

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

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

(Mark One)

X

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

Securities Exchange Act of 1934

For the period ended September 30, 2004

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

the Securities Exchange Act of 1934

For the transaction period from _____ to _____

Commission File Number 0-11204

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania

25-1424278

(State or other jurisdiction of incorporation
or organization)

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

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

(Address of principal executive offices)

(Zip Code)

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

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

Yes

No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes

No

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

| <u>Class</u> | <u>Outstanding at November 1, 2004</u> |
|--------------------------------|--|
| Common Stock, par value \$2.50 | 16,776,682 |
| per share | |

This amendment No. 1 on Form 10-Q/A is being refiled to reflect the restatement of the Company's Statements of Cash Flows for the nine months ended September 30, 2003, as discussed in Note 19 to the Condensed Consolidated Financial Statements included at Item 1.

AmeriServ Financial, Inc.

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#

AmeriServ Financial, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

| | September 30, <u>2004</u> | December 31, <u>2003</u> |
|---|------------------------------|-----------------------------|
| - | | |
| ASSETS | | |
| Cash and due from banks | \$ 21,705 | \$ 24,484 |
| Interest bearing deposits | 421 | 289 |
| Investment securities: | | |
| Available for sale | 448,507 | 524,573 |
| Held to maturity (market value \$40,335 on September 30, 2004, and \$28,095 on December 31, 2003) | 40,110 | 28,089 |
| Loans held for sale | 965 | 1,423 |
| Loans | 507,463 | 504,890 |
| Less: Unearned income | 1,877 | 2,926 |
| Allowance for loan losses | <u>9,827</u> | <u>11,682</u> |
| Net loans | 495,759 | 490,282 |
| Premises and equipment, net | 10,195 | 11,141 |
| Accrued income receivable | 4,987 | 4,922 |
| Mortgage servicing rights | 1,395 | 1,718 |
| Goodwill | 9,544 | 9,544 |
| Core deposit intangibles | 3,785 | 4,719 |
| Bank owned life insurance | 30,345 | 29,515 |
| Other assets | <u>21,131</u> | <u>17,187</u> |
| TOTAL ASSETS | <u>\$ 1,088,849</u> | <u>\$ 1,147,886</u> |
| LIABILITIES | | |
| Non-interest bearing deposits | \$ 103,178 | \$ 103,982 |
| Interest bearing deposits | <u>555,998</u> | <u>550,615</u> |
| Total deposits | <u>659,176</u> | <u>654,597</u> |
| Other short-term borrowings | 87,000 | 144,643 |
| Advances from Federal Home Loan Bank | 226,035 | 231,063 |
| Guaranteed junior subordinated deferrable interest debentures | <u>35,567</u> | <u>34,500</u> |

| | | |
|--------------------------|------------------|------------------|
| Total borrowed funds | <u>348,602</u> | <u>410,206</u> |
| Other liabilities | <u>7,600</u> | <u>8,813</u> |
| TOTAL LIABILITIES | <u>1,015,378</u> | <u>1,073,616</u> |

STOCKHOLDERS' EQUITY

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

authorized; there were no shares issued and

outstanding for the periods presented

Common stock, par value \$2.50 per share;

24,000,000 shares authorized;

18,069,645 shares issued

and 13,978,726 outstanding

on September 30, 2004; 18,048,518 shares

issued and 13,957,599 outstanding on

| | | |
|-------------------|--------|--------|
| December 31, 2003 | 45,174 | 45,121 |
|-------------------|--------|--------|

Treasury stock at cost, 4,090,919 shares for all

| | | |
|-------------------|----------|----------|
| periods presented | (65,824) | (65,824) |
|-------------------|----------|----------|

| | | |
|-----------------|--------|--------|
| Capital surplus | 66,867 | 66,809 |
|-----------------|--------|--------|

| | | |
|-------------------|--------|--------|
| Retained earnings | 30,318 | 29,096 |
|-------------------|--------|--------|

| | | |
|---|----------------|--------------|
| Accumulated other comprehensive loss, net | <u>(3,064)</u> | <u>(932)</u> |
|---|----------------|--------------|

| | | |
|-----------------------------------|---------------|---------------|
| TOTAL STOCKHOLDERS' EQUITY | <u>73,471</u> | <u>74,270</u> |
|-----------------------------------|---------------|---------------|

TOTAL LIABILITIES AND

| | | |
|-----------------------------|---------------------|---------------------|
| STOCKHOLDERS' EQUITY | <u>\$ 1,088,849</u> | <u>\$ 1,147,886</u> |
|-----------------------------|---------------------|---------------------|

See accompanying notes to condensed consolidated financial statements.

AmeriServ Financial, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands except per share data)

Unaudited

| | Three Months Ended September 30, <u>2004</u> | Three Months Ended September 30, <u>2003</u> | Nine Months Ended September 30, <u>2004</u> | Nine Months Ended September 30, <u>2003</u> |
|--|---|---|--|--|
| INTEREST INCOME | | | | |
| Interest and fees on loans and loans held for sale | \$ 7,346 | \$ 8,044 | \$ 22,716 | \$ 25,722 |
| Deposits with banks | 9 | 9 | 24 | 46 |
| Federal funds sold | - | - | 1 | - |
| Investment securities: | | | | |
| Available for sale | 4,909 | 4,745 | 14,427 | 15,460 |
| Held to maturity | <u>434</u> | <u>281</u> | <u>1,071</u> | <u>820</u> |
| Total Interest Income | 12,698 | 13,079 | 38,239 | 42,048 |
| INTEREST EXPENSE | | | | |
| Deposits | 2,628 | 2,765 | 7,700 | 8,870 |
| Federal funds purchased and securities | | | | |
| sold under agreements to repurchase | - | 8 | - | 25 |
| Other short-term borrowings | 542 | 323 | 1,397 | 1,027 |
| Advances from Federal Home Loan Bank | 3,113 | 3,547 | 9,076 | 11,129 |
| Guaranteed junior subordinated deferrable interest | - | - | - | - |
| debentures | <u>763</u> | <u>740</u> | <u>2,289</u> | <u>2,220</u> |
| Total Interest Expense | <u>7,046</u> | <u>7,383</u> | <u>20,462</u> | <u>23,271</u> |
| NET INTEREST INCOME | 5,652 | 5,696 | 17,777 | 18,777 |
| Provision for loan losses | <u>-</u> | <u>384</u> | <u>643</u> | <u>2,577</u> |
| NET INTEREST INCOME AFTER PROVISION FOR | 5,652 | 5,312 | 17,134 | 16,200 |
| LOAN LOSSES | | | | |
| NON-INTEREST INCOME | | | | |
| Trust fees | 1,377 | 1,254 | 3,991 | 3,760 |
| Net realized gains on investment securities | 228 | 402 | 1,276 | 3,100 |
| Net realized gains on loans held for sale | 108 | 165 | 263 | 559 |
| Service charges on deposit accounts | 692 | 812 | 2,138 | 2,379 |
| Net mortgage servicing fees | 40 | 55 | 139 | 203 |
| Bank owned life insurance | 279 | 305 | 830 | 910 |
| Loss on sale of mortgage servicing | - | - | - | (758) |

| | | | | |
|--|--------------|--------------|--------------|--------------|
| Other income | <u>1,452</u> | <u>989</u> | <u>3,109</u> | <u>2,919</u> |
| Total Non-Interest Income | 4,176 | 3,982 | 11,746 | 13,072 |
| NON-INTEREST EXPENSE | | | | |
| Salaries and employee benefits | 4,893 | 4,729 | 14,611 | 14,235 |
| Net occupancy expense | 665 | 682 | 2,121 | 2,135 |
| Equipment expense | 672 | 692 | 2,063 | 2,259 |
| Professional fees | 1,099 | 951 | 2,736 | 2,912 |
| Supplies, postage and freight | 333 | 326 | 958 | 1,040 |
| Miscellaneous taxes and insurance | 414 | 398 | 1,268 | 1,221 |
| FDIC deposit insurance expense | 72 | 75 | 215 | 129 |
| Amortization of core deposit intangibles | 218 | 358 | 934 | 1,074 |
| Impairment charge (credit) for mortgage servicing rights | 138 | (230) | (26) | 390 |
| Goodwill impairment loss | - | - | - | 199 |
| Other expense | <u>1,047</u> | <u>1,131</u> | <u>3,298</u> | <u>3,424</u> |
| Total Non-Interest Expense | \$ 9,551 | \$ 9,112 | \$ 28,178 | \$ 29,018 |

CONTINUED ON NEXT PAGE

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

CONTINUED FROM PREVIOUS PAGE

(In thousands, except per share data)

Unaudited

| | Three Months Ended September 30, <u>2004</u> | Three Months Ended September 30, <u>2003</u> | Nine Months Ended September 30, <u>2004</u> | Nine Months Ended September 30, <u>2003</u> |
|-----------------------------------|---|---|--|--|
| INCOME BEFORE INCOME TAXES | \$ 277 | \$ 182 | \$ 702 | \$ 254 |
| Benefit for income taxes | <u>(465)</u> | <u>(67)</u> | <u>(520)</u> | <u>(115)</u> |
| NET INCOME | <u>\$ 742</u> | <u>\$ 249</u> | <u>\$ 1,222</u> | <u>\$ 369</u> |
| PER COMMON SHARE DATA: | | | | |
| Basic: | | | | |
| Net income | \$ 0.05 | \$ 0.02 | \$ 0.09 | \$ 0.03 |
| Average shares outstanding | 13,976 | 13,946 | 13,969 | 13,935 |
| Diluted: | | | | |
| Net income | \$ 0.05 | \$ 0.02 | \$ 0.09 | \$ 0.03 |
| Average shares outstanding | 14,010 | 13,955 | 14,019 | 13,941 |
| Cash dividends declared | \$ 0.00 | \$ 0.00 | \$ 0.00 | \$ 0.00 |

See accompanying notes to condensed consolidated financial statements.

AmeriServ Financial, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

Unaudited

| | Nine months ended September 30, 2004 | Nine months ended September 30, 2003 (As restated - see Note 19) |
|--|---|---|
| OPERATING ACTIVITIES | | |
| Net income | \$ 1,222 | \$ 369 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Provision for loan losses | 643 | 2,577 |
| Depreciation expense | 1,505 | 1,606 |
| Amortization expense of core deposit intangibles | 934 | 1,074 |
| Goodwill impairment loss | - | 199 |
| Amortization expense of mortgage servicing rights | 349 | 632 |
| Impairment (credit) charge for mortgage servicing rights | (26) | 390 |
| Net amortization of investment securities | 1,775 | 2,385 |
| Net realized gains on investment securities | (1,276) | (3,100) |

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| | | |
|--|--------------|----------------|
| Net realized gains on loans held for sale | (263) | (559) |
| Loss on sale of mortgage servicing rights | - | 758 |
| Origination of mortgage loans held for sale | (22,643) | (55,670) |
| Sales of mortgage loans held for sale | 22,136 | 55,003 |
| Decrease (increase) in accrued income receivable | (65) | 814 |
| Decrease in accrued expense payable | (114) | (1,585) |
| Net (increase) decrease in other assets | (3,626) | 4,765 |
| Net increase (decrease) in other liabilities | <u>2,155</u> | <u>(2,075)</u> |
| Net cash provided by operating activities | <u>2,706</u> | <u>7,583</u> |

INVESTING ACTIVITIES

| | | |
|---|---------------|--------------|
| Purchases of investment securities and other short-term investments - available for sale | (303,611) | (508,192) |
| Purchases of investment securities and other short-term investments - held to maturity | (17,050) | (18,221) |
| Proceeds from maturities of investment securities and other short-term investments available for sale | 69,125 | 119,475 |
| Proceeds from maturities of investment securities and other short-term investments held to maturity | 4,915 | 4,949 |
| Proceeds from sales of investment securities and other short-term investments available for sale | 306,887 | 322,492 |
| Long-term loans originated | (149,960) | (60,463) |
| Principal collected on long-term loans | 116,235 | 151,968 |
| Loans purchased or participated | (2,529) | (16,315) |
| Loans sold or participated | 31,500 | - |
| Net (increase) decrease in other short-term loans | (138) | 1,322 |
| Purchases of premises and equipment | (559) | (772) |
| Sale/retirement of premises and equipment | - | 325 |
| Net sale of mortgage servicing rights | <u>-</u> | <u>3,278</u> |
| Net cash provided (used) by investing activities | <u>54,815</u> | <u>(154)</u> |

FINANCING ACTIVITIES

| | | |
|---|-----------------|----------------|
| Net increase (decrease) in deposit accounts | 4,579 | (21,085) |
| Net (decrease) increase in federal funds purchased, securities sold under agreements to repurchase, and other short-term borrowings | (57,643) | 11,141 |
| Net principal (repayments) borrowings of advances from FHLB | (5,028) | 6,224 |
| Net guaranteed junior subordinated deferrable interest debenture dividends paid | (2,187) | (2,187) |
| Proceeds from dividend reinvestment, stock purchase plan, and stock options exercised | <u>111</u> | <u>164</u> |
| Net cash used by financing activities | <u>(60,168)</u> | <u>(5,743)</u> |

| | | |
|---|------------------|------------------|
| NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS | (2,647) | 1,686 |
| CASH AND CASH EQUIVALENTS AT JANUARY 1 | <u>24,773</u> | <u>27,174</u> |
| CASH AND CASH EQUIVALENTS AT SEPTEMBER 30 | <u>\$ 22,126</u> | <u>\$ 28,860</u> |

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1.

