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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE TRANSITION PERIOD FROM _____ TO _____

COMMISSION FILE NUMBER 0-11204

AMERISERV FINANCIAL, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Title Of Each Class	Name Of Each Exchange On Which Registered
None	

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

Common Stock, $0.01 Par Value	**Share Purchase Rights**
(Title of class)	**(Title of class)**

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

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

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. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). þ Yes ¨ No

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

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

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

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked prices of such common equity, as of the business day of the registrant s most recently completed second fiscal quarter. The aggregate market value was $41,356,421 as of June 30, 2011.

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date. There were 20,921,021 shares outstanding as of January 31, 2012.

DOCUMENTS INCORPORATED BY REFERENCE.

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

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PART I

ITEM 1. BUSINESS
GENERAL

AmeriServ Financial, Inc. (the Company) is a bank holding company organized under the Pennsylvania Business Corporation Law. The Company became a holding company upon acquiring all of the outstanding shares of AmeriServ Financial Bank (the Bank) on January 5, 1983. The Company s other wholly owned subsidiaries include AmeriServ Trust and Financial Services Company (the Trust Company), formed in October 1992, and AmeriServ Life Insurance Company (AmeriServ Life), formed in October 1987.

The Company s principal activities consist of owning and operating its three wholly owned subsidiary entities. At December 31, 2011, the Company had, on a consolidated basis, total assets, deposits, and shareholders equity of $979 million, $816 million and $112 million, respectively. The Company and its subsidiaries derive substantially all of their income from banking and bank-related services. The Company functions primarily as a coordinating and servicing unit for its subsidiary entities in general management, accounting and taxes, loan review, auditing, investment accounting, marketing and risk management.

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

AMERISERV FINANCIAL BANKING SUBSIDIARY

AMERISERV FINANCIAL BANK

The Bank is a state bank chartered under the Pennsylvania Banking Code of 1965, as amended. Through 18 locations in Allegheny, Cambria, Centre, Somerset, and Westmoreland Counties, Pennsylvania, the Bank conducts a general banking business. It is a full-service bank offering (i) retail banking services, such as demand, savings and time deposits, money market accounts, secured and unsecured loans, mortgage loans, safe deposit boxes, holiday club accounts, money orders, and traveler s checks; (ii) lending, depository and related financial services to commercial, industrial, financial, and governmental customers, such as real estate-mortgage loans, short and medium-term loans, revolving credit arrangements, lines of credit, inventory and accounts receivable financing, real estate-construction loans, business savings accounts, certificates of deposit, wire transfers, night depository, and lock box services. The Bank also operates 23 automated bank teller machines (ATMs) through its 24-Hour Banking Network that is linked with NYCE, a regional ATM network, and CIRRUS, a national ATM network. On March 7, 2007, the Bank completed the acquisition of West Chester Capital Advisors (WCCA). WCCA is a registered investment advisor and as of December 31, 2011 had $101 million in assets under management.

We believe that the Bank s deposit base is such that loss of one depositor or a related group of depositors would not have a materially adverse effect on its business. In addition, the loan portfolio is also diversified so that one industry or group of related industries does not comprise a material portion of the loan portfolio. The Bank s business is not seasonal, nor does it have any risks attendant to foreign sources. The majority of the Bank s customer base is located within a 100 mile radius of Johnstown, Pennsylvania.

The Bank is subject to supervision and regular examination by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking. Various federal and state laws and regulations govern many aspects of its banking operations. The following is a summary of key data (dollars in thousands) and ratios at December 31, 2011:

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Headquarters	**Johnstown, PA**
Total Assets	**$ 955,286**
Total Investment Securities	**181,902**
Total Loans and Loans Held for Sale (net of unearned income)	**670,847**
Total Deposits	**816,620**
Total Net Income	**7,329**
Asset Leverage Ratio	**9.90%**
Return on Average Assets	**0.78**
Return on Average Equity	**7.21**
Total Full-time Equivalent Employees	**272**

RISK MANAGEMENT OVERVIEW:

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

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

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

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

Commercial Loans

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

Commercial Loans Secured by Real Estate

This category includes various types of loans, including acquisition and construction of investment property, owner-occupied property and operating property. Maximum term, minimum cash flow coverage, leasing requirements, maximum amortization and maximum loan to value ratios are controlled by the Bank s credit

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policy and follow industry guidelines and norms, and regulatory limitations. Personal guarantees are normally required during the construction phase on construction credits, and are frequently obtained on mid to smaller commercial real estate loans. In addition to economic risk, this category is subject to geographic and portfolio concentration risk, which are monitored and considered in underwriting.

Residential Real Estate Mortgages

This category includes mortgages that are secured by residential property. Underwriting of loans within this category is pursuant to Freddie Mac/Fannie Mae underwriting guidelines, with the exception of Community Reinvestment Act (CRA) loans, which exhibit more liberal standards. The major risk in this category is that a significant downward economic trend would increase unemployment and cause payment default. The Bank does not and has never engaged in subprime residential mortgage lending.

Consumer Loans

This category includes consumer installment loans and revolving credit plans. Underwriting is pursuant to industry norms and guidelines. The major risk in this category is a significant economic downturn.

INVESTMENTS

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

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

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

Investment securities available for sale at:

	AT DECEMBER 31,		
	2011	**2010**	**2009**
	(IN THOUSANDS)		
U.S. Agency	**$ 10,689**	$ 15,956	$ 12,342
U.S. Agency mortgage-backed securities	**165,484**	145,727	116,088
Total cost basis of investment securities available for sale	**$ 176,173**	$ 161,683	$ 128,430
Total fair value of investment securities available for sale	**$ 182,923**	$ 164,811	$ 131,272

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Investment securities held to maturity at:

	AT DECEMBER 31, 2011	2010	2009
	(IN THOUSANDS)		
U.S. Treasury	**$**	$	$ 3,009
U.S. Agency mortgage-backed securities	**9,280**	6,824	7,602
Other securities	**3,000**	1,000	1,000
Total cost basis of investment securities held to maturity	**$ 12,280**	$ 7,824	$ 11,611
Total fair value of investment securities held to maturity	**$ 12,914**	$ 8,267	$ 11,996

DEPOSITS AND OTHER SOURCES OF FUNDS

Deposits

The Bank has a loyal core deposit base made up of traditional commercial bank products that exhibits little fluctuation, other than jumbo certificates of deposits (CDs), which demonstrate some seasonality. The Company also utilizes certain Trust Company specialty deposits related to the ERECT Fund as a funding source which serve as an alternative to wholesale borrowings and can exhibit some degree of volatility.

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

	AT DECEMBER 31, 2011		2010		2009	
	(IN THOUSANDS, EXCEPT PERCENTAGES)					
Demand:						
Non-interest bearing	**$ 135,298**	%	$ 122,963	%	$ 114,473	%
Interest bearing	**57,784**	**0.22**	58,118	0.30	62,494	0.41
Savings	**81,490**	**0.31**	77,381	0.51	72,350	0.73
Money market	**193,536**	**0.56**	186,560	0.87	169,823	1.44
Other time	**348,915**	**1.97**	358,472	2.44	343,841	2.88
Total deposits	**$ 817,023**	**1.02**	$ 803,494	1.36	$ 762,981	1.72

Loans

The loan portfolio of the Company consisted of the following:

	AT DECEMBER 31, 2011	2010	2009	2008	2007
	(IN THOUSANDS)				
Commercial	**$ 83,124**	$ 78,322	$ 96,158	$ 110,197	$ 118,936
Commercial loans secured by real estate(1)	**350,224**	370,375	396,787	353,870	285,115
Real estate-mortgage(1)	**212,669**	203,323	207,221	218,928	214,839
Consumer	**18,172**	19,233	19,619	23,804	16,676
Loans	**664,189**	671,253	719,785	706,799	635,566
Less: Unearned income	**452**	477	671	691	471

Loans, net of unearned income	**$ 663,737**	$ 670,776	$ 719,114	$ 706,108	$ 635,095

(1) For each of the periods presented beginning with December 31, 2011, real estate-construction loans constituted 1.9%, 3.9%, 6.8%, 6.2% and 5.5% of the Company s total loans, net of unearned income, respectively.

