095,804 |
| As a percent of average loans and loans held for sale: | | | | | |
| Net charge-offs | **0.22%** | 0.85% | 0.26% | 0.21% | 0.21% |
| Provision for loan losses | **0.56** | 1.56 | 0.24 | 0.29 | 0.18 |
| Allowance for loan losses | **2.22** | 1.69 | 1.03 | 0.82 | 0.97 |
| Allowance as a percent of each of the following: | | | | | |
| Total loans and loans held for sale, net of unearned income | **2.32** | 1.75 | 0.97 | 1.01 | 0.94 |
| Total delinquent loans (past due 30 to 89 days) | **79.82** | 56.13 | 48.97 | 92.40 | 104.22 |
| Total non-accrual loans | **108.36** | 147.77 | 62.67 | 102.29 | 210.02 |
| Total non-performing assets | **102.37** | 144.10 | 58.04 | 99.58 | 77.48 |
| Allowance as a multiple of net charge-offs | **9.94x** | 1.98x | 4.01x | 4.01x | 4.55x |
| Total classified loans | **$ 35,135** | $ 20,666 | $ 13,758 | $ 11,544 | $ 24,049 |

During 2003, the Company reclassified a separate reserve of $139,000 for unfunded loan commitments and letters of credit in accordance with Statement of Position (SOP) 01-06.

The Company s provision for loan losses for 2003 totaled $3.0 million or 0.56% of average loans with a sizable portion of the funding occurring in the first quarter. This represented a significant decrease of $6.3 million from the 2002 provision of $9.3 million or 1.56% of total loans. Net charge-offs were also lower in 2003 totaling $1.2 million or 0.22% of average loans compared to net charge-offs of $5.1 million or 0.85% of average loans in 2002. As a result of the provision exceeding net charge-offs, the balance in the allowance for loan losses increased by $1.6 million during 2003. The Company s loan loss reserve coverage of total non-performing assets declined to 102% at December 31, 2003 compared to 144% at December 31, 2002 due to the previously discussed increase in non-performing assets. The allowance for loan losses to total loans ratio increased to 2.32% due to the net paydown of the loan portfolio and the building of the allowance for loan losses to address credit quality deterioration.

The Company s provision for loan losses for 2002 totaled $9.3 million or 1.56% of average loans. This represented a significant increase of $7.9 million from the 2001 provision of $1.4 million or 0.24% of total loans. Net charge-offs were also higher in 2002 totaling $5.1 million or 0.85% of average loans compared to net charge-offs of $1.5 million or 0.26% of average loans in 2001. The higher net charge-offs in 2002 are primarily attributable

to: a $2.0 million charge-off on a food services loan at the Pittsburgh Airport, a $1.6 million charge-off related to the workout of a commercial lease in the steel industry, and a $600,000 charge-off on a lumber industry credit. The Company did benefit from a $415,000 recovery that was collected in the first quarter of 2002 on a 1998 charged-off commercial loan. As a result of the provision exceeding net charge-offs, the balance in the allowance for loan losses increased by $4.2 million during 2002. Overall, net charge-offs were highest in 2002 when compared to the other years presented in the above table. This would suggest that the Company s general net charge-off experience typically ranges from $1.2 to $1.5 million.

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

| | At December 31 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2003 | | 2002 | | 2001 | | 2000 | | 1999 | |
| | Amount | Percent of Loans in Each Category to Loans | Amount | Percent of Loans in Each Category to Loans | Amount | Percent of Loans in Each Category to Loans | Amount | Percent of Loans in Each Category to Loans | Amount | Percent of Loans in Each Category to Loans |
| | (In thousands, except percentages) | | | | | | | | | |
| Commercial | **$ 2,623** | **15.0%** | $ 1,932 | 15.6% | $ 1,706 | 20.6% | $ 1,390 | 19.8% | $ 1,991 | 13.9% |
| Commercial loans secured by real estate | **7,120** | **41.0** | 5,968 | 38.9 | 2,874 | 34.9 | 1,465 | 32.8 | 2,928 | 37.1 |
| Real estate-mortgage | **376** | **38.9** | 469 | 40.7 | 403 | 39.7 | 390 | 42.7 | 791 | 43.3 |
| Consumer | **853** | **5.1** | 826 | 4.8 | 596 | 4.8 | 506 | 4.7 | 631 | 5.7 |
| Allocation to general risk | **710** | | 840 | | 251 | | 2,185 | | 4,009 | |
| Total | **$ 11,682** | | $ 10,035 | | $ 5,830 | | $ 5,936 | | $ 10,350 | |

Even though residential real estate-mortgage loans comprise 39% of the Company s total loan portfolio, only $376,000 or 3.2% of the total allowance for loan losses is allocated against this loan category. The residential real estate-mortgage loan allocation is based primarily upon the Company s five-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company s historical loss experience in these categories, and other qualitative factors. The Company strengthened its allocations to the commercial and commercial real estate segments of the loan portfolio during the past three years. Factors considered by the Company that led to increased qualitative allocations to the commercial segments of the portfolio included: the slowing of the national and regional economies and its corresponding impact on the Company s loan delinquency trends, the increase in concentration risk among our 25 largest borrowers compared to total loans, the overall growth in the average size associated with these credits and a continued but reduced number of financial information and documentation exceptions.