Principles of Consolidation

The accompanying condensed consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), AmeriServ Associates, Inc., (AmeriServ Associates) and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 23 locations in Pennsylvania. Standard Mortgage Corporation of Georgia (SMC), a subsidiary of the Bank, is a mortgage banking company whose business includes the servicing of mortgage loans. AmeriServ Associates, based in State College, is a registered investment advisory firm that provides investment portfolio and asset/liability management services to small and mid-sized financial institutions. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance. The Trust Company offers a complete range of trust and financial services and has \$1.2 billion in assets under management. The Trust Company also offers the ERECT and BUILD Funds which are collective investment funds for trade union controlled pension fund assets.

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

In the first quarter of 2004, the Company adopted FASB Interpretation Number 46-Revised December 2003 (FIN 46-R) Consolidation of Variable Interest Entities Revised which required the Company to deconsolidate its capital trust subsidiary. This deconsolidation resulted in the Company recording an additional \$1.1 million in assets and liabilities that had previously been eliminated in consolidation.

2.

Basis of Preparation

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company's Annual Report on Form 10-K/A for the year ended December 31, 2003.

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3.

Earnings Per Common Share

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options to purchase 131,095 and 296,276 shares of common stock were outstanding as of September 30, 2004 and 2003, respectively, but were not included in the computation of diluted earnings per common share as the options' exercise prices were greater than the average market price of the common stock for the respective periods.

Stock-based Compensation

Employee compensation expense under stock options is reported using the intrinsic value method. The following pro forma information regarding net income and earnings per share assumes stock options granted subsequent to December 31, 1994, had been accounted for under the fair value method and the estimated fair value of the options is amortized to expense over the vesting period. Compensation expense, net of related tax, of \$21,000 and \$54,000 for the three and nine months ended September 30, 2004, and \$15,000 and \$46,000 for the three and nine months ended September 30, 2003, respectively, is included in the pro forma net income as reported below (in thousands, except per share data).

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Net income, as reported | \$742 | \$249 | \$1,222 | \$369 |
| Less: Total stock-based compensation cost, net of taxes | <u>21</u> | <u>15</u> | <u>54</u> | <u>46</u> |
| Pro forma net income | <u>\$721</u> | <u>\$234</u> | <u>\$1,168</u> | <u>\$323</u> |
| Earnings per share: | | | | |
| Basic as reported | \$0.05 | \$0.02 | \$0.09 | \$0.03 |
| Basic pro forma | 0.05 | 0.02 | 0.08 | 0.02 |
| Diluted as reported | 0.05 | 0.02 | 0.09 | 0.03 |
| Diluted pro forma | 0.05 | 0.02 | 0.08 | 0.02 |

4.

Comprehensive Income (Loss)

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

| | Three Months Ended | | Nine Months Ended | |
|---|--------------------|------------------|-------------------|------------------|
| | September 30, | September 30, | September 30, | September 30, |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Net income | <u>\$ 742</u> | <u>\$ 249</u> | <u>\$ 1,222</u> | <u>\$ 369</u> |
| Other comprehensive income (loss), before tax: | | | | |
| Unrealized security gains (losses) arising during period | 8,665 | (5,718) | (2,004) | (5,517) |
| Less: reclassification adjustment for gains included in net income | <u>228</u> | <u>402</u> | <u>1,276</u> | <u>3,100</u> |
| Other comprehensive income (loss), before tax: | 8,437 | (6,120) | (3,280) | (8,617) |
| Income tax expense (benefit) related to items of other comprehensive income | <u>2,953</u> | <u>(2,142)</u> | <u>(1,148)</u> | <u>(3,016)</u> |
| Other comprehensive income (loss), net of tax: | <u>5,484</u> | <u>(3,978)</u> | <u>(2,132)</u> | <u>(5,601)</u> |
| Comprehensive income (loss) | <u>\$ 6,226</u> | <u>\$(3,729)</u> | <u>\$ (910)</u> | <u>\$(5,232)</u> |

5.

Condensed Consolidated Statement of Cash Flows

On a consolidated basis, cash and cash equivalents include cash and due from banks, interest-bearing deposits with banks, and federal funds sold and securities purchased under agreements to resell. For the parent company, cash and cash equivalents also include short-term investments. The Company made \$3,674,000 in income tax payments in the first nine months of 2004 as compared to \$109,000 for the first nine months of 2003. Total interest expense paid amounted to \$20,567,000 in 2004's first nine months compared to \$24,856,000 in the same 2003 period.

6.

Investment Securities

Securities are classified at the time of purchase as investment securities held to maturity if it is management's intent and the Company has the ability to hold the securities until maturity. These held to maturity securities are carried on the Company's books at cost, adjusted for amortization of premium and accretion of discount which is computed using the level yield method which approximates the effective interest method. Alternatively, securities are classified as available for sale if it is management's intent at the time of purchase to hold the securities for an indefinite period of time and/or to use the securities as part of the Company's asset/liability management strategy. Securities classified as available for sale include securities which may be sold to effectively manage interest rate risk exposure, prepayment risk, and other factors (such as liquidity requirements). These available for sale securities are reported at fair value with unrealized aggregate appreciation/(depreciation) excluded from net income and credited/(charged) to accumulated other comprehensive income (loss) within stockholders' equity on a net of tax basis. Any securities classified as trading assets are reported at fair value with unrealized aggregate appreciation/(depreciation) included in income on a net of tax basis. The Company presently does not engage in trading activities. The mark-to-market of the available for sale portfolio does inject more volatility in the book value of equity, but has no impact on regulatory capital. All purchased investment securities are recorded on settlement date which is not materially different from trade date. Realized gain or loss on securities sold was computed upon the adjusted cost of the specific securities sold.

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

Investment securities available for sale (AFS):

September 30, 2004

| | Cost | Gross | Gross | Market |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>Basis</u> | <u>Unrealized</u> | <u>Unrealized</u> | <u>Value</u> |
| | | <u>Gains</u> | <u>Losses</u> | |
| U.S. Treasury | \$ 9,970 | \$ 48 | \$ (24) | \$ 9,994 |
| U.S. Agency | 32,696 | 36 | (247) | 32,485 |
| U.S. Agency mortgage- backed securities | 381,641 | 302 | (4,862) | 377,081 |
| Other securities (1) | <u>28,915</u> | <u>32</u> | <u>-</u> | <u>28,947</u> |
| Total | <u>\$ 453,222</u> | <u>\$ 418</u> | <u>\$ (5,133)</u> | <u>\$ 448,507</u> |

(1) Other investment securities include corporate notes and bonds, asset-backed securities, and equity securities.

Investment securities held to maturity (HTM):

September 30, 2004

| | Cost | Gross | Gross | Market |
|--|------------------|-------------------|-------------------|------------------|
| | <u>Basis</u> | <u>Unrealized</u> | <u>Unrealized</u> | <u>Value</u> |
| | | <u>Gains</u> | <u>Losses</u> | |
| U.S. Treasury | \$ 3,363 | \$ 82 | \$ - | \$ 3,445 |
| U.S. Agency | 22,877 | 81 | (133) | 22,825 |
| U.S. Agency mortgage- backed securities | <u>13,870</u> | <u>195</u> | <u>-</u> | <u>14,065</u> |
| Total | <u>\$ 40,110</u> | <u>\$ 358</u> | <u>\$ (133)</u> | <u>\$ 40,335</u> |

Investment securities available for sale (AFS):

December 31, 2003

| | Cost | Gross | Gross | Market |
|--|-------------------|-------------------|-------------------|-------------------|
| | <u>Basis</u> | <u>Unrealized</u> | <u>Unrealized</u> | <u>Value</u> |
| | | <u>Gains</u> | <u>Losses</u> | |
| U.S. Treasury | \$ 9,498 | \$ 131 | \$ (32) | \$ 9,597 |
| U.S. Agency | 13,508 | 3 | (33) | 13,478 |
| U.S. Agency mortgage- backed securities | 469,086 | 1,535 | (3,051) | 467,570 |
| Other securities (1) | <u>33,916</u> | <u>32</u> | <u>(20)</u> | <u>33,928</u> |
| Total | <u>\$ 526,008</u> | <u>\$ 1,701</u> | <u>\$ (3,136)</u> | <u>\$ 524,573</u> |

(1) Other investment securities include corporate notes and bonds, asset-backed securities, and equity securities.

Investment securities held to maturity (HTM):

| December 31, 2003 | Cost | Gross | Gross | Market |
|--|------------------|-------------------------|--------------------------|------------------|
| | <u>Basis</u> | <u>Unrealized Gains</u> | <u>Unrealized Losses</u> | <u>Value</u> |
| U.S. Treasury | \$ 1,155 | \$ 6 | \$ - | \$ 1,161 |
| U.S. Agency | 8,096 | - | (138) | 7,958 |
| U.S. Agency mortgage-backed securities | <u>18,838</u> | <u>138</u> | <u>-</u> | <u>18,976</u> |
| Total | <u>\$ 28,089</u> | <u>\$ 144</u> | <u>\$ (138)</u> | <u>\$ 28,095</u> |

Maintaining investment quality is a primary objective of the Company's investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody's Investor's Service or Standard & Poor's rating of "A." At September 30, 2004, 97.8% of the portfolio was rated "AAA" as compared to 97.6% of the portfolio at December 31, 2003. Less than 1.0% of the portfolio was rated below "A" or unrated at both September 30, 2004, and December 31, 2003.

