UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)
[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2012.

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

Commission File Number: 0-16761

HIGHLANDS BANKSHARES, INC.

(Exact name of registrant as specified in its charter)

West Virginia	55-0650793
(State or Other Jurisdiction of Incorporation or Organization)	(IRS Employer Identification No.)

P.O. Box 929
3 North Main Street
Petersburg, WV 26847
(Address of Principal Executive Offices, Including Zip Code)

304-257-4111
(Registrant's Telephone Number, Including Area Code)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions 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 [ ] (Do not check if a smaller reporting company) Smaller reporting company [X]

Indicate by check mark whether the registrant is a shell company (as defined in 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.
As of May 15, 2012: 1,336,873 shares of Common Stock, $5 Par Value

HIGHLANDS BANKSHARES, INC.
Quarterly Report on Form 10-Q For The Period Ended March 31, 2012

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PART I.
Item 1. Financial Statements

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars, Except Per Share Data)

	Three Months Ended March 31	
	2012	2011
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	$4,882	$5,156
Interest on federal funds sold	3	4
Interest on deposits in other banks	1	1
Interest and dividends on securities	160	139
Total Interest Income	5,046	5,300
Interest Expense		
Interest on deposits	796	1,161
Interest on borrowed money	81	108
Total Interest Expense	877	1,269
Net Interest Income	4,169	4,031
Provision for Loan Losses	515	585
Net Interest Income After Provision for Loan Losses	3,654	3,446
Non-interest Income		
Service charges	326	345
Life insurance investment income	68	66
Gains on securities transactions	1	0
Other non-interest income	105	83
Total Non-interest Income	500	494
Non-interest Expense		
Salaries and employee benefits	1,704	1,615
Occupancy and equipment expense	349	381
Data processing expense	311	300
Directors fees	86	101
Legal and professional fees	122	124
Office supplies, postage and freight expense	71	92
FDIC premiums	106	166
Loan and foreclosed asset expense	124	70
(Gains) on sale of foreclosed property	0	(14)
Losses on impairment of other real estate	56	65
Other non-interest expense	192	222
Total Non-interest Expense	3,121	3,122
Income Before Provision For Income Taxes	1,033	818
Provision for Income Taxes	336	266
Net Income	$697	$552
Per Share Data		
Net Income	$0.52	$0.41
Cash Dividends	$0.00	$0.25
Weighted Average Common Shares Outstanding	1,336,873	1,336,873

The accompanying notes are an integral part of these financial statements.

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In Thousands of Dollars)

	For the three months ended March 31,			
	2012 (unaudited)		2011 (unaudited)	
Net income	$	697	$	552
Other comprehensive income:				
Unrealized (gains) or losses on investment securities available for sale, net of tax of $9 and $3		(14)		5
(Gain) on sale of securities, net of tax of $0 and $0 - reclassification adjustment		(1)		0
Total other comprehensive income (loss)	$	(15)	$	5
Total comprehensive income	$	682	$	557

The accompanying notes are an integral part of these financial statements

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED BALANCE SHEETS
(In thousands of dollars)

	March 31, 2012 (unaudited)	December 31, 2011 (audited)
ASSETS		
Cash and due from banks	$7,000	$9,321
Interest bearing deposits in banks	3,219	2,329
Federal funds sold	6,630	11,253
Investment securities available for sale	39,073	39,557
Restricted investments, at cost	1,669	1,741
Loans	311,367	313,056
Allowance for loan losses	(5,854)	(6,111)
Bank premises and equipment, net of depreciation	9,300	9,411
Interest receivable	1,535	1,513
Investment in life insurance contracts	7,368	7,300
Foreclosed assets, net of valuation allowance	7,987	7,070
Goodwill	1,534	1,534
Other intangible assets, net of amortization	613	660
Other assets	5,285	5,560
Total Assets	$396,726	$404,194
LIABILITIES		
Deposits		
Non-interest bearing deposits	$62,975	$61,710
Interest bearing transaction and savings accounts	84,119	82,915
Time deposits over $100,000	72,930	74,112
All other time deposits	123,054	125,335
Total Deposits	343,078	344,072
Long term debt instruments	5,444	11,245
Accrued expenses and other liabilities	5,848	7,203
Total Liabilities	354,370	362,520
STOCKHOLDERS' EQUITY		
Common stock, $5 par value, 3,000,000 shares authorized, 1,436,874 shares issued, 1,336,873 shares outstanding	7,184	7,184
Surplus	1,662	1,662
Treasury stock (100,001 shares, at cost)	(3,372)	(3,372)
Retained earnings	38,652	37,955
Other accumulated comprehensive loss	(1,770)	(1,755)
Total Stockholders' Equity	42,356	41,674
Total Liabilities and Stockholders' Equity	$396,726	$404,194

The accompanying notes are an integral part of these financial statements

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Three Months Ended March 31, 2012 and 2011
(In Thousands of Dollars)
(unaudited)

	Common Stock	Surplus	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances at December 31, 2010	$7,184	$1,662	($3,372)	$37,165	($1,271)	$41,368
Comprehensive Income						
Net Income				552		552
Total other comprehensive income, net of tax					5	5
Dividends Paid				(334)		(334)
Balances March 31, 2011	$7,184	$1,662	($3,372)	$37,383	($1,266)	$41,591
Balances at December 31, 2011	$7,184	$1,662	($3,372)	$37,955	($1,755)	$41,674
Comprehensive Income						
Net Income				697		697
Total other comprehensive income, net of tax					(15)	(15)
Balances March 31, 2012	$7,184	$1,662	($3,372)	$38,652	($1,770)	$42,356

The accompanying notes are an integral part of these financial statements

HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands of Dollars)

	Three Months Ended March 31	
	2012	2011
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Net Income	$697	$552
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(1)	0
(Gains) on sale of foreclosed property	0	(14)
Depreciation	179	196
Income from life insurance contracts	(68)	(66)
Net amortization of securities premiums	77	48
Provision for loan losses	515	585
Write-down on foreclosed assets	56	65
Amortization of intangibles	47	46
(Increase) decrease in interest receivable	(22)	146
Decrease in other assets	275	157
(Decrease) increase in accrued expenses	(1,345)	132
Net Cash Provided by Operating Activities	410	1,847
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	203	155
Proceeds from maturity of securities available for sales	647	1,652
Proceeds from sale of securities available for sale	3,236	0
Purchase of securities available for sale	(3,500)	(7,073)
Net change in other investments	72	94
Net change in interest bearing deposits in other banks	(890)	875
Net change in federal funds sold	4,623	(3,255)
Net (increase) decrease in loans	(259)	2,755
Purchase of property and equipment	(68)	(71)
Net Cash Provided by (Used in) Investing Activities	4,064	(4,868)
Cash Flows From Financing Activities		
Net change in time deposits	(3,463)	(1,814)
Net change in other deposit accounts	2,469	4,139
Repayment of long term borrowings	(5,801)	(121)
Dividends paid in cash	0	(334)
Net Cash (Used in) Provided by Financing Activities	(6,795)	1,870
Net (decrease) in Cash and Cash Equivalents	(2,321)	(1,151)
Cash and Cash Equivalents, Beginning of Period	9,321	8,282
Cash and Cash Equivalents, End of Period	$7,000	$7,131
Supplemental Disclosures		
Cash paid for income taxes	$186	$125
Cash paid for interest	$935	$1,274
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	$1,176	$883

The accompanying notes are an integral part of these financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE ONE: ACCOUNTING PRINCIPLES

The consolidated financial statements conform to U. S. generally accepted accounting principles and to general industry practices. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting solely of normal recurring adjustments, necessary to present fairly the financial position as of March 31, 2012 and the results of operations for the three month periods ended March 31, 2012 and 2011.

The results of operations for the three month periods ended March 31, 2012 and 2011 are not necessarily indicative of the results to be expected for the full year.

The notes included herein should be read in conjunction with the notes to financial statements included in the Company's 2011 annual report on Form 10-K.

Certain reclassifications have been made to prior period balances to conform to the current year's presentation format.