In addition to the specific and formula-driven reserve calculations, the Company has consistently established a general unallocated reserve to provide for risk inherent in the loan portfolio as a whole. Management believes that its judgment with respect to the establishment of the reserve allocated to general risk has been validated by experience and prudently reflects the model and estimation risk associated with the specific and formula driven allowances. The Company determines the unallocated reserve based on a variety of factors, some of which also are components of the formula-driven methodology. These include, without limitation, the previously mentioned qualitative factors along with general economic data, management s assessment of the direction of interest rates, and credit concentrations. In conjunction with the establishment of the general unallocated reserve, the Company also looks at the total allowance for loan losses in relation to the size of the total loan portfolio and the level of non-performing assets.

Based on the Company s loan loss reserve methodology and the related assessment of the inherent risk factors contained within the Company s loan portfolio, management believes that the allowance for loan losses was adequate for each of the fiscal years presented in the table above. The Company s management is unable to determine in what loan category future charge-offs and recoveries may occur.

**NON-INTEREST INCOME. . .**Non-interest income for 2003 totaled $16.9 million; a $2.8 million or 14.0% decrease from the 2002 performance. Factors contributing to the lower non-interest income in 2003 included:

a $758,000 loss realized in the first quarter of 2003 on the sale of approximately 69% of the Company s mortgage servicing portfolio. Largely as a result of this sale, the value of the Company s mortgage servicing rights declined from $6.9 million at December 31, 2002 to $1.7 million at December 31, 2003. This downsizing of the mortgage servicing asset reduces the level of interest rate risk and earnings volatility at the Company.

a $507,000 decrease in gains realized on the sale of investment securities as a steeper yield curve in the second half of 2003 limited the Company s ability to capture profits on prepaying securities.

a $277,000 drop in revenue from bank owned life insurance due to the receipt of a death benefit for an employee insured under the program in the prior year.

a $1.5 million decrease in other income resulting from the Company s decision to exit the merchant card business in the fourth quarter of 2002, reduced revenue generated from the sale of annuities and a decline in revenue related to mortgage loan sales into the secondary market in the second half of 2003.

a $321,000 or 6.9% increase in trust fees due to successful business development efforts related to union collective investment funds and improving equity market values that have increased the value of trust assets on which fees are assessed.

Non-interest income for 2002 totaled $19.7 million; a $1.6 million or 8.9% increase from the 2001 performance. Factors contributing to the net increase in non-interest income in 2002 included:

a $2.4 million increase in gains realized on the sale of investment securities as the Company took advantage of volatility in the market in 2002 to shorten the investment portfolio duration and also capture profits on securities that had risks of accelerated prepayments or extension. These gains were also used to help offset the heightened mortgage servicing impairment charge.

the non-recurrence of a $1.4 million gain realized on the sale of the Coalport branch in 2001.

a $731,000 increase in deposit service charges due to the full year benefit of an overdraft privilege program that was implemented in the fourth quarter of 2001.

a $244,000 increase in revenue from bank owned life insurance due to the receipt of a death benefit for an employee insured under the program.

a $386,000 decrease in other income due in part to the Company s receipt of a $300,000 payment for the legal rights to its former name in Western Pennsylvania in 2001. No such payment was received in 2002. Reduced fees on the early termination of leased equipment and fixed asset sales also negatively impacted this line item. These negative items overshadowed a $399,000 increase in revenue from fixed annuity sales. The Company also successfully exited the merchant card business by generating a $185,000 gain on the sale of its merchant card portfolio in the fourth quarter of 2002. The Company concluded that it lacked the necessary scale to effectively compete in this line of business.

**NON-INTEREST EXPENSE. . .**Non-interest expense for 2003 totaled $38.3 million; an $8.1 million or 17.4% decrease from the 2002 performance. This decline reflects the Company s continued focus on reducing and containing expenses. Factors contributing to the sizable decrease in non-interest expense in 2003 included:

the dramatic downsizing of the mortgage servicing asset in the first quarter of 2003 reduced the impact of lower mortgage rates on the Company s performance. Specifically, the Company s impairment charge on mortgage servicing rights amounted to $3.7 million in 2002 compared to $390,000 in 2003 or a decline of $3.3 million. The valuation of mortgage servicing rights is a critical accounting policy because it requires the

use of estimates related to interest rates and prepayment speeds (see further discussion in Critical Accounting Policies and Estimates section of this M.D.&A.).

a $1.7 million or 8.1% decrease in salaries and employee benefits as on average there were 32 fewer full time equivalent employees when compared to 2002. The lower salaries expense was partially offset by higher medical insurance costs as a result of premium increases and increased pension expense.

the Company also recorded in the third quarter of 2002 a $920,000 restructuring charge associated with implementing its earnings improvement program. There was no such charge in 2003. At December 31, 2002, the Company had a remaining liability of $555,000 related to the restructuring charge that was recorded within other liabilities on the consolidated balance sheet. In 2003 the Company paid $462,000 for items associated with the restructuring charge. The remaining liability at December 31, 2003 totals $93,000.

a $2.3 million decline in other expenses due to cost cutting in numerous expense categories some of the larger of which included advertising expense, merchant card expense, business development expense, and education expense.