The following tables present information concerning investments with unrealized losses as of September 30, 2004 (in thousands):

Investment securities available for sale:

| September 30, 2004 | <u>Less than 12 months</u> | | <u>12 months or longer</u> | | <u>Total</u> | |
|--|----------------------------|--------------------------|----------------------------|--------------------------|---------------------|--------------------------|
| | <u>Market Value</u> | <u>Unrealized Losses</u> | <u>Market Value</u> | <u>Unrealized Losses</u> | <u>Market Value</u> | <u>Unrealized Losses</u> |
| U.S. Treasury | \$ 5,005 | \$ (24) | \$ - | \$ - | \$ 5,005 | \$ (24) |
| U.S. Agency | 20,678 | (247) | - | - | 20,678 | (247) |
| U.S. Agency mortgage-backed securities | <u>314,374</u> | <u>(4,458)</u> | <u>18,144</u> | <u>(404)</u> | <u>332,518</u> | <u>(4,862)</u> |
| Total | <u>\$ 340,057</u> | <u>\$ (4,729)</u> | <u>\$ 18,144</u> | <u>\$ (404)</u> | <u>\$ 358,201</u> | <u>\$ (5,133)</u> |

Investment securities held to maturity:

| September 30, 2004 | <u>Less than 12 months</u> | | <u>12 months or longer</u> | | <u>Total</u> | |
|--------------------|----------------------------|---------------|----------------------------|---------------|--------------|---------------|
| | Market | Unrealized | Market | Unrealized | Market | Unrealized |
| | <u>Value</u> | <u>Losses</u> | <u>Value</u> | <u>Losses</u> | <u>Value</u> | <u>Losses</u> |
| U.S. Agency | \$ - | \$ - | \$ 7,932 | \$ (133) | \$ 7,932 | \$ (133) |
| Total | \$ - | \$ - | \$ 7,932 | \$ (133) | \$ 7,932 | \$ (133) |

In March 2004, the FASB's Emerging Issues Task Force (EITF) reached a consensus regarding EITF 03-1, "The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments." The consensus provides guidance for evaluating whether an investment is other-than-temporarily impaired and requires certain disclosures for debt and equity investments accounted for under the cost method. Annual disclosures about unrealized losses on available for sale securities that have not been recognized as other-than-temporary impairments that were required under an earlier EITF 03-1 consensus remain in effect. The EITF 03-1 guidance for determining other-than-temporary impairment has been deferred into the fourth quarter of 2004. The amount of any other-than-temporary impairment, if any, that may need to be recognized upon our adoption of EITF 03-1 will depend on market conditions and our intent and ability to hold underwater investments until value is restored. At September 30, 2004, the total after-tax net unrealized loss on such investments was \$3.1 million. Given the quality of the investment portfolio (greater than 97% rated AAA), the Company believes the unrealized losses that have existed for greater than 12 months are temporary in nature and resulted from interest rate movements.

7.

Loans Held for Sale

At September 30, 2004, \$965,000 of certain newly originated fixed-rate residential mortgage loans were classified as held for sale, because it is management's intent to sell these residential mortgage loans. The residential mortgage loans held for sale are carried at the lower of aggregate cost or market value. Net realized and unrealized gains and losses are included in "Net realized gains on loans held for sale"; unrealized net valuation adjustments (if any) are recorded in the same line item on the Consolidated Statements of Operations. Management has identified potential embedded derivatives in certain loan commitments for residential mortgages where the Company has the intent to sell to an outside investor. The historical dollar amount of commitments outstanding has not been material.

8.

Loans

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

| | September 30, | December 31, |
|---|-------------------|-------------------|
| | <u>2004</u> | <u>2003</u> |
| Commercial | \$ 64,302 | \$ 75,738 |
| Commercial loans secured by real estate | 219,088 | 206,204 |
| Real estate mortgage | 200,043 | 194,605 |
| Consumer | <u>24,030</u> | <u>28,343</u> |
| Loans | 507,463 | 504,890 |
| Less: Unearned income | <u>1,877</u> | <u>2,926</u> |
| Loans, net of unearned income | <u>\$ 505,586</u> | <u>\$ 501,964</u> |

Real estate-construction loans comprised 4.3%, and 3.2% of total loans, net of unearned income, at September 30, 2004 and December 31, 2003, respectively. The Company has no direct credit exposure to foreign countries.

9.

Allowance for Loan Losses and Charge-Off Procedures

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

* 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 or 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.

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

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| | Three Months Ended | | Nine Months Ended | |
|---|------------------------------|------------------------------|------------------------------|------------------------------|
| | September 30, <u>2004</u> | September 30, <u>2003</u> | September 30, <u>2004</u> | September 30, <u>2003</u> |
| Balance at beginning of period | \$10,932 | \$11,916 | \$11,682 | \$10,035 |
| Transfer to reserve for unfunded loan | | | | |
| commitments | 40 | - | (149) | - |
| Charge-offs: | | | | |
| Commercial and commercial real estate | (961) | (272) | (2,042) | (274) |
| Residential mortgage | (1) | (106) | (120) | (287) |
| Consumer | <u>(226)</u> | <u>(133)</u> | <u>(734)</u> | <u>(338)</u> |
| Total charge-offs | <u>(1,188)</u> | <u>(511)</u> | <u>(2,896)</u> | <u>(899)</u> |
| Recoveries: | | | | |
| Commercial and commercial real estate | 14 | 33 | 401 | 50 |
| Residential mortgage | 10 | 21 | 44 | 36 |
| Consumer | <u>19</u> | <u>29</u> | <u>102</u> | <u>73</u> |
| Total recoveries | <u>43</u> | <u>83</u> | <u>547</u> | <u>159</u> |
| Net charge-offs | (1,145) | (428) | (2,349) | (740) |
| Provision for loan losses | <u>-</u> | <u>384</u> | <u>643</u> | <u>2,577</u> |
| Balance at end of period | <u>\$ 9,827</u> | <u>\$11,872</u> | <u>\$ 9,827</u> | <u>\$11,872</u> |
| As a percent of average loans and loans held for sale, net of unearned income: | | | | |
| Annualized net charge-offs | 0.92% | 0.33% | 0.63% | 0.18% |
| Annualized provision for loan losses | - | 0.30 | 0.17 | 0.64 |
| Allowance as a percent of loans and loans held for sale, net of unearned income at period end | 1.94 | 2.39 | 1.94 | 2.39 |
| Total classified loans | \$21,222 | \$35,887 | \$21,222 | \$35,887 |

10.

Components of Allowance for Loan Losses

For impaired loans, the measurement of impairment may be based upon: 1) the present value of expected future cash flows discounted at the loan's effective interest rate; 2) the observable market price of the impaired loan; or 3) the fair value of the collateral of a collateral dependent loan.

The Company had loans totaling \$11,476,000 and \$13,232,000 being specifically identified as impaired and a corresponding reserve allocation of \$2,695,000 and \$2,459,000 at September 30, 2004, and December 31, 2003, respectively. The average outstanding balance for loans being specifically identified as impaired was \$11,018,000 for the nine months of 2004 compared to \$12,299,000 for the nine months of 2003. All of the impaired loans are collateral dependent, therefore the fair value of the collateral of the impaired loans is evaluated in measuring the impairment. The interest income recognized on impaired loans during the first nine months of 2004 was \$446,000, compared to \$330,000 for the first nine months of 2003.

The following table sets forth the allocation of the allowance for loan losses among various categories. This allocation is determined using the quarterly process which was discussed above. This allocation, however, is not necessarily indicative of the specific amount or specific loan category in which future losses may ultimately occur (in thousands, except percentages):

| | September 30, <u>2004</u> | | December 31, <u>2003</u> | |
|--|------------------------------|---|-----------------------------|---|
| | <u>Amount</u> | Percent of Loans in Each Category <u>To Loans</u> | <u>Amount</u> | Percent of Loans in Each Category <u>To Loans</u> |
| Commercial | \$3,031 | 12.7% | \$ 2,623 | 15.0% |
| Commercial loans secured by real estate | 4,685 | 43.3 | 7,120 | 41.0 |
| Real estate - mortgage | 353 | 39.7 | 376 | 38.9 |
| Consumer | 997 | 4.3 | 853 | 5.1 |
| Allocation to general risk | <u>761</u> | <u>-</u> | <u>710</u> | <u>-</u> |
| Total | <u>\$9,827</u> | <u>100.0%</u> | <u>\$11,682</u> | <u>100.0%</u> |

Even though residential real estate-mortgage loans comprise approximately 40% of the Company's total loan portfolio, only \$353,000 or 3.6% of the total allowance for loan losses is allocated against this loan category. The residential real estate-mortgage loan allocation is based upon the Company's five-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company's historical loss experience in these categories, and other qualitative factors.

At September 30, 2004, management of the Company believes the allowance for loan losses was adequate to cover losses within the Company's loan portfolio. The Company's management is unable to determine in what loan category future charge-offs and recoveries may occur.

11.

Non-performing Assets

Non-performing assets are comprised of (i) loans which are on a non-accrual basis, (ii) loans which are contractually past due 90 days or more as to interest or principal payments some of which are insured for credit loss, and (iii) other real estate owned (real estate acquired through foreclosure, in-substance foreclosures and repossessed assets). Loans are placed on non-accrual status upon becoming 90 days past due in either principal or interest. In addition, if circumstances warrant, the accrual of interest may be discontinued prior to 90 days. In all cases, payments received on non-accrual loans are credited to principal until full recovery of principal has been recognized; it is only after full recovery of principal that any additional payments received are recognized as interest income. The only exception to this policy is for residential mortgage loans wherein interest income is recognized on a cash basis as payments are received.

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

| September 30, <u>2004</u> | December 31, <u>2003</u> |
|------------------------------|-----------------------------|
|------------------------------|-----------------------------|

| | | |
|--|-----------------|------------------|
| Non-accrual loans | \$ 4,977 | \$ 10,781 |
| Loans past due 90 days or more | - | 98 |
| Other real estate owned | <u>70</u> | <u>532</u> |
| Total non-performing assets | <u>\$ 5,047</u> | <u>\$ 11,411</u> |
| Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned | 1.00% | 2.26% |

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

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

| | Three Months Ended | | Nine Months Ended | |
|-----------------------------------|--------------------|--------------|-------------------|--------------|
| | September 30, | | September 30, | |
| | <u>2004</u> | <u>2003</u> | <u>2004</u> | <u>2003</u> |
| Interest income due in accordance | | | | |
| With original terms | \$115 | \$166 | \$367 | \$519 |
| Interest income recorded | <u>(2)</u> | <u>(4)</u> | <u>(19)</u> | <u>(101)</u> |
| Net reduction in interest income | <u>\$113</u> | <u>\$162</u> | <u>\$348</u> | <u>\$418</u> |

12.

Derivative Hedging Instruments

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. The Company uses derivative instruments, primarily interest rate swaps, to manage interest rate risk by hedging the fair value of certain fixed rate debt, which converts the debt to variable rates and by hedging the cash flow variability associated with certain variable rate debt by converting the debt to fixed rates. A summary of the Company's derivative hedge transactions is as follows:

Fair Value Hedges:

In June 2003, the Company entered into an interest rate swap with a notional amount of \$50 million, inclusive of a swaption feature, effectively hedging a \$50 million FHLB convertible advance with a fixed cost of 6.10% that is callable quarterly with a September 2010 maturity. The Company receives a fixed rate of 2.58% and makes variable rate payments based on 90-day LIBOR. In December 2003, the Company entered into an interest rate swap with a notional amount of \$50 million, inclusive of a swaption feature, effectively hedging a \$50 million FHLB convertible advance with a fixed cost of 5.89% that is callable quarterly with a January 2010 maturity. The Company receives a fixed rate of 5.89% and makes variable rate payments based on 90-day LIBOR plus 246 basis points. The swaps are carried at their fair values and the carrying amount of the FHLB advances include the change in their fair values since the inception of the hedge. Because the hedges are considered highly effective, changes in the swap's fair value exactly offset the corresponding changes in the fair value of the FHLB advances and as a result, the change in fair value does not have any impact on net income.

The following table summarizes the interest rate swap transactions that impacted the Company's year to date 2004 performance:

| <u>2004</u> | | | | | | | |
|--------------|-----------------|--------------|--------------------|-----------------|-----------------|------------------|----------------------|
| <u>Hedge</u> | <u>Notional</u> | <u>Start</u> | <u>Termination</u> | <u>Fixed</u> | <u>Floating</u> | <u>Repricing</u> | <u>Decrease</u> |
| <u>Type</u> | <u>Amount</u> | <u>Date</u> | <u>Date</u> | <u>Rate</u> | <u>Rate</u> | <u>Frequency</u> | <u>In Interest</u> |
| | | | | <u>Received</u> | <u>Paid</u> | | <u>Expense</u> |
| Fair value | \$50,000,000 | 6-09-03 | 9-22-10 | 2.58% | 1.16% | Quarterly | \$ (487,000) |
| Fair value | \$50,000,000 | 12-11-03 | 1-11-10 | 5.89% | 3.59% | Quarterly | <u>(820,000)</u> |
| | | | | | | | <u>\$(1,307,000)</u> |

The Company believes that its exposure to credit loss in the event of nonperformance by its counterparties (which are Regions Bank and Citigroup, Inc.) is remote. The Company monitors and controls all derivative products with a comprehensive Board of Director approved hedging policy. This policy permits a total maximum notional amount outstanding of \$500 million for interest rate swaps, interest rate caps/floors, and swaptions. All hedge transactions must be approved in advance by the Investment Asset/Liability Committee (ALCO) of the Board of Directors. The Company had no interest rate caps or floors outstanding for the periods presented.