NOTE TWO: LOANS

A summary of loans outstanding as of March 31, 2012 and December 31, 2011 is shown in the table below (in thousands of dollars):

	March 31, 2012	December 31, 2011
Commercial Mortgage	$ 138,114	$ 139,374
Commercial Other	13,975	13,709
Consumer Mortgage	136,776	136,472
Consumer Other	22,502	23,501
	$ 311,367	$ 313,056

The following is a summary of information pertaining to impaired loans by portfolio segment at March 31, 2012 and December 31, 2011 (in thousands of dollars):

Impaired Loans
As of March 31, 2012

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Mortgage	$ 21,312	$ 21,312	$ 0	$ 22,668	$ 304
Commercial Other	288	288	0	304	8
Consumer Mortgage	937	937	0	938	13
Consumer Other	67	67	0	68	1
Sub-total	$ 22,604	$ 22,604	$ 0	$ 23,978	$ 326
With an allowance recorded:					
Commercial Mortgage	8,620	8,620	913	8,636	57
Commercial Other	71	71	71	73	1
Consumer Mortgage	806	806	320	807	10
Consumer Other	27	27	15	27	1
Sub-total	$ 9,524	$ 9,524	$ 1,319	$ 9,543	$ 69

Total					
Commercial Mortgage	29,932	29,932	913	31,304	361
Commercial Other	359	359	71	377	9
Consumer Mortgage	1,743	1,743	320	1,745	23
Consumer Other	94	94	15	95	2
Total	$ 32,128	$ 32,128	$ 1,319	$ 33,521	$ 395

Impaired Loans
As of December 31, 2011

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Commercial Mortgage	$ 21,160	$ 21,160	$ 0	$ 23,065	$ 1,287
Commercial Other	261	261	0	300	23
Consumer Mortgage	930	930	0	940	49
Sub-total	$ 22,351	$ 22,351	$ 0	$ 24,305	$ 1,359
With an allowance recorded:					
Commercial Mortgage	5,383	5,383	1,018	5,469	125
Commercial Other	430	430	167	475	23
Consumer Mortgage	1,036	1,036	328	1,036	42
Sub-total	$ 6,849	$ 6,849	$ 1,513	$ 6,980	$ 190
Total					
Commercial Mortgage	26,543	26,543	1,018	28,534	1,412
Commercial Other	691	691	167	775	46
Consumer Mortgage	1,966	1,966	328	1,976	91
Total	$ 29,200	$ 29,200	$ 1,513	$ 31,285	$ 1,549

The average recorded investment in impaired loans was $30,957,000 and $33,521,000 for the three months ended March 31, 2011 and 2012, respectively. The interest income recognized on impaired loans was $309,000 and $393,000 for the three months ended March 31, 2011 and 2012, respectively.

No loans were identified as impaired with potential loss as of March 31, 2012 or December 31, 2011 for which an allowance was not provided. The table above includes troubled debt restructurings (TDR) of $18,063,000 and $14,152,000 as of March 31, 2012 and December 31, 2011, respectively. Loans are identified as TDR if concessions are made related to the terms of the loan beyond regular lending practices in response to a borrower's financial condition. Restructured loans performing in accordance with modified terms consist of twenty commercial mortgages and nineteen consumer mortgages. Restructured loans not performing in accordance with modified terms consist of four commercial mortgages and two consumer mortgages. These loans were balloon renewals or restructurings of borrowers experiencing financial difficulties at either current market rates for borrowers not experiencing financial difficulties, were modified to reduce interest rates, or provide for interest-only payment periods. These loans did not have any additional commitments to extend credit at March 31, 2012.

Balances of non-accrual loans at March 31, 2012 and December 31, 2011 are shown below (in thousands of dollars):

	March 31, 2012	December 31, 2011
Loans on non-accrual status		
Commercial Mortgage	$ 4,644	$ 4,152
Commercial Other	0	295
Consumer Mortgage	2,538	3,526
Consumer Other	66	48
Total non-accrual loans	$ 7,248	$ 8,021

Certain loans identified as impaired are placed into non-accrual status, based upon the loan's performance compared with contractual terms. Not all loans identified as impaired are placed into non-accrual status. The interest on loans identified as impaired and placed into non-accrual status that was not recognized as income throughout the year (foregone interest) was $114,000 for the three month period ended March 31, 2012.
The following table presents the contractual aging of the recorded investment in past due loans by class as of March 31, 2012 and December 31, 2011 (in thousands of dollars):

Age Analysis of Past Due Financing Receivables
As of March 31, 2012

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial - Mortgage	$ 4,703	$ 898	$ 4,731	$ 10,332	$ 127,782	$ 138,114	$ 309
Commercial - Other	285	96	18	399	13,576	13,975	18
Consumer - Mortgage	3,994	1,060	1,683	6,737	130,039	136,776	23
Consumer - Other	597	119	70	786	21,716	22,502	47
Total	$ 9,579	$ 2,173	$ 6,502	$ 18,254	$ 293,113	$ 311,367	$ 397

Age Analysis of Past Due Financing Receivables
As of December 31, 2011

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Financing Receivables	Recorded Investment > 90 Days and Accruing
Commercial - Mortgage	$ 3,541	$ 1,490	$ 3,599	$ 8,630	$ 130,744	$ 139,374	$ 212
Commercial - Other	313	27	297	637	13,072	13,709	11
Consumer - Mortgage	4,317	2,770	3,120	10,207	126,265	136,472	269
Consumer - Other	738	300	65	1,103	22,398	23,501	44
Total	$ 8,909	$ 4,587	$ 7,081	$ 20,577	$ 292,479	$ 313,056	$ 536

Troubled Debt Restructurings:

Impaired loans also include loans the Banks may elect to formally restructure due to the weakening credit status of a borrower such that the restructuring may facilitate a repayment plan that minimizes the potential losses, if any, that the Banks may have to otherwise incur. These loans are classified as impaired loans and, if on nonaccrual status as of the date of the restructuring, the loans are included in the nonaccrual loan balances noted above. Not included in nonperforming loans are loans that have been restructured that were performing in accordance with modified terms as of March 31, 2012.

The following tables present the Company's loans restructured during the three month reporting period ending March 31, 2012 considered troubled debt by loan type (in thousands of dollars except number of contracts):

	Troubled Debt Restructurings For the Three Month Period Ended March 31, 2012			
	Number of Contacts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Allowance associated with TDR's
Troubled Debt Restructurings				
Commercial Mortgage	4	$ 1,916	$ 1,916	$ 55
Commercial Other	0	0	0	0
Consumer Mortgage	1	113	114	35
Consumer Other	0	0	0	0
Total	5	$ 2,029	$ 2,030	$ 89

The following table presents the Company's loans restructured during the prior twelve months which defaulted during the three month reporting period ended March 31, 2012:

	Defaulted Troubled Debt Restructurings For the Twelve Month Period Ended March 31, 2012		
	Number of Contacts	Recorded Investment	Allowance associated with Defaulted TDR's
Troubled debt restructurings:			
Commercial Mortgage	4	$ 1,626	$ 200
Commercial Other	1	98	0
Consumer Mortgage	2	478	62
Consumer Other	0	0	0
Total	7	$ 2,202	$ 262

NOTE THREE: ALLOWANCE FOR LOAN LOSSES

A summary of the transactions in the allowance for loan losses for the three month period ended March 31, 2012 and the year ended December 31, 2011 is shown below (in thousands of dollars):

Allowance for Credit Losses and Recorded Investment in Financing Receivables
For the Three Months Ended March 31, 2012

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance 12/31/2011	$ 2,898	$ 465	$ 1,959	$ 428	$ 361	$ 6,111
Charge-offs	305	245	292	51	0	893
Recoveries	0	13	0	108	0	121
Provision	231	154	190	(60)	0	515
Ending Balance 3/31/2012	$ 2,824	$ 387	$ 1,857	$ 425	$ 361	$ 5,854
Ending Balance: individually evaluated for impairment	913	71	320	15	0	1,319
Ending Balance: collectively evaluated for impairment	1,911	316	1,537	410	361	4,535
Financing Receivables:						
Ending Balance	138,114	13,975	136,776	22,502	0	311,367
Ending Balance: individually evaluated for impairment	29,932	359	1,743	94	0	32,128
Ending Balance: collectively evaluated for impairment	$ 108,182	$ 13,616	$ 135,033	$ 22,408	$0	$279,239

Allowance for Credit Losses and Recorded Investment in Financing Receivables
For the Year Ended December 31, 2011

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Unallocated	Total
Allowance for Credit Losses:						
Beginning Balance 12/31/2010	$ 1,345	$ 887	$ 1,662	$ 968	$ 545	$ 5,407
Charge-offs	2,322	163	565	372	0	3,422
Recoveries	129	137	15	221	0	502
Provision	3,746	(396)	847	(389)	(184)	3,624
Ending Balance 12/31/2011	$ 2,898	$ 465	$ 1,959	$ 428	$ 361	$ 6,111
Ending Balance: individually evaluated for impairment	1,018	167	328	0	0	1,513
Ending Balance: collectively evaluated for impairment	1,880	298	1,631	428	361	4,598
Financing Receivables:						
Ending Balance	139,374	13,709	136,472	23,501	0	313,056
Ending Balance: individually evaluated for impairment	26,543	691	1,966	0	0	29,200
Ending Balance: collectively evaluated for impairment	$ 112,831	$ 13,018	$ 134,506	$ 23,501	$0	$283,856

The following table presents the company's loans by internally assigned grades and by loan type (in thousands of dollars).