Non-interest expense for 2002 totaled $46.4 million; a $3.8 million or 9.0% increase from the 2001 performance. Factors contributing to the net increase in non-interest expense in 2002 included:

the Company recognized a $3.7 million non-cash impairment charge on its mortgage servicing rights in 2002. This impairment charge was $1.2 million greater than 2001 and reflects an increase in mortgage prepayment speeds due to further declines in mortgage interest rates. These low rates have contributed to unprecedented levels of mortgage refinancing activity which had a significant negative impact on the value of the Company s mortgage servicing rights.

a $1.0 million increase in salaries and employee benefits due to higher medical insurance premiums, increased sales incentive based compensation, higher pension expense, severance costs related to the former chairman, and salary increases.

the recognition of a $920,000 restructuring charge in the third quarter of 2002 associated with the implementation of the Company s earnings improvement program. This program was expected to produce at least $4 million of annual expense reduction and this result was successfully achieved in 2003.

the Company benefited from the January 1, 2002 adoption of Statement of Financial Accounting Standards #142 which requires that goodwill no longer be amortized but reviewed annually for impairment. The Company recorded $1.3 million of goodwill amortization expense in 2001 while no goodwill amortization or impairment charges were recorded in 2002.

a $907,000 increase in professional fees due to higher legal fees, auditing costs and other professional fees. Approximately $177,000 of the increase reflects payments to a consultant who receives a portion of the increased fees generated from the overdraft privilege program. This new program has significantly increased deposit service charge fee revenue.

**INCOME TAX EXPENSE. . .**The Company recognized an income tax benefit of $213,000 or an effective tax rate of (63.4)% in 2003. The Company recognized a benefit for income taxes of $3.4 million or an effective tax rate of (39.9%) in 2002 compared to an income tax expense of $412,000 or a 17.3% effective tax rate in 2001. The lower tax benefit in 2003 was due to the Company s improved earnings performance. The Company s recorded tax benefit reflects the overall low level of pre-tax earnings and the tax-free income the Company receives predominantly from bank owned life insurance. The recorded tax benefit in 2002 resulted from the pre-tax loss the Company experienced in 2002 and was greater than the statutory rate due primarily to the tax-free income the Company generates.

The Company has determined that its January 1, 2001 deferred tax liabilities were overstated by $2.5 million due to errors in prior periods, in the calculation of the tax effects of certain leasing transactions, the accretion on investment securities and mortgage servicing rights. Accordingly, the Company has recorded a prior period

adjustment to increase retained earnings and reduce other liabilities. See Note #27 to the Consolidated Financial Statements for further discussion.

**SEGMENT RESULTS. . .**Note #23 to the Consolidated Financial Statements presents the results of the Company s key business segments and identifies their net income contribution. Retail banking was again the largest net income contributor earning $3.6 million in 2003. The retail banking net income contribution was down $541,000 from the prior year due to reduced net interest income. This more than offset a favorable reduction in non-interest expense within that segment. When 2002 is compared to 2001, the retail banking net income contribution is down approximately $1.5 million due primarily to the non-recurrence of the $1.4 million gain on the Coalport branch sale that was realized in 2001.

The trust segment s net income contribution in 2003 amounted to $789,000. This represents an increase of $303,000 from the $486,000 net income contribution earned in 2002 due to a combination of increased fee revenue and lower non-interest expense. The higher fee revenue was due to successful business development efforts related to union collective investment funds and improving equity market values that have increased the value of trust assets on which fees are assessed. In the future, the trust segment will continue to focus on increasing the fee revenue generated from union business activities, particularly the ERECT and Build Funds, which are collective investment funds for trade union pension funds. These funds currently have assets in six states-Pennsylvania, Ohio, Michigan, Illinois, Indiana and Tennessee. The value of assets in these funds has increased by 31% during 2003 and totaled $269 million at December 31, 2003.

The Company experienced earnings pressure in the mortgage banking segment which lost $1.7 million in 2003. This loss, however, was reduced significantly from the $3.2 million loss incurred in 2002. This negative performance in 2003 reflects the previously discussed $758,000 loss realized on the sale of a significant portion of the Company s mortgage servicing rights, a $390,000 mortgage servicing impairment charge and a $199,000 goodwill impairment loss. This downsizing of the mortgage servicing asset significantly reduced the size of the mortgage servicing impairment charge in 2003 when compared to the prior year. The Company will continue to reduce its exposure to the mortgage-servicing business in the future and expects to develop a strategy to pursue a financially prudent exit from this segment as economic conditions permit.

The commercial lending segment lost $594,000 in 2003, which represented an improvement from the $3.8 million net loss experienced in 2002. The loss in both periods resulted primarily from a high provision for loan losses; although the size of the provision expense did decline by $6 million between years. The 2003 performance also reflects reduced net interest income due to fewer loans outstanding as a result of the previously discussed inward corporate focus on improving asset quality and significant prepayments caused by the low interest rate environment. When 2002 is compared to 2001, the commercial lending segment s net income contribution went from a positive contribution of $1.9 million in 2001 to a net loss of $3.8 million in 2002. The loss in 2002 resulted primarily from a deterioration in credit quality in the commercial loan and lease portfolio that caused the Company to increase its provision for loan losses by $7.9 million in 2002.