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Non-performing Assets

The following table presents information concerning non-performing assets:

	AT DECEMBER 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(IN THOUSANDS, EXCEPT PERCENTAGES)				
Non-accrual loans:					
Commercial	**$**	$ 3,679	$ 3,375	$ 1,128	$ 3,553
Commercial loans secured by real estate	**3,870**	6,731	11,716	484	225
Real estate-mortgage	**1,205**	1,879	2,025	1,765	1,460
Total	**5,075**	12,289	17,116	3,377	5,238
Other real estate owned:					
Commercial loans secured by real estate	**20**	436	871	701	
Real estate-mortgage	**104**	302	350	494	42
Total	**124**	738	1,221	1,195	42
Total restructured loans not in non-accrual (TDR)		1,337			
Total non-performing assets including TDR	**$ 5,199**	$ 14,364	$ 18,337	$ 4,572	$ 5,280
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	**0.77%**	2.12%	2.53%	0.65%	0.83%

The Company is unaware of any additional loans which are required to either be charged-off or added to the non-performing asset totals disclosed above. Other real estate owned is recorded at the lower of (1) fair value minus estimated costs to sell, or (2) carrying cost. The Company had no loans past due 90 days or more for the periods presented.

The following table sets forth, for the periods indicated, (1) 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, (2) the amount of interest income actually recorded on such loans, and (3) the net reduction in interest income attributable to such loans.

	YEAR ENDED DECEMBER 31,				
	2011	**2010**	**2009**	**2008**	**2007**
	(IN THOUSANDS)				
Interest income due in accordance with original terms	**$ 376**	$ 1,086	$ 553	$ 198	$ 215
Interest income recorded	**(167)**	(458)	(75)		(24)
Net reduction in interest income	**$ 209**	$ 628	$ 478	$ 198	$ 191

Secondary Market Activities

The Residential Lending department of the Company continues to originate one-to-four family mortgage loans for customers, some of which are sold to outside investors in the secondary market and some of which are retained for the Bank s portfolio. Mortgages sold on the secondary market are sold to investors on a flow basis; mortgages are priced and delivered on a best efforts pricing basis, with servicing released to the investor. Fannie Mae/Freddie Mac guidelines are used in underwriting all mortgages with the exception of a limited amount of CRA loans. Mortgages with longer terms, such as 20-year, 30-year, FHA, and VA loans, are usually sold. The remaining production of the department includes construction, adjustable rate mortgages, 10-year, 15-year, and bi-weekly mortgages. These loans are usually kept in the Bank s portfolios, although during periods of low interest rates 15-year loans are typically sold into the secondary market.

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AMERISERV FINANCIAL NON-BANKING SUBSIDIARIES

AMERISERV TRUST AND FINANCIAL SERVICES COMPANY

AmeriServ Trust and Financial Services Company is a trust company organized under Pennsylvania law in October 1992. As one of the larger providers of trust and investment management products and services between Pittsburgh and Harrisburg, AmeriServ Trust and Financial Services Company is committed to delivering personalized, professional service to its clients. Its staff of approximately 51 professionals administers assets valued at approximately $1.4 billion that are not recognized on the Company s balance sheet at December 31, 2011. The Trust Company focuses on wealth management. Wealth management includes personal trust products and services such as personal portfolio investment management, estate planning and administration, custodial services and pre-need trusts. Also, institutional trust products and services such as 401(k) plans, defined benefit and defined contribution employee benefit plans, and individual retirement accounts are included in this segment. This segment also includes financial services which include the sale of mutual funds, annuities, and insurance products. The Wealth management business also includes the union collective investment funds, namely the ERECT and BUILD funds which are designed to use union pension dollars in construction projects that utilize union labor. The BUILD funds are in the process of liquidation. At December 31, 2011, the Trust Company had total assets of $3.9 million and total shareholder s equity of $3.3 million. In 2011, the Trust Company contributed earnings to the corporation as its gross revenue amounted to $6.6 million and the net income contribution was $713,000. The Trust Company is subject to regulation and supervision by the Federal Reserve Bank of Philadelphia and the Pennsylvania Department of Banking.

AMERISERV LIFE

AmeriServ Life is a captive insurance company organized under the laws of the State of Arizona. AmeriServ Life engages in underwriting as reinsurer of credit life and disability insurance within the Company s market area. Operations of AmeriServ Life are conducted in each office of the Company s banking subsidiary. AmeriServ Life is subject to supervision and regulation by the Arizona Department of Insurance, the Pennsylvania Insurance Department, and the Board of Governors of the Federal Reserve (the Federal Reserve). At December 31, 2011, AmeriServ Life had total assets of $553,000 and total stockholders equity of $545,000.

MONETARY POLICIES

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

COMPETITION

Our subsidiaries face strong competition from other commercial banks, savings banks, credit unions, savings and loan associations, and other financial or investment service institutions for business in the communities they serve. Several of these institutions are affiliated with major banking and financial institutions which are substantially larger and have greater financial resources than the Bank and the Trust Company. As the financial services industry continues to consolidate, the scope of potential competition affecting our subsidiaries will also increase. Brokerage houses, consumer finance companies, insurance companies, and pension trusts are important competitors for various types of financial services. In addition, personal and corporate trust investment counseling services are offered by insurance companies, other firms, and individuals.

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MARKET AREA & ECONOMY

Domestic expansion remains upbeat showing signs of stronger business and consumer confidence, lower unemployment insurance claims and higher housing starts. The unemployment rate improved between years from 9.4% in December 2010 to 8.5% in December 2011. However, the overhang of household debt and excess housing supply, coupled with fiscal contraction, we expect, should keep the domestic expansion modest in 2012. Most economists believe that the payroll tax cut and emergency unemployment insurance benefits will be extended for all of 2012 to avoid hitting the economy with an extra drag. Domestic policy uncertainty will remain very high throughout the year damaging business and consumer willingness to spend and take risks.

The Federal Reserve is in a holding pattern for now, but bias is towards additional stimulus. Consistent with its statutory dual mandate of fostering maximum employment and price stability and to support a stronger economic recovery, the Federal Reserve expects to maintain a highly accommodative stance for monetary policy. In particular, the Federal Open Market Committee (FOMC), at its January 2012 meeting decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects that economic conditions are likely to warrant exceptionally low levels for the federal funds rate at least through late 2014. The Federal Reserve is expected to continue their efforts to keep long term yields down and maintain the flatter yield curve resulting from Operation Twist that was executed in 2011. The flattened yield curve will continue to present margin compression issues for banks and strategic challenges to price products effectively.

While the Federal Reserve expects economic growth over coming quarters to be modest and consequently anticipates that the unemployment rate will decline only gradually, strains in global financial markets continue to pose significant downside risks to the economic outlook. The Federal Reserve also anticipates that over the coming quarters, inflation will run at levels at or below their formally adopted inflation target of 2.0%, as measured by the personal consumption expenditure index. The Federal Reserve s forecast for GDP growth in 2012 is to range from 2.2 to 2.7%. If the recovery were to continue to be modest, the unemployment rate continues to slowly fall, and inflation remain moderate, there would be a very strong case for more expansionary policy.

The GDP forecast is a bit faster than the 1.7% pace in 2011. Consumers are finally beginning to spend after four years of saving more to restore wealth lost in the housing crash and the 2008 stock market drop. Job creation is picking up, and businesses are investing in new equipment to expand production after several years of slowly increasing production to work off spare capacity. Unfortunately, growth isn t accelerating as it normally does in a recovery. The economy grew at an annual rate of 2.8% in the last quarter of 2011. A strong sustained recovery still is not under way, more than two years after the end of the Great Recession.

The economy in Cambria and Somerset Counties at the end of 2011 produced seasonally adjusted unemployment rates of 7.8% and 8.0%, respectively, as compared to national and state rates of 8.5% and 7.6%. Local markets continue to be negatively impacted by the slow economic conditions that exist in the national economy but are following the national trend of modest improvement. However, the continued difficulties being experienced by small and medium businesses nationally are also being experienced locally. Johnstown, PA, where AmeriServ Financial, Inc is headquartered, is a leader in technology and continues to have a cost of living that is lower than the national average. The local labor force fluctuated in a very narrow range comparing closely to recent year levels. As of December 31, 2011, total nonfarm jobs in Johnstown MSA were 700 above the December 2010 level with gains coming primarily from education and health services while all other categories demonstrated little change. The unemployment rate fluctuated between 7.4% and 9.3% during 2011. In the recent past, work on defense projects has contributed to economic growth in the region. However, a change in leadership due to the passing of a long time influential Congressman as well as congressional redistricting based upon the 2010 census continues to create cause for concern about the continued positive impact from the defense industry. Local loan demand did improve significantly in 2011 and is projected to remain good in 2012.

Economic conditions are stronger in the State College market and have demonstrated the same modest improvement experienced in the national economy. The unemployment rate for State College MSA reached 4.9%

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late in 2011, which represents a 1.3% improvement over the 2010 average and remains the lowest of all regions in the Commonwealth. Seasonally adjusted total nonfarm jobs for the MSA increased by 1,000 since December 2010.