Credit Quality Indicators
As of March 31, 2012

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Total
Grade:					
Excellent	$ 775	$ 1,489	$ 2,365	$ 3,127	$ 7,756
Very Good	15,042	677	27,370	3,846	46,935
Pass	69,110	10,363	90,142	13,855	183,470
Pass-Watch	7,833	58	1,265	107	9,263
Special Mention	14,504	948	6,185	1,010	22,647
Substandard	30,850	440	9,107	557	40,954
Doubtful	0	0	342	0	342
Loss	0	0	0	0	0
Total	$ 138,114	$ 13,975	$ 136,776	$ 22,502	$ 311,367

Credit Quality Indicators
As of December 31, 2011

Credit Risk Profile by Internally Assigned Grade

	Commercial Mortgage	Commercial Other	Consumer Mortgage	Consumer Other	Total
Grade:					
Excellent	$ 732	$ 1,400	$ 2,437	$ 2,740	$ 7,309
Very Good	14,049	607	28,026	4,128	46,810
Pass	70,462	9,693	88,752	14,942	183,849
Pass-Watch	12,050	117	1,106	104	13,377
Special Mention	13,887	1,107	5,449	1,016	21,459
Substandard	28,161	785	9,849	571	39,366
Doubtful	33	0	853	0	886
Loss	0	0	0	0	0
Total	$ 139,374	$ 13,709	$ 136,472	$ 23,501	$ 313,056

Loans classified as "special mention" have potential weaknesses that deserve management's close attention. Loans classified as "substandard" have been determined to be inadequately protected by the current collateral pledged, if any, or the cash flow and/or the net worth of the borrower. "Doubtful" loans have all the weaknesses inherent in substandard loans, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans classified as "loss" are loans with expected loss of the entire principal balance. The loan may be carried in this classified status if circumstances indicate a remote possibility that the amount will be repaid, however, the principal balance is included in the impairment calculation and carried in the allowance for loan losses. Loans not categorized as special mention, substandard, or doubtful are

classified as “pass”, “very good” or “excellent” loans and are considered to exhibit acceptable risk. Additionally, the Company classifies certain loans as “pass-watch” loans. This category includes satisfactory borrowing relationships that require close monitoring because of complexity, information deficiencies, or emerging signs of weakness.

NOTE FOUR: INVESTMENT IN INSURANCE CONTRACTS

Investment in insurance contracts consist of single premium insurance contracts which have the dual purposes of providing a rate of return to the Company which approximately equals the Company’s average cost of funds and of providing life insurance and retirement benefits to certain executives.

NOTE FIVE: SECURITIES AND RESTRICTED INVESTMENTS

The Company’s securities portfolio serves several purposes. Portions of the portfolio secure certain public and trust deposits while the remaining portions are held as investments or used to assist the Company in liquidity and asset/liability management.

The amortized cost and market value of securities as of March 31, 2012 and December 31, 2011 is shown in the table below (in thousands of dollars). All of the securities on the Company’s balance sheet are classified as available for sale.

Available For Sale Securities
As of March 31, 2012

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasuries and Agencies	$ 24,156	$ 157	$ 7	$24,306
Mortgage backed securities	4,076	156	0	4,232
Collateralized mortgage obligations	3,134	30	5	3,159
States and municipalities	2,636	64	0	2,700
Certificates of deposit	4,665	14	3	4,676
Total Available For Sale Securities	$ 38,667	$ 421	$ 15	$39,073

Available For Sale Securities
As of December 31, 2011

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Market Value
U.S. Treasuries and Agencies	$ 21,741	$ 195	$ 4	$21,932
Mortgage backed securities	5,456	151	3	5,604
Collateralized mortgage obligations	3,387	37	11	3,413
States and municipalities	2,642	56	0	2,698
Certificates of deposit	5,901	15	6	5,910
Total Available For Sale Securities	$ 39,127	$ 454	$ 24	$39,557

Information pertaining to securities with gross unrealized losses at March 31, 2012 and December 31, 2011, aggregated by investment category and length of time that individual securities have been in a continuous loss position is shown in the table below (in thousands of dollars):

As of March 31, 2012	Total		Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment Category						
U.S. Treasuries and Agencies	$ 1,493	$ (7)	$ 1,493	$ (7)	$ 0	$ 0
Mortgage backed securities	0	0	0	0	0	0
Collateralized mortgage obligations	840	(5)	840	(5)	0	0
Certificates of deposit	946	(3)	946	(3)	0	0
Total	$ 3,279	$ (15)	$ 3,279	$ (15)	$ 0	$ 0

As of December 31, 2011	Total		Less than 12 Months		12 Months or Greater	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment Category						
U.S. Treasuries and Agencies	$ 2,494	$ (4)	$ 2,494	$ (4)	$ 0	$ 0
Mortgage backed securities	1,007	(3)	1,007	(3)	0	0
Collateralized mortgage obligations	904	(11)	904	(11)	0	0
Certificates of deposit	943	(6)	943	(6)	0	0
Total	$ 5,348	$ (24)	$ 5,348	$ (24)	$ 0	$ 0

Securities are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported separately in shareholders' equity, net of tax. Interest income includes net amortization of purchase premiums and discounts. Realized gains and losses on sales are determined using the amortized cost of the specific security sold. Securities are written down to fair value when a decline in fair value is considered other-than-temporary. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Corporation to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Restricted investments consist of investments in the Federal Home Loan Bank, the Federal Reserve Bank and West Virginia Bankers' Title Insurance Company. Restricted investments are carried at face value and the level of investment is dictated by the level of participation with each institution. Amounts are restricted as to transferability. Investments in the Federal Home Loan Bank act as collateral against the outstanding borrowings from that institution.

NOTE SIX: EARNINGS PER SHARE

Earnings per share represent income available to common stockholders divided by the weighted average number of common shares outstanding during the period. During 2012 and 2011, there were no changes to the outstanding shares of common stock. The Company does not offer a stock option program to its employees.

NOTE SEVEN: DEBT INSTRUMENTS

The Company has borrowed money from the Federal Home Loan Bank of Pittsburgh (FHLB). This debt consists of both borrowings with terms of maturities of nine months or greater and also certain debts with maturities of thirty days or less.

The borrowings with long term maturities may have either single payment maturities or amortize. The interest rates on the various long term borrowings at March 31, 2012 range from 1.68% to 5.80%. The weighted average interest rate on the borrowings at March 31, 2012 was 3.73%.

In addition to utilization of the FHLB for borrowings of long term debt, the Company also can utilize the FHLB for overnight and other short term borrowings. At March 31, 2012 and December 31, 2011, the Company had no overnight or other short term borrowings.

NOTE EIGHT: INTANGIBLE ASSETS

The Company's balance sheet contains several components of intangible assets. At March 31, 2012, the total balance of intangible assets was comprised of Goodwill and Core Deposit Intangible Assets acquired as a result of the acquisition of other banks and also an intangible asset related to the purchased naming rights for a performing arts center located within the Company's primary business area. The Company performs an impairment test on an annual basis for goodwill. No impairment has been recorded to date. Other intangible assets are amortized based upon the estimated economic benefits received.

NOTE NINE: EMPLOYEE BENEFITS

The Company's two subsidiary banks each have separate retirement and profit sharing plans which cover substantially all full time employees at each bank.

Capon Valley Bank has a defined contribution pension plan with 401(k) features that is funded with discretionary contributions by the Bank. The bank matches, on a limited basis, the contributions of the employees. Investment of employee balances is done through the direction of each employee. Employer contributions are vested over a six year period.

The Grant County Bank is a member of the West Virginia Bankers' Association Retirement Plan. Benefits under the plan are based on compensation and years of service with 100% vesting after seven years of service. The Bank has recognized a liability of $1,510,000 at March 31, 2012 for the unfunded portion of the plan. The following table provides the components of the net periodic benefit cost for the plan for the three month periods ended March 31, 2012 and 2011 (in thousands of dollars):

	Three Months ending March 31,	
	2012	2011
Service cost	$ 48	$ 51
Interest cost	85	81
Expected return on plan assets	(114)	(88)
Recognized net actuarial loss	52	38
Net periodic expense	$ 71	$ 82

NOTE TEN: FAIR VALUE MEASUREMENTS

ASC 820, Fair Value Measurements and Disclosures (previously SFAS No. 157, Fair Value Measurements), defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level One: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level Two: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level Three: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Following is a description of the valuation methodologies used for instruments measured at fair value on the Company's balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy:

Securities

Where quoted prices are available in an active market, securities are classified within level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow. Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within level 3 of the valuation hierarchy. Currently, all of the Company's securities are considered to be Level 2 securities.

Impaired Loans

The fair value measurement guidance applies to loans measured for impairment using the practical expedients permitted by authoritative accounting guidance, including impaired loans measured at an observable market price (if available), or at the fair value of the loan's collateral (if the loan is collateral dependent). Fair value of the loan's collateral, when the loan is dependent on collateral, is determined by appraisals or independent valuation which is then adjusted for the estimated cost related to liquidation of the collateral. At March 31, 2012, the Company had impaired loans with an unpaid principal balance of $32,128,000 of which $9,524,000 required an allowance of $1,319,000. (see Note Two).

