



Highlands Bankshares, Inc.
Quarterly Financial Results
As of June 30, 2019

Unaudited

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,	
	2019	2018
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	\$ 9,567	\$ 8,971
Interest on federal funds sold	94	45
Interest on deposits in other banks	86	41
Interest and dividends on securities	331	335
Total Interest Income	<u>10,078</u>	<u>9,392</u>
Interest Expense		
Interest on deposits	1,369	813
Interest on borrowed money	143	48
Total Interest Expense	<u>1,512</u>	<u>861</u>
Net Interest Income	8,566	8,531
Provision for Loan Losses	338	151
Net Interest Income After Provision for Loan Losses	<u>8,228</u>	<u>8,380</u>
Non-interest Income		
Service charges	602	529
Life insurance investment income	134	131
Gains on security transactions	0	(11)
Other non-interest income	536	520
Total Non-interest Income	<u>1,272</u>	<u>1,169</u>
Non-interest Expense		
Salaries and employee benefits	4,079	3,982
Occupancy and equipment expense	772	762
Data processing expense	1,024	918
Directors fees	226	206
Legal and professional fees	236	204
Office supplies, postage and freight expense	111	108
FDIC premiums	62	63
Loan and foreclosed asset expense	239	141
Gains on sale of foreclosed property, net	(29)	(10)
Appraisal adjustments of other real estate owned	175	137
Other non-interest expense	639	557
Total Non-interest Expense	<u>7,534</u>	<u>7,068</u>
Income Before Provision For Income Taxes	1,966	2,481
Provision for Income Taxes	471	571
Net Income	<u>\$ 1,495</u>	<u>\$ 1,910</u>
Per Share Data		
Net Income	\$ 1.12	\$ 1.43
Cash Dividends	\$ 0.90	\$ 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)

	June 30, 2019	December 31, 2018
	<u>(unaudited)</u>	<u>(audited)</u>
ASSETS		
Cash and due from banks	\$ 5,008	\$ 6,208
Interest bearing deposits in banks	14,434	9,774
Federal funds sold	4,996	4,725
Investment securities available for sale, at fair value	25,387	26,641
Restricted investments, at cost	949	1,013
Loans	339,538	339,301
Allowance for loan losses	(3,076)	(3,356)
Bank premises and equipment, net of accumulated depreciation	11,912	11,629
Interest receivable	1,459	1,398
Investment in life insurance contracts	9,025	8,890
Foreclosed assets, net of valuation allowance	3,648	2,788
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	38	44
Other assets	2,956	2,604
Total Assets	<u>\$ 417,808</u>	<u>\$ 413,193</u>
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 85,773	\$ 87,734
Interest bearing transaction and savings accounts	115,751	114,385
Time deposits over \$250,000	19,751	17,089
All other time deposits	124,102	122,495
Total Deposits	<u>345,377</u>	<u>341,703</u>
Long term debt instruments	10,014	10,492
Accrued expenses and other liabilities	8,438	7,718
Total Liabilities	<u>\$ 363,829</u>	<u>\$ 359,913</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	52,222	51,930
Other accumulated comprehensive loss	(3,717)	(4,124)
Total Stockholders' Equity	<u>\$ 53,979</u>	<u>\$ 53,280</u>
Total Liabilities and Stockholders' Equity	<u>\$ 417,808</u>	<u>\$ 413,193</u>

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,	
	2019	2018
	(unaudited)	(unaudited)
Cash Flows From Operating Activities		
Net Income	\$ 1,495	\$ 1,910
Adjustments to reconcile net income to net cash provided by operating activities		
(Gains) losses on securities transactions	0	11
(Gains) losses on sale of foreclosed property	(29)	(10)
Depreciation	376	362
Income from life insurance contracts	(134)	(131)
Net amortization of securities premiums	18	30
Provision for loan losses	338	151
Appraisal adjustments of other real estate owned	175	137
Amortization of intangibles	6	3
(Increase) decrease in interest receivable	(61)	21
(Increase) in other assets	(566)	(21)
Increase (decrease) in accrued expenses	720	180
Net Cash Provided by Operating Activities	\$ 2,338	\$ 2,643
Cash Flows From Investing Activities		
Proceeds from sale of foreclosed assets and fixed assets	597	346
Proceeds from paydowns of securities available for sale	718	897
Proceeds from sale and maturity of securities available for sale	4,031	2,334
Purchase of securities available for sale	(2,892)	(1,101)
Net decrease in other investments	64	13
Net (increase) in interest bearing deposits in other banks	(4,660)	(1,701)
Net (increase) decrease in federal funds sold	(271)	3,740
Settlement on Insurance Contracts	0	1
Net (increase) in loans	(2,458)	(10,362)
Purchase of property and equipment	(660)	(300)
Net Cash Provided by (used in) Investing Activities	\$ (5,531)	\$ (6,133)
Cash Flows From Financing Activities		
Net (decrease) increase in time deposits	4,269	(2,359)
Net change in other deposit accounts	(595)	6,000
Additional Long term debt	0	1,200
Additional (repayment of) long term borrowings	(478)	(706)
Dividends paid in cash	(1,203)	(1,002)
Net Cash from Financing Activities	\$ 1,993	\$ 3,133
Net increase in Cash and Cash Equivalents	(1,200)	(357)
Cash and Cash Equivalents, Beginning of Period	6,208	5,024
Cash and Cash Equivalents, End of Period	\$ 5,008	\$ 4,667
Supplemental Disclosures		
Cash paid for income taxes	\$ 793	\$ 661
Cash paid for interest	\$ 1,457	\$ 817
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$ 1,603	\$ 469

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Highlands Bankshares, Inc

(Unaudited)

June 30, 2019

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, 2018.

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, 2019 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, 2018.