



Highlands Bankshares, Inc.
Quarterly Financial Results
As of September 30, 2019

Unaudited

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

	Nine Months Ending September 30,	
	<u>2019</u>	<u>2018</u>
Interest Income		
Interest and fees on loans	\$ 14,496	\$ 13,655
Interest on federal funds sold	137	66
Interest on deposits in other banks	143	69
Interest and dividends on securities	499	509
Total Interest Income	<u>15,275</u>	<u>14,299</u>
Interest Expense		
Interest on deposits	2,116	1,336
Interest on borrowed money	213	79
Total Interest Expense	<u>2,329</u>	<u>1,415</u>
Net Interest Income	12,946	12,884
Provision for Loan Losses	484	259
Net Interest Income After Provision for Loan Losses	<u>12,462</u>	<u>12,625</u>
Non-interest Income		
Service charges	966	831
Life insurance investment income	202	197
(Losses) on securities transactions	0	(11)
Other non-interest income	823	788
Total Non-interest Income	<u>1,991</u>	<u>1,805</u>
Non-interest Expense		
Salaries and employee benefits	6,140	5,925
Occupancy and equipment expense	1,174	1,142
Data processing expense	1,539	1,384
Directors fees	343	310
Legal and professional fees	378	310
Office supplies, postage and freight expense	170	159
FDIC premiums	93	93
Loan and foreclosed asset expense	324	220
(Gains) on sale of foreclosed property	(29)	(34)
Losses on appraisal adjustments of other real estate	252	288
Other non-interest expense	1,036	886
Total Non-interest Expense	<u>11,420</u>	<u>10,683</u>
Income Before Provision For Income Taxes	3,033	3,747
Provision for Income Taxes	602	836
Net Income	<u>\$ 2,431</u>	<u>\$ 2,911</u>
Per Share Data		
Net Income	\$1.82	\$2.18
Cash Dividends	\$1.35	\$1.20
Weighted Average Common Shares Outstanding	1,336,873	1,336,873

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

Preliminary Income Numbers - Final quarter to date numbers will not be available until after the audit committee meets.

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

	September 30, 2019	December 31, 2018
ASSETS		
Cash and due from banks	\$ 7,051	\$ 6,208
Interest bearing deposits in banks	13,192	9,774
Federal funds sold	5,285	4,725
Investment securities available for sale	25,018	26,641
Restricted investments, at cost	921	1,013
Loans	339,877	339,301
Allowance for loan losses	(3,153)	(3,356)
Bank premises and equipment, net of depreciation	11,986	11,629
Interest receivable	1,364	1,398
Investment in life insurance contracts	9,092	8,890
Foreclosed assets, net of valuation allowance	3,611	2,788
Goodwill	1,534	1,534
Other intangible assets, net of amortization	35	44
Other assets	2,957	2,604
Total Assets	\$ 418,770	\$ 413,193
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 87,247	\$ 87,734
Interest bearing transaction and savings accounts	116,121	114,385
Time deposits over \$250,000	19,793	17,089
All other time deposits	124,206	122,495
Total Deposits	347,367	341,703
Long term debt instruments	9,370	10,492
Other short term borrowing	-	-
Accrued expenses and other liabilities	7,671	7,718
Total Liabilities	\$ 364,408	\$ 359,913
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	52,556	51,930
Other accumulated comprehensive loss	(3,668)	(4,124)
Total Stockholders' Equity	\$ 54,362	\$ 53,280
Total Liabilities and Stockholders' Equity	\$ 418,770	\$ 413,193

The accompanying notes are an integral part of these financial statements

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

	Nine Months Ended September 30,	
	2019	2018
Cash Flows From Operating Activities		
Net Income	\$ 2,431	x 2,911
Adjustments to reconcile net income to net cash provided by operating activities		
Losses on securities transactions	0	11
(Gains) on sale of foreclosed property	(29)	x (34)
Loss on sale of assets	(0)	x 0
Depreciation	568	x 546
(Income) from life insurance contracts	(202)	x (197)
Net amortization of securities premiums	25	42
Provision for loan losses	484	x 259
Loss on Appraisal Adjustments	252	x 288
Deferred income tax benefit	0	x 0
Amortization of intangibles	9	x 6
(Increase) decrease in interest receivable	34	x (45)
(Increase) decrease in other assets	(594)	x 260
Increase (decrease) in accrued expenses	(47)	x 283
Net Cash Provided by Operating Activities	<u>2,931</u>	<u>4,330</u>
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	598	609
Proceeds from paydowns of securities available for sale	1,045	1,299
Proceeds from sale and maturity of securities available for sale	4,141	3,331
Purchase of securities available for sale	(2,892)	(2,595)
Net decrease (increase) in other investments	92	x 33
Net decrease (increase) in interest bearing deposits in other banks	(3,418)	x 1,214
Net (increase) in federal funds sold	(560)	x 3,983
Settlement on Insurance Contracts	0	1
Net (increase) in loans	(2,906)	(11,235)
Purchase of property and equipment	(925)	x (447)
Net Cash (Used in) Investing Activities	<u>\$ (4,825)</u>	<u>(3,807)</u>
Cash Flows From Financing Activities		
Net (decrease) in time deposits	4,415	x (2,417)
Net increase in other deposit accounts	1,249	x 3,611
Additional long term borrowing	0	x 1,200
Additional (repayment of) long term borrowings	(1,122)	x (1,082)
Additional (repayment of) short term debt	0	x 0
Dividends paid in cash	(1,805)	x (1,603)
Net Cash Provided by (Used in) Financing Activities	<u>\$ 2,737</u>	<u>(291)</u>
Net (decrease) in Cash and Cash Equivalents	843	232
Cash and Cash Equivalents, Beginning of Period	6,208	5,024
Cash and Cash Equivalents, End of Period	<u>\$ 7,051</u>	<u>\$ 5,256</u>
Supplemental Disclosures		
Cash paid for income taxes	\$ 932	724
Cash paid for interest	\$ 2,243	1,417
Noncash Investing and Financing Activities for other		
real estate acquired in settlement of loans	\$ 1,643	490

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

Highlands Bankshares, Inc

(Unaudited)

September 30, 2019

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, 2018.

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 September 30, 2019 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, 2018.