Other Real Estate Owned

Certain assets such as other real estate owned (OREO) are measured at fair value. Real estate acquired through foreclosure is recorded at an estimated fair value less cost to sell. At or near the time of foreclosure, a real estate appraisal is obtained on the properties. In the event that a sales agreement is in place at the time of valuation, the fair value of the collateral is determined to be the agreed-upon sale price, net of anticipated selling costs (Level 1). In the absence of a sales agreement, the real estate is then valued at the lesser of the appraised value, net of anticipated selling costs, or the loan balance, including interest receivable, at the time of foreclosure less an estimate of costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser (Level 2). If the acquired property is a house or building in the process of construction or if an appraisal of the real estate property is over twelve months old, the fair value is considered Level 3. The estimate of costs to sell the property is based on historical transactions of similar holdings.

The Company, at March 31, 2012 and December 31, 2011 had no liabilities subject to fair value reporting requirements. The table below summarizes assets at March 31, 2012 and December 31, 2011 measured at fair value on a recurring basis (in thousands of dollars):

March 31, 2012	Level 1	Level 2	Level 3	Total Fair Value Measurements
U.S. Treasuries and Agencies	$0	$ 24,306	$0	$ 24,306
Mortgage backed securities	0	4,232	0	4,232
Collateralized mortgage obligations	0	3,159	0	3,159
States and municipalities	0	2,700	0	2,700
Certificates of deposit	0	4,676	0	4,676
Total Available For Sale Securities	$0	$ 39,073	$0	$ 39,073

December 31, 2011	Level 1	Level 2	Level 3	Total Fair Value Measurements
U.S. Treasuries and Agencies	$0	$ 21,932	$0	$ 21,932
Mortgage backed securities	0	5,604	0	5,604
Collateralized mortgage obligations	0	3,413	0	3,413
States and municipalities	0	2,698	0	2,698
Certificates of deposit	0	5,910	0	5,910
Total Available For Sale Securities	$0	$ 39,557	$0	$ 39,557

The table below summarizes assets at March 31, 2012 and December 31, 2011, measured at fair value on a non recurring basis (in thousands of dollars):

	Level 1	Level 2	Level 3	Total Fair Value Measurements	Three Months Ended March 31, 2012 Total gains/(losses)
Other real estate owned	$ 0	$ 6,954	$ 1,033	$ 7,987	$ (56)
Impaired Loans	0	6,437	1,768	8,205	0
Total	$ 0	$ 13,391	$ 2,801	$ 16,192	$ (56)

	Level 1	Level 2	Level 3	Total Fair Value Measurements	Twelve Months Ended December 31, 2011 Total Gains/(Losses)
Other real estate owned	$ 0	$ 5,862	$ 1,208	$ 7,070	$ (912)
Impaired Loans	0	4,771	565	5,336	0
Total	$ 0	$ 10,633	$ 1,773	$ 12,406	$ (912)

The information above discusses financial instruments carried on the Company's balance sheet at fair value. Other financial instruments on the Company's balance sheet, while not carried at fair value, do have fair values which may differ from the carrying value. GAAP requires disclosure relating to these fair values. The following information shows

the carrying values and estimated fair values of financial instruments and discusses the methods and assumptions used in determining these fair values.

The fair value of the Company's assets and liabilities is influenced heavily by market conditions. Fair value applies to both assets and liabilities, either on or off the balance sheet. Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

The methods and assumptions detailed below were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash, Due from Banks and Money Market Investments
The carrying amount of cash, due from bank balances, interest bearing deposits and federal funds sold is a reasonable estimate of fair value.

Securities
Fair values of securities are based on quoted market prices or dealer quotes. If a quoted market price is not available, fair value is estimated using quoted market prices for similar securities.

Restricted Investments
The carrying amount of restricted investments is a reasonable estimate of fair value.

Loans
The fair value of loans is estimated by discounting the future cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities, taking into consideration the credit risk in various loan categories.

Deposits
The fair value of demand, interest checking, regular savings and money market deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities.

Long Term Debt
The fair value of fixed rate loans is estimated using the rates currently offered by the Federal Home Loan Bank for indebtedness with similar maturities.

Short Term Debt
The fair value of short-term variable rate debt is deemed to be equal to the carrying value.

Interest Payable and Receivable
The carrying value of amounts of interest receivable and payable is a reasonable estimate of fair value.

Life Insurance
The carrying amount of life insurance contracts is assumed to be a reasonable fair value. Life insurance contracts are carried on the balance sheet at their redemption value as of March 31, 2012. This redemption value is based on existing market conditions and therefore represents the fair value of the contract.

Off-Balance-Sheet Items
The carrying amount and estimated fair value of off-balance-sheet items were not material at March 31, 2012 or December 31, 2011.

The carrying amount and estimated fair values of financial instruments as of March 31, 2012 and December 31, 2011 are shown in the table below (in thousands of dollars):

	Fair Value Measurements at March 31, 2012 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
Financial Assets:				
Cash and due from banks	$ 7,000			$ 7,000
Interest bearing deposits	3,219			3,219
Federal funds sold	6,630			6,630
Securities available for sale		39,073		39,073
Restricted investments		1,669		1,669
Loans, net		304,196	1,768	305,964
Interest receivable		1,535		1,535
Life insurance contracts		7,368		7,368
Financial Liabilities:				
Demand and savings deposits		147,094		147,094
Time deposits		197,585		197,585
Long term debt instruments		5,826		5,826
Interest payable		301		301

	Fair Value Measurements at December 31, 2011 using			
	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs	
	Level 1	Level 2	Level 3	Balance
Financial Assets:				
Cash and due from banks	$ 9,321			$ 9,321
Interest bearing deposits	2,329			2,329
Federal funds sold	11,253			11,253
Securities available for sale		39,557		39,557
Restricted investments		1,741		1,741
Loans, net		307,064	565	307,629
Interest receivable		1,513		1,513
Life insurance contracts		7,300		7,300
Financial Liabilities:				
Demand and savings deposits		144,625		144,625
Time deposits		201,074		201,074
Long term debt instruments		11,667		11,667
Interest payable		359		359

NOTE ELEVEN: SUBSEQUENT EVENTS

The Company evaluates subsequent events that have occurred after the balance sheet, but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Based on management's evaluation through the date these financial statements were issued, the Company did not identify any recognized or non-recognized subsequent events that would have required adjustment or disclosure in the consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Introduction

The following discussion focuses on significant results of the Company's operations and significant changes in our financial condition or results of operations for the periods indicated in the discussion. This discussion should be read in conjunction with the preceding financial statements and related notes, as well as the Company's Annual Report on Form 10-K for the period ended December 31, 2011. Current performance does not guarantee, and may not be indicative of, similar performance in the future.

Forward Looking Statements

Certain statements in this report may constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as "expect," "believe," "estimate," "plan," "project," "anticipate" or other similar words. Although the Company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the Company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, downturns in the trucking, mining, and timber industries, downturns in the housing market affecting manufacturers of household cabinetry and thus, employment, effects of mergers and/or downsizing in the poultry industry in Hardy County, continued challenges in the current economic environment affecting our financial condition and results of operations, continued deterioration in the financial condition of the U.S. banking system impacting the valuations of investments the Company has made in the securities of other financial institutions, and consumer spending and savings habits, particularly in the current economic environment. Additionally, actual future results and trends may differ from historical or anticipated results to the extent: (1) any significant downturn in certain industries, particularly the trucking and timber industries are experienced; (2) loan demand decreases from prior periods; (3) the Company may make additional loan loss provisions due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (4) the Company may not continue to experience significant recoveries of previously charged-off loans or loans resulting in foreclosure; (5) the Company is unable to control costs and expenses as anticipated; (6) legislative and regulatory changes could increase expenses (including changes as a result of rules and regulations adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act); (7) the effects of the recent down grade of U.S. Government Securities by one of the credit rating agencies could have a material adverse effect on the company's operations, earnings and financial condition; and (8) any additional assessments imposed by the FDIC. Additionally, consideration should be given to the cautionary language contained elsewhere in this Form 10-Q. The Company does not update any forward-looking statements that may be made from time to time by or on behalf of the Company.

Critical Accounting Policies

The Company's financial statements are prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The financial statements contained within these statements are, to a significant extent, financial information that is based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained either when earning income, recognizing an expense, recovering an asset or relieving a liability. In addition, GAAP itself may change from one previously acceptable method to another method.

Although the economics of these transactions would be the same, the timing of events that would impact these transactions could change.

Disclosure of the Company's significant accounting policies are included in Note Two to the Consolidated Financial Statements of the Company's Annual Report on Form 10-K for the period ended December 31, 2011. Some of the policies are particularly sensitive, requiring significant judgments, estimates and assumptions by management.

Allowance for Loan Losses

The allowance for loan losses is an estimate of the losses that may be sustained in the loan portfolio. The allowance is based on two basic principles of accounting: (i) ASC 450, *Contingencies,* which requires that losses be accrued when they are probable of occurring and estimable and (ii) ASC 310, *Receivables,* which requires that losses be accrued based on the differences between the value of collateral, present value of future cash flows or values that are observable in the secondary market and the loan balance.

The allowance consists of specific, general and unallocated components. The specific component relates to loans that are determined to be impaired. For such loans, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan.

