AMERISERV FINANCIAL INC /PA/
Form 10-Q
May 09, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the period ended March 31, 2012

¨ **Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the transaction period from to

Commission File Number 0-11204

AmeriServ Financial, Inc.

(Exact name of registrant as specified in its charter)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No

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

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

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

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

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

Class	**Outstanding at May 1, 2012**
Common Stock, par value $0.01	19,420,521

AmeriServ Financial, Inc.

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Item 1. Financial Statements

AmeriServ Financial, Inc.

CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2012	December 31, 2011
ASSETS		
Cash and due from depository institutions	$ 18,604	$ 26,938
Interest bearing deposits	2,709	1,716
Short-term investments in money market funds	4,689	6,129
Cash and cash equivalents	26,002	34,783
Investment securities:		
Available for sale	178,262	182,923
Held to maturity (fair value $12,425 on March 31, 2012 and $12,914 on December 31, 2011)	11,827	12,280
Loans held for sale	2,953	7,110
Loans	668,863	664,189
Less: Unearned income	488	452
Allowance for loan losses	13,778	14,623
Net loans	654,597	649,114
Premises and equipment, net	10,821	10,674
Accrued interest income receivable	3,146	3,216
Goodwill	12,613	12,613
Bank owned life insurance	35,566	35,351
Net deferred tax asset	12,182	12,681
Federal Home Loan Bank stock	5,597	5,891
Federal Reserve Bank stock	2,125	2,125
Prepaid federal deposit insurance	1,714	1,814
Other assets	9,996	8,501
TOTAL ASSETS	$ 967,401	$ 979,076
LIABILITIES		
Non-interest bearing deposits	$ 149,124	$ 141,982
Interest bearing deposits	670,981	674,438
Total deposits	820,105	816,420
Short-term borrowings	1,390	15,765
Advances from Federal Home Loan Bank	5,000	6,000
Guaranteed junior subordinated deferrable interest debentures	13,085	13,085
Total borrowed funds	19,475	34,850
Other liabilities	15,551	15,454

TOTAL LIABILITIES		855,131		866,724
SHAREHOLDERS EQUITY				
Preferred stock, no par value; $1,000 per share liquidation preference; 2,000,000 shares authorized; 21,000 shares issued and outstanding on March 31, 2012 and December 31, 2011.		21,000		21,000
Common stock, par value $0.01 per share; 30,000,000 shares authorized; 26,397,040 shares issued and 20,465,521 outstanding on March 31, 2012; 26,397,040 shares issued and 20,921,021 outstanding on December 31, 2011		264		264
Treasury stock at cost, 5,931,519 shares on March 31, 2012 and 5,476,019 shares on December 31, 2011		(70,326)		(69,241)
Capital surplus		145,067		145,061
Retained earnings		20,231		18,928
Accumulated other comprehensive loss, net		(3,966)		(3,660)
TOTAL SHAREHOLDERS EQUITY		112,270		112,352
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$	967,401	$	979,076

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share data)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
INTEREST INCOME		
Interest and fees on loans	$ 8,729	$ 9,083
Interest bearing deposits	1	
Short-term investments in money market funds	3	3
Federal funds sold		4
Investment securities:		
Available for sale	1,279	1,411
Held to maturity	112	95
Total Interest Income	10,124	10,596
INTEREST EXPENSE		
Deposits	1,762	2,294
Short-term borrowings	4	1
Advances from Federal Home Loan Bank	20	55
Guaranteed junior subordinated deferrable interest debentures	280	280
Total Interest Expense	2,066	2,630
NET INTEREST INCOME	8,058	7,966
Provision (credit) for loan losses	(625)	(600)
NET INTEREST INCOME AFTER PROVISION (CREDIT) FOR LOAN LOSSES	8,683	8,566
NON-INTEREST INCOME		
Trust fees	1,697	1,556
Investment advisory fees	193	198
Net realized losses on investment securities		(358)
Net gains on loans held for sale	276	262
Service charges on deposit accounts	535	472
Bank owned life insurance	215	216
Other income	758	759
Total Non-Interest Income	3,674	3,105
NON-INTEREST EXPENSE		
Salaries and employee benefits	5,986	5,500
Net occupancy expense	729	757
Equipment expense	451	429
Professional fees	923	980
Supplies, postage and freight	233	239
Miscellaneous taxes and insurance	355	349
Federal deposit insurance expense	129	462

Other expense	1,308	1,203
Total Non-Interest Expense	10,114	9,919
PRETAX INCOME	2,243	1,752
Provision for income tax expense	678	489
NET INCOME	1,565	1,263
Preferred stock dividends and accretion of preferred stock discount	263	290
NET INCOME AVAILABLE TO COMMON SHAREHOLDERS	$ 1,302	$ 973
PER COMMON SHARE DATA:		
Basic:		
Net income	$ 0.06	$ 0.05
Average number of shares outstanding	20,679	21,208
Diluted:		
Net income	$ 0.06	$ 0.05
Average number of shares outstanding	20,722	21,230
Cash dividends declared	$ 0.00	$ 0.00

See accompanying notes to unaudited consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2012	2011
COMPREHENSIVE INCOME		
Net income	$ 1,565	$ 1,263
Other comprehensive income (loss), before tax:		
Pension obligation change for defined benefit plan	(400)	(58)
Income tax effect	136	19
Unrealized holding losses on available for sale securities arising during period	(62)	(140)
Income tax effect	20	48
Reclassification adjustment for losses on available for sale securities included in net income		358
Income tax effect		(121)
Other comprehensive income (loss)	(306)	106
Comprehensive income	$ 1,259	$ 1,369

See accompanying notes to consolidated financial statements.