13.

Intangible Assets

The Company's balance sheet shows both tangible assets (such as loans, buildings, and investments) and intangible assets (such as goodwill and core deposits). In accordance with the provisions of Statement of Financial Accounting Standards (SFAS) #142, Goodwill and Other Intangible Assets, goodwill and other intangible assets with indefinite lives are not amortized. Instead, such intangibles are evaluated for impairment at the reporting unit level at least annually in the third quarter. Any resulting impairment would be reflected as an operating expense. The Company's only intangible, other than goodwill, is its core deposit intangible, which the Company currently believes has a finite life of approximately four years.

During the first quarter of 2003, under SFAS #142 the Company had a triggering event specific to the mortgage banking segment level. This event was the sale of approximately 69% of its total servicing portfolio. As a result, the Company reevaluated the \$199,000 of goodwill that was allocated to the mortgage banking segment and determined that it was impaired based upon its analysis of the projected future cash flows in this business segment. The resulting impairment charge eliminated all goodwill allocated to this segment and has been reflected as an operating expense for the nine months ended September 30, 2003. The Company's remaining goodwill of \$9.5 million is allocated to the retail banking segment and was evaluated for impairment on its annual impairment evaluation date. The result of the Company's most recent evaluation in the third quarter of 2004 indicated that the Company's goodwill had no impairment.

As of September 30, 2004, the Company's core deposit intangibles had an original cost of \$17.6 million with accumulated amortization of \$13.8 million. As of December 31, 2003, the Company's core deposit intangibles had an original cost of \$17.6 million with accumulated amortization of \$12.9 million. The weighted average amortization period of the Company's core deposit intangibles at September 30, 2004, is 3.8 years. Amortization expense for the nine months ended September 30, 2004 totaled \$934,000. Estimated amortization expense for the remainder of 2004 and the next five years is summarized as follows (in thousands):

| | |
|----------------|--------|
| Remaining 2004 | \$ 218 |
| 2005 | 865 |
| 2006 | 865 |
| 2007 | 865 |
| 2008 | 865 |
| 2009 | 107 |

14.

Federal Home Loan Bank Borrowings

Total Federal Home Loan Bank (FHLB) borrowings consist of the following at September 30, 2004, (in thousands, except percentages):

| <u>Type</u> | <u>Maturing</u> | <u>Amount</u> | <u>Weighted Average Rate</u> |
|-------------|-----------------|---------------|----------------------------------|
|-------------|-----------------|---------------|----------------------------------|

| | | | |
|---|----------------|-------------------|-------|
| Open Repo Plus | Overnight | \$ 87,000 | 1.99% |
| Advances and wholesale repurchase Agreements | 2005 | 15,000 | 6.74 |
| | 2010 | 210,000 | 5.98 |
| | 2011 and after | <u>1,035</u> | 6.45 |
| Total advances and wholesale repurchase agreements | | <u>226,035</u> | 6.03 |
| Total FHLB borrowings | | <u>\$ 313,035</u> | 4.91% |

All of the above borrowings bear a fixed rate of interest until the next repricing period, with the only exceptions being the Open Repo Plus advances whose rate can change daily. All FHLB stock, along with an interest in certain mortgage loans and mortgage-backed securities, with an aggregate statutory value equal to the amount of the advances, have been delivered as collateral to the FHLB of Pittsburgh to support these borrowings.

15.

Regulatory Matters

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. Other provisions of the MOU require the Company and the Bank to: (i) improve credit quality and credit administration practices, (ii) improve data security and disaster recovery procedures, (iii) make periodic reports to the Federal Reserve and the Department regarding compliance with the MOU, and (iv) appoint a committee of independent directors to monitor compliance with the MOU. The MOU will remain in effect until modified or terminated by the Federal Reserve and the Department. The Company believes it is in compliance with the MOU.

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

regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of December 31, 2003, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table.

| <u>September 30, 2004</u> | Actual | | For Capital Adequacy Purposes | | To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|--|---------------|--------------|--------------------------------------|--------------|---|--------------|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| (In thousands, except ratios) | | | | | | |
| Total Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | \$ 106,251 | 17.43% | \$ 48,754 | 8.00% | \$ 60,943 | 10.00% |
| Bank | 100,650 | 16.65 | 48,360 | 8.00 | 60,450 | 10.00 |
| Tier 1 Capital (to Risk Weighted Assets) | | | | | | |
| Consolidated | 88,530 | 14.53 | 24,377 | 4.00 | 36,566 | 6.00 |
| Bank | 93,094 | 15.40 | 24,180 | 4.00 | 36,270 | 6.00 |
| Tier 1 Capital (to Average Assets) | | | | | | |
| Consolidated | 88,530 | 7.85 | 45,094 | 4.00 | 56,368 | 5.00 |
| Bank | 93,094 | 8.31 | 44,829 | 4.00 | 56,036 | 5.00 |

16.

Segment Results

The financial performance of the Company is also monitored by an internal funds transfer pricing profitability

measurement system which produces line of business results and key performance measures. The Company's major business units include retail banking, commercial lending, mortgage banking, trust, other fee based businesses and investment/parent (includes leverage program). The reported results reflect the underlying economics of the business segments. Expenses for centrally provided services are allocated based upon the cost and estimated usage of those services. The businesses are match-funded and interest rate risk is centrally managed and accounted for within the investment/parent business segment. The key performance measure the Company focuses on for each business segment is net income contribution.

Retail banking includes the deposit-gathering branch franchise, lending to both individuals and small businesses, and financial services. Lending activities include residential mortgage loans, direct consumer loans, and small business commercial loans. Financial services include the sale of mutual funds, annuities, and insurance products. Commercial lending to businesses includes commercial loans, commercial real-estate loans, and commercial leasing (excluding certain small business lending through the branch network). Mortgage banking includes the servicing of mortgage loans. The trust segment has two primary business divisions, institutional trust and personal trust. Institutional trust products and services include 401(k) plans, defined benefit and defined contribution employee benefit plans, individual retirement accounts, and collective investment funds for trade union pension funds. Personal trust products and services include personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Other fee based businesses include AmeriServ Associates and AmeriServ Life. The investment/parent includes the net results of investment securities and borrowing activities, general corporate expenses not allocated to the business segments, interest expense on the guaranteed junior subordinated deferrable interest debentures, and centralized interest rate risk management. Inter-segment revenues were not material.

The contribution of the major business segments to the consolidated results of operations for the three and nine months ended September 30, 2004 and 2003 were as follows (in thousands, except ratios):

| | <u>Three months ended</u> <u>September 30, 2004</u> | | <u>Nine months ended</u> <u>September 30, 2004</u> | | <u>September</u> <u>30, 2004</u> |
|-------------------|--|--------------------------|---|------------------------------------|-------------------------------------|
| | <u>Total</u> <u>revenue</u> | <u>Net income (loss)</u> | <u>Total revenue</u> | <u>Net income</u> <u>(loss)</u> | <u>Total assets</u> |
| Retail banking | \$ 7,757 | \$ 759 | \$ 20,084 | \$ 1,334 | \$ 353,960 |
| Commercial | | | | | |
| lending | 1,521 | 322 | 3,966 | 421 | 237,659 |
| Mortgage banking | (104) | (255) | 472 | (465) | 5,330 |
| Trust | 1,401 | 253 | 4,051 | 731 | 1,344 |
| Other fee based | 157 | 2 | 547 | 114 | 1,939 |
| Investment/Parent | <u>(903)</u> | <u>(339)</u> | <u>404</u> | <u>(913)</u> | <u>488,617</u> |
| Total | <u>\$ 9,829</u> | <u>\$ 742</u> | <u>\$ 29,524</u> | <u>\$ 1,222</u> | <u>\$1,088,849</u> |

| | <u>Three months ended</u> <u>September 30, 2003</u> | <u>September 30, 2003</u> | <u>Nine months ended</u> <u>September 30, 2003</u> | <u>September 30, 2003</u> | <u>September 30, 2003</u> |
|-------------------|--|---------------------------|---|------------------------------------|---------------------------|
| | <u>Total</u> <u>revenue</u> | <u>Net income (loss)</u> | <u>Total revenue</u> | <u>Net income</u> <u>(loss)</u> | <u>Total assets</u> |
| Retail banking | \$ 8,949 | \$ 1,110 | \$ 23,959 | \$ 3,080 | \$ 370,016 |
| Commercial | | | | | |
| lending | 1,127 | 44 | 3,234 | (560) | 206,010 |
| Mortgage banking | (278) | (3) | (78) | (1,552) | 3,833 |
| Trust | 1,270 | 187 | 3,824 | 607 | 1,746 |
| Other fee based | 181 | 13 | 501 | 80 | 2,250 |
| Investment/Parent | <u>(1,571)</u> | <u>(1,102)</u> | <u>409</u> | <u>(1,286)</u> | <u>577,060</u> |
| Total | <u>\$ 9,678</u> | <u>\$ 249</u> | <u>\$ 31,849</u> | <u>\$ 369</u> | <u>\$1,160,915</u> |

17.

Commitments and Contingent Liabilities

The Bank incurs off-balance sheet risks in the normal course of business in order to meet the financing needs of its customers. These risks derive from commitments to extend credit and standby letters of credit. The Company's exposure to credit loss in the event of nonperformance by the other party to these commitments to extend credit and standby letters of credit is represented by their contractual amounts. The Company has various outstanding commitments to extend credit approximating \$86.6 million and standby letters of credit of \$3.4 million as of September 30, 2004. Additionally, the Company is also subject to a number of asserted and unasserted potential claims encountered in the normal course of business. In the opinion of the Company, neither the resolution of these claims nor the funding of these credit commitments will have a material adverse effect on the Company's consolidated financial position or results of operations.

18.

Subsequent Events

On October 8, 2004, the Company announced that it has entered into definitive agreements with institutional investors on a \$12.6 million private placement of common stock, and a planned second closing of \$13.2 million. The placements are designed to strengthen the Company's balance sheet. The Company secured commitments from investors to purchase 5.7 million shares at a price of \$4.50 per share. The private placement will fund in two tranches. The first tranche for 2.8 million shares, or \$12.6 million, closed on October 8, 2004. After deducting costs associated

with the transaction, the Company received net cash of \$11.2 million. The second tranche of 2.9 million shares, or \$13.2 million, will close subject to: (i) shareholder approval of the issuance of these additional shares of Common Stock at the Special Meeting, (ii) the volume weighted average price of the Common Stock for the twenty (20) trading days preceding the Special Meeting being equal to or in excess of \$4.50 per share price, and (iii) there being no material adverse change with respect to the Company. Under NASDAQ rules, the issuance of more than 20% of outstanding stock in a private placement requires shareholder approval. Therefore, the Company plans a special shareholder meeting to approve the issuance and sale of these additional shares. The special shareholder meeting will be held in early December in Johnstown, PA, and if shareholders approve and other contingencies are satisfied, the closing of the second tranche of the offering will occur promptly thereafter.

The Company will use the net proceeds of the private placement to further strengthen its balance sheet. The specific actions include a reduction in the level of high-cost long-term borrowings from the FHLB, reducing the amount of costly AmeriServ Trust Preferred Stock outstanding, and an exit from lines of business which are typically not associated with a community bank. The Company intends to pre-pay approximately \$100 million of the FHLB advances. Penalties in connection with the prepayment of the advances, expenses associated with reducing the amount of Trust Preferred Stock, and the exiting of lines of business not normally associated with a community bank will result in a one-time after tax charge of approximately \$8.8 million in the fourth quarter of 2004. If shareholders approve the second offering, an additional \$25 million of FHLB advances will be prepaid and additional shares of Trust Preferred Securities will be redeemed. This will result in a further after-tax charge of approximately \$1.2 million. While the restructuring will create a loss in the fourth quarter and for the full year 2004, the Company expects to return to an improved level of profitability in the first quarter of 2005. The Company anticipates that the new capital from the first closing will generate annual additions to net income of approximately \$2.3 million beginning in the first quarter of 2005. If the second closing is completed, the Company anticipates that this will generate annual additions to net income of approximately \$1.0 million beginning in the first quarter of 2005. Note that as of November 8, 2004, the Company had already completed the prepayment of \$100 million of FHLB advances and had repurchased through the open market \$500,000 of Trust Preferred Securities.