The net loss in the investment/parent segment amounted to $1.7 million but was reduced by $1.0 million between 2003 and 2002 due to lower non-interest expenses (includes the non-recurrence of the $920,000 restructuring charge). This more than offset an $800,000 decrease in the revenue contribution from leveraged assets due largely to fewer investment security gains.

For greater discussion on the future strategic direction of the Company s key business segments, see Forward Looking Statement which begins on page 33.

**BALANCE SHEET. . .**The Company s total consolidated assets were $1.148 billion at December 31, 2003, compared with $1.176 billion at December 31, 2002, which represents a decrease of $27.7 million or 2.4%. This lower level of assets resulted from a $69.6 million or 12.1% decline in total loans and loans held for sale resulting from the prepayment pressures caused by the low interest rate environment and reduced new loan production. Mortgage servicing rights dropped by $5.2 million or 75.2% due primarily to the completed sale of the servicing rights on approximately $450 million in mortgage loan principal values. Premises and equipment decreased as depreciation expense in 2003 exceeded new fixed asset purchases by $1.5 million. These items were partially offset

by a $46.9 million increase in the investment securities portfolio as the cash generated from the net loan paydowns was redeployed into both AFS and HTM securities. The size of the Company s asset leverage program approximated $375 million in 2003 which was comparable with the prior year.

The Company s deposits totaled $655 million at the end of 2003, which represented a decrease of $15.3 million or 2.3% when compared to the end of 2002 due to certificate of deposit run-off and reduced money market account balances. The Company was able to contain the size of its borrowed funds position as total borrowings remained at $410 million between years. Total stockholders equity decreased by $6.0 million as a result of a drop in accumulated other comprehensive income due to a lower value of the AFS investment securities portfolio. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at December 31, 2003 of 7.58%, compared to a regulatory minimum of 5.0%.

**LIQUIDITY. . .**Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by $2.4 million from December 31, 2002, to December 31, 2003, due primarily to $18 million of cash used by financing activities. This was partially offset by $2 million of cash provided by operating activities and $14 million of cash provided by investing activities. Within investing activities, cash used to purchase new investment securities exceeded proceeds from investment security maturities and sales by $56.5 million. Cash advanced for new loan fundings and purchases totaled $127 million and was $68 million less than the cash received from loan principal payments. Within financing activities, payments for maturing certificates of deposit exceeded proceeds from new certificates of deposit by $14 million. Recent indications from the FHLB suggest that the $135 million of convertible advances would only be called if interest rates were to rise over 400 basis points from December 31, 2003 levels.

There was no cash used for common stock cash dividends in 2003 compared to $4.1 million in 2002. The Company used $2.9 million of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in each of the years presented. As a result of dividend payments from non-bank subsidiaries and the settlement of the inter-company tax position, management believes that the parent company will have ample cash to continue to make the dividend payment on the trust preferred securities through the second quarter of 2004. The Company is presently developing a contingency cash flow plan that identifies strategies to continue the trust preferred dividend payments in an uninterrupted manner through the end of 2004. Note that some of these strategies may require regulatory approval. Intermediate to longer term, however, the payment of the trust preferred dividend is dependent upon the subsidiary bank maintaining profitability so that it can resume upstreaming dividends to the parent company. The subsidiary bank must first recoup the $2.6 million net loss that it incurred for the year ended December 31, 2002 before the Company can approach the regulatory authorities to request permission to resume dividend upstreams. Through December 31, 2003, the bank had earned $2.2 million leaving a remaining loss to be recovered of $448,000. The Company expects that the bank will have recovered the remaining loss by the end of the first quarter of 2004. The Company views the deferral of the interest payments on the trust preferred securities as the least favorable alternative to maintaining parent company liquidity because the payments are cumulative and interest immediately begins to accrue on the unpaid amount at a rate of 8.45% along with the reputational risk associated with the deferral.

Financial institutions must maintain liquidity to meet day-to-day requirements of depositor and borrower customers, take advantage of market opportunities, and provide a cushion against unforeseen needs. Liquidity needs can be met by either reducing assets or increasing liabilities. Sources of asset liquidity are provided by short-term investment securities, time deposits with banks, federal funds sold, banker s acceptances, and commercial paper. These assets totaled $62 million at December 31, 2003, which was comparable with the December 31, 2002 level. Maturing and repaying loans, as well as the monthly cash flow associated with mortgage-backed securities are other significant sources of asset liquidity for the Company.

Liability liquidity can be met by attracting deposits with competitive rates, using repurchase agreements, buying federal funds, or utilizing the facilities of the Federal Reserve or the Federal Home Loan Bank systems. The Company utilizes a variety of these methods of liability liquidity. At December 31, 2003, the Company s subsidiaries had approximately $5 million of unused lines of credit available under informal arrangements with correspondent banks. These lines of credit enable the Company s banking subsidiary to purchase funds for short-term needs at current market rates. Additionally, the Company s subsidiary bank is a member of the Federal Home Loan Bank which provides the opportunity to obtain short to longer term advances based upon the banks investment in assets secured by one- to four-family residential real estate. This would suggest a remaining current total available

Federal Home Loan Bank aggregate borrowing capacity of approximately $233 million. The Company has ample liquidity available to fund all outstanding loan commitments if they were fully drawn upon.