AmeriServ Financial, Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended March 31, 2012	Three months ended March 31, 2011
OPERATING ACTIVITIES		
Net income	$ 1,565	$ 1,263
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision (credit) for loan losses	(625)	(600)
Depreciation expense	375	378
Net amortization of investment securities	262	174
Net realized losses on investment securities available for sale		358
Net gains on loans held for sale	(276)	(262)
Amortization of deferred loan fees	(45)	(82)
Origination of mortgage loans held for sale	(17,168)	(11,525)
Sales of mortgage loans held for sale	21,601	17,992
Decrease (increase) in accrued interest income receivable	70	(240)
Decrease in accrued interest expense payable	(325)	(869)
Earnings on bank owned life insurance	(215)	(216)
Deferred income taxes	521	(519)
Stock based compensation expense	6	6
Decrease in prepaid Federal Deposit Insurance	100	433
Net (increase) decrease in other assets	(1,372)	4,808
Net increase in other liabilities	22	1,102
Net cash provided by operating activities	4,496	12,201
INVESTING ACTIVITIES		
Purchases of investment securities available for sale	(11,517)	(49,413)
Purchases of investment securities held to maturity		(1,991)
Proceeds from sales of investment securities available for sale		16,518
Proceeds from maturities of investment securities available for sale	15,852	10,771
Proceeds from maturities of investment securities held to maturity	453	441
Proceeds from redemption of regulatory stock	294	361
Long-term loans originated	(37,246)	(16,883)
Principal collected on long-term loans	36,401	47,072
Loans purchased or participated	(4,000)	(3,845)
Sale of other real estate owned		182
Purchases of premises and equipment	(521)	(335)
Net cash (used in) provided by investing activities	(284)	2,878
FINANCING ACTIVITIES		
Net increase in deposit balances	3,730	13,839
Net decrease in other short-term borrowings	(14,375)	(4,550)
Principal repayments on advances from Federal Home Loan Bank	(1,000)	(14)
Purchases of treasury stock	(1,085)	
Preferred stock dividends	(263)	(263)
Net cash (used in) provided by financing activities	(12,993)	9,012

NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(8,781)	24,091
CASH AND CASH EQUIVALENTS AT JANUARY 1	34,783	19,337
CASH AND CASH EQUIVALENTS AT MARCH 31	$ 26,002	$ 43,428

See accompanying notes to unaudited consolidated financial statements.

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. **Principles of Consolidation**

The accompanying consolidated financial statements include the accounts of AmeriServ Financial, Inc. (the Company) and its wholly-owned subsidiaries, AmeriServ Financial Bank (Bank), AmeriServ Trust and Financial Services Company (Trust Company), and AmeriServ Life Insurance Company (AmeriServ Life). The Bank is a state-chartered full service bank with 18 locations in Pennsylvania. The Trust Company offers a complete range of trust and financial services and administers assets valued at $1.5 billion that are not recognized on the Company s balance sheet at March 31, 2012. AmeriServ Life is a captive insurance company that engages in underwriting as a reinsurer of credit life and disability insurance.

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

2. **Basis of Preparation**

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

For further information, refer to the consolidated financial statements and accompanying notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2011.

3. **Accounting Policies**

In May 2011, the FASB issued ASU 2011-04, *Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs.* The amendments in this Update result in common fair value measurement and disclosure requirements in U.S. GAAP and IFRSs. Consequently, the amendments change the wording used to describe many of the requirements in U.S. GAAP for measuring fair value and for disclosing information about fair value measurements. The amendments in this Update are to be applied prospectively. For public entities, the amendments are effective during interim and annual periods beginning after December 15, 2011. Early application by public entities is not permitted. Additional disclosures have been provided in Note 16.

In June 2011, the FASB issued ASU 2011-05, *Presentation of Comprehensive Income*. The amendments in this Update improve the comparability, clarity, consistency, and transparency of financial reporting and increase the prominence of items reported in other comprehensive income. To increase the prominence of items reported in other comprehensive income and to facilitate convergence of U.S. GAAP and IFRS, the option to present components of other comprehensive income as part of the statement of changes in stockholders equity was eliminated. The amendments require that all non-owner changes in stockholders equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. All entities that report items of comprehensive income, in any period presented, will be affected by the changes in this Update. For public entities, the amendments are effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The amendments in this Update should be applied retrospectively, and early adoption is permitted. The Company has elected to provide the separate statement disclosure.

In September 2011, the FASB issued ASU 2011-08, *Intangibles Goodwill and Other Topics (Topic 350), Testing Goodwill for Impairment*. The objective of this update is to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the Update permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. The more-likely-than-not threshold is defined as having a likelihood of more than 50 percent. Under the amendments in this Update, an entity is not required to calculate the fair value of a reporting unit unless the entity determines that it is more likely than not that its fair value is less than its carrying amount. The amendments in this Update apply to all entities, both public and nonpublic, that have goodwill reported in their financial statements and are effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted, including for annual and interim goodwill impairment tests performed as of a date before September 15, 2011, if an entity s financial statements for the most recent annual or interim period have not yet been issued or, for nonpublic entities, have not yet been made available for issuance. This ASU is not expected to have a significant impact on the Company s financial statements.

In December 2011, the FASB issued ASU 2011-12, *Comprehensive Income (Topic 220): Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05*. In order to defer only those changes in Update 2011-05 that relate to the presentation of reclassification adjustments, the paragraphs in this Update supersede certain pending paragraphs in Update 2011-05. Entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before Update 2011-05. All other requirements in Update 2011-05 are not affected by this Update, including the requirement to report comprehensive income either in a single continuous financial statement or in two separate but consecutive financial statements. Public entities should apply these requirements for fiscal years, and interim periods within those years, beginning after December 15, 2011. This ASU is not expected to have a significant impact on the Company s financial statements.