19.

Restatement of Statement of Cash Flows

Subsequent to the issuance of the condensed consolidated financial statements for the period ended September 30, 2003, the Company determined that the amounts included in its statements of cash flows for loans held for sale should have been classified as operating activities and combined with origination of mortgage loans held for sale, rather than as investing activities, and that the amounts included for other assets and other liabilities should have been classified as operating activities rather than as investing activities and financing activities, respectively. As a result, the accompanying condensed consolidated statements of cash flows for the nine months ended September 30, 2003 have been restated from the amounts previously reported. A summary of the significant effects of the restatement is as follows (in thousands):

For the nine
months ended

September 30, 2003

Net cash provided by (used in) operating activities:

As previously reported

\$ 7,335

As restated

7,583

Net cash provided by (used in) investing activities:

As previously reported

2,169

As restated

(154)

Net cash (used in) provided by financing activities:

As previously reported

(7,818)

As restated

(5,743)

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

The accompanying Managements Discussion and Analysis of financial condition and results of operations gives effect to the restatement of the Condensed Consolidated Financial Statements for the nine months ended September 30, 2003, as discussed in Note 19 to the Condensed Consolidated Financial Statements.

2004 THIRD QUARTER SUMMARY OVERVIEW The Company reported a sixth consecutive quarter of profitability in the third quarter of 2004. Net income totaled \$742,000 or \$0.05 earnings per diluted share in the third quarter of 2004 as compared with \$249,000 or \$0.02 earnings per diluted share in the third quarter of 2003. The third quarter results enabled AmeriServ to report net income for nine months of 2004 of \$1.2 million or \$0.09 earnings per diluted share as compared with \$369,000 or \$0.03 earnings per diluted share for the first nine months of 2003.

In the third quarter of 2004 there was a substantial decline in non-performing assets. Since peaking on March 31, 2004, non-performing assets have declined by more than \$8 million. This decline has resulted in the allowance for loan losses now being 195% of the remaining non-performing assets and has allowed the Company to not make a provision for loan losses in the third quarter 2004. The asset quality improvement is the result of a vigorous effort to focus on this problem area by the lending and credit areas of the Company, which were completely reorganized during 2003. These groups can now focus more energies on growing the level of new loans subject to the proper quality standards that have been adopted.

The Company also continues to work diligently to reduce expenses. During the first nine months of 2004, non-interest expenses were \$840,000 below the same period of 2003 and \$4.1 million below the same period of 2002. This Company-wide effort to reduce expenses will continue into 2005.

It is also important to note that the planned reduction in the level of borrowing from the Federal Home Loan Bank of Pittsburgh began in the third quarter. The reduction of \$100 million, announced at the time of the capital infusion (as discussed in Note #18 to the Consolidated Financial Statements), is well underway and will be completed during the fourth quarter.

The net contribution of both AmeriServ Trust and Financial Services Company and AmeriServ Associates are well above the levels of 2003. These business units have continued to grow in size and in net contribution while the rest of the Company has been focused on the Turnaround.

During the next three months, AmeriServ will take a series of actions that will create a net loss for the fourth quarter, and for the full year of 2004. The most significant actions are the \$100 million reduction in very costly long-term borrowings from the Federal Home Loan Bank of Pittsburgh, and the early retirement of more than \$5 million of the expensive Trust Preferred shares issued in 1998. It is our intent to continue seeking ways to improve the balance sheet, and to increase earnings by changing strategies that no longer fit within our community bank focus. This may include the raising of additional capital to permit the further redemption of trust preferred securities.

THREE MONTHS ENDED SEPTEMBER 30, 2004 VS. THREE MONTHS ENDED SEPTEMBER 30, 2003

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

| | Three Months Ended <u>September 30,</u> <u>2004</u> | Three Months Ended <u>September 30, 2003</u> |
|----------------------------|--|--|
| Net income | \$ 742 | \$ 249 |
| Diluted earnings per share | 0.05 | 0.02 |
| Return on average equity | 4.21% | 1.32% |

The Company completed its sixth consecutive quarter of profitability by reporting net income for the third quarter of 2004 of \$742,000 or \$0.05 per diluted share. This represents an increase of \$493,000 from the reported net income of \$249,000 or \$0.02 per share in the third quarter of 2003. Asset quality improvements, which allowed us to make no addition to the Company's loan loss reserve, a gain on the sale of other real estate owned property and an increased income tax benefit were the main factors responsible for the increased net income in the third quarter of 2004.

.....NET INTEREST INCOME AND MARGIN..... The Company's net interest income represents the amount by which interest income on average earning assets exceeds interest paid on average interest bearing liabilities. Net interest income is a primary source of the Company's earnings; it is affected by interest rate fluctuations as well as changes in the amount and mix of average earning assets and average interest bearing liabilities. The following table compares the Company's net interest income performance for the third quarter of 2004 to the third quarter of 2003 (in thousands, except percentages):

| | Three Months Ended | Three Months Ended | <u>\$ Change</u> | <u>% Change</u> |
|----------------------|-------------------------------------|-------------------------------------|------------------|-----------------|
| | <u>September 30,</u> <u>2004</u> | <u>September 30,</u> <u>2003</u> | | |
| Interest income | \$ 12,698 | \$ 13,079 | \$(381) | (2.9)% |
| Interest expense | <u>7,046</u> | <u>7,383</u> | <u>(337)</u> | (4.6) |
| Net interest income | <u>\$ 5,652</u> | <u>\$ 5,696</u> | <u>\$ (44)</u> | (0.8) |
| Net interest margin | 2.15% | 2.14% | 0.01 | N/M |
| N/M - not meaningful | | | | |

The Company's net interest income in the third quarter of 2004 decreased by \$44,000 from the prior year third quarter due to a reduced level of earning assets which was partially mitigated by a one basis point increase in the net interest margin to 2.15%. Loan portfolio shrinkage experienced during the majority of 2003, as the lending operation was restructured, was a predominant factor contributing to the lower level of earning assets in the third quarter comparisons.

...COMPONENT CHANGES IN NET INTEREST INCOME... Regarding the separate components of net interest income, the Company's total interest income for the third quarter of 2004 decreased by \$381,000 or 2.9% when compared to the same 2003 quarter. This decrease was due to a \$11.7 million decline in average earning assets and an eight basis point drop in the earning asset yield to 4.78%. Within the earning asset base, the yield on the total investment securities portfolio increased by 25 basis points to 3.80% while the yield on the total loan portfolio decreased by 41 basis points to 5.87%. This decline in the loan portfolio yield reflects the impact of asset prepayments as borrowers have elected to refinance their higher fixed-rate loans into lower cost loans over the past several years. Also, a lower level of higher yielding commercial loans has had a negative impact on the total loan portfolio yield. The increase in the investment securities yield in the third quarter of 2004 was caused by reduced premium amortization expense on mortgage-backed securities due to slower prepayments speeds when compared to the third quarter of 2003.

The \$11.7 million decline in the volume of average earning assets was due to a \$7.2 million or 1.4% reduction in average loans and a \$3.1 million decline in investment securities. The average loan decline in the third quarter of 2004 when compared to the prior year third quarter reflected the heightened prepayment pressures experienced throughout 2003 which occurred in both commercial loans and residential mortgage loans. The decline in commercial loans was also caused by reduced new loan production as management was inwardly focused on restructuring its commercial lending division during 2003. The Company did reverse the trend of net loan portfolio shrinkage during the last quarter of 2003 and has stabilized the loan portfolio during the first nine months of 2004. While the Company has generated increased new commercial loan production in the first nine months of 2004, the effects of heightened pay-offs continue to constrain the size of total loans outstanding. The Company anticipates that it will achieve commercial loan growth during the fourth quarter of 2004. This commercial loan growth should lead to a greater composition of loans in the earning asset mix which should contribute to improving net interest income and net interest margin as the Company moves into 2005.

The Company's total interest expense for the third quarter of 2004 decreased by \$337,000 or 4.6% when compared to the same 2003 quarter. 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 \$14.6 million lower in the third quarter of 2004 as fewer borrowings were needed to fund a smaller asset base due to the Company beginning to reduce the size of its leverage program in the third quarter of 2004.

The total cost of funds declined by nine basis points to 2.91% and was driven down by a reduced cost of deposits. Specifically, the cost of interest bearing deposits decreased by 13 basis points to 1.83%. The reduced deposit cost was caused by lower rates paid for certificates of deposit. The cost of FHLB advances and other short-term borrowings modestly increased by five basis points to 4.12% as the Company initially began the \$100 million deleverage program by paying-off lower cost short-term borrowings. Given the successful completion of its \$12.6 million private placement of common stock, the Company will pay-off the more expensive longer term FHLB advances and redeem trust preferred securities in the fourth quarter of 2004. This will cause an after-tax prepayment charge of \$8.1 million in the fourth quarter of 2004 but will reduce the interest rate risk profile of the Company and lead to meaningful net interest income growth in 2005.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the three month periods ended September 30, 2004 and September 30, 2003 setting forth (i) average assets, liabilities, and stockholders' equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) AmeriServ Financial's interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) AmeriServ Financial's net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables, loan balances include non-accrual loans and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as, interest recorded on non-accrual loans as cash is received. Additionally, a tax rate of approximately 35% is used to compute tax-equivalent yields.

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Three Months Ended September 30 (In thousands, except percentages)

| | <u>2004</u> | | | <u>2003</u> | | |
|--------------------------|----------------|----------------|-------------|----------------|----------------|-------------|
| | Average | Interest | Yield/ | Average | Interest | Yield/ |
| | <u>Balance</u> | <u>Income/</u> | <u>Rate</u> | <u>Balance</u> | <u>Income/</u> | <u>Rate</u> |
| | | <u>Expense</u> | | | <u>Expense</u> | |
| Interest earning assets: | | | | | | |

Loans and loans held

for sale, net of

| | | | | | | |
|-----------------------------|----------------|--------------|-------|----------------|--------------|-------|
| unearned income | \$ 490,468 | \$ 7,376 | 5.87% | \$ 497,647 | \$ 8,054 | 6.28% |
| Deposits with banks | 3,806 | 9 | 0.93 | 5,183 | 9 | 0.67 |
| Federal funds sold | - | - | - | 80 | - | 0.88 |
| Investment securities - AFS | 521,571 | 4,909 | 3.76 | 535,451 | 4,745 | 3.55 |
| Investment securities - HTM | <u>40,844</u> | <u>434</u> | 4.25 | <u>30,026</u> | <u>281</u> | 3.70 |
| Total investment securities | <u>562,415</u> | <u>5,343</u> | 3.80 | <u>565,477</u> | <u>5,026</u> | 3.55 |

Total interest earning

| | | | | | | |
|-------------------------------|--------------------|--------|------|--------------------|--------|------|
| assets/interest income | 1,056,689 | 12,728 | 4.78 | 1,068,387 | 13,089 | 4.86 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 22,021 | | | 22,008 | | |
| Premises and equipment | 10,359 | | | 11,827 | | |
| Other assets | 62,160 | | | 62,114 | | |
| Allowance for loan losses | <u>(10,538)</u> | | | <u>(11,881)</u> | | |
| TOTAL ASSETS | <u>\$1,140,691</u> | | | <u>\$1,152,455</u> | | |

Interest bearing liabilities:

Interest bearing deposits:

| | | | | | | |
|---------------------------------|----------------|--------------|-------|----------------|--------------|-------|
| Interest bearing demand | \$ 54,133 | \$ 39 | 0.29% | \$ 52,565 | \$ 36 | 0.27% |
| Savings | 104,840 | 236 | 0.90 | 105,055 | 236 | 0.89 |
| Money markets | 121,990 | 335 | 1.09 | 122,536 | 316 | 1.02 |
| Other time | <u>288,747</u> | <u>2,018</u> | 2.78 | <u>278,641</u> | <u>2,177</u> | 3.10 |
| Total interest bearing deposits | 569,710 | 2,628 | 1.83 | 558,797 | 2,765 | 1.96 |

Short-term borrowings:

Federal funds purchased,

securities sold under

agreements to repurchase and
other short-term borrowings

| | | | | | | |
|--------------------------------|---------------|------------|------|---------------|------------|------|
| | 125,286 | 542 | 1.69 | 100,602 | 331 | 1.29 |
| Advances from Federal | | | | | | |
| Home Loan Bank | 226,041 | 3,113 | 5.48 | 277,313 | 3,547 | 5.07 |
| Guaranteed junior subordinated | | | | | | |
| deferrable interest debentures | <u>35,567</u> | <u>763</u> | 8.58 | <u>34,500</u> | <u>740</u> | 8.58 |

Total interest bearing

| | | | | | | |
|-------------------------------------|---------|-------|------|---------|-------|------|
| liabilities/interest expense | 956,604 | 7,046 | 2.91 | 971,212 | 7,383 | 3.00 |
|-------------------------------------|---------|-------|------|---------|-------|------|

Non-interest bearing liabilities:

| | | |
|----------------------|---------------|---------------|
| Demand deposits | 105,819 | 102,378 |
| Other liabilities | 8,248 | 3,548 |
| Stockholders' equity | <u>70,020</u> | <u>75,317</u> |

TOTAL LIABILITIES AND

| | | | | | |
|---|---------------------------|-------|---------------------------|------------------------|-------|
| STOCKHOLDERS' EQUITY | <u>\$1,140,691</u> | | <u>\$1,152,455</u> | | |
| Interest rate spread | | 1.88 | | 1.86 | |
| Net interest income/ net interest margin | | | | | |
| | | 5,682 | 2.15% | 5,706 | 2.14% |
| Tax-equivalent adjustment | <u>(30)</u> | | | <u>(10)</u> | |
| Net Interest Income | <u>\$ 5,652</u> | | | <u>\$ 5,696</u> | |

..PROVISION FOR LOAN LOSSES..... The Company recorded no provision for loan losses in the third quarter of 2004. This represented a decrease from the third quarter 2003 provision of \$384,000 or 0.30% of total average loans. The lower provision for loan losses in 2004 reflects improvements in asset quality most evidenced by lower levels of classified loans and non-performing assets along with a decrease in the size of the commercial loan portfolio. Net charge-offs in the third quarter of 2004 totaled \$1.1 million or 0.92% of total average loans compared to net charge-offs of \$428,000 or 0.33% of total average loans in the third quarter of 2003. The higher net charge-offs in the third quarter of 2004, reflect a \$914,000 charge-off realized as a result of the successful sale of a \$4.3 million non-performing asset during the third quarter of 2004. Specific reserve allocations had been previously provided on this non-performing hotel loan.

Classified loans (loans rated substandard or doubtful) totaled \$21.2 million at September 30, 2004; a decrease of \$13.9 million or 39.6% from December 31, 2003. Non-performing assets decreased from \$11.4 million at December 31, 2003 to \$5.0 million at September 30, 2004. As a result of the lower level of non-performing assets, the Company's loan loss reserve coverage of non-performing assets amounted to 195% at September 30, 2004 compared to 102% at December 31, 2003. The allowance for loan losses as a percentage of total loans was 1.94% at September 30, 2004 compared to 2.32% at December 31, 2003.

.....NON-INTEREST INCOME..... Non-interest income for the third quarter of 2004 totaled \$4.2 million; a \$194,000 or 4.9% increase from the third quarter 2003 performance. Factors contributing to the higher non-interest income in 2004 included:

* a \$463,000 increase in other income as a result of a gain generated on the sale of the Company's largest other real estate owned property. This reflected the culmination of successful work-out efforts on a personal care facility that had been a non-performing asset for over one year.

* a \$123,000 or 9.8% increase in trust fees due to continued successful union related new business development efforts particularly with the BUILD and ERECT Funds.

* a \$174,000 decrease in gains realized on investment security sales as the higher interest rate environment and steeper yield curve caused reduced security sales in the third quarter of 2004.

* a \$120,000 decrease in deposit service charges due to fewer overdraft fees as customers have maintained higher average balances in demand deposit accounts in 2004.

.....**NON-INTEREST EXPENSE**..... Non-interest expense for the third quarter of 2004 totaled \$9.6 million; a \$439,000 or 4.8% increase from the third quarter 2003 performance. Factors contributing to the higher non-interest expense in 2004 included:

* the Company recognized a \$138,000 impairment charge on its mortgage servicing rights in the third quarter of 2004 compared to a \$230,000 impairment reversal in the third quarter of 2003 for a net unfavorable change of \$368,000.

* salaries and employee benefits increased by \$164,000 due to higher medical costs as a result of premium increases and increased pension expense.

* professional fees increased by \$148,000 due to higher legal costs and external audit fees.

* core deposit amortization expense decreased by \$140,000 due to the full amortization of a core deposit intangible from a prior acquisition.

.....**INCOME TAX EXPENSE**..... The Company recognized an income tax benefit of \$465,000 in the third quarter of 2004 compared to an income tax benefit of \$67,000 in the third quarter of 2003. The higher income tax benefit in the third quarter of 2004 was driven by a \$450,000 reduction in reserves for prior year tax contingencies. This reduction reflected an expiration of the statute of limitations on certain open tax years and a perceived reduction of risk of IRS adjustment to certain sources of tax-free income.

NINE MONTHS ENDED SEPTEMBER 30, 2004 VS. NINE MONTHS ENDED SEPTEMBER 30, 2003

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

| | Nine Months Ended <u>September 30,</u> <u>2004</u> | Nine Months Ended <u>September 30, 2003</u> |
|----------------------------|---|---|
| Net income | \$ 1,222 | \$ 369 |
| Diluted earnings per share | 0.09 | 0.03 |
| Return on average equity | 2.25% | 0.63% |

The completion of the Company's sixth consecutive quarter of profitability caused improved financial performance for the nine-month period ended September 30, 2004. Specifically, net income totaled \$1.2 million or \$0.09 per share for the nine months ended September 30, 2004 an improvement of \$853,000 or \$0.06 per share over the net income of \$369,000 or \$0.03 per share reported in the first nine months of 2003. A reduced provision for loan losses, lower non-interest expense and an increased income tax benefit were the key factors responsible for the increased net income in 2004. These positive items were partially offset by reduced levels of net interest income and non-interest income.

.....**NET INTEREST INCOME AND MARGIN**.....The following table compares the Company's net interest income performance for the first nine months of 2004 to the first nine months of 2003 (in thousands, except percentages):

| | Nine Months Ended <u>September 30,</u> <u>2004</u> | Nine Months Ended <u>September 30,</u> <u>2003</u> | <u>\$ Change</u> | <u>% Change</u> |
|----------------------|---|---|-------------------|-----------------|
| Interest income | \$ 38,239 | \$ 42,048 | \$(3,809) | (9.1)% |
| Interest expense | <u>20,462</u> | <u>23,271</u> | <u>(2,809)</u> | (12.1) |
| Net interest income | <u>\$ 17,777</u> | <u>\$ 18,777</u> | <u>\$ (1,000)</u> | (5.3) |
| Net interest margin | 2.26% | 2.34% | (0.08) | N/M |
| N/M - not meaningful | | | | |

The Company's net interest income in the first nine months of 2004 decreased by \$1.0 million or 5.3% from the same prior year period due to a \$12.8 million reduction in the level of earning assets and an eight basis point decline in the net interest margin to 2.26%. The previously discussed loan portfolio shrinkage experienced in 2003 was the predominant factor contributing to both the lower level of earning assets and the net interest margin contraction. Additionally, the net interest margin compression also reflects the ongoing receipt of mortgage-related cash flows in the investment securities portfolio. This has reduced the securities portfolio yield due in part to the reinvestment of this cash into new shorter duration securities with lower yields.

...COMPONENT CHANGES IN NET INTEREST INCOME... Regarding the separate components of net interest income, the Company's total interest income for the first nine months of 2004 decreased by \$3.8 million or 9.1% when compared to the same 2003 period. This decrease was due to a \$12.8 million decline in earning assets and a 42 basis point drop in the earning asset yield to 4.84%. Within the earning asset base, the yield on the total investment securities portfolio dropped by 34 basis points to 3.74% while the yield on the total loan portfolio decreased by 35 basis points to 6.02%. Both of these declines reflect the lower interest rate environment in place through the majority of 2003 and the first half of 2004 which has caused the downward repricing of floating rate assets and the reinvestment of cash received on higher yielding prepaying assets into assets with lower interest rates.

The \$12.8 million decline in the volume of average earning assets was due to a \$33.0 million or 6.3% reduction in average loans outstanding which more than offset growth of \$21.2 million in investment securities. The reasons for the decline in loans were previously discussed in the quarterly section of this MD&A. Loan totals were also impacted by the Company's decision to sell approximately \$22 million or 44% of the new residential mortgage loan production into the secondary market for interest rate risk management purposes.

The Company's total interest expense for the first nine months of 2004 decreased by \$2.8 million or 12.1% when compared to the same 2003 period. 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 \$17.1 million lower in the first nine months of 2004 as fewer liabilities were needed to fund a smaller asset base.

The total cost of funds declined by 35 basis points to 2.85% and was driven down by a reduced cost of both deposits and borrowings. Specifically, the cost of interest bearing deposits decreased by 26 basis points to 1.84% and the cost of FHLB advances and short-term borrowings declined by 48 basis points to 3.93%. The reduced deposit cost was caused by lower rates paid for all deposit products. The lower cost of borrowings reflects the downward repricing of maturing FHLB advances to lower current market rates and the favorable impact that fair value hedges had on reducing interest expense by \$1.3 million during the nine-month period ended September 30, 2004.

The Company's ratio of FHLB advances and short-term borrowings to total assets averaged 31.3% for the first nine months of 2004 and 31.9% for the first nine months of 2003. The total revenue contribution from leveraged assets (including investment security gains and hedging activity) amounted to \$966,000 for the first nine months of 2004 compared to \$2.2 million for the first nine months of 2003. The Company currently plans to reduce the size of the leverage program by \$100 million such that total FHLB advances and short-term borrowings will approximate \$275 million or 26% of total assets by the end of 2004.

The table that follows provides an analysis of net interest income on a tax-equivalent basis for the nine-month periods ended September 30, 2004 and September 30, 2003. For a detailed discussion of the components and assumptions included in the table, see the paragraph before the quarterly tables on page 24.