The Company will enter new markets in 2012 with the opening of loan production offices in Harrisburg in Dauphin County, Pennsylvania, Altoona in Blair County, Pennsylvania and Hagerstown in Washington County, Maryland. Harrisburg is the metropolitan center for some 400 communities. Its economy and more than 6,900 businesses are diversified with a large representation of service-related industries (especially health) and growing technological industry to accompany the dominant government field inherent to being the state s capital. The largest employer, state government, provides stability to the economy and attracts attendant services. Excellent roads and rail transportation contribute to the city s prominence as a center for trade, warehousing, and distribution. The unemployment rate decreased from a 2010 average of 7.8% to 6.8% late in 2011 in the Harrisburg-Carlisle MSA region. Hagerstown and Washington County, Maryland, offers a rare combination of business advantages providing a major crossroads location that is convenient to the entire East Coast at the intersection of I-81 and I-70. It also offers an affordable cost of doing business and living located an hour from the Washington, D.C./Baltimore regions, but with much lower costs. While exhibiting a higher unemployment rate, the Hagerstown, MD-Martinsburg, WV MSA also improved from a 10.0% average in 2010 to 8.0% late in 2011.

Altoona is the business center of Blair County, Pennsylvania with a strong retail, government and manufacturing base. It serves as the headquarters for Sheetz Corporation which ranks 82^{nd} on Forbes list of the top privately owned companies. In addition to being located adjacent to interstate 99 and a major highway system, Altoona also has easy access to rail and air transportation. It is ranked 14^{th} in Inc. Magazine s best small markets to do business. There are 500 acres of rail served properties available for relocation or expansion. The unemployment rate in the Altoona MSA declined from a 7.7% average in 2010 to 6.5% at the end of 2011.

In the near future, the Pennsylvania economy has the opportunity to become a leading producer of shale gas. The Marcellus Shale, which underlies a vast majority of the state, is the largest unconventional natural gas reserve in the world. There is enormous economic potential for Pennsylvania to take advantage of this reserve as new drilling techniques have unlocked vast resources previously impossible to reach. The industry will create jobs in drilling and extraction, trucking and water treatment, gas line construction and maintenance, and in producing the materials for all of these needs. The successful development of natural gas represents one of our best opportunities to reignite Pennsylvania as a center for innovation and economic growth.

EMPLOYEES

The Company employed 372 people as of December 31, 2011, in full- and part-time positions. Approximately 190 non-supervisory employees of the Company are represented by the United Steelworkers, AFL-CIO-CLC, Local Union 2635-06. In 2009, the Company successfully negotiated a new four year labor contract with the United Steelworkers Local that will expire on October 15, 2013. The contract calls for annual wage increases of 1.5% in the first year, 2.0% in each of the second and third years, and 3.0% in the fourth year. The Company has not experienced a work stoppage since 1979. The Company is one of an estimated 13 union-represented banks nationwide.

FEDERAL DEPOSIT INSURANCE CORPORATION IMPROVEMENT ACT

The Federal Deposit Insurance Corporation Improvement Act of 1991 (the FDICIA), among other things, identifies five capital categories for insured depository institutions: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. It requires U.S. federal bank regulatory agencies to implement systems for prompt corrective action for insured depository institutions that do not meet minimum capital requirements based on these categories. The FDICIA imposes progressively more restrictive constraints on operations, management and capital distributions, depending on the category in which

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an institution is classified. Unless a bank is well capitalized, it is subject to restrictions on its ability to utilize brokered deposits and on other aspects of its operations. The FDICIA generally prohibits a bank from paying any dividend or making any capital distribution or paying any management fee to its holding company if the bank would thereafter be undercapitalized. An undercapitalized bank must develop a capital restoration plan, and its parent holding company must guarantee the bank s compliance with the plan up to the lesser of 5% of the bank s assets at the time it became undercapitalized and the amount needed to comply with the plan.

As of December 31, 2011, the Company believes that its bank subsidiary was well capitalized, based on the prompt corrective action guidelines described above. A bank s capital category is determined solely for the purpose of applying the prompt corrective action regulations, and the capital category may not constitute an accurate representation of the bank s overall financial condition or prospects for other purposes.

TEMPORARY LIQUIDITY GUARANTEE PROGRAM

On November 21, 2008, the Board of Directors of the FDIC adopted a final rule relating to the Temporary Liquidity Guarantee Program (TLGP). The TLGP was announced by the FDIC on October 14, 2008, preceded by the determination of systemic risk by the Secretary of the Department of Treasury, as an initiative to counter the system-wide crisis in the nation s financial sector. Under the TLGP the FDIC will (1) guarantee, through the earlier of maturity or June 30, 2012, certain newly issued senior unsecured debt issued by participating institutions on or after October 14, 2008, and before June 30, 2009 and (2) provide full FDIC deposit insurance coverage for non-interest bearing transaction deposit accounts, Negotiable Order of Withdraw (NOW) accounts paying less than 0.5% interest per annum and Interest on Lawyers Trust Accounts held at participating FDIC-insured institutions through December 31, 2010. Coverage under the TLGP was available for the first 30 days without charge. The fee assessment for coverage of senior unsecured debt ranges from 50 basis points to 100 basis points per annum, depending on the initial maturity of the debt. The fee assessment for deposit insurance coverage is 10 basis points per quarter on amounts in covered accounts exceeding $250,000. The Company elected to participate in the program that provided full FDIC deposit insurance coverage for all non-interest bearing accounts that became effective on December 31, 2010 and will last until December 31, 2012.

SARBANES-OXLEY ACT OF 2002

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

PRIVACY PROVISIONS OF GRAMM-LEACH-BLILEY ACT

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

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USA PATRIOT ACT OF 2001

A major focus of governmental policy on financial institutions in recent years has been aimed at combating money laundering and terrorist financing. The USA Patriot Act substantially broadened the scope of United States anti-money laundering laws and regulations by imposing significant new compliance and due diligence obligations, creating new crimes and penalties and expanding the extra-territorial jurisdiction of the United States. The United States Treasury Department has issued and, in some cases, proposed a number of regulations that apply various requirements of the USA Patriot Act to financial institutions. These regulations impose obligations on financial institutions to maintain appropriate policies, procedures and controls to detect, prevent and report money laundering and terrorist financing and to verify the identity of their customers. Failure of a financial institution to maintain and implement adequate programs to combat money laundering and terrorist financing, or to comply with all of the relevant laws or regulations, could have serious legal and reputational consequences for the Company.

DODD-FRANK WALL STREET REFORM AND CONSUMER PROTECTION ACT

On July 21, 2010, the President signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). This new law will significantly change the current bank regulatory structure and affect the lending, deposit, investment, trading and operating activities of financial institutions and their holding companies.

The Dodd-Frank Act requires various federal agencies to adopt a broad range of new rules and regulations, and to prepare various studies and reports for Congress. The federal agencies are given significant discretion in drafting such rules and regulations, and consequently, many of the details and much of the impact of the Dodd-Frank Act may not be known for months or years.

Certain provisions of the Dodd-Frank Act are expected to have a near term impact on the Company. For example, effective July 21, 2011, a provision of the Dodd-Frank Act eliminates the federal prohibitions on paying interest on demand deposits, thus allowing businesses to have interest bearing checking accounts. Depending on competitive responses, this significant change to existing law could have an adverse impact on the Company s interest expense.

The Dodd-Frank Act also broadened the base for Federal Deposit Insurance Corporation insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. The Dodd-Frank Act also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to $250,000 per depositor, retroactive to January 1, 2008, and non-interest bearing transaction accounts have unlimited deposit insurance through December 31, 2013.

Bank and thrift holding companies with assets of less than $15 billion as of December 31, 2009, such as the Company, will be permitted to include trust preferred securities that were issued before May 19, 2010, as Tier 1 capital; however, trust preferred securities issued by a bank or thrift holding company (other than those with assets of less than $500 million) after May 19, 2010, will no longer count as Tier 1 capital. Trust preferred securities still will be entitled to be treated as Tier 2 capital.

The Dodd-Frank Act also requires publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called golden parachute payments. The legislation also directs the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau with broad powers to supervise and enforce consumer protection laws. The Consumer Financial Protection Bureau has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions, including the authority to prohibit unfair, deceptive or abusive acts and practices. The Consumer Financial Protection Bureau has examination and enforcement authority over all banks and savings institutions with more than $10 billion in assets. Banks and savings institutions with $10 billion or less in assets such as the Company will continue to be examined for compliance with the consumer laws by their primary bank regulators. The Dodd-Frank Act also weakens the federal preemption rules that have been applicable for national banks and federal savings associations and gives state attorney generals the ability to enforce federal consumer protection laws.

It is difficult to predict at this time what the total impact the Dodd-Frank Act will have on community banks. However, it is expected that, at a minimum, it will increase our operating and compliance costs and could increase our interest expense.