4. **Earnings Per Common Share**

Basic earnings per share include only the weighted average common shares outstanding. Diluted earnings per share include the weighted average common shares outstanding and any potentially dilutive common stock equivalent shares in the calculation. Treasury shares are treated as retired for earnings per share purposes. Options and warrants to purchase 261,583 common shares, at exercise prices ranging from $2.57 to $6.10, and 1,478,417 common shares, at exercise prices ranging from $2.20 to $6.10, were outstanding as of March 31, 2012 and 2011, respectively, but were not included in the computation of diluted earnings per common share because to do so would be antidilutive. Dividends and accretion of discount on preferred shares are deducted from net income in the calculation of earnings per common share.

	Three months ended March 31, 2012	2011
	(In thousands, except per share data)	
Numerator:		
Net income	$ 1,565	$ 1,263
Preferred stock dividends and accretion of preferred stock discount	263	290
Net income available to common shareholders	$ 1,302	$ 973
Denominator:		
Weighted average common shares outstanding (basic)	20,679	21,208
Effect of stock options/warrants	43	22
Weighted average common shares outstanding (diluted)	20,722	21,230
Earnings per common share:		
Basic	$ 0.06	$ 0.05
Diluted	0.06	0.05

5. **Consolidated Statement of Cash Flows**

On a consolidated basis, cash and cash equivalents include cash and due from depository institutions, interest-bearing deposits, federal funds sold and short-term investments in money market funds**.** The Company made $23,000 in income tax payments in the first three months of 2012 as compared to $5,000 for the first three months of 2011. The Company made total interest payments of $2,391,000 in the first three months of 2012 compared to $3,499,000 in the same 2011 period. The Company had non-cash transfers to other real estate owned (OREO) in the amounts of $35,000 and $34,000 in the first quarters of 2012 and 2011, respectively.

6. **Investment Securities**

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

Investment securities available for sale (AFS):

	March 31, 2012			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency	$ 7,182	$ 46	$ (39)	$ 7,189
U.S. Agency mortgage- backed securities	161,402	6,758	(46)	168,114
Corporate bonds	2,990		(31)	2,959
Total	$ 171,574	$ 6,804	$ (116)	$ 178,262

Investment securities held to maturity (HTM):

	March 31, 2012			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency mortgage- backed securities	$ 8,827	$ 606	$	$ 9,433
Other securities	3,000		(8)	2,992
Total	$ 11,827	$ 606	$ (8)	$ 12,425

Investment securities available for sale (AFS):

	December 31, 2011			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency	$ 10,689	$ 48	$ (28)	$ 10,709
U.S. Agency mortgage- backed securities	165,484	6,737	(7)	172,214
Total	$ 176,173	$ 6,785	$ (35)	$ 182,923

Investment securities held to maturity (HTM):

	December 31, 2011			
	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Agency mortgage- backed securities	$ 9,280	$ 643	$	$ 9,923
Other securities	3,000		(9)	2,991
Total	$ 12,280	$ 643	$ (9)	$ 12,914

Maintaining investment quality is a primary objective of the Company s investment policy which, subject to certain limited exceptions, prohibits the purchase of any investment security below a Moody s Investor s Service or Standard & Poor s rating of A. At March 31, 2012, 97.3% of the portfolio was rated AAA as compared to 98.4% at December 31, 2011. None of the portfolio was rated below A or unrated at March 31, 2012. The Company has no exposure to subprime mortgage loans in the investment portfolio. At March 31, 2012, the Company s consolidated investment securities portfolio had a modified duration of approximately 2.03 years. Total proceeds from the sale of AFS securities were $16.5 million in the first three months of 2011. The Company had no such sales in the first quarter of 2012. The Company had no gross gains or losses on investment security sales in the first three months of 2012 compared to $358,000 of gross investment security losses for the first three months of 2011.

The book value of securities, both available for sale and held to maturity, pledged to secure public and trust deposits, and certain Federal Home Loan Bank borrowings was $81,530,000 at December 31, 2012 and $83,235,000 at December 31, 2011.

The following tables present information concerning investments with unrealized losses as of March 31, 2012 and December 31, 2011 (in thousands):

Investment securities available for sale:

	March 31, 2012					
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency	$	$	$ 3,020	$ (39)	$ 3,020	$ (39)
U.S. Agency mortgage-backed securities	7,228	(42)	544	(4)	7,772	(46)
Corporate bonds	2,959	(31)			2,959	(31)
Total	$ 10,187	$ (73)	$ 3,564	$ (43)	$ 13,751	$ (116)

Investment securities held to maturity:

	000000000000	000000000000	000000000000	000000000000	000000000000	000000000000
			March 31, 2012			
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other securities	$ 1,992	$ (7)	$ 1,000	$ (1)	$ 2,992	$ (8)
Total	$ 1,992	$ (7)	$ 1,000	$ (1)	$ 2,992	$ (8)

Investment securities available for sale:

	000000000000	000000000000	000000000000	000000000000	000000000000	000000000000
			December 31, 2011			
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Agency	$ 3,161	$ (28)	$	$	$ 3,161	$ (28)
U.S. Agency mortgage-backed securities	613	(7)			613	(7)
Total	$ 3,774	$ (35)	$	$	$ 3,774	$ (35)

Investment securities held to maturity:

	000000000000	000000000000	000000000000	000000000000	000000000000	000000000000
			December 31, 2011			
	Less than 12 months		12 months or longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Other securities	$ 1,991	$ (9)	$	$	$ 1,991	$ (9)
Total	$ 1,991	$ (9)	$	$	$ 1,991	$ (9)

The unrealized losses are primarily a result of increases in market yields from the time of purchase. In general, as market yields rise, the value of securities will decrease; as market yields fall, the fair value of securities will increase. There are ten positions that are considered temporarily impaired at March 31, 2012, an increase of five from December 31, 2011. Management generally views changes in fair value caused by changes in interest rates as temporary; therefore, these securities have not been classified as other-than-temporarily impaired. Management has also concluded that based on current information we expect to continue to receive scheduled interest payments as well as the entire principal balance. Furthermore, management does not intend to sell these securities and does not believe it will be required to sell these securities before they recover in value.

Contractual maturities of securities at March 31, 2012, are shown below (in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without prepayment penalties.

Investment securities available for sale:

		March 31, 2012
Cost Basis	U.S. Agency	

		U.S. Agency Mortgage-Backed Securities	Corporate Bonds	Total Investment Securities Available For Sale
Within 1 year	$	$	$	$
After 1 year but within 5 years	7,182		2,990	10,172
After 5 years but within 10 years		14,061		14,061
After 10 years but within15 years		72,951		72,951
Over 15 years		74,390		74,390
Total	$ 7,182	$ 161,402	$ 2,990	$ 171,574

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	March 31, 2012			
Fair Value	U.S. Agency	U.S. Agency Mortgage-Backed Securities	Corporate Bonds	Total Investment Securities Available For Sale
Within 1 year	$	$	$	$
After 1 year but within 5 years	7,189		2,959	10,148
After 5 years but within 10 years		14,956		14,956
After 10 years but within 15 years		75,867		75,867
Over 15 years		77,291		77,291
Total	$ 7,189	$ 168,114	$ 2,959	$ 178,262

Investment securities held to maturity:

	March 31, 2012		
Cost Basis	U.S. Agency Mortgage-Backed Securities	Other Securities	Total Investment Securities Held To Maturity
Within 1 year	$	$ 1,000	$ 1,000
After 1 year but within 5 years		2,000	2,000
After 5 years but within 10 years			
After 10 years but within 15 years			
Over 15 years	8,827		8,827
Total	$ 8,827	$ 3,000	$ 11,827

	March 31, 2012		
Fair Value	U.S. Agency Mortgage-Backed Securities	Other Securities	Total Investment Securities Held To Maturity
Within 1 year	$	$ 1,000	$ 1,000
After 1 year but within 5 years		1,992	1,992
After 5 years but within 10 years			
After 10 years but within 15 years			
Over 15 years	9,433		9,433
Total	$ 9,433	$ 2,992	$ 12,425

7. **Loans**

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

	March 31, 2012	December 31, 2011
Commercial	$ 89,984	$ 83,124
Commercial loans secured by real estate	348,342	349,778
Real estate mortgage	212,717	212,663
Consumer	17,332	18,172

Loans, net of unearned income	$	668,375	$	663,737

Loan balances at March 31, 2012 and December 31, 2011 are net of unearned income of $488,000 and $452,000, respectively. Real estate-construction loans comprised 2.2%, and 1.9% of total loans, net of unearned income, at March 31, 2012 and December 31, 2011, respectively. The Company has no exposure to subprime mortgage loans in the loan portfolio.

8. **Allowance for Loan Losses**

The following table summarizes the rollforward of the allowance for loan losses by portfolio segment (in thousands).

	Balance at December 31, 2011	Charge-Offs	Recoveries	Provision (Credit)	Balance at March 31, 2012
Commercial	$ 2,365	$ (99)	$ 22	$ 195	$ 2,483
Commercial loans secured by real estate	9,400	(141)	30	(734)	8,555
Real estate- mortgage	1,270	(40)	24	(4)	1,250
Consumer	174	(27)	11	8	166
Allocation for general risk	1,414			(90)	1,324
Total	$ 14,623	$ (307)	$ 87	$ (625)	$ 13,778

	Balance at December 31, 2010	Charge-Offs	Recoveries	Provision (Credit)	Balance at March 31, 2011
Commercial	$ 3,851	$ (699)	$ 160	$ 2,375	$ 5,687
Commercial loans secured by real estate	12,717	(638)	1	(2,972)	9,108
Real estate- mortgage	1,117	(11)	24	120	1,250
Consumer	206	(33)	56	(31)	198
Allocation for general risk	1,874			(92)	1,782
Total	$ 19,765	$ (1,381)	$ 241	$ (600)	$ 18,025

The following tables summarize the loan portfolio and allowance for loan loss by the primary segments of the loan portfolio (in thousands).

	At March 31, 2012				
	Commercial	Commercial Loans Secured by Real Estate	Real Estate-Mortgage	Consumer	Total
Individually evaluated for impairment	$ 51	$ 3,595	$	$	$ 3,646
Collectively evaluated for impairment	89,933	344,747	212,717	17,332	664,729
Total loans	$ 89,984	$ 348,342	$ 212,717	$ 17,332	$ 668,375

	At March 31, 2012					
	Commercial	Commercial Loans Secured by Real Estate	Real Estate-Mortgage	Consumer	Allocation for General Risk	Total
Specific reserve allocation	$ 2	$ 953	$	$	$	$ 955
General reserve allocation	2,481	7,602	1,250	166	1,324	12,823
Total allowance for loan losses	$ 2,483	$ 8,555	$ 1,250	$ 166	$ 1,324	$ 13,778

