



Highlands Bankshares, Inc.
Quarterly Financial Results
(Unaudited)
As of June 30, 2017

PART I.
Item 1. Financial Statements

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

	Six Months Ended June 30,	
	2017	2016
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	\$ 8,636	\$ 8,587
Interest on federal funds sold	35	14
Interest on deposits in other banks	38	41
Interest and dividends on securities	347	350
Total Interest Income	<u>9,056</u>	<u>8,992</u>
Interest Expense		
Interest on deposits	720	794
Interest on borrowed money	70	82
Total Interest Expense	<u>790</u>	<u>876</u>
Net Interest Income	8,266	8,116
Provision for Loan Losses	161	4
Net Interest Income After Provision for Loan Losses	<u>8,105</u>	<u>8,112</u>
Non-interest Income		
Service charges	501	541
Life insurance investment income	119	129
Gains on security transactions	1	12
Other non-interest income	441	475
Total Non-interest Income	<u>1,062</u>	<u>1,157</u>
Non-interest Expense		
Salaries and employee benefits	4,023	3,880
Occupancy and equipment expense	681	655
Data processing expense	895	667
Directors fees	197	207
Legal and professional fees	183	188
Office supplies, postage and freight expense	103	120
FDIC premiums	64	156
Loan and foreclosed asset expense	119	117
Losses on sale of foreclosed property, net	75	39
Appraisal adjustments of other real estate owned	31	(1)
Other non-interest expense	477	449
Total Non-interest Expense	<u>6,848</u>	<u>6,477</u>
Income Before Provision For Income Taxes	2,319	2,792
Provision for Income Taxes	719	899
Net Income	<u>\$ 1,600</u>	<u>\$ 1,893</u>
Per Share Data		
Net Income	\$ 1.20	\$ 1.42
Cash Dividends	\$ 0.56	\$ 0.52
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, 2017	December 31, 2016
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 10,365	\$ 8,499
Interest bearing deposits in banks	6,150	4,923
Federal funds sold	3,097	3,299
Investment securities available for sale, at fair value	32,791	32,592
Restricted investments, at cost	831	853
Loans	323,424	326,812
Allowance for loan losses	(3,222)	(3,196)
Bank premises and equipment, net of accumulated depreciation	11,502	9,675
Interest receivable	1,289	1,290
Investment in life insurance contracts	8,730	8,611
Foreclosed assets, net of valuation allowance	3,263	3,600
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	4	5
Other assets	3,679	3,875
Total Assets	\$ 403,437	\$ 402,372
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 83,053	\$ 80,581
Interest bearing transaction and savings accounts	109,529	107,047
Time deposits over \$250,000	14,809	15,328
All other time deposits	131,160	134,143
Total Deposits	338,551	337,099
Long term debt instruments	6,407	6,895
Accrued expenses and other liabilities	6,392	7,429
Total Liabilities	\$ 351,350	\$ 351,423
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	49,440	48,588
Other accumulated comprehensive loss	(2,827)	(3,113)
Total Stockholders' Equity	\$ 52,087	\$ 50,949
Total Liabilities and Stockholders' Equity	\$ 403,437	\$ 402,372

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,	
	2017	2016
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Net Income	\$ 1,600	\$ 1,893
Adjustments to reconcile net income to net cash provided by operating activities		
Cash provided by operating activities		
(Gains) on securities transactions	(1)	(12)
Losses on sale of foreclosed property	75	39
Loss on sale of assets	12	0
Depreciation	304	293
Income from life insurance contracts	(119)	(129)
Net amortization of securities premiums	66	110
Provision for loan losses	161	4
Appraisal adjustments of other real estate owned	31	(1)
Amortization of intangibles	1	2
Decrease in interest receivable	1	4
Decrease in other assets	29	173
Increase (Decrease) in accrued expenses	(1,037)	302
Net Cash Provided by Operating Activities	\$ 1,123	\$ 2,678
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	301	399
Proceeds from paydowns of securities available for sale	1,112	1,377
Proceeds from sale and maturity of securities available for sale	5,818	4,451
Purchase of securities available for sale	(6,742)	(5,460)
Net (increase) decrease in other investments	22	(34)
Net (increase) in interest bearing deposits in other banks	(1,227)	19
Net decrease in federal funds sold	202	2,458
Net (increase) decrease in loans	3,183	(103)
Purchase of property and equipment	(2,142)	(652)
Net Cash Provided by (used in) Investing Activities	\$ 527	\$ 2,455
Cash Flows From Financing Activities		
Net (decrease) in time deposits	(3,502)	(5,742)
Net change in other deposit accounts	4,954	2,942
Additional long term borrowings	250	2,106
Additional (repayment of) long term borrowings	(738)	(1,053)
Dividends paid in cash	(748)	(695)
Net Cash from Financing Activities	\$ 216	\$ (2,442)
Net increase in Cash and Cash Equivalents	1,866	2,691
Cash and Cash Equivalents, Beginning of Period	8,499	6,632
Cash and Cash Equivalents, End of Period	\$ 10,365	\$ 9,323
Supplemental Disclosures		
Cash paid for income taxes	\$ 595	\$ 662
Cash paid for interest	\$ 797	\$ 867
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 70	\$ 224

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Highlands Bankshares, Inc

(Unaudited)

June 30, 2017

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, 2016.

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, 2017 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, 2016.