



Highlands Bankshares, Inc.
Quarterly Financial Results
(Unaudited)
As of March 31, 2018

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

	Three Months Ended March 31,	
	<u>2018</u>	<u>2017</u>
Interest Income		
Interest and fees on loans	\$ 4,414	\$ 4,253
Interest on federal funds sold	26	16
Interest on deposits in other banks	20	16
Interest and dividends on securities	164	158
Total Interest Income	<u>4,624</u>	<u>4,443</u>
Interest Expense		
Interest on deposits	380	358
Interest on borrowed money	26	36
Total Interest Expense	<u>406</u>	<u>394</u>
Net Interest Income	4,218	4,049
Provision for Loan Losses	72	64
Net Interest Income After Provision for Loan Losses	<u>4,146</u>	<u>3,985</u>
Non-interest Income		
Service charges	259	242
Life insurance investment income	65	59
Gains on securities transactions	0	1
Other non-interest income	231	228
Total Non-interest Income	<u>555</u>	<u>530</u>
Non-interest Expense		
Salaries and employee benefits	1,989	2,028
Occupancy and equipment expense	385	345
Data processing expense	458	453
Directors fees	102	102
Legal and professional fees	101	77
Office supplies, postage and freight expense	56	54
FDIC premiums	32	33
Loan and foreclosed asset expense	67	54
(Gains) losses on sale of foreclosed property	(22)	23
Losses on appraisal adjustments of other real estate	0	28
Other non-interest expense	263	216
Total Non-interest Expense	<u>3,431</u>	<u>3,413</u>
Income Before Provision For Income Taxes	1,270	1,102
Provision for Income Taxes	286	337
Net Income	<u>\$ 984</u>	<u>\$ 765</u>
Per Share Data		
Net Income	\$0.74	\$0.57
Cash Dividends	\$0.30	\$0.28
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, 2018	December 31, 2017
ASSETS		
Cash and due from banks	\$ 4,731	\$ 5,024
Interest bearing deposits in banks	8,242	8,043
Federal funds sold	4,352	5,327
Investment securities available for sale	28,857	30,264
Restricted investments, at cost	764	807
Loans	331,756	329,118
Allowance for loan losses	(3,213)	(3,225)
Bank premises and equipment, net of depreciation	11,727	11,844
Interest receivable	1,347	1,396
Investment in life insurance contracts	8,692	8,627
Foreclosed assets, net of valuation allowance	3,438	3,250
Goodwill	1,534	1,534
Other intangible assets, net of amortization	28	29
Other assets	2,354	2,620
Total Assets	\$ 404,609	\$ 404,658
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 89,048	\$ 86,943
Interest bearing transaction and savings accounts	117,122	113,516
Time deposits over \$250,000	12,245	14,479
All other time deposits	122,445	125,904
Total Deposits	340,860	340,842
Long term debt instruments	4,616	4,968
Accrued expenses and other liabilities	7,089	7,175
Total Liabilities	\$ 352,565	\$ 352,985
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	50,830	50,246
Other accumulated comprehensive loss	(4,260)	(4,047)
Total Stockholders' Equity	\$ 52,044	\$ 51,673
Total Liabilities and Stockholders' Equity	\$ 404,609	\$ 404,658

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,	
	2018	2017
Cash Flows From Operating Activities		
Net Income	\$ 984	\$ 765
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) on securities transactions	0	(1)
(Gains) losses on sale of foreclosed property	(22)	23
Depreciation	180	153
Income from life insurance contracts	(65)	(59)
Net amortization of securities premiums	17	43
Provision for loan losses	72	64
Write-down on foreclosed assets	0	28
Amortization of intangibles	1	0
Decrease in interest receivable	49	37
Decrease in other assets	379	248
Increase (decrease) in accrued expenses	(86)	38
Net Cash Provided by Operating Activities	<u>\$ 1,509</u>	<u>\$ 1,339</u>
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	109	112
Proceeds from paydowns of securities available for sale	457	574
Proceeds from sale and maturity of securities available for sale	1,100	3,053
Purchase of securities available for sale	(493)	(5,403)
Net decrease (increase) in other investments	43	14
Net decrease (increase) in interest bearing deposits in other banks	(199)	(2,050)
Net (increase) in federal funds sold	975	(1,092)
Net (increase) decrease in loans	(2,997)	4,821
Purchase of property and equipment	(63)	(1,120)
Net Cash (Used in) Investing Activities	<u>\$ (1,068)</u>	<u>\$ (1,091)</u>
Cash Flows From Financing Activities		
Net (decrease) in time deposits	(5,693)	(1,908)
Net increase in other deposit accounts	5,711	2,321
Additional (repayment of) long term borrowings	(352)	(368)
Dividends paid in cash	(400)	(374)
Net Cash Provided by (Used in) Financing Activities	<u>\$ (734)</u>	<u>\$ (329)</u>
Net (decrease) in Cash and Cash Equivalents	(293)	(81)
Cash and Cash Equivalents, Beginning of Period	5,024	5,033
Cash and Cash Equivalents, End of Period	<u>\$ 4,731</u>	<u>\$ 4,952</u>
Supplemental Disclosures		
Cash paid for income taxes	\$ 0	\$ 0
Cash paid for interest	\$ 397	\$ 403
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 275	\$ 29

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

Highlands Bankshares, Inc

(Unaudited)

March 31, 2018

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, 2017.

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, 2018 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, 2017.