	At December 31, 2011				
	Commercial	Commercial Loans Secured by Real Estate	Real Estate-Mortgage	Consumer	Total
Individually evaluated for impairment	$	$ 3,870	$	$	$ 3,870
Collectively evaluated for impairment	83,124	345,908	212,663	18,172	659,867
Total loans	$ 83,124	$ 349,778	$ 212,663	$ 18,172	$ 663,737

	At December 31, 2011					
	Commercial	Commercial Loans Secured by Real Estate	Real Estate-Mortgage	Consumer	Allocation for General Risk	Total
Specific reserve allocation	$	$ 968	$	$	$	$ 968
General reserve allocation	2,365	8,432	1,270	174	1,414	13,655
Total allowance for loan losses	$ 2,365	$ 9,400	$ 1,270	$ 174	$ 1,414	$ 14,623

The segments of the Company s loan portfolio are disaggregated to a level that allows management to monitor risk and performance. The loan categories used are consistent with the internal reports evaluated by the Company s management and Board of Directors to monitor risk and performance within various segments of its loan portfolio. The overall risk profile for the commercial loan segment is driven by non-owner occupied CRE loans, which include loans secured by non-owner occupied nonfarm nonresidential properties, as the majority of the commercial portfolio is centered in these types of accounts. The residential mortgage loan segment is comprised of first lien amortizing residential mortgage loans and home equity loans. The consumer loan segment consists primarily of installment loans and overdraft lines of credit connected with customer deposit accounts.

Management evaluates for possible impairment any individual loan in the commercial segment with a loan balance in excess of $100,000 that is in nonaccrual status or classified as a Troubled Debt Restructure (TDR). Loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in evaluating impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower s prior payment record, and the amount of the shortfall in relation to the principal and interest owed. The Company does not separately evaluate individual consumer and residential mortgage loans for impairment, unless such loans are part of a larger relationship that is impaired, or are classified as a TDR.

Once the determination has been made that a loan is impaired, the determination of whether a specific allocation of the allowance is necessary is measured by comparing the recorded investment in the loan to the fair value of the loan using one of three methods: (a) the present value of expected future cash flows discounted at the loan s effective interest rate; (b) the loan s observable market price; or (c) the fair value of the collateral less selling costs for collateral dependant loans. The method is selected on a loan-by loan basis, with management primarily utilizing the fair value of collateral method. The evaluation of the need and amount of a specific allocation of the allowance and whether a loan can be removed from impairment status is made on a quarterly basis. The Company s policy for recognizing interest income on impaired loans does not differ from its overall policy for interest recognition.

The need for an updated appraisal on collateral dependent loans is determined on a case by case basis. The useful life of an appraisal or evaluation will vary depending upon the circumstances of the property and the economic conditions in the marketplace. A new appraisal is not required if there is an existing appraisal which, along with other information, is sufficient to determine a reasonable value for the property and to support an appropriate and adequate allowance for loan losses. At a minimum, annual documented reevaluation of the property is completed by the bank s Assigned Risk department to support the value of the property.

When reviewing an appraisal associated with an existing collateral real estate dependant transaction, the Assigned Risk department must determine if there have been material changes to the underlying assumptions in the appraisal which affect the original estimate of value. Some of the factors that could cause material changes to reported values include:

- the passage of time;
- the volatility of the local market;

the availability of financing;

natural disasters;

the inventory of competing properties;

new improvements to, or lack of maintenance of, the subject property or competing properties upon physical inspection by the bank;

changes in underlying economic and market assumptions, such as material changes in current and projected vacancy, absorption rates, capitalization rates, lease terms, rental rates, sales prices, concessions, construction overruns and delays, zoning changes, etc.; and/or

environmental contamination.

The value of the property is adjusted to appropriately reflect the above listed factors and the value is discounted to reflect the value impact of a forced or distressed sale, any outstanding senior liens, any outstanding unpaid real estate taxes, transfer taxes and closing costs that would occur with sale of the real estate. If the Assigned Risk department personnel determine that a reasonable value cannot be derived based on available information, a new appraisal is ordered. The determination of the need for a new appraisal, versus completion of a property valuation by the bank s Assigned Risk department personnel rests with the Assigned Risk department and not the originating account officer.

The following tables present impaired loans by class, segregated by those for which a specific allowance was required and those for which a specific allowance was not necessary (in thousands).

	March 31, 2012				
	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial loans	$ 51	$ 2	$	$ 51	$ 51
Commercial loans secured by real estate	2,603	953	992	3,595	4,605
Total impaired loans	$ 2,654	$ 955	$ 992	$ 3,646	$ 4,656

	December 31, 2011				
	Impaired Loans with Specific Allowance		Impaired Loans with no Specific Allowance	Total Impaired Loans	
	Recorded Investment	Related Allowance	Recorded Investment	Recorded Investment	Unpaid Principal Balance
Commercial loans secured by real estate	$ 2,836	$ 968	$ 1,034	$ 3,870	$ 4,844
Total impaired loans	$ 2,836	$ 968	$ 1,034	$ 3,870	$ 4,844

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The following table presents the average recorded investment in impaired loans and related interest income recognized for the periods indicated (in thousands).