AVAILABLE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. These filings are available to the public on the Internet at the SEC s website at *http://www.sec.gov*. You may also read and copy any document we file with the SEC at the SEC s public reference room, located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

Our Internet address is *http://www.ameriserv.com*. We make available free of charge on *http://www. ameriserv.com* our annual, quarterly and current reports, and amendments to those reports, as soon as reasonably practical after we electronically file such material with, or furnish it to, the SEC.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 1B. UNRESOLVED STAFF COMMENTS

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

ITEM 2. PROPERTIES

The principal offices of the Company and the Bank occupy the five-story AmeriServ Financial building at the corner of Main and Franklin Streets in Johnstown plus twelve floors of the building adjacent thereto. The Company occupies the main office and its subsidiary entities have 14 other locations which are owned. Nine additional locations are leased with terms expiring from January 1, 2012 to August 31, 2030.

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURE

Not applicable.

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PART II

ITEM 5. MARKET FOR THE REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

COMMON STOCK

As of January 31, 2012, the Company had 3,996 shareholders of record for its common stock. The Company s common stock is traded on the NASDAQ Global Market System under the symbol ASRV. The following table sets forth the actual high and low closing prices and the cash dividends declared per share for the periods indicated:

	PRICES		CASH DIVIDENDS DECLARED
	HIGH	LOW	
Year ended December 31, 2011:			
First Quarter	**$ 2.37**	**$ 1.59**	**$ 0.00**
Second Quarter	**2.47**	**1.81**	**0.00**
Third Quarter	**2.27**	**1.57**	**0.00**
Fourth Quarter	**2.12**	**1.78**	**0.00**
Year ended December 31, 2010			
First Quarter	$ 2.13	$ 1.42	$ 0.00
Second Quarter	2.49	1.60	0.00
Third Quarter	1.89	1.40	0.00
Fourth Quarter	1.75	1.51	0.00

Equity Compensation Plan Information

The following table summarizes the number of shares remaining for issuance under ASRV s outstanding stock incentive plans as of December 31, 2011.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	313,612	$ 3.02	800,000
Equity compensation plans not approved by security holders	0	0	0
Total	313,612	$ 3.02	800,000

In November 2011, the Board of Directors authorized a new program to repurchase 1.1 million common shares. The following table summarizes common share repurchase activity for the quarter ended December 31, 2011.

	Total Number of Shares	Average Price Paid Per Share	Number of Shares that may yet be Purchased
November	230,100	$ 2.05	829,900
December	57,300	$ 1.95	772,600

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ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

SELECTED FIVE-YEAR CONSOLIDATED FINANCIAL DATA

	AT OR FOR THE YEAR ENDED DECEMBER 31, (DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
	2011	**2010**	**2009**	**2008**	**2007**
SUMMARY OF INCOME STATEMENT DATA:					
Total interest income	**$ 41,964**	$ 44,831	$ 47,455	$ 47,819	$ 49,379
Total interest expense	**9,681**	12,489	15,021	18,702	25,156
Net interest income	**32,283**	32,342	32,434	29,117	24,223
Provision (credit) for loan losses	**(3,575)**	5,250	15,150	2,925	300
Net interest income after provision for loan losses	**35,858**	27,092	17,284	26,192	23,923
Total non-interest income	**13,569**	13,967	13,928	16,424	14,707
Total non-interest expense	**40,037**	39,697	39,157	35,637	34,672
Income (loss) before income taxes	**9,390**	1,362	(7,945)	6,979	3,958
Provision (benefit) for income taxes	**2,853**	80	(3,050)	1,470	924
Net income (loss)	**$ 6,537**	$ 1,282	$ (4,895)	$ 5,509	$ 3,034
Net income (loss) available to common shareholders	**$ 5,152**	$ 121	$ (6,053)	$ 5,474	$ 3,034
PER COMMON SHARE DATA:					
Basic earnings (loss) per share	**$ 0.24**	$ 0.01	$ (0.29)	$ 0.25	$ 0.14
Diluted earnings (loss) per share	**0.24**	0.01	(0.29)	0.25	0.14
Cash dividends declared	**0.00**	0.00	0.00	0.025	0.00
Book value at period end	**4.37**	4.07	4.09	4.39	4.07
BALANCE SHEET AND OTHER DATA:					
Total assets	**$ 979,076**	$ 948,974	$ 970,026	$ 966,929	$ 904,878
Loans and loans held for sale, net of unearned income	**670,847**	678,181	722,904	707,108	636,155
Allowance for loan losses	**14,623**	19,765	19,685	8,910	7,252
Investment securities available for sale	**182,923**	164,811	131,272	126,781	140,582
Investment securities held to maturity	**12,280**	7,824	11,611	15,894	18,533
Deposits	**816,420**	801,216	786,011	694,956	710,439
Total borrowings	**34,850**	27,385	64,664	146,863	95,200
Stockholders equity	**112,352**	107,058	107,254	113,252	90,294
Full-time equivalent employees	**347**	348	345	353	351
SELECTED FINANCIAL RATIOS:					
Return on average assets	**0.68**	0.13	(0.51)	0.62	0.34
Return on average total equity	**5.90%**	1.19%	(4.33)%	5.93%	3.51%
Loans and loans held for sale, net of unearned income, as a percent of deposits, at period end	**82.17**	84.64	91.97	101.75	89.54
Ratio of average total equity to average assets	**11.49**	11.25	11.72	10.40	9.79
Common stock cash dividends as a percent of net income available to common shareholders				9.92	
Interest rate spread	**3.47**	3.51	3.37	3.21	2.54
Net interest margin	**3.72**	3.79	3.72	3.64	3.06
Allowance for loan losses as a percentage of loans and loans held for sale, net of unearned income, at period end	**2.18**	2.91	2.72	1.26	1.14
Non-performing assets as a percentage of loans, loans held for sale and other real estate owned, at period end	**0.77**	2.12	2.53	0.65	0.83
	0.24	0.74	0.60	0.20	0.19

Net charge-offs as a percentage of average loans and loans held for sale					
Ratio of earnings to fixed charges and preferred dividends:(1)					
Excluding interest on deposits	**4.11X**	1.49X	(1.12)X	3.17X	2.60X
Including interest on deposits	**1.83**	1.10	0.53	1.37	1.16
Cumulative one year interest rate sensitivity gap ratio, at period end	**1.29**	1.13	1.08	1.10	0.90

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

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

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

RESULTS OF OPERATIONS FOR THE YEARS ENDED DECEMBER 31, 2011, 2010, AND 2009

2011 SUMMARY OVERVIEW:

On January 24, 2012, AmeriServ reported its financial results for the fourth quarter of 2011 and the full 12 months of the year. Net income for the fourth quarter of 2011 was $1.8 million or $0.07 per diluted share. This surpassed the fourth quarter of 2010 by 59%. The performance of the Company in this quarter marked the seventh consecutive profitable quarter going back to the second quarter of 2010. When combined with the previous three quarters of 2011, AmeriServ reported net income for the year of $6.5 million or $0.24 per diluted share. This was a net income improvement of $5.3 million or more than five times the net income of the recession plagued year of 2010.

This strong recovery from the results of both 2009 and 2010 is indeed a story worth telling and then reflecting upon. It is a well-documented fact that this nation has struggled economically since the collapse of the financial markets with the failure of Lehman Brothers in late 2008. Fortunately, the AmeriServ s Board and management at that time crafted a conservative balance sheet and a strong capital position so as to withstand the continuing collapse of the housing market and the mushrooming unemployment figures. AmeriServ also worked to develop deep sources of liquidity since no one knew how severe or long lasting the troubled times would be. Often, it is the lending activities of community banks such as AmeriServ that are most affected by recession. Therefore, in the autumn of 2009, AmeriServ formed an Asset Quality Task Force and charged it with the responsibility for searching out troubled borrowers who might not be able to honor their financial obligations. This group met weekly and recommended a series of specific strengthening actions in regard to the loan loss reserve. Since AmeriServ had developed a strong capital base, it was able to readily provide the funds for this strengthening. But there was more. AmeriServ worked with its troubled borrowers and, during 2011, was able to reduce the total of its most troubled assets by over $9 million. This welcome event caused AmeriServ to end 2011 with a loan loss reserve that provided for its remaining non-performing assets with a coverage ratio of 281%. Such a positive result during the year enabled AmeriServ to reduce its loan loss reserve by $3.6 million, thus laying a solid foundation for improved earnings.

But 2011 was not just about improved asset quality for there was similar progress in other areas. During 2011, AmeriServ repaid its obligation under the Troubled Asset Relief Program in full and repurchased a warrant to purchase 1.3 million AmeriServ shares which had been issued to the US Treasury Department. This successful negotiation means that our share value will not be diluted by the US Treasury selling those warrants in the open market. Following careful study by the Board and management of AmeriServ, in March 2011, we also applied to participate in the Small Business Lending Fund. AmeriServ was approved to participate in August of 2011 and has positioned itself as one of only a few Pennsylvania banks recognized by the US Treasury as a participating lender to small businesses in the region. The funding for this program requires that we pay 5% per year to the US Treasury, but if we can increase our small business lending sufficiently, the US Treasury has committed to reduce our rate to as little as 1% per year. Our Commercial Banking group is busy working with small businesses in the area; in fact, in 2011 AmeriServ s banking officer s averaged 400 calls a month on business customers and prospects to make them aware of this plan.