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Nine Months Ended September 30 (In thousands, except percentages)

| | <u>2004</u> | | | <u>2003</u> | | |
|-------------------------------|--------------------|----------------|-------------|--------------------|----------------|-------------|
| | Average | Interest | Yield/ | Average | Interest | Yield/ |
| | <u>Balance</u> | <u>Income/</u> | <u>Rate</u> | <u>Balance</u> | <u>Income/</u> | <u>Rate</u> |
| | | <u>Expense</u> | | | <u>Expense</u> | |
| Interest earning assets: | | | | | | |
| Loans and loans held | | | | | | |
| for sale, net of | | | | | | |
| unearned income | \$ 493,905 | \$ 22,805 | 6.02% | \$ 526,902 | \$ 25,755 | 6.37% |
| Deposits with banks | 4,499 | 24 | 0.72 | 5,475 | 46 | 1.09 |
| Federal funds sold | 91 | 1 | 0.91 | 38 | - | 0.96 |
| Investment securities - AFS | 518,132 | 14,427 | 3.71 | 507,477 | 15,460 | 4.06 |
| Investment securities - HTM | <u>34,735</u> | <u>1,071</u> | 4.15 | <u>24,239</u> | <u>820</u> | 4.55 |
| Total investment securities | <u>552,867</u> | <u>15,498</u> | 3.74 | <u>531,716</u> | <u>16,280</u> | 4.08 |
| Total interest earning | | | | | | |
| assets/interest income | 1,051,362 | 38,328 | 4.84 | 1,064,131 | 42,081 | 5.26 |
| Non-interest earning assets: | | | | | | |
| Cash and due from banks | 21,785 | | | 22,366 | | |
| Premises and equipment | 10,640 | | | 12,142 | | |
| Other assets | 66,173 | | | 67,674 | | |
| Allowance for loan losses | <u>(11,084)</u> | | | <u>(11,286)</u> | | |
| TOTAL ASSETS | <u>\$1,138,876</u> | | | <u>\$1,155,027</u> | | |
| Interest bearing liabilities: | | | | | | |
| Interest bearing deposits: | | | | | | |
| Interest bearing demand | \$ 53,079 | \$ 111 | 0.28% | \$ 51,868 | \$ 167 | 0.43% |

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| | | | | | | |
|-------------------------------------|--------------------|------------------|-------|--------------------|------------------|-------|
| Savings | 105,565 | 705 | 0.89 | 103,470 | 713 | 0.92 |
| Money markets | 120,374 | 937 | 1.04 | 125,199 | 1,004 | 1.07 |
| Other time | <u>280,706</u> | <u>5,947</u> | 2.83 | <u>284,244</u> | <u>6,986</u> | 3.29 |
| Total interest bearing deposits | 559,724 | 7,700 | 1.84 | 564,781 | 8,870 | 2.10 |
| Short-term borrowings: | | | | | | |
| Federal funds purchased, | | | | | | |
| securities sold under | | | | | | |
| agreements to repurchase and | | | | | | |
| other short-term borrowings | 129,557 | 1,397 | 1.42 | 98,839 | 1,052 | 1.40 |
| Advances from Federal | | | | | | |
| Home Loan Bank | 226,301 | 9,076 | 5.36 | 270,110 | 11,129 | 5.51 |
| Guaranteed junior subordinated | | | | | | |
| deferrable interest debentures | <u>35,567</u> | <u>2,289</u> | 8.58 | <u>34,500</u> | <u>2,220</u> | 8.58 |
| Total interest bearing | | | | | | |
| liabilities/interest expense | 951,149 | 20,462 | 2.85 | 968,230 | 23,271 | 3.20 |
| Non-interest bearing liabilities: | | | | | | |
| Demand deposits | 106,486 | | | 104,761 | | |
| Other liabilities | 8,633 | | | 4,238 | | |
| Stockholders' equity | <u>72,608</u> | | | <u>77,798</u> | | |
| TOTAL LIABILITIES AND | | | | | | |
| STOCKHOLDERS' EQUITY | <u>\$1,138,876</u> | | | <u>\$1,155,027</u> | | |
| Interest rate spread | | | 1.99 | | | 2.05 |
| Net interest income/ | | | | | | |
| net interest margin | | 17,866 | 2.26% | | 18,810 | 2.34% |
| Tax-equivalent adjustment | | <u>(89)</u> | | | <u>(33)</u> | |
| Net Interest Income | | <u>\$ 17,777</u> | | | <u>\$ 18,777</u> | |

..PROVISION FOR LOAN LOSSES..... The Company's provision for loan losses totaled \$643,000 or 0.17% of total loans in the first nine months of 2004. This represented a decrease of \$1.9 million from the first nine months 2003 provision of \$2.6 million or 0.64% of total loans. Net charge-offs in the nine months of 2004 totaled \$2.3 million or 0.63% of total average loans compared to net charge-offs of \$740,000 or 0.18% of total average loans in the nine months of 2003. The higher net charge-offs in 2004 reflect a \$914,000 charge-off realized in the third quarter as a

result of the successful sale of a \$4.3 million non-performing asset, a \$625,000 write-down of a \$4.8 million loan on a personal care facility that was moved into other real estate owned in the first quarter of 2004 and subsequently sold in the third quarter, and increased charge-offs on consumer loans. The consumer loan charge-offs were higher than typical due to the charge-off of a few larger consumer loans.

Overall, as a result of the net charge-offs exceeding the provision, the balance in the allowance for loan losses decreased by \$1.9 million during the first nine-months of 2004 to total \$9.8 million at September 30, 2004. This decline in the balance of the allowance for loan losses and lower provision largely reflects the improvement in the Company's asset quality in 2004 as the charge-offs incurred largely relate to loans that were previously reserved for and successfully worked-out.

.....NON-INTEREST INCOME..... Non-interest income for the first nine months of 2004 totaled \$11.7 million, a \$1.3 million or 10.1% decrease from the first nine months of 2003 performance. Factors contributing to the lower non-interest income in 2004 included:

* a \$1.8 million decrease in gains realized on investment security sales due to the higher interest rate environment and steeper yield curve in 2004.

* a \$296,000 decrease in gains realized on the sale of mortgage loans into the secondary market as a result of reduced mortgage refinancing activity.

* a \$231,000 or 6.1% increase in trust fees due to continued successful union related new business development efforts particularly with the BUILD and ERECT Funds.

* a \$190,000 or 6.5% increase in other income due largely to the previously mentioned gain realized on the sale of the Company's largest other real-estate owned property.

* the non-recurrence of a \$758,000 loss realized on the sale of approximately 69% of the Company's mortgage servicing portfolio in the first quarter of 2003.

.....NON-INTEREST EXPENSE..... Non-interest expense for the first nine months of 2004 totaled \$28.2 million, an \$840,000 or 2.9% decrease from the first nine months of 2003 performance. Factors contributing to the lower non-interest expense in 2004 included:

* the Company recognized a \$26,000 impairment reversal on its mortgage servicing rights in the first nine months of 2004 compared to a \$390,000 impairment charge in the first nine months of 2003 for a net favorable change of \$416,000. The higher rate environment in 2004 and reduced mortgage refinancing activity caused an improvement in value of the Company's remaining mortgage servicing rights.

* the Company recognized a \$199,000 goodwill impairment loss in the first quarter of 2003 due to the write-off of the goodwill associated with the mortgage banking segment. There was no such charge in 2004.

* salaries and employee benefits increased by \$376,000 or 2.6% due to higher medical insurance costs resulting from premium increases. These higher health care related costs offset the benefit of reduced salary expense due to 12 fewer average full-time equivalent employees when compared to the nine months of 2003 and lower incentive compensation expense.

* a continued focus on cost control led to a \$196,000 decline in equipment expenses, a \$176,000 reduction in professional fees and a \$126,000 decline in other expenses.

.....INCOME TAX EXPENSE..... The Company recognized an income tax benefit of \$520,000 in the first nine months of 2004. The 2004 tax benefit is higher than the \$115,000 benefit recognized in the first nine months of 2003 due to a \$450,000 reduction in reserves for prior year tax contingencies.

..SEGMENT RESULTS. Retail banking's net income contribution was \$1.3 million in the first nine months of 2004. The retail banking net income contribution is down from the same prior year period due to reduced net interest income and lower non-interest revenue. The reduced net interest income reflects the low interest rate environment that has resulted in less benefit provided for low-cost non-maturity deposits such as demand deposits and savings accounts. The reduced mortgage origination activity and fewer deposit overdraft fees are the primary factors causing the reduction in non-interest revenue.

The trust segment's net income contribution in the first nine months of 2004 amounted to \$731,000 which was up \$124,000 from the prior year due to a combination of increased revenue and lower non-interest expense. The trust segment is focused on continuing to increase the fee revenue generated from union business activities, particularly the ERECT and BUILD Funds, which are collective investment funds for trade union controlled pension fund assets.

The Company has experienced earnings pressure in the mortgage-banking segment which lost \$465,000 in the first nine months of 2004. This loss, however, was reduced significantly from the \$1.6 million loss experienced in the first nine months of 2003. The 2003 loss included a \$758,000 loss realized on the sale of 69% of the Company's mortgage servicing rights, a \$390,000 mortgage servicing impairment charge and a \$199,000 goodwill impairment loss. The better performance in 2004 reflects the non-recurrence of the loss on the sale of the servicing rights and the goodwill impairment loss. Additionally, reduced mortgage refinancing activity and a higher interest rate environment has caused a favorable \$26,000 increase in the value of the Company's remaining mortgage servicing rights in 2004. As a result of the successful Capital Offering, the Company is pursuing an exit from the mortgage banking segment in the fourth quarter of 2004.

The commercial lending segment returned to profitability in the first nine months of 2004 by generating net income of \$421,000 compared to a \$560,000 net loss experienced in the first nine months of 2003. The improved performance in 2004 was caused by a lower loan loss provision. The 2004 performance, however, reflects reduced net interest income due to fewer average loans outstanding.

The investment/parent segment reported a net loss of \$913,000 in the first nine months of 2004 which was less than the net loss of \$1.3 million in the first nine months of 2003 due in part to a greater income tax benefit at the Parent Company.

.....BALANCE SHEET.....The Company's total consolidated assets were \$1.089 billion at September 30, 2004, compared with \$1.148 billion at December 31, 2003, which represents a decrease of \$59 million or 5.1%. This lower level of assets resulted primarily from a reduced level of investment securities as the Company began a program to reduce the size of its leverage program in the third quarter of 2004. The Company's loans totaled \$507 million at September 30, 2004 which was up modestly from the December 31, 2003 total of \$503 million.

The Company's deposits totaled \$659 million at September 30, 2004, which was \$4.6 million or 0.7% higher than December 31, 2003 due to the success of the retail bank's strategic focus on growing deposits. Total borrowed funds decreased by \$62 million due to the previously mentioned strategy to reduce the Company's borrowed funds and interest rate risk on its balance sheet. Total stockholders' equity decreased by \$799,000 from December 31, 2003, to \$73 million at September 30, 2004 as a result of a decrease in accumulated other comprehensive income due to a reduced value of the AFS investment securities portfolio. The Company continues to be considered well capitalized for regulatory purposes with an asset leverage ratio at September 30, 2004 of 7.85%, compared to a regulatory minimum of 5.0%. The Company's book value per share at September 30, 2004 was \$5.26.

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

| | September 30, <u>2004</u> | December 31, <u>2003</u> | September 30, <u>2003</u> |
|--|------------------------------|-----------------------------|------------------------------|
| Total loan delinquency (past due 30 to 89 days) | \$ 3,007 | \$14,636 | \$ 15,725 |
| Total non-accrual loans | 4,977 | 10,781 | 10,276 |
| Total non-performing assets* | 5,047 | 11,411 | 11,227 |
| Loan delinquency, as a percentage of total loans and loans held for sale, net of unearned income | 0.59% | 2.91% | 3.16% |
| Non-accrual loans, as a percentage of total loans and loans held for sale, net of unearned income | 0.98 | 2.14 | 2.07 |
| Non-performing assets, as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned | 1.00 | 2.26 | 2.26 |

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

Each of the Company's loan quality metrics displayed in the above table demonstrated improvement since December 31, 2003. Total loan delinquency declined by \$11.6 million from year-end 2003 primarily due to successful collection efforts and improved loan portfolio quality. Loan delinquency levels have now remained below 1% for the past six consecutive months. Non-accrual and non-performing asset levels also declined by \$6.4 million from December 31, 2003 due to the successful work-out of the Company's two largest problem credits during the first nine months of 2004.

In addition, a commercial loan to a borrower in the paper manufacturing industry was successfully restructured under new ownership and was no longer delinquent by the end of the first quarter of 2004. Overall, the Company had three loans totaling \$5.9 million at September 30, 2004, that have been restructured that involved forgiving a portion of interest or principal on these loans or granting loan rates less than that of the market rate. The Company had

established an allocation of \$602,000 within the allowance for loan losses for these restructured loans.

While the Company is pleased with this early improvement in asset quality, it continues to closely monitor the portfolio given the number of relatively large sized commercial loans within the portfolio. This portfolio characteristic combined with the lack of seasoning of recent new loan production are some of the factors that the Company considered in maintaining a \$761,000 general unallocated reserve within the allowance for loan losses at September 30, 2004.

