



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

PART I.**Item 1. Financial Statements****HIGHLANDS BANKSHARES, INC.
CONSOLIDATED STATEMENTS OF INCOME
(In Thousands of Dollars, Except Per Share Data)**

	Nine Months Ended September 30,	
	2017	2016
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	\$ 13,097	\$ 12,924
Interest on federal funds sold	56	20
Interest on deposits in other banks	63	62
Interest and dividends on securities	531	524
Total Interest Income	<u>13,747</u>	<u>13,530</u>
Interest Expense		
Interest on deposits	1,085	1,172
Interest on borrowed money	106	124
Total Interest Expense	<u>1,191</u>	<u>1,296</u>
Net Interest Income	12,556	12,234
Provision for Loan Losses	225	49
Net Interest Income After Provision for Loan Losses	<u>12,331</u>	<u>12,185</u>
Non-interest Income		
Service charges	762	824
Life insurance investment income	179	190
Gains on security transactions	1	12
Other non-interest income	725	717
Total Non-interest Income	<u>1,667</u>	<u>1,743</u>
Non-interest Expense		
Salaries and employee benefits	5,983	5,792
Occupancy and equipment expense	1,059	1,002
Data processing expense	1,340	1,119
Directors fees	296	306
Legal and professional fees	271	299
Office supplies, postage and freight expense	153	168
FDIC premiums	96	235
Loan and foreclosed asset expense	199	191
Losses on sale of foreclosed property, net	48	104
Appraisal adjustments of other real estate owned	39	66
Other non-interest expense	776	747
Total Non-interest Expense	<u>10,260</u>	<u>10,029</u>
Income Before Provision For Income Taxes	3,738	3,899
Provision for Income Taxes	1,170	1,248
Net Income	<u>\$ 2,568</u>	<u>\$ 2,651</u>
Per Share Data		
Net Income	\$ 1.92	\$ 1.98
Cash Dividends	\$ 0.84	\$ 0.80
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)

	September 30, 2017	December 31, 2016
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 11,181	\$ 8,499
Interest bearing deposits in banks	6,198	4,923
Federal funds sold	2,893	3,299
Investment securities available for sale, at fair value	31,298	32,592
Restricted investments, at cost	944	853
Loans	325,536	326,812
Allowance for loan losses	(3,255)	(3,196)
Bank premises and equipment, net of accumulated depreciation	11,733	9,675
Interest receivable	1,346	1,290
Investment in life insurance contracts	8,790	8,611
Foreclosed assets, net of valuation allowance	3,149	3,600
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	5	5
Other assets	3,770	3,875
Total Assets	\$ 405,122	\$ 402,372
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 84,588	\$ 80,581
Interest bearing transaction and savings accounts	108,486	107,047
Time deposits over \$250,000	14,300	15,328
All other time deposits	129,621	134,143
Total Deposits	336,995	337,099
Long term debt instruments	6,031	6,895
Other short term borrowing	3,000	0
Accrued expenses and other liabilities	6,436	7,429
Total Liabilities	\$ 352,462	\$ 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	50,033	48,588
Other accumulated comprehensive loss	(2,847)	(3,113)
Total Stockholders' Equity	\$ 52,660	\$ 50,949
Total Liabilities and Stockholders' Equity	\$ 405,122	\$ 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)

	Nine Months Ended September 30,	
	2017	2016
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Net Income	\$ 2,568	\$ 2,651
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(1)	(12)
Losses on sale of foreclosed property	48	104
Loss on sale of assets	11	0
Depreciation	495	443
Income from life insurance contracts	(179)	(190)
Net amortization of securities premiums	87	163
Provision for loan losses	225	49
Appraisal adjustments of other real estate owned	39	66
Amortization of intangibles	2	3
(Increase) Decrease in interest receivable	(56)	66
(Increase) in other assets	(51)	(212)
Increase (Decrease) in accrued expenses	(993)	228
Net Cash Provided by Operating Activities	\$ 2,195	\$ 3,359
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	636	767
Proceeds from paydowns of securities available for sale	1,654	2,815
Proceeds from sale and maturity of securities available for sale	6,718	7,507
Purchase of securities available for sale	(6,743)	(6,265)
Net (increase) in other investments	(91)	(16)
Net (increase) in interest bearing deposits in other banks	(1,275)	(83)
Net decrease in federal funds sold	406	689
Net (increase) decrease in loans	838	(2,791)
Purchase of property and equipment	(2,565)	(931)
Net Cash Provided by (used in) Investing Activities	\$ (422)	\$ 1,692
Cash Flows From Financing Activities		
Net (decrease) in time deposits	(5,550)	(7,970)
Net change in other deposit accounts	5,446	6,307
Additional long term borrowings	800	2,000
Additional (repayment of) long term borrowings	(1,664)	(1,360)
Additional (repayment of) short term borrowings	3,000	0
Dividends paid in cash	(1,123)	(1,070)
Net Cash from Financing Activities	\$ 909	\$ (2,093)
Net increase in Cash and Cash Equivalents	2,682	2,958
Cash and Cash Equivalents, Beginning of Period	8,499	6,632
Cash and Cash Equivalents, End of Period	\$ 11,181	\$ 9,590
Supplemental Disclosures		
Cash paid for income taxes	\$ 1,077	\$ 963
Cash paid for interest	\$ 1,189	\$ 1,301
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 272	\$ 643

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