The general component covers non-impaired loans and is based on management's internal risk ratings as well as historical loss experience adjusted for qualitative factors. The following risk factors relevant to the loan portfolio are reviewed and evaluated:

- Changes in lending policies and procedures, including changes in underwriting standards or collection, charge-off and recovery practices.
- Changes in national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including unemployment trends and GDP and other leading economic indicators.
- Changes in the nature and volume of the portfolio.
- Changes in the experience, ability and depth of lending management and staff.
- Changes in the volume and severity of past due and classified loans, the volume of nonaccrual loans, troubled debt restructurings and other loan modifications.
- Changes in the quality of the Banks' loan review systems.
- The existence and effect of any concentrations of credit, and the changes in the level of such concentrations.
- Changes in the value of underlying collateral.
- The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the existing portfolio.

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payment of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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 borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large homogeneous loans are determined to be impaired if management feels it is unlikely that the borrower will perform in accordance with the terms of the original agreement.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Banks do not separately identify individual consumer and residential loans for impairment disclosures, unless the loans are the subject of a restructuring agreement.

Authoritative accounting guidance does not specify how an institution should identify loans that are to be evaluated for collectability, nor does it specify how an institution should determine that a loan is impaired. Each subsidiary of the Company uses its standard loan review procedures in making those judgments so that allowance estimates are based on a comprehensive analysis of the loan portfolio. For loans that are individually evaluated and found to be impaired and

collaterally dependent, the associated allowance is based upon the estimated fair value, less costs to sell, of any collateral securing the loan as compared to the existing balance of the loan as of the date of analysis.

All other loans, including individually evaluated loans determined not to be impaired, are included in a group of loans that are measured under ASC 450 to provide for estimated credit losses that have been incurred on groups of loans with similar risk characteristics. The methodology for measuring estimated credit losses on groups of loans with similar risk characteristics in accordance with ASC 450 is based on each group's historical net charge-off rate, adjusted for the effects of the qualitative or environmental factors that are likely to cause estimated credit losses as of the evaluation date to differ from the group's historical loss experience.

Intangible Assets

The Company carries intangible assets related to the purchase of two banks. Amounts paid to purchase these banks were allocated as intangible assets. Generally accepted accounting principles were applied to allocate the intangible components of the purchases. The excess was allocated between identifiable intangibles (core deposit intangibles) and unidentified intangibles (goodwill). Goodwill is required to be evaluated for impairment on an annual basis, and the value of the goodwill adjusted accordingly, should impairment be found. As of December 31, 2011, the Company did not identify an impairment of this intangible. In addition to the intangible assets associated with the purchases of banks, the company also carries intangible assets relating to the purchase of naming rights to certain features of a performing arts center in Petersburg, WV. Intangible assets other than goodwill, which are determined to have finite lives, are amortized based upon the estimated economic benefits received.

Post Retirement Benefits and Life Insurance Investments

The Company has invested in and owns life insurance policies on key officers. The policies are designed so that the Company recovers the interest expenses associated with carrying the policies and the officer will, at the time of retirement, receive any earnings in excess of the amounts earned by the Company. The Company recognizes as an asset the net amount that could be realized under the insurance contract as of the balance sheet date. This amount represents the cash surrender value of the policies less applicable surrender charges. The portion of the benefits, which will be received by the executives at the time of their retirement, is considered, when taken collectively, to constitute a retirement plan. Therefore the Company accounts for these policies using guidance found in ASC 715, *Compensation –Retirement Benefits*. ASC 715 requires that an employer's obligation under a deferred compensation agreement be accrued over the expected service life of the employee through their normal retirement date. Assumptions are used in estimating the present value of amounts due officers after their normal retirement date. These assumptions include the estimated income to be derived from the investments and an estimate of the Company's cost of funds in these future periods. In addition, the discount rate used in the present value calculation will change in future years based on market conditions.

Recent Accounting Pronouncements

In April 2011, the FASB issued ASU 2011-03, "Transfers and Servicing (Topic 860) – Reconsideration of Effective Control for Repurchase Agreements." The amendments in this ASU remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee and (2) the collateral maintenance implementation guidance related to that criterion. The amendments in this ASU are effective for the first interim or annual period beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. Early adoption is not permitted. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

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." This ASU is the result of joint efforts by the FASB and International Accounting Standards Board (IASB) to develop a single, converged fair value framework on how (not when) to measure fair value and what disclosures to provide about fair value measurements. The ASU is largely consistent with existing fair value measurement principles in U.S. GAAP (Topic 820), with many of the amendments made to eliminate unnecessary wording differences between U.S. GAAP and International Financial Reporting Standards (IFRS). The amendments are effective for interim and annual periods beginning after December 15, 2011 with prospective application. Early application is not permitted. The Company has included the required disclosures in its consolidated financial statements.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220) – Presentation of Comprehensive Income." The objective of this ASU is to improve the comparability, consistency and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income by eliminating the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. 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. The single statement of comprehensive income should include the components of net income, a total for net income, the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. 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 all the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The amendments do not change the items that must be reported in other comprehensive income, the option for an entity to present components of other comprehensive income either net of related tax effects or before related tax effects, or the calculation or reporting of earnings per share. The amendments in this ASU should be applied retrospectively. The amendments are effective for fiscal years and interim periods within those years beginning after December 15, 2011. Early adoption is permitted because compliance with the amendments is already permitted. The amendments do not require transition disclosures. The Company has included the required disclosures in its consolidated financial statements.

In September 2011, the FASB issued ASU 2011-08, "Intangible – Goodwill and Other (Topic 350) – Testing Goodwill for Impairment." The amendments in this ASU permit an entity to first assess qualitative factors related to goodwill to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill 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 ASU, 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 ASU are effective for annual and interim 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. The adoption of the new guidance did not have a material impact on the Company's consolidated financial statements.

In December 2011, the FASB issued ASU 2011-11, "Balance Sheet (Topic 210) – Disclosures about Offsetting Assets and Liabilities." This ASU requires entities to disclose both gross information and net information about both instruments and transactions eligible for offset in the balance sheet and instruments and transactions subject to an agreement similar to a master netting arrangement. An entity is required to apply the amendments for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods. An entity should provide the disclosures required by those amendments retrospectively for all comparative periods presented. The Company does not expect the adoption of ASU 2011-11 to have a material impact on its consolidated 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." The amendments are being made to allow the Board time to re-deliberate whether to present on the face of the financial statements the effects of reclassifications out of accumulated other comprehensive income on the components of net income and other comprehensive income for all periods presented. While the Board is considering the operational concerns about the presentation requirements for reclassification adjustments and the needs of financial statement users for additional information about reclassification adjustments, entities should continue to report reclassifications out of accumulated other comprehensive income consistent with the presentation requirements in effect before ASU 2011-05. All other requirements in ASU 2011-05 are not affected by ASU 2011-12, 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. The Company has included the required disclosures in its consolidated financial statements.

Overview of First Three Months Results

Net income for the first three months of 2012, as compared to the same period in 2011, increased 26.3%. The increased income was primarily the result of the decreases in interest and non-interest related expenses more than offsetting the decrease in interest income.

Total assets decreased 1.85% from December 31, 2011 to March 31, 2012 which was the result of paying off long-term debt. Average balances of earning assets and interest bearing liabilities, for the first three months of 2012, decreased 3.3% and 3.4%, respectively, compared to the same period in 2011. Interest income on earning assets decreased 4.8%, on a fully tax equivalent basis, which was more than offset by the decrease in interest expense on interest bearing liabilities of 30.9%.

The Company's allowance for loan losses decreased to 1.88% of total gross loans at March 31, 2012 as compared to 1.95% at December 31, 2011.

Non-interest income increased $6,000 in the first three months of 2012 as compared to the same period in 2011.

Non-interest expenses were the same in the first three months of 2012 as compared to the same period in 2011.

Performance Measures

The following table compares selected commonly used measures of bank performance for the three month periods ended March 31, 2012 and 2011:

	Three months ended March 31,	
	2012	2011
Annualized return on average assets	0.69%	0.55%
Annualized return on average equity	6.83%	5.44%
Net interest margin (1)	4.70%	4.39%
Efficiency Ratio 2)	66.85%	69.08%
Earnings per share (3)	$ 0.52	$ 0.41

(1) On a fully taxable equivalent basis and including loan origination fees.
(2) Non-interest expenses for the period indicated divided by the sum of net interest income and non-interest income for the period indicated.
(3) Per weighted average shares of common stock outstanding for the period indicated.

Securities Portfolio

The Company's securities portfolio serves several purposes. Portions of the portfolio are used to secure certain public and trust deposits. The remaining portfolio is held as investments or used to assist the Company in liquidity and asset liability management. Total securities, including restricted securities, represented 10.3% of total assets and 96.3% of total shareholders' equity at March 31, 2012.