	Three months ended March 31, 2012	2011
Commercial	$ 26	$ 2,344
Commercial loans secured by real estate	3,732	6,821
Average investment in impaired loans	$ 3,758	$ 9,165
Interest income recognized:		
Commercial	$	$ 20
Commercial loans secured by real estate		153
Interest income recognized on a cash basis on impaired loans	$	$ 173

Management uses a ten point internal risk rating system to monitor the credit quality of the overall loan portfolio. The first six categories are considered not criticized. The first five Pass categories are aggregated, while the Pass 6, Special Mention, Substandard and Doubtful categories are disaggregated to separate pools. The criticized rating categories utilized by management generally follow bank regulatory definitions. The Special Mention category includes assets that are currently protected but are potentially weak, resulting in an undue and unwarranted credit risk, but not to the point of justifying a Substandard classification. Loans in the Substandard category have well-defined weaknesses that jeopardize the liquidation of the debt, and have a distinct possibility that some loss will be sustained if the weaknesses are not corrected. All loans greater than 90 days past due, or for which any portion of the loan represents a specific allocation of the allowance for loan losses are placed in Substandard or Doubtful.

To help ensure that risk ratings are accurate and reflect the present and future capacity of borrowers to repay a loan as agreed, the Company has a structured loan rating process, which dictates that, 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. Generally, consumer and residential mortgage loans are included in the Pass categories unless a specific action, such as bankruptcy, delinquency, or death occurs to raise awareness of a possible credit event. The Company s commercial relationship managers are responsible for the timely and accurate risk rating of the loans in their portfolios at origination and on an ongoing basis. Risk ratings are assigned by the account officer, but require independent review and rating concurrence from the Company s internal Loan Review Department. The Loan Review Department is an experienced independent function which reports directly to the Board Audit Committee. The scope of commercial portfolio coverage by the Loan Review Department is defined and presented to the Audit Committee for approval on an annual basis. The approved scope of coverage for 2012 requires review of a minimum 55% of the commercial loan portfolio.

In addition to loan monitoring by the account officer and Loan Review Department, the Company also requires presentation of all credits rated Pass-6 with aggregate balances greater than $1,000,000, all credits rated Special Mention or Substandard with aggregate balances greater than $250,000, and all credits rated Doubtful with aggregate balances greater than $100,000 on an individual basis to the Company s Loan Loss Reserve Committee on a quarterly basis.

The following table presents the classes of the loan portfolio summarized by the aggregate Pass and the criticized categories of Special Mention, Substandard and Doubtful within the internal risk rating system (in thousands).

	March 31, 2012				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 87,691	$ 1,955	$ 338	$	$ 89,984
Commercial loans secured by real estate	312,770	17,262	17,980	330	348,342
Total	$ 400,461	$ 19,217	$ 18,318	$ 330	$ 438,326

	December 31, 2011				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 80,175	$ 2,186	$ 763	$	$ 83,124
Commercial loans secured by real estate	305,066	28,138	16,244	330	349,778
Total	$ 385,241	$ 30,324	$ 17,007	$ 330	$ 432,902

It is generally the policy of the Bank that the outstanding balance of any residential mortgage loan that exceeds 90-days past due as to principal and/or interest is transferred to non-accrual status and an evaluation is completed to determine the fair value of the collateral less selling costs, unless the balance is minor. A charge down is recorded for any deficiency balance determined from the collateral evaluation. The remaining non-accrual balance is reported as impaired with no specific allowance. It is the policy of the Bank that the outstanding balance of any consumer loan that exceeds 90-days past due as to principal and/or interest is charged off. The following tables present the performing and non-performing outstanding balances of the residential and consumer portfolios (in thousands).

	March 31, 2012	
	Performing	Non-Performing
Real estate- mortgage	$ 211,714	$ 1,003
Consumer	17,332	
Total	$ 229,046	$ 1,003

	December 31, 2011	
	Performing	Non-Performing
Real estate- mortgage	$ 211,458	$ 1,205
Consumer	18,172	
Total	$ 229,630	$ 1,205

Management further monitors the performance and credit quality of the loan portfolio by analyzing the age of the portfolio as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the aging categories of performing loans and nonaccrual loans (in thousands).

	March 31, 2012				
	Current	30-59 Days	60-89 Days	90 Days Past Due	90 Days

		Past Due	Past Due		Total Past Due	Total Loans	Past Due and Still Accruing
Commercial	$ 89,922	$ 62	$	$	$ 62	$ 89,984	$
Commercial loans secured by real estate	346,389	501		1,452	1,953	348,342	
Real estate- mortgage	210,746	1,410	473	88	1,971	212,717	12
Consumer	17,255	29	48		77	17,332	
Total	$ 664,312	$ 2,002	$ 521	$ 1,540	$ 4,063	$ 668,375	$ 12

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	December 31, 2011						
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days Past Due	Total Past Due	Total Loans	90 Days Past Due and Still Accruing
Commercial	$ 83,124	$	$	$	$	$ 83,124	$
Commercial loans secured by real estate	347,671	650		1,457	2,107	349,778	
Real estate- mortgage	209,060	2,133	629	841	3,603	212,663	
Consumer	18,115	57			57	18,172	
Total	$ 657,970	$ 2,840	$ 629	$ 2,298	$ 5,767	$ 663,737	$

An allowance for loan losses (ALL) is maintained to absorb losses from the loan portfolio. The ALL is based on management s continuing evaluation of the risk characteristics and credit quality of the loan portfolio, assessment of current economic conditions, diversification and size of the portfolio, adequacy of collateral, past and anticipated loss experience, and the amount of non-performing loans.

Loans that are collectively evaluated for impairment are analyzed with general allowances being made as appropriate. For general allowances, historical loss trends are used in the estimation of losses in the current portfolio. These historical loss amounts are modified by other qualitative factors.

Management tracks the historical net charge-off activity at each risk rating grade level for the entire commercial portfolio and at the aggregate level for the consumer, residential mortgage and small business portfolios. A historical charge-off factor is calculated utilizing a rolling 12 consecutive historical quarters for the commercial portfolios. This historical charge-off factor for the consumer, residential mortgage and small business portfolios are based on a three year historical average of actual loss experience.