In another important initiative, AmeriServ remained the largest originator of residential mortgages in Cambria County. With the exception of CRA loans, these mortgages all conform to standards set by the U. S. Government entities Fannie Mae and Freddie Mac. This is both a satisfying and profitable part of our role in the community.

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There was also significant progress at our AmeriServ Trust and Financial Services subsidiary in 2011. In spite of the turmoil at home and abroad in the financial markets, this company increased its net income by 242% when compared with 2010. This surge reflected the first full year of its new leadership that came on board in 2010. But we also believe the Trust Company has rebuilt its infrastructure so that it can continue to provide needed wealth management and retirement income guidance throughout the region. During such stressful economic times, the Trust Company continues to provide its customers with safety and returns in spite of the constant headlines about the struggles of Wall Street. This wholly owned subsidiary has become a substantial part of our broad array of financial services.

Now a few thoughts about the future. It has been satisfying to detail the news about AmeriServ s performance in 2011. We are aware that over 800 U.S. banks are still classified as troubled and it is our intent to continue to maintain a conservative balance sheet with strong capital and deep liquidity. But the goal of this Board and this management team was never mere survival. We believe that in 2011 AmeriServ began to reclaim its place among the strong community banks in Pennsylvania. But we are now pursuing the goals of our new 2012-2015 Strategic Plan to grow assets and earnings without gimmicks or speculations. This means that in 2012 we must continue to invest in the Company so that it can offer the caliber of banking services our customers demand. We are moving into the new technologies of mobile banking and virtual banking. It is an exciting time and we are glad that we now have the time and the financial strength to participate in this new world of banking.

During 2011, the Standard & Poor 500 Stock Index did not gain one dollar but the price of AmeriServ s common stock increased by 23%. We hope this is the beginning of recognition that the performance of AmeriServ in 2011 is not a mere random event. It is our duty to continue our progress so that the value of the stock and the value of the Company can continue to increase. It is our job to leverage our newfound strengths without foolish adventures, but to also understand that a status quo approach is not acceptable.

It is difficult to not be wary given the problems that do exist. The continuing European crisis is not encouraging, the enormity of the United States debt crisis is daunting, and the gradual realization that some portion of the unemployment rate is not a result of the business cycle but is the result of structural changes in our economy which reflect technology, globalization and grievous errors by some of the world s leaders. In times such as these, this Board and this management team pledge a continuing focus on the underlying strength of this community bank. We recognize our obligations to our shareholders and our customers and our employees. It is our hope that the events which lie ahead will be favorable so that we may concentrate on growing the Company with increasing earnings, but we will always be alert for any increase in the challenges that have been so much a part of the last few years.

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

	YEAR ENDED DECEMBER 31, 2011	2010	2009
	(IN THOUSANDS, EXCEPT PER SHARE DATA AND RATIOS)		
Net income (loss)	**$ 6,537**	$ 1,282	$ (4,895)
Diluted earnings (loss) per share	**0.24**	0.01	(0.29)
Return on average assets	**0.68%**	0.13%	(0.51)%
Return on average equity	**5.90**	1.19	(4.33)

The Company reported net income of $6.5 million or $0.24 per diluted common share for 2011. This represents an increase of $5.3 million from the 2010 net income of $1.3 million or $0.01 per diluted common share. A significant and sustained improvement in asset quality was an important factor contributing to our financial success in 2011. Specifically, non-performing assets and classified loans again declined as a result of our successful problem credit resolution efforts allowing the Company to reverse a portion of the allowance for loan loss into earnings in 2011 while still increasing the non-performing assets coverage ratio. The Company s net interest income performance has been relatively stable throughout 2011. It decreased for the full year of 2011 by only $59,000, or 0.2%, when compared to the entire year of 2010. Non-interest income decreased by $398,000 or 2.8% largely due to an investment security loss of $358,000 realized in the first quarter of 2011 that resulted from a portfolio repositioning strategy. Continued focus on expense control helped contain the increase in non-interest expense to $340,000 or 0.9%. Income tax expense increased sharply by $2.8 million in 2011 due to the Company s improved profitability. Finally, diluted earnings per share were again impacted by the $1.1 million dividend requirement on preferred stock and the $267,000 accelerated preferred stock discount accretion related to the repayment of the TARP Capital Purchase Program (TARP CPP) preferred stock which reduced the amount of net income available to common shareholders.

The Company reported net income of $1.3 million or $0.01 per diluted common share for 2010. This represented an increase of $6.2 million from the 2009 net loss of $4.9 million or $0.29 per diluted common share. Improvements in asset quality were a key factor causing our increased earnings in 2010. Proactive monitoring of our loan portfolio and problem credits allowed us to carefully adjust downward the provision for loan losses in each quarter of 2010 while still maintaining good loan loss reserve coverage ratios. Also, there was little change in total revenue in 2010 as both net interest income and non-interest income were comparable with the prior year. Non-interest expenses increased moderately in 2010 as they grew by 1.4%. Diluted earnings per share were impacted by the preferred dividend requirement on the TARP CPP preferred stock and accretion of discount on preferred stock, which amounted to $1.4 million and reduced the amount of net income available to common shareholders.

The Company reported a net loss of $4.9 million or $0.29 loss per diluted common share for 2009. This represented a decrease of $10.4 million from the 2008 net income of $5.5 million or $0.25 per diluted common share. An increased provision for loan losses, reduced non-interest income, and higher non-interest expenses were the main factors causing the decrease in net income in 2009. These negative items more than offset good growth in net interest income that resulted from solid loan and deposit growth within our retail bank in 2009 and effective balance sheet management in a declining interest rate environment.

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

	YEAR ENDED DECEMBER 31,		
	2011	**2010**	**2009**
	(IN THOUSANDS, EXCEPT RATIOS)		
Interest income	**$ 41,964**	$ 44,831	$ 47,455
Interest expense	**9,681**	12,489	15,021
Net interest income	**32,283**	32,342	32,434
Net interest margin	**3.72%**	3.79%	3.72%

2011 NET INTEREST PERFORMANCE OVERVIEW The Company s net interest income performance has been relatively stable throughout 2011. For the full year of 2011, it decreased by only $59,000, or 0.2%, when compared to the entire year of 2010. The Company s 2011 net interest margin averaged 3.72%, which was seven basis points lower than the 2010 net interest margin of 3.79%. Reduced loan balances were the primary factor causing the drop in both net interest income and net interest margin in 2011. Specifically, total loans averaged $663 million for the full year 2011, a decrease of $39 million or 5.5% from the 2010 year. The lower balances reflect the results of the Company s focus on reducing its commercial real estate exposure and problem loans, particularly during the first half of 2011. However, total loan balances appear to have bottomed in the first quarter of 2011. Loans have increased by $26 million over the past three quarters reflecting the successful results of the Company s more intensive sales calling efforts for commercial loans and growth in home equity loans. The Company has strengthened its excellent liquidity position by reinvesting excess cash in high quality investment securities and short-term investments whose average balance increased by $42 million in 2011. Careful management of funding costs allowed the Company to mitigate a significant portion of the drop in interest revenue during the past twelve months. Specifically, interest expense for 2011 decreased by $2.8 million due to reduced deposit costs. This reduction in deposit costs has not negatively impacted deposit balances which have increased by $15 million or 1.9% since December 31, 2010. The Company is particularly pleased with the growth achieved in non-interest bearing demand deposits in 2011 whose balances on average increased by $12 million or 10.0%.

COMPONENT CHANGES IN NET INTEREST INCOME: 2011 VERSUS 2010 Regarding the separate components of net interest income, the Company s total interest income in 2011 decreased by $2.9 million when compared to 2010. This decrease was due to a 42 basis point decline in the earning asset yield from 5.26% to 4.84%, partially offset by additional interest income from a $2.8 million increase in average earning assets due to an increase in investment securities. Within the earning asset base, the yield on the total loan portfolio decreased by 19 basis points from 5.58% to 5.39% while the yield on total investment securities dropped by 39 basis points from 3.54% to 3.15%. Both of these yield declines reflect the impact of the lower interest rate environment that has now been in place for over 3 years. New investment securities and loans that are being booked typically have yields that are below the rate on the maturing instruments that they are replacing. Also the asset mix shift with fewer dollars invested in loans and more dollars invested in lower yielding short duration investment securities also negatively impacts the earning asset yield. Overall, the decline in loans combined with deposit growth caused the Company s loan to deposit ratio to average 81.1% in 2011 compared to 87.3% in 2010. However, improved commercial loan pipelines and the opening of several new loan production offices suggest that the Company may be able to grow the loan portfolio in 2012 and increase the loan to deposit ratio. This loan growth will be needed to help maintain or grow net interest income as the Company is concerned that Federal Reserve interest rate policies will continue to flatten the yield curve and pressure net interest income and the interest margin in 2012.

