



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

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

	Nine Months Ended September	
	2016	2015
	<u>(unaudited)</u>	<u>(unaudited)</u>
Interest Income		
Interest and fees on loans	\$ 12,924	\$ 12,698
Interest on federal funds sold	20	13
Interest on deposits in other banks	62	61
Interest and dividends on securities	524	534
Total Interest Income	<u>13,530</u>	<u>13,306</u>
Interest Expense		
Interest on deposits	1,172	1,275
Interest on borrowed money	124	82
Total Interest Expense	<u>1,296</u>	<u>1,357</u>
Net Interest Income	12,234	11,949
Provision for Loan Losses	49	(91)
Net Interest Income After Provision for Loan Losses	<u>12,185</u>	<u>12,040</u>
Non-interest Income		
Service charges	824	819
Life insurance investment income	190	199
Gains on securities transactions	12	2
Other non-interest income	717	621
Total Non-interest Income	<u>1,743</u>	<u>1,641</u>
Non-interest Expense		
Salaries and employee benefits	5,792	5,910
Occupancy and equipment expense	1,002	979
Data processing expense	1,119	1074
Directors fees	306	252
Legal and professional fees	299	292
Office supplies, postage and freight expense	168	236
FDIC premiums	235	239
Loan and foreclosed asset expense	191	207
Losses on sale of foreclosed property	104	42
Losses on appraisal adjustments of other real estate	66	61
Other non-interest expense	747	840
Total Non-interest Expense	<u>10,029</u>	<u>10,132</u>
Income Before Provision For Income Taxes	3,899	3,549
Provision for Income Taxes	1,248	1172
Net Income	<u>\$ 2,651</u>	<u>\$ 2,377</u>
Per Share Data		
Net Income	\$1.98	\$1.78
Cash Dividends	\$0.80	\$0.75
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)

	<u>September 30, 2016</u>	<u>December 31, 2015</u>
ASSETS		
Cash and due from banks	\$ 9,590	\$ 6,632
Interest bearing deposits in banks	6,309	6,226
Federal funds sold	2,075	2,764
Investment securities available for sale	34,192	37,544
Restricted investments, at cost	838	822
Loans	321,247	319,366
Allowance for loan losses	(3,437)	(3,655)
Bank premises and equipment, net of depreciation	8,971	8,483
Interest receivable	1,208	1,274
Investment in life insurance contracts	8,557	8,367
Foreclosed assets, net of valuation allowance	3,899	4,194
Goodwill	1,534	1,534
Other intangible assets, net of amortization	5	3
Other assets	3,815	4,246
Total Assets	<u><u>\$ 398,803</u></u>	<u><u>\$ 397,800</u></u>
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 78,234	\$ 75,419
Interest bearing transaction and savings accounts	104,752	101,260
Time deposits over \$100,000	57,228	60,127
All other time deposits	93,936	99,007
Total Deposits	<u>334,150</u>	<u>335,813</u>
Long term debt instruments	6,698	6,058
Other short term borrowing	-	-
Accrued expenses and other liabilities	7,170	6,942
Total Liabilities	<u><u>\$ 348,018</u></u>	<u><u>\$ 348,813</u></u>
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	47,884	46,303
Other accumulated comprehensive loss	(2,573)	(2,790)
Total Stockholders' Equity	<u><u>\$ 50,785</u></u>	<u><u>\$ 48,987</u></u>
Total Liabilities and Stockholders' Equity	<u><u>\$ 398,803</u></u>	<u><u>\$ 397,800</u></u>

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

Nine Months ended September 30,

	2016	2015
Cash Flows From Operating Activities		
Net Income	2,651	\$2,377
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	(12)	(2)
Losses on sale of foreclosed property	104	42
Loss on sale of assets		
Depreciation	443	434
Income from life insurance contracts	(190)	(199)
Net amortization of securities premiums	163	238
Provision for loan losses	49	(91)
Write-down on foreclosed assets	66	61
Deferred income tax benefit	0	0
Amortization of intangibles	3	128
Decrease in interest receivable	66	62
(Increase) decrease in other assets	(212)	330
Increase in accrued expenses	228	371
Net Cash Provided by Operating Activities	3,359	3,751
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	767	1,184
Proceeds from paydowns of securities available for sale	2,815	2,400
Proceeds from sale and maturity of securities available for sale	7,507	6,475
Purchase of securities available for sale	(6,265)	(9,715)
Net change in other investments	(16)	(281)
Net change in interest bearing deposits in other banks	(83)	(1,231)
Net change in federal funds sold	689	(3,252)
Net (increase) in loans	(2,791)	(5,616)
Purchase of property and equipment	(931)	(419)
Net Cash (Used in) Investing Activities	1,692	(10,455)
Cash Flows From Financing Activities		
Net change in time deposits	(7,970)	(3,978)
Net change in other deposit accounts	6,307	1,171
Additional long term borrowing	2,000	0
Additional (repayment of) long term borrowings	(1,360)	(76)
Additional (repayment of) short term debt	0	7,000
Dividends paid in cash	(1,070)	(1,003)
Net Cash Provided by (Used in) Financing Activities	(2,093)	3,114
Net (decrease) in Cash and Cash Equivalents	2,958	(3,590)
Cash and Cash Equivalents, Beginning of Period	6,632	10,979
Cash and Cash Equivalents, End of Period	9,590	\$7,389
Supplemental Disclosures		
Cash paid for income taxes	963	\$704
Cash paid for interest	1,301	\$1,371
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	643	\$757

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

Highlands Bankshares, Inc

(Unaudited)

September 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. 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, 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 September 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.