The Company uses a comprehensive methodology and procedural discipline to maintain an ALL to absorb inherent losses in the loan portfolio. The Company believes this is a critical accounting policy since it involves significant estimates and judgments. The allowance consists of three elements: 1) an allowance established on specifically identified problem loans, 2) formula driven general reserves established for loan categories based upon historical loss experience and other qualitative factors which include delinquency, non-performing and TDR loans, loan trends, economic trends, concentrations of credit, trends in loan volume, experience and depth of management, examination and audit results, effects of any changes in lending policies, and trends in policy, financial information, and documentation exceptions, and 3) a general risk reserve which provides support for variance from our assessment of the previously listed qualitative factors, provides protection against credit risks resulting from other inherent risk factors contained in the Company s loan portfolio, and recognizes the model and estimation risk associated with the specific and formula driven allowances. The qualitative factors used in the formula driven general reserves are evaluated quarterly (and revised if necessary) by the Company s management to establish allocations which accommodate each of the listed risk factors.

Pass rated credits are segregated from Criticized and Classified credits for the application of qualitative factors.

Management reviews the loan portfolio on a quarterly basis using a defined, consistently applied process in order to make appropriate and timely adjustments to the ALL. When information confirms all or part of specific loans to be uncollectible, these amounts are promptly charged off against the ALL.

9. **Non-performing Assets Including Troubled Debt Restructurings (TDR)**

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

	March 31, 2012	December 31, 2011
Non-accrual loans		
Commercial	$	$
Commercial loans secured by real estate	3,507	3,870
Real estate-mortgage	1,003	1,205
Total	4,510	5,075
Past due 90 days and still accruing		
Real estate-mortgage	12	
Total	12	
Other real estate owned		
Commercial loans secured by real estate	24	20
Real estate-mortgage	115	104
Total	139	124
TDR s not in non-accrual	140	
Total non-performing assets including TDR	$ 4,801	$ 5,199
Total non-performing assets as a percent of loans and loans held for sale, net of unearned income, and other real estate owned	0.72%	0.77%

Consistent with accounting and regulatory guidance, the bank recognizes a TDR when the bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the bank s objective in offering a troubled debt restructure is to increase the probability of repayment of the borrower s loan.

To be considered a TDR, both of the following criteria must be met:

the borrower must be experiencing financial difficulties; and

the bank, for economic or legal reasons related to the borrower s financial difficulties, grants a concession to the borrower that would not otherwise be considered.

Factors that indicate a borrower is experiencing financial difficulties include, but are not limited to:

the borrower is currently in default on their loan(s);

the borrower has filed for bankruptcy;

the borrower has insufficient cash flows to service their loan(s); and

the borrower is unable to obtain refinancing from other sources at a market rate similar to rates available to a non-troubled debtor.

Factors that indicate that a concession has been granted include, but are not limited to:

the borrower is granted an interest rate reduction to a level below market rates for debt with similar risk; or

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the borrower is granted a material maturity date extension, or extension of the amortization plan to provide payment relief. For purposes of this policy, a material maturity date extension will generally include any maturity date extension, or the aggregate of multiple consecutive maturity date extensions, that exceed 120 days. A restructuring that results in an insignificant delay in payment, i.e. 120 days or less, is not necessarily a TDR. Insignificant payment delays occur when the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value, and will result in an insignificant shortfall in the originally scheduled contractual amount due, and/or the delay in timing of the restructured payment period is insignificant relative to the frequency of payments, the original maturity or the original amortization.

The determination of whether a restructured loan is a TDR requires consideration of all of the facts and circumstances surrounding the modification. No single factor is determinative of whether a restructuring is a TDR. An overall general decline in the economy or some deterioration in a borrower s financial condition does not automatically mean that the borrower is experiencing financial difficulty. Accordingly, determination of whether a modification is a TDR involves a large degree of judgment.

Any loan modification where the borrower s aggregate exposure is at least $250,000 and where the loan currently maintains a criticized or classified risk rating, i.e. OLEM, Substandard or Doubtful, or where the loan will be assigned a criticized or classified rating after the modification is evaluated to determine the need for TDR classification.

The following table details the TDRs at March 31, 2012 (dollars in thousands).

Loans in accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	2	$ 140	Extension of maturity date

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	4	$ 2,527	Extension of maturity date

The following table details the TDRs at December 31, 2011 (dollars in thousands).

Loans in non-accrual status	# of Loans	Current Balance	Concession Granted
Commercial loan secured by real estate	5	$ 2,870	Extension of maturity date

In all instances where loans have been modified in troubled debt restructurings the pre- and post-modified balances are the same.

Once a loan is classified as a TDR, this classification will remain until documented improvement in the financial position of the account supports confidence that all principal and interest will be paid according to terms. Additionally, the customer must have re-established a track record of timely payments according to the restructured contract terms for a minimum of six (6) consecutive months prior to consideration for removing the loan from TDR status. However, a loan will continue to be on non-accrual status until, consistent with our policy, the borrower has made a minimum of six consecutive payments in accordance with the terms of the loan.

During the first quarter of 2012, the Company had one restructured commercial real-estate loan, that was transferred during the past 12 months into non-accrual status, that subsequently defaulted, and was sold to an independent party for $275,000. The Company charged down the loan by $32,000 to facilitate the sale.

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 fair value minus estimated costs to sell.

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 (in thousands).