The Company s total interest expense for 2011 decreased by $2.8 million, or 22.5%, when compared to 2010. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 38 basis points to 1.37%. Management s decision to reduce interest rates paid on all deposit categories has not had any negative impact on deposit growth as consumers have sought the safety provided by well-capitalized community banks like AmeriServ Financial. This decrease in funding costs was also aided by a drop in interest expense associated with a $9.6 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by $10.8 million, but was partially offset by a $1.2 million increase in interest bearing deposits. Additionally, the Company s funding mix also benefited from a $12.3 million increase in non-interest bearing demand deposits. Overall, in 2011 the Company was able to further reduce its reliance on borrowings as a funding source as wholesale borrowings averaged only 1.1% of total assets. The Company also does not use brokered certificates of deposit as a funding source.

2010 NET INTEREST PERFORMANCE OVERVIEW The Company s net interest income declined modestly in 2010 by only $92,000 or 0.28% when compared to 2009. Careful management of funding costs during a period when interest revenues declined and the balance sheet contracted allowed the Company to increase its net interest margin by seven basis points to average 3.79% for the full year of 2010. This solid net interest margin performance was reflective of the Company s strong liquidity position and its ability to reduce its funding costs during a period of deposit growth. Specifically, total deposits averaged $803 million for the full year of 2010, an increase of $41 million or 5.3% over 2009. Growth in non-interest bearing demand deposits was even greater at 7.4%. The Company believes that uncertainties in the economy contributed to growth in money market accounts, certificates of deposit and demand deposits as consumers and businesses looked for safety in well capitalized community banks like AmeriServ Financial. Overall, total loans and loans held for sale declined by $45 million or 6.2% since December 31, 2009 as the Company successfully focused on reducing its commercial real estate exposure and non-performing assets during this period of economic weakness.

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COMPONENT CHANGES IN NET INTEREST INCOME: 2010 VERSUS 2009 Regarding the separate components of net interest income, the Company s total interest income in 2010 decreased by $2.6 million when compared to 2009. This decrease was due to an 18 basis point decline in the earning asset yield to 5.26%, and a $9.9 million decrease in average earning assets due to the previously mentioned decline in loans. Investment securities had grown over this period, but not enough to absorb the overall decline in total loans. Within the earning asset base, the yield on the total loan portfolio decreased by 14 basis points to 5.58% while the yield on total investment securities dropped by 54 basis points to 3.54%. Both of these yield declines reflected the impact of the lower interest rate environment. New investment securities and loans that were booked typically had yields that were below the rate on the maturing instruments that they were replacing. Also the asset mix shift with fewer dollars invested in loans and more dollars invested in lower yielding short duration investment securities also negatively impacted the earning asset yield. Overall, the decline in loans combined with deposit growth caused the Company s loan to deposit ratio to average 87.3% in 2010 compared to 95.1% in 2009.

The Company s total interest expense for 2010 decreased by $2.5 million, or 16.9%, when compared to 2009. This decrease in interest expense was due to a lower cost of funds as the cost of interest bearing liabilities declined by 32 basis points to 1.75%. Management s decision to reduce interest rates paid on all deposit categories did not have any negative impact on deposit growth. This decrease in funding costs was aided by a drop in interest expense associated with an $11.1 million decrease in the volume of interest bearing liabilities. Specifically, the average balance of all FHLB borrowings declined by $43.1 million, but was partially offset by a $32 million increase in interest bearing deposits. Additionally, the Company s funding mix also benefited from an $8.5 million increase in non-interest bearing demand deposits. Overall, in 2010 the Company had the discipline to further reduce its reliance on borrowings as a funding source as wholesale borrowings averaged only 2.3% of total assets.

The table that follows provides an analysis of net interest income on a tax-equivalent basis setting forth (i) average assets, liabilities, and stockholders equity, (ii) interest income earned on interest earning assets and interest expense paid on interest bearing liabilities, (iii) average yields earned on interest earning assets and average rates paid on interest bearing liabilities, (iv) interest rate spread (the difference between the average yield earned on interest earning assets and the average rate paid on interest bearing liabilities), and (v) net interest margin (net interest income as a percentage of average total interest earning assets). For purposes of these tables loan balances include non-accrual loans, and interest income on loans includes loan fees or amortization of such fees which have been deferred, as well as interest recorded on certain non-accrual loans as cash is received. Regulatory stock is included within available for sale investment securities for this analysis. Additionally, a tax rate of approximately 34% is used to compute tax-equivalent yields.

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	YEAR ENDED DECEMBER 31, 2011			2010			2009		
	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE	AVERAGE BALANCE	INTEREST INCOME/ EXPENSE	YIELD/ RATE
	(IN THOUSANDS, EXCEPT PERCENTAGES)								
Interest earning assets:									
Loans, net of unearned income	$ 662,746	$ 35,729	5.39%	$ 701,502	$ 39,129	5.58%	$ 725,241	$ 41,488	5.72%
Deposits with banks	6,853	9	0.13	1,795	1	0.06	1,782	4	0.23
Federal funds sold	5,838	7	0.11	4,375	16	0.37	490	1	0.11
Short-term investment in money market funds	2,224	9	0.40	3,834	4	0.10	9,022	30	0.35
Investment securities:									
Available for sale	187,863	5,837	3.11	151,691	5,281	3.48	131,804	5,340	4.05
Held to maturity	10,053	403	4.01	9,574	433	4.52	14,346	630	4.36
Total investment securities	197,916	6,240	3.15	161,265	5,714	3.54	146,150	5,970	4.08
TOTAL INTEREST EARNING ASSETS/ INTEREST INCOME	875,577	41,994	4.84	872,771	44,864	5.26	882,685	47,493	5.44
Non-interest earning assets:									
Cash and due from banks	15,893			15,297			14,498		
Premises and equipment	10,513			10,212			9,213		
Other assets	79,293			80,206			72,574		
Allowance for loan losses	(17,771)			(21,218)			(13,382)		
TOTAL ASSETS	$ 963,505			$ 957,268			$ 965,588		
Interest bearing liabilities:									
Interest bearing deposits:									
Interest bearing demand	$ 57,784	$ 127	0.22%	$ 58,118	$ 176	0.30%	$ 62,494	$ 256	0.41%
Savings	81,490	256	0.31	77,381	397	0.51	72,350	530	0.73
Money market	193,536	1,090	0.56	186,560	1,622	0.87	169,823	2,437	1.44
Other time	348,915	6,862	1.97	358,472	8,750	2.44	343,841	9,886	2.88
Total interest bearing deposits	681,725	8,335	1.22	680,531	10,945	1.61	648,508	13,109	2.02
Federal funds purchased and other short-term borrowings	1,216	6	0.37	3,119	22	0.71	21,028	140	0.67
Advances from Federal Home Loan Bank	9,769	220	2.26	18,694	402	2.15	43,934	652	1.48
Guaranteed junior subordinated deferrable interest debentures	13,085	1,120	8.57	13,085	1,120	8.57	13,085	1,120	8.57
TOTAL INTEREST BEARING LIABILITIES/INTEREST EXPENSE	705,795	9,681	1.37	715,429	12,489	1.75	726,555	15,021	2.07
Non-interest bearing liabilities:									
Demand deposits	135,298			122,963			114,473		
Other liabilities	11,699			11,188			11,428		
Stockholders equity	110,713			107,688			113,132		
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	$ 963,505			$ 957,268			$ 965,588		
Interest rate spread			3.47			3.51			3.37
Net interest income/net interest margin		32,313	3.72%		32,375	3.79%		32,472	3.72%
Tax-equivalent adjustment		(30)			(33)			(38)	
Net interest income		$ 32,283			$ 32,342			$ 32,434	