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

| | September 30, <u>2004</u> | December 31, <u>2003</u> | September 30, <u>2003</u> |
|---|------------------------------|-----------------------------|------------------------------|
| Allowance for loan losses | \$9,827 | \$11,682 | \$11,872 |
| Allowance for loan losses as a percentage of each of the following: | | | |
| total loans and loans held for sale, net of unearned income | 1.94% | 2.32% | 2.39% |
| total delinquent loans (past due 30 to 89 days) | 326.80 | 79.82 | 75.50 |
| total non-accrual loans | 197.45 | 108.36 | 115.53 |
| total non-performing assets | 194.71 | 102.37 | 105.75 |

Since December 31, 2003, the Company's loan loss reserve coverage of total non-performing assets increased to 195% due to the previously discussed decrease in non-performing assets. The allowance for loan losses to total loans ratio has decreased to 1.94% since year-end 2003 due to a drop in the size of the loan loss reserve combined with a modest increase in the level of total loans outstanding.

.....LIQUIDITY..... Liquidity can be analyzed by utilizing the Consolidated Statement of Cash Flows. Cash and cash equivalents decreased by \$2.6 million from December 31, 2003, to September 30, 2004, due to \$60.2 million of cash used by financing activities. This was partially offset by \$2.7 million of cash provided by operating activities and \$54.8 million of cash provided by investing activities. Within investing activities, cash provided by maturities and sales exceeded purchases of new investment securities by \$60.3 million. Cash advanced for new loan fundings and purchases totaled \$152.5 million and was \$4.8 million greater than the \$147.7 million of cash received from loan principal payments and sales. Within financing activities, the Company experienced a net \$4.6 million growth in net deposits.

The Company used \$2.2 million of cash to service the dividend on the guaranteed junior subordinated deferrable interest debentures (trust preferred securities) in the first nine-months of 2004. As a result of the successful \$12.6 million private placement of common stock that was completed on October 8, 2004, the liquidity position of the parent company has improved significantly. The Company expects to retain approximately \$3.5 million of the offering proceeds at the parent company to provide ongoing liquidity. The remainder of the proceeds (net of \$1.4 million of offering costs) will be used as follows: \$5.7 million to repurchase or redeem trust preferred securities and \$2.0 million will be downstreamed to ASRV Bank to support deleveraging initiatives. The repurchase or redemption of the \$5.7 million of trust preferred securities will also help future parent company liquidity by reducing the annual debt service requirement by \$482,000.

.....CAPITAL RESOURCES..... The Company continues to be considered well capitalized as the asset leverage ratio was 7.85% and the Tier 1 capital ratio was 14.53% at September 30, 2004. Note that the impact of other comprehensive income (loss) is excluded from the regulatory capital ratios. At September 30, 2004, accumulated other comprehensive income (loss) amounted to (\$3.1) million. Additionally, the Company has generated \$934,000 of tangible capital in 2004 due to the amortization of core deposit intangible assets.

The Company exceeds all regulatory capital ratios for each of the periods presented. Furthermore, both the Company and the Bank are considered well capitalized under all applicable FDIC regulations. The capital provided by the \$12.6 million private placement of common stock will more than offset the net loss expected in the fourth quarter from balance sheet restructuring. As such, the Company anticipates that it will build its capital ratios during the fourth quarter of 2004.

As a result of the net loss incurred for the year ended December 31, 2002, the Company announced on January 24, 2003 that it suspended its common stock cash dividend. While the Company has 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 of Directors are parties to the 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. 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 the Company 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 incorporates 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.

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 |
|------------------------|------------------------------------|--|
| 200bp increase | (4.5)% | 10.3% |
| 100bp decrease | (4.0)% | (21.8)% |

As indicated in the table, the market value of portfolio equity increased by 10.3% in a 200 basis point upward rate shock due to increased value of the Company's core deposit base. Variability of net interest income is negative in the 200 basis point upward rate shock due to the immediate repricing of certain short-term borrowings and less benefit provided from existing cash flow hedges. Negative variability of market value of portfolio equity 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. The Company's asset/liability modeling suggests that the Company's net interest income performance should be positively impacted by gradual rising interest rates. More immediate substantial interest rate increases or a sharp flattening of the yield curve would negatively impact the Company's net interest income performance.

.....**CONTRACTUAL OBLIGATIONS** .. The following table presents, as of September 30, 2004, significant fixed and determinable contractual obligations to third parties by payment date.

| | <u>Payments Due In</u> | | | | <u>Total</u> |
|---|--------------------------|-------------------------------------|--------------------------------------|----------------------------------|----------------------------|
| | <u>One Year or Less</u> | <u>One to Three</u> <u>Years</u> | <u>Three to</u> <u>Five Years</u> | <u>Over Five</u> <u>Years</u> | |
| | (In thousands) | | | | |
| Deposits without stated maturity | \$ 347,145 | \$ - | \$ - | \$ - | \$ 347,145 |
| Certificates of deposit | 145,624 | 86,999 | 21,782 | 57,626 | 312,031 |
| Borrowed funds | 102,038 | 85 | 96 | 210,816 | 313,035 |
| Guaranteed junior subordinated deferrable interest debentures | - | - | - | 35,567 | 35,567 |
| Lease commitments | <u>1,277</u> | <u>1,984</u> | <u>916</u> | <u>998</u> | <u>5,175</u> |
| Total | <u>\$ 596,084</u> | <u>\$ 89,068</u> | <u>\$ 22,794</u> | <u>\$ 305,007</u> | <u>\$ 1,012,953</u> |

.....OFF BALANCE SHEET ARRANGEMENTS .. The Company may use various interest rate contracts, such as interest rate swaps, caps, floors and swaptions to help manage interest rate and market valuation risk exposure, which is incurred in normal recurrent banking activities. At September 30, 2004, the Company had in place \$100 million of derivative hedging instruments.

.....CRITICAL ACCOUNTING POLICIES AND ESTIMATES.....The accounting and reporting policies of the Company are in accordance with generally accepted accounting principles and conform to general practices within the banking industry. Accounting and reporting policies for the allowance for loan losses and 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 write down 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 purpose 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.....This Form 10-Q/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 are based upon current expectations and are subject to risk and uncertainties. In connection with the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995, the Company provides the following cautionary statement identifying important factors (some of which are beyond the Company's control) which could cause the actual results or events to differ materially from those set forth in or implied by the forward-looking statements and related assumptions.

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

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

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

.....CONTROLS AND PROCEDURES..... (a) Evaluation of Disclosure Controls and Procedures. The Company's management carried out an evaluation, under the supervision and with the participation of the Chief Executive Officer

and the Chief Financial Officer, of the effectiveness of the design and the operation of the Company's disclosure controls and procedures (as such term as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of September 30, 2004, pursuant to Exchange Act Rule 13a-15. Based upon that evaluation, the Chief Executive Officer along with the Chief Financial Officer concluded that the Company's disclosure controls and procedures as of September 30, 2004, are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be in the Company's periodic filings under the Exchange Act.

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

Part II Other Information

Item 5. Other Information

The Company's chief executive officer and chief financial officer have furnished to the SEC the certification with respect to this Form-10-Q/A that is required by Section 906 of the Sarbanes-Oxley Act of 2002.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

3.2 Bylaws, Exhibit 3.2 to the Registrant's Form 8-K filed August 31, 2004.

15.1 Report of Deloitte & Touche LLP regarding unaudited interim financial statement information.

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

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

32.1 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

32.2 Certification pursuant to 18 U.S.C. section 1350, as adopted pursuant to section 906 of the Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K:

On July 20, 2004, the Company filed an 8-K announcing its Second Quarter 2004 results of operations.

On August 26, 2004, the Company filed an 8-K announcing the sale of a non-performing asset.

On August 31, 2004, the Company filed an 8-K amending its Bylaws.

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

AmeriServ Financial, Inc.

Registrant

Date: January 6, 2005

/s/Allan R. Dennison

Allan R. Dennison

President and Chief Executive Officer

Date: January 6, 2005

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and Chief Financial Officer

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STATEMENT OF MANAGEMENT RESPONSIBILITY

January 6, 2005

To the Stockholders and

Board of Directors of

AmeriServ Financial, Inc.

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

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

Management also recognizes its responsibility to foster a climate in which Company affairs are conducted with the highest ethical standards. The Company's Code of Conduct, furnished to each employee and director, addresses the

importance of open internal communications, potential conflicts of interest, compliance with applicable laws, including those related to financial disclosure, the confidentiality of propriety information, and other items. There is an ongoing program to assess compliance with these policies.

The Audit Committee of the Company's Board of Directors consists solely of outside directors. The Audit Committee meets periodically with management and the independent accountants to discuss audit, financial reporting, and related matters. Deloitte & Touche LLP and the Company's internal auditors have direct access to the Audit Committee.

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

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

AmeriServ Financial, Inc.

Johnstown, Pennsylvania

We have reviewed the accompanying condensed consolidated balance sheet of AmeriServ Financial, Inc. and subsidiaries (the Corporation) as of September 30, 2004, and the related condensed consolidated statements of operations for the three-month and nine-month periods ended September 30, 2004 and 2003, and of cash flows for the nine-month periods ended September 30, 2004 and 2003. These interim financial statements are the responsibility of the Corporation s management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making

inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to such condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, the condensed consolidated statements of cash flows for the nine-month period ended September 30, 2003 has been restated.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of the Corporation and subsidiaries as of December 31, 2003, and the related consolidated statements of operations, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated March 12, 2004 (December 29, 2004 as to Note 28 and January 6, 2005 as to the effects of the restatement discussed in the second paragraph of Note 27), we expressed an unqualified opinion on those consolidated financial statements and included an explanatory paragraph concerning the Corporation's restatement of certain amounts in the statement of cash flows. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2003 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

November 3, 2004 (January 6, 2005 as to the effects of the restatement discussed in Note 19)

/s/Deloitte & Touche LLP

Pittsburgh, Pennsylvania

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Exhibit 15.1

January 6, 2005

AmeriServ Financial, Inc.

P.O. Box 430

216 Franklin Street

Johnstown, Pennsylvania

We have made a review, in accordance with standards of the Public Company Accounting Oversight Board (United States), of the unaudited interim financial information of AmeriServ Financial, Inc. and subsidiaries for the periods ended September 30, 2004 and 2003, as indicated in our report dated November 3, 2004 (January 6, 2005 as to the effects of the restatement discussed in Note 19)(which report contains an explanatory paragraph referring to the restatement discussed in Note 19); because we did not perform an audit, we expressed no opinion on that information.

We are aware that our report referred to above, which is included in your Quarterly Report on Form 10-Q/A for the quarter ended September 30, 2004, is incorporated by reference in the following Registration Statements:

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

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

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

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

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

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

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

/s/ Deloitte & Touche LLP

Pittsburgh, Pennsylvania

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Exhibit 31.1

I, Allan R. Dennison of AmeriServ Financial, Inc. (ASF), certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of ASF;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of ASF as of, and for, the periods presented in this report;
4. ASF's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for ASF and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to ASF, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

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

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

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

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

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

Date: January 6, 2005

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

Exhibit 31.2

I, Jeffrey A. Stopko of AmeriServ Financial, Inc. (ASF), certify that:

1. I have reviewed this quarterly report on Form 10-Q/A of ASF;

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

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

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

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

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

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

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

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

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

Date: January 6, 2005

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President & CFO

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Exhibit 32.1

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

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company) on Form 10-Q/A for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Allan R. Dennison, President and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Allan R. Dennison

Allan R. Dennison

President and

Chief Executive Officer

January 6, 2005

Exhibit 32.2

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

AS ADOPTED PURSUANT TO

SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of AmeriServ Financial, Inc. (the Company) on Form 10-Q/A for the period ended September 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the Report), I, Jeffrey A. Stopko, Senior Vice President and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to ss. 906 of the Sarbanes-Oxley Act of 2002, that:

1).

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

2).

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

/s/Jeffrey A. Stopko

Jeffrey A. Stopko

Senior Vice President and

Chief Financial Officer

January 6, 2005

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