The securities portfolio typically will consist of three components: securities held to maturity, securities available for sale and restricted securities. Securities are classified as held to maturity when management has the intent and the Company has the ability at the time of purchase to hold the securities to maturity. Held to maturity securities are carried at cost, adjusted for amortization of premiums and accretion of discounts. Securities to be held for indefinite periods of time are classified as available for sale and accounted for at market value. Securities available for sale include securities that may be sold in response to changes in market interest rates, changes in the security's prepayment risk, increases in loan demand, general liquidity needs and other similar factors. Restricted securities are those investments purchased as a requirement of membership in certain governmental lending institutions and cannot be transferred without the issuer's permission. The Company's purchases of securities have generally been limited to securities of high credit quality with short to medium term maturities.

The Company identifies at the time of acquisition those securities that are available for sale. These securities are valued at their market value with any difference in market value and amortized cost shown as an adjustment in stockholders' equity. Changes in market values of securities which are considered temporary changes due to changes in the market rate of interest are reflected as changes in other comprehensive income, net of the deferred tax effect. Any changes in market values of securities deemed by management to be attributable to reasons other than changes in market rates of interest would be recorded through results of operations. As of March 31, 2012, management determined that all securities with fair values less than the amortized cost, are related to increases in the current interest rates for similar issues of securities, and that no other than temporary impairment for any securities in the portfolio exists because of downgrades of the securities or as a result of a change in the financial condition of any of the issuers. A summary of the length of time of unrealized losses for all securities held at March 31, 2012 can be found in Note Five to the financial statements. Management reviews all securities with unrealized losses, and all securities in the portfolio on a regular basis to determine whether the potential for other than temporary impairment exists.

Loan Portfolio

The Company is an active residential mortgage and construction lender and generally extends commercial loans to small and medium sized businesses within its primary service area. The Company's commercial lending activity extends across its primary service areas of Grant, Hardy, Hampshire, Mineral, Randolph, Tucker, and northern Pendleton counties in West Virginia, Frederick County, Virginia and Garrett County, Maryland. Consistent with its focus on providing community-based financial services, the Company does not attempt to diversify its loan portfolio geographically by making significant amounts of loans to borrowers outside of its primary service area.

Credit Quality and Allowance for Loan Losses

Non-performing loans decreased 10.7% from December 31, 2011 to March 31, 2012 due to a $773,000 decrease in non-accrual loans and a $139,000 decrease in loans 90 days or more past due. Non-accrual loans have decreased as a result of foreclosures as well as improved performance by borrowers facilitating their removal from non-accrual status. Non-performing loans represented as a percentage of total loans decreased to 2.46% during the first three months of 2012, as compared to 2.73% of total loans at December 31, 2011, due to the decrease in non-accrual loans mentioned above. The allowance for loan losses as a percentage of total loans decreased from the December 31, 2011 level of 1.95% to 1.88%. As noted in Note Two to the unaudited consolidated financial statements, the carrying value of impaired loans increased from $29.2 million at December 31, 2011 to $32.1 million at March 31, 2012.

Each of the Company's banking subsidiaries determines the adequacy of its allowance for loan losses independently using the same allowance for loan loss methodology. The allowance is calculated quarterly and adjusted prior to the issuance of the quarterly financial statements. All loan losses charged to the allowance are approved by the boards of directors of each bank at their regular meetings. The allowance is reviewed for adequacy after considering historical loss rates, current economic conditions (both locally and nationally) and any known credit problems that have not been considered elsewhere in the calculation. Although the loan portfolios of the two banks are similar to each other, some differences exist which result in divergent risk patterns and different historical charge-off rates amongst the functional areas of the banks' loan portfolios. Each bank pays particular attention to the individual loan performance, collateral values, borrower financial condition and economic conditions. A committee, with representatives from both subsidiary banks, meets to discuss the overall economic conditions that impact both subsidiary banks in the same fashion.

The determination of an adequate allowance at each bank is done in a two step process. The first step is to identify impaired loans. Impaired loans are problem loans above a certain threshold which are not expected to perform in accordance with the original loan agreement. A loan is considered impaired when, based on current information and events, it is probable that the Banks 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 determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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. Impairment is measured on a loan by loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Banks do not separately identify individual consumer and residential loans for impairment disclosures, unless the loans are the subject of a restructuring agreement.

The second step is to allocate losses to non-impaired loans based on historical loss rates of loans, by category, and considering the potential impact of other qualitative factors on future loan performance.

The following table illustrates certain ratios related to quality of the Company's loan portfolio:

	March 31, 2012	December 31, 2011
Allowance for loan losses as a percentage of gross loans	1.88%	1.95%
Non-performing loans as a percentage of gross loans	2.46%	2.73%
Ratio of allowance for loan losses to non-performing loans	0.77	0.71

Non-performing loans include non-accrual loans and loans 90 days or more past due (including non-performing restructured loans). Non-accrual loans are loans on which interest accruals have been suspended. Loans are typically placed on non-accrual status once they have reached certain delinquency status, depending on loan type, and it is no longer reasonable to expect collection of principal and interest because collateral is insufficient to cover both the principal and interest due. After loans are placed on non-accrual status, they are returned to accrual status if the obligation is brought current by the borrower, or they are charged off if payment is not made.

The following table summarizes the Company's non-performing loans, restructured loans accruing interest and other real estate owned at March 31, 2012 and December 31, 2011 (in thousands of dollars):

	March 31, 2012	December 31, 2011
Loans on non-accrual status	$ 7,248	$ 8,021
Loans delinquent 90 days or more still accruing	$ 397	$ 536
Total non-performing loans	$ 7,645	$ 8,557
Restructured loans still accruing	$ 17,511	$ 13,055
Other real estate owned (OREO)	$ 7,987	$ 7,070
Total non-performing loans and other risk assets	$ 33,143	$ 28,682

Restructured loans are loans on which the original interest rate or repayment terms have been changed, or were loan balloon renewals included in restructured loans due to financial hardship of the borrower. Restructured loans that are performing in accordance with modified terms are $16,204,000 and $11,233,000 at March 31, 2012 and December 31, 2011, respectively. Restructured loans not performing in accordance with modified terms totaled $2,202,000 as of March 31, 2012 and $2,919,000 at December 31, 2011. All restructured loans are included in impaired loans in Note Two. The increase in restructured loans is the result of including loan balloon renewal agreements in accordance with the new guidelines adopted with ASU 2011-02.

The following table summarizes the Company's net charge-offs by loan type for the three month periods ended March 31, 2012 and 2011 (in thousands of dollars):

	2012	2011
Charge-offs		
Commercial Mortgage	$ (305)	$ (31)
Commercial Other	(245)	0
Consumer Mortgage	(292)	(307)
Consumer Other	(51)	(122)
Total Charge-offs	$ (893)	$ (460)
Recoveries		
Commercial Mortgage	$ -	$106
Commercial Other	13	21
Consumer Mortgage	0	10
Consumer Other	108	60
Total Recoveries	$ 121	$ 197
Total Net Charge-offs	$ (772)	$ (263)

Charge-offs increased 94.1% the first three months of 2012 compared to the same period during 2011. This increase was driven by a charge-off sustained as a result of one commercial relationship as well as foreclosures.

Management believes that the allowance is to be taken as a whole, and the allocation between loan types is an estimation of potential losses within each type given information known at the time. The following table shows the allocation for loans in the loan portfolio and the corresponding amounts of the allowance allocated by loan type as of March 31, 2012 and December 31, 2011 (in thousands of dollars):

	March 31, 2012		December 31, 2011	
	Amount	Percent of Loans	Amount	Percent of Loans
Loan Type				
Commercial Mortgage	$2,824	45%	$2,898	45%
Commercial Other	387	4%	465	4%
Consumer Mortgage	1,857	44%	1,959	43%
Consumer Other	425	7%	428	8%
Unallocated	361	0%	361	0%
Totals	$5,854	100%	$6,111	100%

Because of its large impact on the local economy, management continues to monitor the economic health of the poultry industry. The Company has direct loans to poultry growers and the industry is a large employer in the Company's trade area. In addition, multiple manufacturers of household cabinetry are large employers in the Company's primary trade area. Due to the downturn in the housing market nationally, there have been indications that the demand for cabinetry has decreased, impacting the performance of these manufacturers and resulting in one manufacturer's plant closure. Because of the impact on the local economy, management monitors the performance of this industry as it relates to local employment trends. Additionally, the Company's loan portfolio contains a segment of loans collateralized by heavy equipment, particularly in the trucking, mining and timber industries. Because of the impact of the slowing economic conditions on the housing market, the timber sector has experienced a recent downturn. The Company has experienced losses related to the downturn in this industry.

Net Interest Income

The Company's net interest income, on a fully taxable equivalent basis increased $136,000 during the first three months of 2012 as compared to the same period in 2011, as a result of the changes in average rates earned on assets and paid on interest bearing liabilities and the changes in the relative mix of earning assets and interest bearing liabilities.