**CAPITAL RESOURCES. . .**The Company exceeds all regulatory capital ratios for each of the periods presented. Furthermore, both the Company and its subsidiary bank are considered well capitalized under all applicable FDIC regulations. The Company anticipates that it will build its capital ratios during 2004 due to the retention of earnings. As presented in Note #24 to the Consolidated Financial Statements, the Company s asset leverage ratio was 7.58% and the Tier 1 capital ratio was 13.70% at December 31, 2003. Note that the impact of other comprehensive income (loss) is excluded from the regulatory capital ratios. At December 31, 2003, accumulated other comprehensive loss amounted to $932,000. Additionally, the Company generated approximately $1.4 million of tangible capital in 2003 due to the amortization of core deposit intangible assets.

As a result of the net loss incurred in 2002, the Company announced on January 24, 2003 that it suspended its common stock cash dividend. The Company had declared and paid common stock cash dividends of $0.30 per share in 2002. 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. For so long as the Company and the Board are parties to the Memorandum Of Understanding (MOU), reinstatement of either the common stock dividend or the treasury stock repurchase program will require the prior written approval of the Company s primary regulators the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking. (See Note #24, Regulatory Matters, for further discuss of the Memorandum Of Understanding.) The Company believes it is in compliance with the requirements of the MOU.

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

The following table presents a summary of the Company s static GAP positions at December 31, 2003:

| Interest Sensitivity Period | 3 Months or Less | Over 3 Months through 6 Months | Over 6 Months through 1 Year | Over 1 Year | Total |
|---|---|---|---|---|---|
| | (In thousands, except ratios and percentages) | | | | |
| **Rate sensitive assets:** | | | | | |
| Loans | $ **193,810** | $ **35,556** | $ **43,078** | $ **219,261** | $ **491,705** |

| | | | | | |
|---|---|---|---|---|---|
| Investment securities | 80,682 | 38,122 | 66,571 | 367,287 | 552,662 |
| Short-term assets | 289 | | | | 289 |
| Bank owned life insurance | | | 29,515 | | 29,515 |
| Total rate sensitive assets | $ 274,781 | $ 73,678 | $ 139,164 | $ 586,548 | $ 1,074,171 |
| **Rate sensitive liabilities:** | | | | | |
| Deposits: | | | | | |
| Non-interest bearing deposits | $ | $ | $ | $ 103,982 | $ 103,982 |
| NOW and Super NOW | 8,762 | | | 53,204 | 61,966 |
| Money market | 76,468 | | | 30,753 | 107,221 |
| Other savings | 26,087 | | | 78,264 | 104,351 |
| Certificates of deposit of $100,000 or more | 19,097 | 1,081 | 2,398 | 17,373 | 39,949 |
| Other time deposits | 45,124 | 33,906 | 47,597 | 110,501 | 237,128 |
| Total deposits | 175,538 | 34,987 | 49,995 | 394,077 | 654,597 |
| Borrowings | 149,652 | 9 | 18 | 260,527 | 410,206 |
| Total rate sensitive liabilities | $ 325,190 | $ 34,996 | $ 50,013 | $ 654,604 | $ 1,064,803 |
| Off balance sheet hedges: | (100,000) | | | 100,000 | |
| **Interest sensitivity GAP:** | | | | | |
| Interval | (150,409) | 38,682 | 89,151 | 31,944 | |
| Cumulative | $ (150,409) | $ (111,727) | $ (22,576) | $ 9,368 | $ 9,368 |
| Period GAP ratio | 0.65x | 2.11x | 2.78x | 1.06x | |
| Cumulative GAP ratio | 0.65 | 0.76 | 0.96 | 1.01 | |
| Ratio of cumulative GAP to total assets | (13.10)% | (9.73)% | (1.97)% | 0.82% | |

When December 31, 2003, is compared to December 31, 2002, the Company s one year cumulative GAP ratio became negative due primarily to the execution of fair value hedges that converted certain fixed rate borrowings into variable rate borrowings.

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

The following table presents an analysis of the sensitivity inherent in the Company s net interest income and market value of portfolio equity. The interest rate scenarios in the table compare the Company s base forecast, which was prepared using a flat interest rate scenario, to scenarios that reflect immediate interest rate increases of 200 basis points and immediate interest rate decreases 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** |
|---|---|---|
| 200 bp increase | **(5.7)%** | **15.7%** |
| 100 bp decrease | **(4.6)%** | **(25.3)%** |

As indicated in the table, market value of portfolio equity increased by 15.7% under a 200 basis point increase scenario due primarily to the increased value of the Company s core deposit base. The maximum negative variability of net interest income of (4.6)% and market value of portfolio equity of (25.3)% occurred in a 100 basis point downward rate shock and reflects further impairment of the remaining mortgage servicing rights in a falling interest rate environment along with a reduced value for core deposits and a greater liability for fixed rate FHLB advances. Net interest income in the declining rate forecast was also negatively impacted by the Company s inability to further reduce certain core deposit costs given the historic lows of current interest rates. Note the fair value hedges executed in 2003 helped reduce the Company s exposure to flat and declining interest rates. Finally, this sensitivity analysis is limited by the fact that it does not include all balance sheet repositioning actions the Company may take should severe movements in interest rates occur such as lengthening or shortening the duration of the securities portfolio or entering into additional hedging transactions. These actions would likely reduce the variability of each of the factors identified in the above table but the cost associated with the repositioning would most likely negatively impact net income.