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

	2011 vs. 2010 INCREASE (DECREASE) DUE TO CHANGE IN:			2010 vs. 2009 INCREASE (DECREASE) DUE TO CHANGE IN:		
	AVERAGE VOLUME	RATE	TOTAL	AVERAGE VOLUME	RATE	TOTAL
			(IN THOUSANDS)			
INTEREST EARNED ON:						
Loans, net of unearned income	**$ (2,104)**	**$ (1,296)**	**$ (3,400)**	$ (1,350)	$ (1,009)	$ (2,359)
Deposits with banks	**6**	**2**	**8**		(3)	(3)
Federal funds sold	**3**		**3**	3		3
Short-term investments in money market funds	**(15)**	**8**	**(7)**	(16)	2	(14)
Investment securities:						
Available for sale	**1,003**	**(447)**	**556**	805	(864)	(59)
Held to maturity	**24**	**(54)**	**(30)**	(216)	19	(197)
Total investment securities	**1,027**	**(501)**	**526**	589	(845)	(256)
Total interest income	**(1,083)**	**(1,787)**	**(2,870)**	(774)	(1,855)	(2,629)
INTEREST PAID ON:						
Interest bearing demand deposits	**(1)**	**(48)**	**(49)**	(17)	(63)	(80)
Savings deposits	**22**	**(163)**	**(141)**	40	(173)	(133)
Money market	**35**	**(567)**	**(532)**	270	(1,085)	(815)
Other time deposits	**(230)**	**(1,658)**	**(1,888)**	439	(1,575)	(1,136)
Federal funds purchased and other short-term borrowings	**(9)**	**(7)**	**(16)**	(127)	9	(118)
Advances from Federal Home Loan Bank	**(202)**	**20**	**(182)**	(1,248)	998	(250)
Total interest expense	**(385)**	**(2,423)**	**(2,808)**	(643)	(1,889)	(2,532)
Change in net interest income	**$ (698)**	**$ 636**	**$ (62)**	$ (131)	$ 34	$ (97)

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LOAN QUALITY AmeriServ Financial s written lending policies require underwriting, loan documentation, and credit analysis standards to be met prior to funding any loan. After the loan has been approved and funded, continued periodic credit review is required. 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 loan relationships with aggregate balances in excess of $250,000 within a 12-month period. The Company has also identified three pools of small dollar value homogeneous loans which are evaluated collectively for impairment. These separate pools are for small business loans $250,000 or less, residential mortgage loans and consumer loans. Individual loans within these pools are reviewed and removed from the pool if factors such as significant delinquency in payments of 90 days or more, bankruptcy, or other negative economic concerns indicate impairment. The following table sets forth information concerning AmeriServ s loan delinquency and other non-performing assets.

	AT DECEMBER 31,		
	2011	**2010**	**2009**
	(IN THOUSANDS, EXCEPT PERCENTAGES)		
Total loans past due 30 to 89 days	**$ 3,319**	$ 2,791	$ 11,408
Total non-accrual loans	**5,075**	12,289	17,116
Total non-performing assets including TDRs(1)	**5,199**	14,364	18,337
Loan delinquency as a percentage of total loans and loans held for sale, net of unearned income	**0.49%**	0.41%	1.58%
Non-accrual loans as a percentage of total loans and loans held for sale, net of unearned income	**0.76**	1.81	2.37
Non-performing assets as a percentage of total loans and loans held for sale, net of unearned income, and other real estate owned	**0.77**	2.12	2.53
Non-performing assets as a percentage of total assets	**0.53**	1.51	1.89
Total classified loans (loans rated substandard or doubtful)	**$ 18,542**	$ 39,627	$ 48,587

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

As a result of successful ongoing problem credit resolution efforts, the Company realized significant asset quality improvements in both 2011 and 2010. These improvements are evidenced by lower levels of non-performing assets, classified loans and loan delinquency levels that remain well under 1% of total loans. Specifically, non-performing assets decreased by $9.2 million or 63.8% to $5.2 million or 0.77% of total loans due to effective loan work out efforts. Only $1.6 million of this decline in non-performing assets related to actual loan losses realized through net charge-offs. Classified loans also favorably dropped by $21.1 million or 53.2% due in part to the fourth quarter pay-off of a $9 million commercial loan relationship to a borrower in the restaurant industry. This relationship was the Company s largest substandard credit. We continue to closely monitor the loan portfolio given the uncertainty in the economy and the number of relatively large-sized commercial and commercial real estate loans within the portfolio. As of December 31, 2011, the 25 largest credits represented 31.1% of total loans outstanding.

ALLOWANCE AND PROVISION FOR LOAN LOSSES As described in more detail in the Critical Accounting Policies and Estimates section of this MD&A, the Company uses a comprehensive methodology and procedural discipline to maintain an allowance for loan losses to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The following table sets forth changes in the allowance for loan losses and certain ratios for the periods ended.

	YEAR ENDED DECEMBER 31,				
	2011	2010	2009	2008	2007
	(IN THOUSANDS, EXCEPT RATIOS AND PERCENTAGES)				
Balance at beginning of year	**$ 19,765**	$ 19,685	$ 8,910	$ 7,252	$ 8,092
Charge-offs:					
Commercial	**(953)**	(835)	(3,810)	(405)	(934)
Commercial loans secured by real estate	**(1,700)**	(4,221)	(840)	(811)	(12)
Real estate-mortgage	**(85)**	(293)	(128)	(132)	(79)
Consumer	**(203)**	(282)	(352)	(365)	(307)
Total charge-offs	**(2,941)**	(5,631)	(5,130)	(1,713)	(1,332)
Recoveries:					
Commercial	**831**	226	601	299	40
Commercial loans secured by real estate	**331**	48	14	39	38
Real estate-mortgage	**53**	42	27	26	12
Consumer	**159**	145	113	82	102
Total recoveries	**1,374**	461	755	446	192
Net charge-offs	**(1,567)**	(5,170)	(4,375)	(1,267)	(1,140)
Provision (credit) for loan losses	**(3,575)**	5,250	15,150	2,925	300
Balance at end of year	**$ 14,623**	$ 19,765	$ 19,685	$ 8,910	$ 7,252
Loans and loans held for sale, net of unearned income:					
Average for the year	**$ 662,746**	$ 701,502	$ 725,241	$ 644,896	$ 610,685
At December 31	**670,847**	678,181	722,904	707,108	636,155
As a percent of average loans and loans held for sale:					
Net charge-offs	**0.24%**	0.74%	0.60%	0.20%	0.19%
Provision (credit) for loan losses	**(0.54)**	0.75	2.09	0.45	0.05
Allowance as a percent of each of the following:					
Total loans and loans held for sale, net of unearned income	**2.18**	2.91	2.72	1.26	1.14
Total delinquent loans (past due 30 to 89 days)	**440.58**	708.17	172.55	202.68	203.77
Total non-accrual loans	**288.14**	160.83	115.01	263.84	138.45
Total non-performing assets	**281.27**	137.60	107.35	194.88	137.35
Allowance as a multiple of net charge-offs	**9.33x**	3.82x	4.50x	7.03x	6.36x

The previously discussed improvements in asset quality evidenced by lower levels of non-performing assets and classified loans allowed the Company to reverse a portion of the allowance for loan losses into earnings in 2011 while still increasing the non-performing assets coverage ratio. As a result of this asset quality improvement, the Company recorded a negative provision for loan losses of $3.6 million in 2011 compared to a $5.3 million provision in 2010. We actively identify and seek prompt resolution to problem credits in order to limit actual losses. For the full year 2011, net charge-offs totaled $1.6 million or 0.24% of total loans which represents a decrease from the entire year of 2010 when net charge-offs totaled $5.2 million or 0.74% of total loans. In summary, the allowance for loan losses provided 281% coverage of non-performing assets and was 2.18% of total loans at December 31, 2011, compared to 138% of non-performing assets and 2.91% of total loans at December 31, 2010.

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For the year-ended December 31, 2010, the Company recorded a $5.3 million provision for loan losses compared to a $15.2 million provision for the 2009 year, or a decrease of $9.9 million. Proactive monitoring of our asset quality allowed us to carefully adjust downward the provision for loan losses in each quarter of 2010 while still maintaining solid loan loss reserve coverage ratios. Actual credit losses realized through charge-offs in 2010 approximated the provision levels, but were higher than 2009. For 2010, net charge-offs amounted to $5.2 million or 0.74% of total loans compared to net charge-offs of $4.4 million or 0.60% of total loans for 2009. The higher charge-offs in 2010 largely related to two non-performing commercial real-estate loans, one of which was completely resolved in the first quarter of 2010 ($1.2 million charge-off) and the second of which related to a student housing project ($2.4 million charge-off) which the Company fully resolved through a note sale during the fourth quarter of 2010.

