



Highlands Bankshares, Inc.
Quarterly Financial Results
As of March 31, 2019

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, | |
|---|-------------------------------------|--------------------|
| | 2019 | 2018 |
| | (unaudited) | (unaudited) |
| Interest Income | | |
| Interest and fees on loans | \$ 4,717 | \$ 4,414 |
| Interest on federal funds sold | 50 | 26 |
| Interest on deposits in other banks | 38 | 20 |
| Interest and dividends on securities | 150 | 164 |
| Total Interest Income | <u>4,955</u> | <u>4,624</u> |
| Interest Expense | | |
| Interest on deposits | 660 | 380 |
| Interest on borrowed money | 75 | 26 |
| Total Interest Expense | <u>735</u> | <u>406</u> |
| Net Interest Income | 4,220 | 4,218 |
| Provision for Loan Losses | 110 | 72 |
| Net Interest Income After Provision for Loan Losses | <u>4,110</u> | <u>4,146</u> |
| Non-interest Income | | |
| Service charges | 285 | 259 |
| Life insurance investment income | 67 | 65 |
| Other non-interest income | 264 | 231 |
| Total Non-interest Income | <u>616</u> | <u>555</u> |
| Non-interest Expense | | |
| Salaries and employee benefits | 2,056 | 1,989 |
| Occupancy and equipment expense | 392 | 385 |
| Data processing expense | 499 | 458 |
| Directors fees | 114 | 102 |
| Legal and professional fees | 127 | 101 |
| Office supplies, postage and freight expense | 58 | 56 |
| FDIC premiums | 32 | 32 |
| Loan and foreclosed asset expense | 51 | 67 |
| Losses on sale of foreclosed property, net | 36 | (22) |
| Appraisal adjustments of other real estate owned | 167 | 0 |
| Other non-interest expense | 314 | 263 |
| Total Non-interest Expense | <u>3,846</u> | <u>3,431</u> |
| Income Before Provision For Income Taxes | 880 | 1,270 |
| Provision for Income Taxes | 208 | 286 |
| Net Income | <u>\$ 672</u> | <u>\$ 984</u> |
| Per Share Data | | |
| Net Income | \$ 0.50 | \$ 0.74 |
| Cash Dividends | \$ 0.45 | \$ 0.30 |
| 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)

| | March 31, 2019 | December 31, 2018 |
|---|-----------------------|--------------------------|
| | (unaudited) | (audited) |
| ASSETS | | |
| Cash and due from banks | \$ 5,467 | \$ 6,208 |
| Interest bearing deposits in banks | 11,399 | 9,774 |
| Federal funds sold | 3,587 | 4,725 |
| Investment securities available for sale, at fair value | 26,935 | 26,641 |
| Restricted investments, at cost | 974 | 1,013 |
| Loans | 343,475 | 339,301 |
| Allowance for loan losses | (3,431) | (3,356) |
| Bank premises and equipment, net of accumulated depreciation | 11,910 | 11,629 |
| Interest receivable | 1,447 | 1,398 |
| Investment in life insurance contracts | 8,957 | 8,890 |
| Foreclosed assets, net of valuation allowance | 2,398 | 2,788 |
| Goodwill | 1,534 | 1,534 |
| Other intangible assets, net of accumulated amortization | 41 | 44 |
| Other assets | 2,325 | 2,604 |
| Total Assets | \$ 417,018 | \$ 413,193 |
| LIABILITIES | | |
| Deposits | | |
| Non-interest bearing deposits | \$ 87,221 | \$ 87,734 |
| Interest bearing transaction and savings accounts | 117,033 | 114,385 |
| Time deposits over \$250,000 | 18,554 | 17,089 |
| All other time deposits | 122,859 | 122,495 |
| Total Deposits | 345,667 | 341,703 |
| Long term debt instruments | 9,855 | 10,492 |
| Accrued expenses and other liabilities | 7,980 | 7,718 |
| Total Liabilities | \$ 363,502 | \$ 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 | 52,001 | 51,930 |
| Other accumulated comprehensive loss | (3,959) | (4,124) |
| Total Stockholders' Equity | \$ 53,516 | \$ 53,280 |
| Total Liabilities and Stockholders' Equity | \$ 417,018 | \$ 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)

| | Three Months Ended March 31, | |
|--|-------------------------------------|--------------------|
| | 2019 | 2018 |
| | (unaudited) | (unaudited) |
| Cash Flows From Operating Activities | | |
| Net Income | \$ 672 | \$ 984 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| (Gains) losses on sale of foreclosed property | 36 | (22) |
| Depreciation | 187 | 180 |
| Income from life insurance contracts | (67) | (65) |
| Net amortization of securities premiums | 9 | 17 |
| Provision for loan losses | 110 | 72 |
| Appraisal adjustments of other real estate owned | 167 | 0 |
| Amortization of intangibles | 3 | 1 |
| (Increase) decrease in interest receivable | (49) | 49 |
| Decrease in other assets | 192 | 379 |
| Increase (decrease) in accrued expenses | 262 | (86) |
| Net Cash Provided by Operating Activities | \$ 1,522 | \$ 1,509 |
| Cash Flows From Investing Activities | | |
| Proceeds from sale of foreclosed assets and fixed assets | 345 | 109 |
| Proceeds from paydowns of securities available for sale | 332 | 457 |
| Proceeds from sale and maturity of securities available for sale | 1,785 | 1,100 |
| Purchase of securities available for sale | (2,168) | (493) |
| Net decrease in other investments | 39 | 43 |
| Net (increase) in interest bearing deposits in other banks | (1,625) | (199) |
| Net decrease in federal funds sold | 1,138 | 975 |
| Net (increase) in loans | (4,367) | (2,997) |
| Purchase of property and equipment | (468) | (63) |
| Net Cash Provided by (used in) Investing Activities | \$ (4,989) | \$ (1,068) |
| Cash Flows From Financing Activities | | |
| Net (decrease) increase in time deposits | 1,829 | (5,693) |
| Net change in other deposit accounts | 2,135 | 5,711 |
| Additional (repayment of) long term borrowings | (637) | (352) |
| Dividends paid in cash | (601) | (400) |
| Net Cash from Financing Activities | \$ 2,726 | \$ (734) |
| Net increase in Cash and Cash Equivalents | (741) | (293) |
| Cash and Cash Equivalents, Beginning of Period | 6,208 | 5,024 |
| Cash and Cash Equivalents, End of Period | \$ 5,467 | \$ 4,731 |
| Supplemental Disclosures | | |
| Cash paid for interest | \$ 656 | \$ 397 |
| Noncash Investing and Financing Activities for other real estate acquired in settlement of loans | \$ 158 | \$ 275 |

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

Highlands Bankshares, Inc

(Unaudited)

March 31, 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 March 31, 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.