Within the investment portfolio at December 31, 2003, 95% of the portfolio is classified as available for sale and 5% as held to maturity. The available for sale classification provides management with greater flexibility to manage

the securities portfolio to better achieve overall balance sheet rate sensitivity goals and provide liquidity to fund loan growth as needed. The mark to market of the available for sale securities does inject more volatility in the book value of equity but has no impact on regulatory capital. Furthermore, it is the Company s intent to continue to manage its long-term interest rate risk by continuing to sell newly originated fixed-rate 30-year mortgage loans into the secondary market.

The amount of loans outstanding by category as of December 31, 2003, which are due in (i) one year or less, (ii) more than one year through five years, and (iii) over five years, are shown in the following table. Loan balances are also categorized according to their sensitivity to changes in interest rates.

| | One Year or Less | More Than One Year Through Five Years | Over Five Years | Total Loans |
|---|---|---|---|---|
| | (In thousands, except ratios) | | | |
| Commercial | **$ 21,891** | **$ 49,795** | **$ 4,052** | **$ 75,738** |
| Commercial loans secured by real estate | **33,543** | **102,246** | **70,415** | **206,204** |
| Real estate-mortgage | **18,497** | **48,143** | **127,965** | **194,605** |
| Consumer | **2,747** | **21,122** | **4,474** | **28,343** |
| Total | **$ 76,678** | **$ 221,306** | **$ 206,906** | **$ 504,890** |
| Loans with fixed-rate | **$ 19,327** | **$ 142,371** | **$ 146,684** | **$ 308,382** |
| Loans with floating-rate | **57,351** | **78,935** | **60,222** | **196,508** |
| Total | **$ 76,678** | **$ 221,306** | **$ 206,906** | **$ 504,890** |
| Percent composition of maturity | **15.2%** | **43.8%** | **41.0%** | **100.0%** |
| Fixed-rate loans as a percentage of total loans | | | | **61.1%** |
| Floating-rate loans as a percentage of total loans | | | | **38.9%** |

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

**CONTRACTUAL OBLIGATIONS. . .**The following table presents, as of December 31, 2003, significant fixed and determinable contractual obligations to third parties by payment date. Further discussion of the nature of each obligation is included in the referenced note to the consolidated financial statements.

| | Note Reference | Payments Due In: One Year or Less | One to Three Years | Three to Five Years | Over Five Years | Total |
|---|---|---|---|---|---|---|
| | | (In thousands) | | | | |
| Deposits without a stated maturity | 11 | $ 377,520 | $ | $ | $ | $ 377,520 |
| Certificates of deposit | 11 | 149,203 | 79,266 | 24,881 | 23,727 | 277,077 |
| Borrowed funds | 12 | 149,643 | 15,000 | | 211,063 | 375,706 |
| Guaranteed junior subordinated deferrable | 12 | | | | 34,500 | 34,500 |

| | | | | | | |
|---|---|---|---|---|---|---|
| interest debentures | | | | | | |
| Lease commitments | 16 | 1,190 | 1,924 | 913 | 998 | 5,025 |

**OFF BALANCE SHEET ARRANGEMENTS. . .**The Company uses 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. For further discussion on Derivative Hedging Instruments see Note #22 to the Consolidated Financial Statements.

**CRITICAL ACCOUNTING POLICIES AND ESTIMATES. . .**The accounting and reporting policies of the Company are in accordance with GAAP and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses and mortgage servicing rights 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**

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

A detailed review of all criticized and impaired loans with balances over $250,000 to determine if any specific reserve allocations are required on an individual loan basis. The specific reserve established for these criticized and impaired loans is based on careful analysis of the loan s performance, the related collateral value, cash flow considerations and the financial capability of any guarantor.

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

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

The application of formula driven reserve allocations to all outstanding loans is based upon review of historical losses and qualitative factors, which include but are not limited to, economic trends, delinquencies, concentrations of

credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies and trends in policy, financial information and documentation exceptions.

The maintenance of a general unallocated reserve to accommodate inherent risk in the Company s portfolio that is not identified through the Company s specific loan and portfolio segment reviews discussed above. Management recognizes that there may be events or economic factors that have occurred affecting specific borrowers or segments of borrowers that may not yet be fully reflected in the information that the Company uses for arriving at reserves for a specific loan or portfolio segment. Therefore, the Company and its Board of Directors believe a general unallocated reserve is needed to recognize the estimation risk associated with the specific and formula driven allowances. In conjunction with the establishment of the general unallocated reserve, the Company also looks at the total allowance for loan losses in relation to the size of the total loan portfolio and the level of non-performing assets.