For the three month period ended March 31, 2012, the Company's average earning assets decreased 3.3% compared to the same period in 2011 while average interest bearing liabilities, comparing the same periods decreased 3.4%. The average balances of time deposits and long-term debt, both comparatively more expensive interest bearing liabilities, decreased 6.9%. These changes in the relative mix of earning assets and interest bearing liabilities and the change in the average yields largely offset, resulting in the change in the Company's net interest income.

The Company believes that its deposits will be sufficient to fund the current and expected loan demand. Should the loan demand increase beyond the Company's current expectations, the Company may be required to fund these loans with borrowings which could result in a reduction of net interest margin. However, management believes total net interest income would not be adversely affected.

Also, balances of non-performing loans and other real estate acquired through foreclosure have increased from December 31, 2011 to March 31, 2012. The increase in other real estate acquired through foreclosure has an adverse effect on net interest income. Should balances of other real estate acquired through foreclosure continue to increase, net interest margin may decrease accordingly.

The table below illustrates the effects on net interest income, on a fully taxable equivalent basis, for the first three months of 2012 compared to the same period in 2011, of changes in average volumes of interest bearing liabilities and earning assets from 2011 to 2012 and changes in average rates on interest bearing liabilities and earning assets from 2011 to 2012 (in thousands of dollars):

EFFECT OF RATE-VOLUME CHANGES ON NET INTEREST INCOME

Increase (Decrease) Three Months Ended March 31, 2012 compared to Three Months Ended March 31, 2011

	Due to change in:		
	Average Volume	Average Rate	Total Change
Interest Income			
Loans	$ (345)	$ 71	($274)
Taxable investment securities	50	(27)	23
Nontaxable investment securities	(5)	1	(4)
Interest bearing deposits	0	0	0
Federal funds sold	(1)	0	(1)
Total Interest Income	(301)	45	(256)
Interest Expense			
Demand deposits	0	(2)	(2)
Savings deposits	1	(12)	(11)
Time deposits	(48)	(304)	(352)
Borrowings	(33)	6	(27)
Total Interest Expense	(80)	(312)	(392)
Net Interest Income	$ (221)	$ 357	$ 136

The table below sets forth an analysis of net interest income for the three month periods ended March 31, 2012 and 2011 (Average balances and interest/expense shown in thousands of dollars):

	2012				2011			
	Average Balance (2)	Income/ Expense		Rate (1)	Average Balance (2)	Income/ Expense		Rate (1)
Earning Assets								
Loans (3)	$ 305,988	$ 4,882	(4)	6.38%	$ 327,633	$ 5,156	(4)	6.29%
Taxable investment securities	37,523	149		1.59%	24,863	126		2.03%
Non-taxable investment securities	1,576	15		3.81%	2,148	19		3.54%
Interest bearing deposits	2,802	1		0.14%	3,988	1		0.10%
Federal funds sold	7,278	3		0.16%	8,792	4		0.18%
Total Earning Assets	$ 355,167	$ 5,050		5.69%	$ 367,424	$ 5,306		5.79%
Allowance for loan losses	(6,130)				(5,574)			
Other non-earning assets	56,471				41,506			
Total Assets	$ 405,508				$ 403,356			
Interest Bearing Liabilities								
Demand deposits	$ 25,422	$ 5		0.08%	$ 23,062	$ 7		0.13%
Savings deposits	56,981	23		0.16%	54,253	34		0.25%
Time deposits	198,458	768		1.55%	210,987	1,120		2.12%
Long-term debt	6,640	81		4.88%	9,335	108		4.63%
Total Interest Bearing Liabilities	$ 287,501	$ 877		1.22%	$ 297,637	$ 1,269		1.71%
Demand deposits	60,922				56,872			
Other liabilities	16,288				8,251			
Stockholders' equity	40,797				40,596			
Total liabilities and stockholders' equity	$ 405,508				$ 403,356			
Net Interest Income		$ 4,173				$ 4,037		
Net Interest Margin				4.70%				4.39%

Notes:

(1) Yields are computed on a taxable equivalent basis using a 30% tax rate

(2) Average balances are based upon daily balances

(3) Includes loans in non-accrual status

(4) Income on loans includes fees

Provision for Loan Losses

Provision for loan losses decreased $70,000 or 12.0% for the first three months of 2012 compared to the same period during 2011. Management believes the current level of the allowance for loan losses represents a fair assessment of the losses inherent in the loan portfolio.

Non-interest Income

Non-interest income increased $6,000 in the first three months of 2012 as compared to the same period in 2011.

Service charges on deposit accounts decreased 5.5%. The largest portion of these charges is non-sufficient funds fees on non-interest bearing transaction accounts.

Life insurance investment income increased 3.0% during the first three months of 2012 compared to the same period in 2011.

Other non-interest income increased $22,000 or 26.5% during the first three months of 2012 compared to the same period in 2011. This increase is the result of insurance settlement payments received due to claims relating to non-bank debit card fraud.

Non-interest Expense

Non-interest expenses were basically the same for the first three months of 2012 as compared to the same period in 2011.

Changes in salary and benefits expense

The following table compares the components of salary and benefits expense for the three month periods ended March 31, 2012 and 2011 (in thousands of dollars):

Salary and Benefits Expense

	2012	2011	Increase (Decrease)
Employee salaries	$ 1,128	$ 1,112	$ 16
Employee benefit insurance	302	320	(18)
Payroll taxes	104	70	34
Deferred loan origination costs	(12)	(47)	35
Non-recurring post retirement adjustment	0	(70)	70
Post retirement plans	182	230	(48)
Total	$ 1,704	$ 1,615	$ 89

The increase of 5.5% in employee related cost for the first three months of 2012 compared to the same period during 2011 is the result of the implementation of the Financial Accounting Standard ASC 310-20 Nonrefundable Fees and Other Costs, the non-recurring post retirement adjustment made during the first three months of 2011, somewhat offset by reductions in post retirement expenses. The Company began deferral of costs associated with loan origination at the beginning of 2011, upon determination that its impact was becoming material, and is amortizing the cost over the life of the loan.

Changes in data processing expense

Data processing expense increased $11,000 or 3.7% for the first three months of 2012 compared to the same period in 2011. The increase was driven by additional services provided by the Company's core system vendor during 2012.

Changes in occupancy and equipment expense

The following table illustrates the components of occupancy and equipment expense for the three month periods ended March 31, 2012 and 2011 (in thousands of dollars):

	2012	2011	Increase (Decrease)
Depreciation of buildings and equipment	$ 179	$ 196	$ (17)
Maintenance expense on buildings and equipment	82	84	(2)
Utilities expense	41	47	(6)
Real estate and personal property tax	23	29	(6)
Other expense related to occupancy and equipment	24	25	(1)
Total occupancy and equipment expense	$ 349	$ 381	$ (32)

The decreases in occupancy and equipment expenses during the first three months of 2012 are primarily related to the decrease in depreciation expense.

Changes in miscellaneous non-interest expense

Director fees decreased in the first three months of 2012 compared to the same period during 2011 by $15,000 or 14.9% from $101,000 during 2011 to $86,000 during 2012 driven by a reduction in the number of board members and fees paid per meeting.

Legal and professional fees decreased in the first three months of 2012 compared to the same period during 2011 by $2,000 or 1.6% from $124,000 during 2011 to $122,000 during 2012.

Office supplies, postage and freight expenses decreased in the first three months of 2012 compared to the same period during 2011 by $21,000 or 22.8% from $92,000 during 2011 to $71,000 during 2012 largely driven by the reduction of courier services between branches and savings related to on-line statement program implemented at one of the Company's subsidiary banks.

FDIC premium expense decreased in the first three months of 2012 compared to the same period during 2011 by $60,000 or 36.1% from $166,000 during 2011 to $106,000 during 2012 driven by rate changes.

Loan and foreclosed asset expenses increased 48.8% or $59,000 during the first three months of 2012 compared to the same period in 2011 due to expenses related to obtaining updated appraisals as well as valuation adjustment driven by the declined appraised value of some foreclosed properties.

Other non-interest expense decreased $30,000 or 13.5% during the first three months of 2012 compared to the same period in 2011.

The table below illustrates components of other non-interest expense for the three month periods ended March 31, 2012 and 2011 (in thousands of dollars). Significant individual components of other non-interest expense are itemized.

	2012	2011	Increase (Decrease)
ATM expense	(28)	(25)	(3)
Amortization of intangible assets	47	46	1
Advertising and marketing expense	37	34	3
Miscellaneous components of other non interest expense	136	167	(31)
Total	$ 192	$ 222	$ (30)

Provision for taxes

The provision for taxes has increased $70,000 for the first three months of 2012 compared to the same period in 2011 as a result of the 26.3% increase in income before provision for income taxes.

Borrowed Funds

The Company borrows funds from the Federal Home Loan Bank ("FHLB") to reduce market rate risks or to provide operating liquidity. Management typically will initiate these borrowings in response to a specific need for managing market risks or for a specific liquidity need and will attempt to match features of these borrowings to best suit the specific need. Therefore, the borrowings on the Company's balance sheet as of March 31, 2012 and throughout the periods ended March 31, 2012 and December 31, 2011 have varying features of amortization or single payment with periodic, regular interest payments and also have interest rates which vary based on the terms and on the features of the specific borrowing.