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

	AT DECEMBER 31,									
	2011		2010		2009		2008		2007	
	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS	AMOUNT	PERCENT OF LOANS IN EACH CATEGORY TO TOTAL LOANS
	(IN THOUSANDS, EXCEPT PERCENTAGES)									
Commercial	**$ 2,365**	**12.5%**	$ 3,851	11.5%	$ 4,756	13.3%	$ 2,841	15.6%	$ 2,074	18.7%
Commercial loans secured by real estate	**9,400**	**52.8**	12,717	54.6	12,692	54.9	4,467	50.0	3,632	44.8
Real estate-mortgage	**1,270**	**32.0**	1,117	31.1	1,015	29.2	1,004	31.1	979	33.9
Consumer	**174**	**2.7**	206	2.8	204	2.6	246	3.3	172	2.6
Allocation to general risk	**1,414**		1,874		1,018		352		395	
Total	**$ 14,623**	**100.0%**	$ 19,765	100.0%	$ 19,685	100.0%	$ 8,910	100.0%	$ 7,252	100.0%

Even though residential real estate-mortgage loans comprise 32.0% of the Company s total loan portfolio, only $1.3 million or 8.7% 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 three-year historical average of actual loan charge-offs experienced in that category and other qualitative factors. The disproportionately higher allocations for commercial loans and commercial loans secured by real estate reflect the increased credit risk associated with this type of lending, the Company s historical loss experience in these categories, and other qualitative factors.

Based on the Company s allowance for loan loss methodology and the related assessment of the inherent risk factors contained within the Company s loan portfolio, we believe that the allowance for loan losses was adequate at December 31, 2011 to cover losses within the Company s loan portfolio.

NON-INTEREST INCOME Non-interest income for 2011 totalled $13.6 million, a decrease of $398,000, or 2.8%, from 2010. Factors contributing to this lower level of non-interest income in 2011 included:

a $358,000 loss realized on the sale of $17 million of investment securities in the first quarter of 2011 compared to a net security gain of $157,000 in 2010. The Company took advantage of a steeper yield curve earlier in the year to position the investment portfolio for better future earnings by selling some of the lower yielding, longer duration securities in the portfolio and replacing them with higher yielding securities with a shorter duration.

a $342,000, or 27.9%, decrease in revenue from bank owned life insurance as the prior year revenue was enhanced by the receipt of a death benefit. There were no claims within the BOLI program in 2011.

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- a $643,000, or 10.2%, increase in trust and investment advisory fees as our wealth management businesses benefitted from the implementation of new fee schedules in 2011.

- a $146,000, or 15.2%, decrease in gains realized on residential mortgage loan sales into the secondary market due to a reduced level of mortgage refinancing in 2011. However, by historical standards 2011 was still a good year for residential mortgage purchase and refinance activity in the Company s primary market area as there were $83 million of new loans originated with $60 million or 72% sold into the secondary market in order to help manage long term interest rate risk.

Non-interest income for 2010 totalled $14.0 million, an increase of $39,000, or 0.3%, from 2009. Factors contributing to this relatively stable level of non-interest income in 2010 included:

- a $485,000, or 17.5%, decrease in service charges on deposit accounts in 2010. Customers maintained higher balances in their checking accounts, which resulted in fewer overdraft fees in 2010. Additionally, regulatory changes which took effect in mid-August 2010 and were designed to limit customer overdraft fees on debit card transactions also negatively impacted deposit service charges.

- a $307,000, or 47.2%, increase in gains realized on residential mortgage loan sales into the secondary market in 2010. As a result of another strong year of mortgage purchase and refinance activity in the Company s primary market, there were $69 million of residential mortgage loans sold into the secondary market in 2010.

- a $217,000, or 7.6%, increase in other income resulting from the increased residential mortgage loan production due to higher underwriting, appraisal and document preparation fees. The Company also benefitted from increased letter of credit fees and interchange revenue in 2010.

NON-INTEREST EXPENSE Non-interest expense for 2011 totalled $40.0 million, a $340,000, or 0.9%, increase from 2010. Factors contributing to the higher non-interest expense in 2011 included:

- a $1.0 million, or 4.7%, increase in salaries and employee benefits expense was due to higher medical insurance costs, increased pension expense, and greater incentive compensation expense in 2011. These costs more than offset the benefit of five fewer full time equivalent employees in 2011.

- a $488,000, or 11.2%, decrease in professional fees was due to reduced legal fees, recruitment fees, and lower consulting expenses in the Trust Company.

- a $269,000 decrease in other expense was due to a reduction in costs associated with the reserve for unfunded loan commitments and lower telephone expense resulting from the implementation of technology enhancements.

- a $240,000 prepayment penalty was realized on the early retirement of $5.7 million of FHLB term advances during the fourth quarter of 2011. We elected to utilize our strong liquidity to prepay all FHLB term advances with maturities greater than two years in order to reduce future interest expense.

- a $237,000, or 15.1%, decrease in FDIC insurance expense was due to a change in the calculation methodology in 2011.

Non-interest expense for 2010 totalled $39.7 million, a $540,000, or 1.4%, increase from 2009. Factors contributing to the higher non-interest expense in 2010 included:

a $1.1 million, or 5.2%, increase in salaries and employee benefits expense was due to higher medical insurance costs, increased pension expense, and greater incentive compensation expense reflecting increased commission payments related to the residential mortgage activity.

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a $613,000 decrease in other expense primarily was due to higher credit related costs in the prior year. Specifically, other real estate owned expense decreased by $749,000 due to the write-down and operating costs associated with an increased number of other real-estate owned properties in 2009.

a $331,000, or 8.2%, increase in professional fees was due to increased consulting expenses and recruitment costs in the Trust Company and higher legal fees and loan workout costs at the Bank.

INCOME TAX EXPENSE The Company recorded income tax expense of $2.9 million or 30.4% effective tax rate in 2011 compared to income tax expense of $80,000 or an effective tax rate of 5.9% in 2010. The income tax benefit recorded in 2009 was $3.1 million. The Company recorded increased income tax expense in 2011 due to sharply higher pre-tax earnings and reduced tax free earnings from BOLI. BOLI is the Company s largest source of tax-free income. The Company s deferred tax asset was $12.7 million at December 31, 2011 and relates primarily to net operating loss carryforwards and the allowance for loan losses. The deferred tax asset declined by $3.4 million in 2011 primarily due to the utilization of net operating loss carryforwards.

SEGMENT RESULTS Retail banking s net income contribution was $2.1 million in 2011 compared to $1.3 million in 2010 and $948,000 in 2009. The increased net income in 2011 was due to increased net interest income resulting from a combination of increased deposit balances and lower deposit costs. Net income also benefitted from a $263,000 negative provision for loan losses and a $436,000 reduction in non-interest expense due to reduced staffing within the branch network and lower FDIC insurance expense. Non-interest income was lower between years as decreased gains on residential mortgage loan sales into the secondary market were compounded by lower BOLI income. The increased net income in 2010 was due to increased net interest income resulting from a combination of increased asset balances and lower deposit costs. This exceeded an increased level of non-interest expense. Non-interest income was consistent between years as increased gains on residential mortgage loan sales into the secondary market were offset by reduced deposit service charges.

The commercial lending segment reported net income of $6.9 million in 2011 compared to net income of $497,000 in 2010 and net loss of $6.4 million in 2009. The increased earnings in 2011 were caused primarily by an $8.3 million reduction in the provision for loan losses due to the previously discussed improvements in asset quality. Net interest income also benefited from funding charges decreasing at a faster rate than certain commercial real estate loan yields. The increased earnings in 2010 were also due to a reduced provision for loan losses resulting from asset quality improvements.

The trust segment s net income contribution was $795,000 in 2011 compared to $222,000 in 2010 and $148,000 in 2009. The increase in net income reflected higher non-interest revenue as our wealth management businesses benefitted from the implementation of new fee schedules in 2011. Also, the rate of non-interest expense growth was limited to 1.7% in 2011. The increase in net income in 2010 resulted from a decline in expenses particularly within our investment advisory subsidiary as non-interest revenue was relatively constant between years. Overall, the fair market value of trust assets totaled $1.383 billion at December 31, 2011, a modest increase of $15.8 million, or 1.2%, from the December 31, 2010 total of $1.367 billion.

The investment/parent segment reported a net loss of $3.3 million in 2011 compared to net loss of $699,000 in 2010 and net income of $379,000 in 2009. The weaker performance in 2011 reflects the previously mentioned $358,000 loss realized on the sale of $17 million of investment securities to position the portfolio for better future earnings. Non-interest expense in 2011 also included a $240,000 prepayment penalty realized on the early retirement of $5.7 million of FHLB term advances as we elected to utilize our strong liquidity to prepay all FHLB term advances with maturities greater than two years in order to reduce future interest expense. Also, declining yields in the investment securities portfolio have negatively impacted this segment in both 2011 and 2010.

For greater discussion on the future strategic direction of the Company s key business segments, see Management s Discussion and Analysis Forward Looking Statements.

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BALANCE SHEET The Company s total consolidated assets of $979 million at December 31, 2011 grew by $30 million or 3.2% from the $949 million level at December 31, 2010. This increase was due to higher investment security balances as this line item increased by $22.6 million reflecting the Company s strong liquidity position and the reinvestment of net loan pay-offs into this category. The Company s loans