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

When it is determined that the prospects for recovery of the principal of a loan have significantly diminished, the loan is immediately charged against the allowance account; subsequent recoveries, if any, are credited to the

allowance account. In addition, non-accrual and large delinquent loans are reviewed monthly to determine potential losses. Consumer loans are considered losses when they are 90 days past due, except loans that are insured for credit loss.

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

The Company believes that it uses the best information available to determine the adequacy of the allowance for loan losses. However, future adjustments to the allowance for loan losses may be necessary and the results of operations could be significantly and adversely affected if conditions differ substantially from the assumptions used in making the determinations.

**Account** Mortgage Servicing Rights

**Balance Sheet Reference** Mortgage Servicing Rights

**Income Statement Reference** Net Mortgage Servicing Fees and Impairment Charge for Mortgage Servicing Rights

**Description**

The Company recognizes as assets the rights to service mortgage loans for others whether the servicing rights are acquired through purchases or originations. Purchased mortgage servicing rights are capitalized at cost. For loans originated and sold where servicing rights have been retained, the Company allocates the cost of originating the loan to the loan (without the servicing rights) and the servicing rights retained based on their relative fair market values if it is practicable to estimate those fair values. Where it is not practicable to estimate the fair values, the entire cost of originating the loan is allocated to the loan without the servicing rights. For purposes of evaluating and measuring impairment, the Company stratifies the rights based on risk characteristics. If the discounted projected net cash flows of a stratum are less than the carrying amount of the stratum, the stratum is written down to the amount of the discounted projected net cash flows through a valuation account. This writedown is recorded in the line item on the Consolidated Statements of Operations titled Impairment charge for mortgage servicing rights. The Company has determined that the predominant risk characteristics of its portfolio are loan type and interest rate. For the purposes of evaluating impairment, the Company has stratified its portfolio in 200 basis point tranches by loan type. Mortgage servicing rights are amortized in proportion to, and over the period of, estimated net servicing income. The value of mortgage servicing rights is subject to interest rate and prepayment risk. It is likely that the value of these assets will decrease if interest rates decline and prepayments occur at greater than the expected rate and conversely the value of servicing increases if interest rates rise and prepayment speeds slow.

**FORWARD LOOKING STATEMENT. . .**

**THE NEW STRATEGIC FOCUS:**

The stabilizing of the Company in 2003 has enabled the Board and management to examine the franchise in some detail. It is a fact that AmeriServ has already begun to articulate and to execute its strategy for the future. The Company is coalescing around a back-to-basics concentration on community banking. It believes that it possesses a solid franchise and can create greater institutional value. AmeriServ has three strong business units that management and Board believe can perform at a higher level of profitability.

1. **The Retail Bank** When the $400 million asset leverage program is extracted, the Retail Bank remains a strong $800 million bank buoyed by $650 million in core deposits. This retail bank operates 23 branches and has been consistently profitable. It is a fact that this type of banking in the region has been in a state of chaos in recent years. There have been mergers, divestitures, branch closings, name changes, etc. Unfortunately for AmeriServ, during this period, its focus has been diluted by a spin-off, a name change, operating losses and regulatory criticisms. However, as AmeriServ emerges from its Turnaround it now finds itself to be the largest locally owned, locally managed bank in its primary retail market area. It also has discovered that, in spite of its recent difficulties, its core customers have remained loyal and supportive. The Company believes that its Retail Bank has a powerful future ahead. It has a solid product mix, it has a strong sales ethic, and it intends to build an equally strong service culture. AmeriServ recognizes that its primary market is experiencing weakness, but it believes that as it sharpens its community banking skills, good products and exemplary personal service will enable the Retail Bank to establish a strong base for the Company as a whole.

2. **Commercial Lending** This business unit has been completely restructured in 2003, after experiencing serious difficulties in 2001 and 2002. It has a new chief lending officer and almost an entirely new staff of experienced professional lenders. The unit is focused on the stated primary lending market of an approximate 100 mile radius from Johnstown. It is mounting an energetic customer calling effort to build its loan balances. It has also reengineered its lending procedures. The Company can provide the unit with the capacity to grow substantially and its new procedures should permit it to increase its margins and build permanent relationships. As this unit emerges, it bears little resemblance to its former self and is poised to generate increased loan outstandings in 2004 and be a strong future contributor to the Company s revenue stream.

3. **Trust Company** This business unit has an almost unique business opportunity. As the largest operating trust company of its kind between Harrisburg and Pittsburgh, it has many facets. It has all of the activities expected of a bank trust department and we believe it is proficient in each of them. In addition, it has a unique capability that sets it apart from almost all other trust operations. As a part of one of only 13 unionized banks in the nation, this unit has developed a strategy and a set of products that leverage that unusual situation. It has been quite successful in building products that serve the union managed pension funds that are a significant facet of certain segments of the American labor scene. These products have no geographic restrictions, nor do they require major commitments of AmeriServ s capital. They do, however, require skilled professionals to market and manage the trust company s capabilities. As the Company strengthens, resources will be channeled to the AmeriServ Trust Company so that it can become a greater force in this discrete market niche.

The Company has re-affirmed its roots as a community bank. It has strengthened its core units: the Retail Bank, the 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 indicates that, with a commitment to focus, it can meet challenges.

