



Highlands Bankshares, Inc.  
Quarterly Financial Results  
(Unaudited)  
As of June 30, 2018

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

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
Interest Income		
Interest and fees on loans	\$ 8,971	\$ 8,636
Interest on federal funds sold	45	35
Interest on deposits in other banks	41	38
Interest and dividends on securities	335	347
Total Interest Income	<u>9,392</u>	<u>9,056</u>
Interest Expense		
Interest on deposits	813	720
Interest on borrowed money	48	70
Total Interest Expense	<u>861</u>	<u>790</u>
Net Interest Income	8,531	8,266
Provision for Loan Losses	151	161
Net Interest Income After Provision for Loan Losses	<u>8,380</u>	<u>8,105</u>
Non-interest Income		
Service charges	529	501
Life insurance investment income	131	119
Gains on security transactions	(11)	1
Other non-interest income	520	441
Total Non-interest Income	<u>1,169</u>	<u>1,062</u>
Non-interest Expense		
Salaries and employee benefits	3,982	4,023
Occupancy and equipment expense	762	681
Data processing expense	918	895
Directors fees	206	197
Legal and professional fees	204	183
Office supplies, postage and freight expense	108	103
FDIC premiums	63	64
Loan and foreclosed asset expense	141	119
Losses on sale of foreclosed property, net	(10)	75
Appraisal adjustments of other real estate owned	137	31
Other non-interest expense	557	477
Total Non-interest Expense	<u>7,068</u>	<u>6,848</u>
Income Before Provision For Income Taxes	2,481	2,319
Provision for Income Taxes	571	719
Net Income	<u>\$ 1,910</u>	<u>\$ 1,600</u>
Per Share Data		
Net Income	\$ 1.43	\$ 1.20
Cash Dividends	\$ 0.75	\$ 0.56
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)

	<b>June 30, 2018</b>	<b>December 31, 2017</b>
	<b>(unaudited)</b>	<b>(audited)</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 4,667	\$ 5,024
Interest bearing deposits in banks	9,744	8,043
Federal funds sold	1,587	5,327
Investment securities available for sale, at fair value	27,722	30,264
Restricted investments, at cost	794	807
Loans	338,867	329,118
Allowance for loan losses	(3,232)	(3,225)
Bank premises and equipment, net of accumulated depreciation	11,782	11,844
Interest receivable	1,375	1,396
Investment in life insurance contracts	8,757	8,627
Foreclosed assets, net of valuation allowance	3,247	3,250
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	50	29
Other assets	2,748	2,620
<b>Total Assets</b>	<b>\$ 409,642</b>	<b>\$ 404,658</b>
<b>LIABILITIES</b>		
<b>Deposits</b>		
Non-interest bearing deposits	\$ 89,894	\$ 86,943
Interest bearing transaction and savings accounts	116,565	113,516
Time deposits over \$250,000	13,702	14,479
All other time deposits	124,322	125,904
<b>Total Deposits</b>	<b>344,483</b>	<b>340,842</b>
Long term debt instruments	5,462	4,968
Accrued expenses and other liabilities	7,355	7,175
<b>Total Liabilities</b>	<b>\$ 357,300</b>	<b>\$ 352,985</b>
<b>STOCKHOLDERS' EQUITY</b>		
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	51,154	50,246
Other accumulated comprehensive loss	(4,286)	(4,047)
<b>Total Stockholders' Equity</b>	<b>\$ 52,342</b>	<b>\$ 51,673</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 409,642</b>	<b>\$ 404,658</b>

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

	<b>Six Months Ended June 30,</b>	
	<b>2018</b>	<b>2017</b>
	<b>(unaudited)</b>	<b>(unaudited)</b>
<b>Cash Flows From Operating Activities</b>		
Net Income	\$ 1,910	\$ 1,600
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) losses on securities transactions	11	(1)
(Gains) losses on sale of foreclosed property	(10)	75
Loss on sale of assets	0	12
Depreciation	362	304
Income from life insurance contracts	(131)	(119)
Net amortization of securities premiums	30	66
Provision for loan losses	151	161
Appraisal adjustments of other real estate owned	137	31
Amortization of intangibles	3	1
Decrease in interest receivable	21	1
(Increase) decrease in other assets	(21)	29
Increase (decrease) in accrued expenses	180	(1,037)
Net Cash Provided by Operating Activities	\$ 2,643	\$ 1,123
<b>Cash Flows From Investing Activities</b>		
Proceeds from sale of foreclosed assets and fixed assets	346	301
Proceeds from paydowns of securities available for sale	897	1,112
Proceeds from sale and maturity of securities available for sale	2,334	5,818
Purchase of securities available for sale	(1,101)	(6,742)
Net decrease in other investments	13	22
Net (increase) in interest bearing deposits in other banks	(1,701)	(1,227)
Net decrease in federal funds sold	3,740	202
Settlement on Insurance Contracts	1	0
Net (increase) decrease in loans	(10,362)	3,183
Purchase of property and equipment	(300)	(2,142)
Net Cash Provided by (used in) Investing Activities	\$ (6,133)	\$ 527
<b>Cash Flows From Financing Activities</b>		
Net (decrease) in time deposits	(2,359)	(3,502)
Net change in other deposit accounts	6,000	4,954
Additional long term borrowing	1,200	250
Additional (repayment of) long term borrowings	(706)	(738)
Dividends paid in cash	(1,002)	(748)
Net Cash from Financing Activities	\$ 3,133	\$ 216
Net increase in Cash and Cash Equivalents	(357)	1,866
Cash and Cash Equivalents, Beginning of Period	5,024	8,499
Cash and Cash Equivalents, End of Period	\$ 4,667	\$ 10,365
<b>Supplemental Disclosures</b>		
Cash paid for income taxes	\$ 661	\$ 595
Cash paid for interest	\$ 817	\$ 797
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 469	\$ 70

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

# Highlands Bankshares, Inc

(Unaudited)

June 30, 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 June 30, 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.