Liquidity

Operating liquidity is the ability to meet present and future financial obligations. Short term liquidity is provided primarily through cash balances, deposits with other financial institutions, federal funds sold, non-pledged securities and loans maturing within one year. Additional sources of liquidity available to the Company include, but are not limited to, loan repayments, the ability to obtain deposits through the adjustment of interest rates and the purchasing of federal funds. To further meet its liquidity needs, the Company also maintains lines of credit with correspondent financial institutions, the Federal Reserve Bank of Richmond and the Federal Home Loan Bank of Pittsburgh.

Historically, the Company's primary need for additional levels of operational liquidity has been to fund increases in loan balances. The Company has normally funded increases in loans by increasing deposits and with decreases in liquid assets such as balances of federal funds sold and balances of securities. The Company also utilizes existing borrowing facilities for additional levels of operating liquidity. In choosing which sources of operating liquidity to utilize, management evaluates the implications of each liquidity source and its impact on profitability, balance sheet stability and potential future liquidity needs.

The parent Company's operating funds, funds with which to pay shareholder dividends and funds for the exploration of new business ventures have been supplied primarily through dividends paid by the Company's subsidiary banks Capon Valley Bank (CVB) and The Grant County Bank (GCB). The various regulatory authorities impose restrictions on dividends paid by a state bank. A state bank cannot pay dividends without the consent of the relevant banking authorities in excess of the total net profits of the current year and the combined retained profits of the previous two years. As of March 31, 2012, the subsidiary banks could pay dividends to Highlands Bankshares, Inc. of approximately $2,391,000 without permission of the regulatory authorities.

Capital

The Company seeks to maintain a strong capital base to expand facilities, promote public confidence, support current operations and grow at a manageable level. As of March 31, 2012, the Company was above the regulatory minimum levels of capital. The table below summarizes the capital ratios for the Company and its subsidiary banks as of March 31, 2012 and December 31, 2011:

	March 31, 2012		December 31, 2011	
	Actual Ratio	Regulatory Minimum	Actual Ratio	Regulatory Minimum
Total Risk Based Capital Ratio				
Highlands Bankshares	15.61%	8.00%	15.17%	8.00%
Capon Valley Bank	13.38%	8.00%	13.16%	8.00%
The Grant County Bank	15.68%	8.00%	15.31%	8.00%
Tier 1 Leverage Ratio				
Highlands Bankshares	10.41%	4.00%	10.22%	4.00%
Capon Valley Bank	8.73%	4.00%	8.50%	4.00%
The Grant County Bank	11.01%	4.00%	10.55%	4.00%
Tier 1 Risk Based Capital Ratio				
Highlands Bankshares	14.35%	4.00%	13.91%	4.00%
Capon Valley Bank	12.12%	4.00%	11.90%	4.00%
The Grant County Bank	14.43%	4.00%	14.06%	4.00%

Effects of Inflation

Inflation primarily affects industries having high levels of property, plant and equipment or inventories. Although the Company is not significantly affected in these areas, inflation does have an impact on the growth of assets. As assets grow rapidly, it becomes necessary to increase equity capital at proportionate levels to maintain the appropriate equity to asset ratios. Traditionally, the Company's earnings and high capital retention levels have enabled the Company to meet these needs. The Company's reported earnings results have been minimally affected by inflation. The different types of income and expense are affected in various ways. Interest rates are affected by inflation, but the timing and magnitude of the changes may not coincide with changes in the consumer price index. Management actively monitors interest rate sensitivity in order to minimize the effects of inflationary trends on interest rates. Other areas of non-interest expenses may be more directly affected by inflation.

Legislative Developments

Dodd-Frank Wall Street Reform and Consumer Protection Act

On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act"). The Act will result in sweeping financial regulatory reform aimed at strengthening the nation's financial services sector.

The Act's provisions that have received the most public attention generally have been those applying to larger institutions or institutions that engage in practices in which we do not engage. These provisions include growth restrictions, credit exposure limits, higher prudential standards, prohibitions on proprietary trading, and prohibitions on sponsoring and investing in hedge funds and private equity funds.

However, the Act contains numerous other provisions that likely will directly impact us and our banking subsidiaries. These include increased fees payable by banks to regulatory agencies, new capital guidelines for banks and bank holding companies, permanently increasing the FDIC insurance coverage from $100,000 to $250,000 per depositor, new liquidation procedures for banks, new regulations affecting consumer financial products, new corporate governance disclosures and requirements, and the increased cost of supervision and compliance more generally. Many aspects of the law are subject to rulemaking by various government agencies and will take effect over several years. This time table, combined with the

Act's significant deference to future rulemaking by various regulatory agencies, makes it difficult for us to anticipate the Act's overall financial, competitive and regulatory impact on us, our customers, and the financial industry more generally.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Not required for smaller reporting companies.

Item 4. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of March 31, 2012. Based on this evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures are effective as of March 31, 2012. The Company has established procedures undertaken during the normal course of business in an effort to reasonably ensure that fraudulent activity of either an amount material to these results or in any amount is not occurring.

Changes in Internal Controls

During the period reported upon, there were no significant changes in internal controls of Highlands Bankshares, Inc. pertaining to its financial reporting and control of its assets or in other factors that materially affected or are reasonably likely to materially affect such control.

PART II OTHER INFORMATION

Item 1. Legal Proceedings

Management is not aware of any material pending or threatened litigation in which the Company or its subsidiaries may be involved as a defendant. In the normal course of business, the banks periodically must initiate suits against borrowers as a final course of action in collecting past due loans. In addition, to management's knowledge, no governmental authorities have initiated or contemplated legal action against the Company.

Item 1A. Risk Factors

Not required for smaller reporting companies.

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

None

Item 3. Defaults Upon Senior Securities

None

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

EXHIBIT INDEX

Exhibit Number	Description
3(i)	Articles of Incorporation of Highlands Bankshares, Inc., as restated, are hereby incorporated by reference to Exhibit 3(i) to Highlands Bankshares Inc.'s Form 10-Q filed November 13, 2007.
3(ii)	Amended Bylaws of Highlands Bankshares, Inc. are incorporated by reference to Exhibit 3(ii) to Highlands Bankshares Inc.'s Report on Form 8-K filed January 9, 2008.
31.1	Certification of Chief Executive Officer Pursuant to section 302 of the Sarbanes-Oxley Act of 2002 Chapter 63, Title 18 USC Section 1350 (A) and (B).
31.2	Certification of Chief Financial Officer Pursuant to section 302 of the Sarbanes-Oxley Act of 2002 Chapter 63, Title 18 USC Section 1350 (A) and (B).
32.1	Statement of Chief Executive Officer Pursuant to 18 U.S.C. §1350.
32.2	Statement of Chief Financial Officer Pursuant to 18 U.S.C. §1350.
101.INS	XBRL Instance Document (1)
101.SCH	XBRL Taxonomy Extension Schema Document (1)
101.CAL	XBRL Taxonomy Extension Calculation Linkbase (1)
101.LAB	XBRL Taxonomy Extension Label Linkbase (1)
101.PRE	XBRL Taxonomy Extension Presentation Linkbase (1)
101.DEF	XBRL Taxonomy Extension Definitions Linkbase (1)

Signatures

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

HIGHLANDS BANKSHARES, INC.

/s/ John G. Van Meter
John G. Van Meter
Chairman of the Board, President & Chief Executive Officer

/s/ Jeffrey B. Reedy
Jeffrey B. Reedy
Chief Financial Officer

May 15, 2012

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER
Pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Chapter 63, Title 18 USC Section 1350 (A) and (B)

I, John G. Van Meter, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highlands Bankshares, Inc;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John G. Van Meter
John G. Van Meter, Chairman of the Board, President &
Chief Executive Officer

May 15, 2012

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER
Pursuant to section 302 of the Sarbanes-Oxley Act of 2002
Chapter 63, Title 18 USC Section 1350 (A) and (B)

I, Jeffrey B. Reedy, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highlands Bankshares, Inc;

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

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

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

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for internal purposes in accordance with generally accepted accounting principles;
   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jeffrey B. Reedy
Jeffrey B. Reedy, Chief Financial Officer

May 15, 2012

Exhibit 32.1

Statement of Chief Executive Officer Pursuant to 18 U.S.C. § 1350

In connection with the Quarterly Report of Highlands Bankshares, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, as the chief executive officer of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ John G. Van Meter
John G. Van Meter, Chairman of the Board, President & Chief Executive Officer

May 15, 2012

Exhibit 32.2

Statement of Chief Financial Officer Pursuant to 18 U.S.C. § 1350

In connection with the Quarterly Report of Highlands Bankshares, Inc. (the "Company") on Form 10-Q for the period ending March 31, 2012, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), the undersigned, as the Principal financial officer of the Company, certifies, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

/s/ Jeffrey B. Reedy
Jeffrey B. Reedy
Chief Financial Officer

May 15, 2012