Therefore, the future direction of AmeriServ Financial, Inc. will be highlighted by efforts to continue to strengthen its balance sheet, to control and leverage its non-interest expenses and to place strong emphasis on its three key business units. The Board and management commit that the focus will be clear, the planning will be extensive, the execution will be precise and the results will be measured. The turnaround in 2003 has been strong, but only represents a beginning. In the near term, the fundamental goal is to build an increasing level of net income from these core

units.

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

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

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

## **Item 7A.** *Quantitative and Qualitative Disclosures about Market Risk*

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

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

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

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

For information regarding the market risk of the Company s financial instruments, see Interest Rate Sensitivity in the M. D. & A. presented on pages 28-30. The Company s principal market risk exposure is to interest rates.

**Item 8.** ***Consolidated Financial Statements and Supplementary Data***

**Consolidated Balance Sheets**

| | At December 31 | |
|---|---|---|
| | **2003** | **2002 (As restated see Note #27)** |
| | (In thousands) | |
| **ASSETS** | | |
| Cash and due from banks | **$ 24,484** | $ 26,812 |
| Interest bearing deposits | **289** | 362 |
| Investment securities: | | |
| Available for sale | **524,573** | 490,701 |
| Held to maturity (market value $28,095 at December 31, 2003 and $15,320 at December 31, 2002) | **28,089** | 15,077 |
| Loans held for sale | **1,423** | 4,217 |
| Loans | **504,890** | 573,641 |
| Less: Unearned income | **2,926** | 4,881 |
| Allowance for loan losses | **11,682** | 10,035 |
| Net loans | **490,282** | 558,725 |
| Premises and equipment, net | **11,141** | 12,674 |
| Accrued income receivable | **4,922** | 6,069 |
| Mortgage servicing rights | **1,718** | 6,917 |
| Goodwill | **9,544** | 9,743 |
| Core deposit intangibles | **4,719** | 6,151 |
| Bank owned life insurance | **29,515** | 28,301 |
| Other assets | **17,187** | 9,801 |
| TOTAL ASSETS | **$ 1,147,886** | $ 1,175,550 |
| **LIABILITIES** | | |
| Non-interest bearing deposits | **$ 103,982** | $ 99,226 |
| Interest bearing deposits | **550,615** | 570,703 |
| Total deposits | **654,597** | 669,929 |
| Federal funds purchased and securities sold under agreements to repurchase | | 9,225 |
| Other short-term borrowings | **144,643** | 91,563 |
| Advances from Federal Home Loan Bank | **231,063** | 274,847 |
| Guaranteed junior subordinated deferrable interest debentures | **34,500** | 34,500 |
| Total borrowed funds | **410,206** | 410,135 |
| Other liabilities | **8,813** | 15,230 |
| TOTAL LIABILITIES | **1,073,616** | 1,095,294 |
| **STOCKHOLDERS EQUITY** | | |
| Preferred stock, no par value; 2,000,000 shares authorized; there were no shares issued and outstanding on December 31, 2003, and 2002 | | |
| Common stock, par value $2.50 per share; 24,000,000 shares authorized; 18,048,518 shares issued and 13,957,599 outstanding on December 31, 2003; 17,989,221 shares issued and 13,898,302 shares outstanding on December 31, 2002 | **45,121** | 44,973 |
| Treasury stock at cost, 4,090,919 shares on December 31, 2003 and 2002 | **(65,824)** | (65,824) |
| Capital surplus | **66,809** | 66,755 |
| Retained earnings | **29,096** | 28,547 |
| Accumulated other comprehensive income (loss), net | **(932)** | 5,805 |
| TOTAL STOCKHOLDERS EQUITY | **74,270** | 80,256 |
| TOTAL LIABILITIES AND STOCKHOLDERS EQUITY | **$ 1,147,886** | $ 1,175,550 |

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Operations**

| | Year ended December 31 | | |
|---|---|---|---|
| | **2003** | **2002** | **2001** |
| | (In thousands, except per share data) | | |
| **INTEREST INCOME** | | | |
| Interest and fees on loans: | | | |
| Taxable | **$ 33,209** | $ 40,410 | $ 43,076 |
| Tax exempt | **98** | 612 | 1,810 |
| Deposits with banks | **54** | 281 | 552 |
| Federal funds sold and securities purchased under agreements to resell | | 9 | 32 |
| Investment securities: | | | |
| Available for sale | **20,548** | 24,673 | 36,189 |
| Held to maturity | **1,096** | 30 | |
| Total Interest Income | **55,005** | 66,015 | 81,659 |
| **INTEREST EXPENSE** | | | |
| Deposits | **11,503** | 16,054 | 21,542 |
| Federal funds purchased and securities sold under agreements to repurchase | **25** | 52 | 132 |
| Other short-term borrowings | **1,439** | 963 | 1,818 |
| Advances from Federal Home Loan Bank | **14,433** | 18,618 | 26,961 |
| Guaranteed junior subordinated deferrable interest debentures | **2,960** | 2,960 | 2,960 |
| Long-term debt | | | 48 |
| Total Interest Expense | **30,360** | 38,647 | 53,461 |
| Net Interest Income | **24,645** | | |