



Highlands Bankshares, Inc.
Quarterly Financial Results
(Unaudited)
As of March 31, 2016

Highlands Bankshares, Inc

(Unaudited)

March 31, 2016

Highlands Bankshares, Inc. (HBSI) is a registered bank holding company incorporated under the laws of West Virginia. It is the parent company of The Grant County Bank, Capon Valley Bank, and HBI Life Insurance Company. Highlands Bankshares, Inc. operates community banking in West Virginia and Virginia from 12 locations.

The accounting and reporting policies of Highlands Bankshares, Inc. and its subsidiaries (collectively, the Company) conform to accounting principles generally accepted in the United States of America. The consolidated financial statements included herein are for Highlands Bankshares, Inc. and its subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

The accompanying interim consolidated financial statements have been prepared under the presumption that users of the interim consolidated financial information have either read or have access to the audited consolidated financial statements of Highlands Bankshares, Inc. and subsidiaries for the year ended December 31, 2015.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period. These estimates are based on information available to management at the time the estimates are made.

The unaudited consolidated financial statements as of March 31, 2016 include, in the opinion of management, all adjustments, consisting solely of normal recurring adjustments, necessary for a fair presentation of the financial results for the respective interim periods and are not necessarily indicative of results of operations to be expected for the entire fiscal year.

The Company's critical accounting policies are unchanged since December 31, 2015.

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

	<u>March 31, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Cash and due from banks	\$ 7,623	\$ 6,632
Interest bearing deposits in banks	6,269	6,226
Federal funds sold	4,002	2,764
Investment securities available for sale	36,887	37,544
Restricted investments, at cost	871	822
Loans	321,143	319,366
Allowance for loan losses	(3,649)	(3,655)
Bank premises and equipment, net of depreciation	8,551	8,483
Interest receivable	1,329	1,274
Investment in life insurance contracts	8,435	8,367
Foreclosed assets, net of valuation allowance	3,803	4,194
Goodwill	1,534	1,534
Other intangible assets, net of amortization	2	3
Other assets	3,664	4,246
Total Assets	<u><u>\$ 400,464</u></u>	<u><u>\$ 397,800</u></u>
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 75,081	\$ 75,419
Interest bearing transaction and savings accounts	103,038	101,260
Time deposits over \$100,000	60,073	60,127
All other time deposits	98,079	99,007
Total Deposits	<u>336,271</u>	<u>335,813</u>
Long term debt instruments	7,588	6,058
Other short term borrowing	-	-
Accrued expenses and other liabilities	6,965	6,942
Total Liabilities	<u><u>\$ 350,824</u></u>	<u><u>\$ 348,813</u></u>
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	46,839	46,303
Other accumulated comprehensive loss	(2,673)	(2,790)
Total Stockholders' Equity	<u><u>\$ 49,640</u></u>	<u><u>\$ 48,987</u></u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 400,464</u></u>	<u><u>\$ 397,800</u></u>

The accompanying notes are an integral part of these financial statements

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

	Three Months Ended March 31,	
	2016	2015
	<u>(unaudited)</u>	<u>(unaudited)</u>
Interest Income		
Interest and fees on loans	\$ 4,310	\$ 4,164
Interest on federal funds sold	4	5
Interest on deposits in other banks	20	17
Interest and dividends on securities	172	184
Total Interest Income	<u>4,506</u>	<u>4,370</u>
Interest Expense		
Interest on deposits	406	435
Interest on borrowed money	39	29
Total Interest Expense	<u>445</u>	<u>464</u>
Net Interest Income	4,061	3,906
Provision for Loan Losses	2	(96)
Net Interest Income After Provision for Loan Losses	<u>4,059</u>	<u>4,002</u>
Non-interest Income		
Service charges	266	248
Life insurance investment income	68	66
Gains on securities transactions	7	0
Other non-interest income	225	147
Total Non-interest Income	<u>566</u>	<u>461</u>
Non-interest Expense		
Salaries and employee benefits	1,978	1,989
Occupancy and equipment expense	369	338
Data processing expense	333	350
Directors fees	103	84
Legal and professional fees	95	77
Office supplies, postage and freight expense	75	69
FDIC premiums	78	83
Loan and foreclosed asset expense	52	63
Losses on sale of foreclosed property	36	20
Losses on appraisal adjustments of other real estate	0	0
Other non-interest expense	210	247
Total Non-interest Expense	<u>3,329</u>	<u>3,320</u>
Income Before Provision For Income Taxes	1,296	1,143
Provision for Income Taxes	412	388
Net Income	<u>\$ 884</u>	<u>\$ 755</u>
Per Share Data		
Net Income	\$0.66	\$0.56
Cash Dividends	\$0.26	\$0.25
Weighted Average Common Shares Outstanding	1,336,873	1,336,873

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

	Three Months Ended March 31,	
	2016	2015
	<u>(unaudited)</u>	<u>(unaudited)</u>
Cash Flows From Operating Activities		
Net Income	\$ 884	\$ 755
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(7)	0
Losses on sale of foreclosed property	36	20
Depreciation	175	141
Income from life insurance contracts	(68)	(66)
Net amortization of securities premiums	56	79
Provision for loan losses	2	(96)
Amortization of intangibles	1	170
Decrease (increase) in interest receivable	(55)	26
Decrease in other assets	505	130
Increase in accrued expenses	23	169
Net Cash Provided by Operating Activities	<u>\$ 1,552</u>	<u>\$ 1,328</u>
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	387	541
Proceeds from paydowns of securities available for sale	696	772
Proceeds from sale and maturity of securities available for sale	523	3,225
Purchase of securities available for sale	(418)	(2,011)
Net decrease (increase) in other investments	(49)	13
Net (increase) in interest bearing deposits in other banks	(43)	(362)
Net (increase) in federal funds sold	(1,238)	(630)
Net (increase) in loans	(1,817)	(2,480)
Purchase of property and equipment	(243)	(338)
Net Cash (used in) Investing Activities	<u>\$ (2,202)</u>	<u>\$ (1,270)</u>
Cash Flows From Financing Activities		
Net (decrease) increase in time deposits	(982)	451
Net change in other deposit accounts	1,440	3,123
Additional long term borrowings	2,000	0
Additional (repayment of) long term borrowings	(469)	(257)
Dividends paid in cash	(348)	(335)
Net Cash from Financing Activities	<u>\$ 1,641</u>	<u>\$ 2,982</u>
Net increase (decrease) in Cash and Cash Equivalents	991	3,040
Cash and Cash Equivalents, Beginning of Period	6,632	10,979
Cash and Cash Equivalents, End of Period	<u>\$ 7,623</u>	<u>\$ 14,019</u>
Supplemental Disclosures		
Cash paid for income taxes	\$ 0	\$ 0
Cash paid for interest	\$ 440	\$ 192
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 32	\$ 262

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