



Highlands Bankshares, Inc.
Quarterly Financial Results
(Unaudited)
As of June 30, 2016

Highlands Bankshares, Inc
(Unaudited)
June 30, 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. provides full service 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 June 30, 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 STATEMENTS OF INCOME
(In Thousands of Dollars, Except Per Share Data)

	Six Months Ended June 30,	
	2016	2015
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	\$ 8,587	\$ 8,470
Interest on federal funds sold	14	10
Interest on deposits in other banks	41	39
Interest and dividends on securities	350	355
Total Interest Income	8,992	8,874
Interest Expense		
Interest on deposits	794	857
Interest on borrowed money	82	56
Total Interest Expense	876	913
Net Interest Income	8,116	7,961
Provision for Loan Losses	4	(96)
Net Interest Income After Provision for Loan Losses	8,112	8,057
Non-interest Income		
Service charges	541	522
Life insurance investment income	129	132
Gains on security transactions	12	2
Other non-interest income	475	396
Total Non-interest Income	1,157	1,052
Non-interest Expense		
Salaries and employee benefits	3,880	3,949
Occupancy and equipment expense	655	649
Data processing expense	667	705
Directors fees	207	167
Legal and professional fees	188	196
Office supplies, postage and freight expense	120	157
FDIC premiums	156	165
Loan and foreclosed asset expense	117	137
Losses on sale of foreclosed property, net	39	33
Appraisal adjustments of other real estate owned	(1)	21
Other non-interest expense	449	553
Total Non-interest Expense	6,477	6,732
Income Before Provision For Income Taxes	2,792	2,377
Provision for Income Taxes	899	791
Net Income	\$ 1,893	\$ 1,586
Per Share Data		
Net Income	\$ 1.42	\$ 1.19
Cash Dividends	\$ 0.52	\$ 0.50
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 BALANCE SHEETS
(In Thousands of Dollars)

	June 30, 2016	December 31, 2015
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 9,323	\$ 6,632
Interest bearing deposits in banks	6,207	6,226
Federal funds sold	306	2,764
Investment securities available for sale, at fair value	37,471	37,544
Restricted investments, at cost	856	822
Loans	319,076	319,366
Allowance for loan losses	(3,490)	(3,655)
Bank premises and equipment, net of accumulated depreciation	8,842	8,483
Interest receivable	1,270	1,274
Investment in life insurance contracts	8,496	8,367
Foreclosed assets, net of valuation allowance	3,981	4,194
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	1	3
Other assets	3,921	4,246
Total Assets	\$ 397,794	\$ 397,800
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 75,368	\$ 75,419
Interest bearing transaction and savings accounts	104,253	101,260
Time deposits over \$100,000	57,499	60,127
All other time deposits	95,893	99,007
Total Deposits	333,013	335,813
Long term debt instruments	7,111	6,058
Accrued expenses and other liabilities	7,244	6,942
Total Liabilities	\$ 347,368	\$ 348,813
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	47,501	46,303
Other accumulated comprehensive loss	(2,549)	(2,790)
Total Stockholders' Equity	\$ 50,426	\$ 48,987
Total Liabilities and Stockholders' Equity	\$ 397,794	\$ 397,800

The accompanying notes are an integral part of these financial statements

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

	Six Months Ended June 30,	
	2016	2015
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Net Income	\$ 1,893	\$ 1,586
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(12)	(2)
Losses on sale of foreclosed property	39	33
Depreciation	293	426
Income from life insurance contracts	(129)	(132)
Net amortization of securities premiums	110	160
Provision for loan losses	4	(96)
Appraisal adjustments of other real estate owned	(1)	21
Amortization of intangibles	2	170
Decrease in interest receivable	4	28
Decrease in other assets	173	61
Increase in accrued expenses	302	240
Net Cash Provided by Operating Activities	\$ 2,678	\$ 2,495
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	399	1,099
Proceeds from paydowns of securities available for sale	1,377	1,563
Proceeds from sale and maturity of securities available for sale	4,451	4,225
Purchase of securities available for sale	(5,460)	(6,404)
Net decrease (increase) in other investments	(34)	23
Net decrease (increase) in interest bearing deposits in other banks	19	(596)
Net decrease (increase) in federal funds sold	2,458	(751)
Net (increase) in loans	(103)	(2,588)
Purchase of property and equipment	(652)	(500)
Net Cash Provided by (used in) Investing Activities	\$ 2,455	\$ (3,929)
Cash Flows From Financing Activities		
Net (decrease) in time deposits	(5,742)	(1,996)
Net change in other deposit accounts	2,942	2,850
Additional long term borrowings	2,106	0
Additional (repayment of) long term borrowings	(1,053)	(516)
Dividends paid in cash	(695)	(669)
Net Cash from Financing Activities	\$ (2,442)	\$ (331)
Net increase (decrease) in Cash and Cash Equivalents	2,691	(1,765)
Cash and Cash Equivalents, Beginning of Period	6,632	10,979
Cash and Cash Equivalents, End of Period	\$ 9,323	\$ 9,214
Supplemental Disclosures		
Cash paid for income taxes	\$ 662	\$ 557
Cash paid for interest	\$ 867	\$ 919
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 224	\$ 473

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