	Three months ended March 31,	
	2012	2011
Interest income due in accordance with original terms	$ 84	$ 135
Interest income recorded		(173)
Net reduction (increase) in interest income	$ 84	$ (38)

10. **Federal Home Loan Bank Borrowings**

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

	At March 31, 2012		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 1,390	0.25%
Advances	2012	5,000	1.29
Total advances		5,000	1.29
Total FHLB borrowings		$ 6,390	1.06%

	At December 31, 2011		
Type	Maturing	Amount	Weighted Average Rate
Open Repo Plus	Overnight	$ 15,765	0.34%
Advances	2012	6,000	1.30
Total advances		6,000	1.30
Total FHLB borrowings		$ 21,765	0.60%

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

11. **Preferred Stock**
SBLF:

On August 11, 2011, pursuant to the Small Business Lending Fund (SBLF), the Company issued and sold to the US Treasury 21,000 shares of its Senior Non-Cumulative Perpetual Preferred Stock, Series E (Series E Preferred Stock) for the aggregate proceeds of $21 million. The SBLF is a voluntary program sponsored by the US Treasury that encourages small business lending by providing capital to qualified community banks at favorable rates. The interest rate on the Series E Preferred Stock has been initially set at 5% per annum and may be decreased to as low as 1% per annum if growth thresholds are met for qualified outstanding small business loans. The Company used the proceeds from the Series E Preferred Stock issued to the US Treasury to repurchase all 21,000 shares of its outstanding preferred shares previously issued to the US Treasury under the TARP Capital Purchase Program.

The Series E Preferred Stock has an aggregate liquidation preference of approximately $21 million and qualifies as Tier 1 Capital for regulatory purposes. The terms of the Series E Preferred Stock provide for the payment of non-cumulative dividends on a quarterly basis. The dividend rate, as a percentage of the liquidation amount, may fluctuate while the Series E Preferred Stock is outstanding based upon changes in the level of qualified small business lending (QSBL) by the Bank from its average level of QSBL at each of the four quarter ends leading up to June 30, 2010 (the Baseline) as follows:

Dividend Period Annualized		Annualized
Beginning	Ending	Dividend Rate
August 11, 2011	December 31, 2011	5.0%
January 1, 2012	December 31, 2013	1.0% to 5.0%
January 1, 2014	February 7, 2016	1.0% to 7.0%(1)
February 8, 2016	Redemption	9.0%(2)

(1) Between January 1, 2014 and February 7, 2016, the dividend rate will be fixed at a rate in such range based upon the level of percentage change in QSBL between September 30, 2013 and the Baseline.
(2) Beginning on February 8, 2016, the dividend rate will be fixed at nine percent (9%) per annum.

In addition to the applicable dividend rates described above, beginning on January 1, 2014 and on all dividend payment dates thereafter ending on April 1, 2016, if we fail to increase our level of QSBL compared to the Baseline, we will be required to pay a quarterly lending incentive fee of 0.5% of the liquidation value.

As long as shares of Series E Preferred Stock remain outstanding, we may not pay dividends to our common shareholders (nor may we repurchase or redeem any shares of our common stock) during any quarter in which we fail to declare and pay dividends on the Series E Preferred Stock and for the next three quarters following such failure. In addition, under the terms of the Series E Preferred Stock, we may only declare and pay dividends on our common stock (or repurchase shares of our common stock), if, after payment of such dividend, the dollar amount of our Tier 1 capital would be at least ninety percent (90%) of Tier 1 capital as of June 30, 2011, excluding any charge-offs and redemptions of the Series E Preferred Stock (the Tier 1 Dividend Threshold). The Tier 1 Dividend Threshold is subject to reduction, beginning January 1, 2014, based upon the extent by which, if at all, the QSBL at September 30, 2013 has increased over the Baseline.

We may redeem the Series E Preferred Stock at any time at our option, at a redemption price of 100% of the liquidation amount plus accrued but unpaid dividends, subject to the approval of our federal banking regulator.

12. **Regulatory Capital**

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. As of March 31, 2012, the Federal Reserve categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. The Company believes that no conditions or events have occurred that would change this conclusion. To be categorized as well capitalized, the Company must maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. Additionally, while not a regulatory capital ratio, the Company s tangible common equity ratio was 8.24% at March 31, 2012 (in thousands, except ratios).

	At March 31, 2012					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (To Risk Weighted Assets) Consolidated	$ 121,345	17.22%	$ 56,359	8.00%	$ 70,449	10.00%
AmeriServ Financial Bank	101,993	14.60	55,887	8.00	69,859	10.00
Tier 1 Capital (To Risk Weighted Assets) Consolidated	112,468	15.96	28,180	4.00	42,269	6.00
AmeriServ Financial Bank	93,189	13.34	27,944	4.00	41,916	6.00
Tier 1 Capital (To Average Assets) Consolidated	112,468	11.83	38,015	4.00	47,518	5.00
AmeriServ Financial Bank	93,189	10.03	37,158	4.00	46,447	5.00

	At December 31, 2011					
					To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Actual		For Capital Adequacy Purposes			
	Amount	Ratio	Amount	Amount	Ratio	Amount
Total Capital (To Risk Weighted Assets) Consolidated	$ 120,315	17.60%	$ 54,702	8.00%	$ 68,377	10.00%
AmeriServ Financial Bank	101,406	14.96	54,231	8.00	67,789	10.00
Tier 1 Capital (To Risk Weighted Assets) Consolidated	111,683	16.33	27,351	4.00	41,026	6.00
AmeriServ Financial Bank	92,847	13.70	27,116	4.00	40,673	6.00
Tier 1 Capital (To Average Assets) Consolidated	111,683	11.66&nb				