



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

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,	
	2018	2017
	(unaudited)	(unaudited)
Interest Income		
Interest and fees on loans	\$ 13,655	\$ 13,097
Interest on federal funds sold	66	56
Interest on deposits in other banks	69	63
Interest and dividends on securities	509	531
Total Interest Income	<u>14,299</u>	<u>13,747</u>
Interest Expense		
Interest on deposits	1,336	1,085
Interest on borrowed money	79	106
Total Interest Expense	<u>1,415</u>	<u>1,191</u>
Net Interest Income	12,884	12,556
Provision for Loan Losses	259	225
Net Interest Income After Provision for Loan Losses	<u>12,625</u>	<u>12,331</u>
Non-interest Income		
Service charges	831	762
Life insurance investment income	197	179
Gains on security transactions	(11)	1
Other non-interest income	788	725
Total Non-interest Income	<u>1,805</u>	<u>1,667</u>
Non-interest Expense		
Salaries and employee benefits	5,925	5,983
Occupancy and equipment expense	1,142	1,059
Data processing expense	1,384	1,340
Directors fees	310	296
Legal and professional fees	310	271
Office supplies, postage and freight expense	159	153
FDIC premiums	93	96
Loan and foreclosed asset expense	220	199
Losses on sale of foreclosed property, net	(34)	48
Appraisal adjustments of other real estate owned	288	39
Other non-interest expense	886	776
Total Non-interest Expense	<u>10,683</u>	<u>10,260</u>
Income Before Provision For Income Taxes	3,747	3,738
Provision for Income Taxes	836	1,170
Net Income	<u>\$ 2,911</u>	<u>\$ 2,568</u>
Per Share Data		
Net Income	\$ 2.18	\$ 1.92
Cash Dividends	\$ 1.20	\$ 0.84
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, 2018	December 31, 2017
	(unaudited)	(audited)
ASSETS		
Cash and due from banks	\$ 5,256	\$ 5,024
Interest bearing deposits in banks	6,829	8,043
Federal funds sold	1,344	5,327
Investment securities available for sale, at fair value	27,708	30,264
Restricted investments, at cost	774	807
Loans	339,643	329,118
Allowance for loan losses	(3,264)	(3,225)
Bank premises and equipment, net of accumulated depreciation	11,745	11,844
Interest receivable	1,441	1,396
Investment in life insurance contracts	8,823	8,627
Foreclosed assets, net of valuation allowance	2,877	3,250
Goodwill	1,534	1,534
Other intangible assets, net of accumulated amortization	47	29
Other assets	2,507	2,620
Total Assets	\$ 407,264	\$ 404,658
LIABILITIES		
Deposits		
Non-interest bearing deposits	\$ 88,513	\$ 86,943
Interest bearing transaction and savings accounts	115,557	113,516
Time deposits over \$250,000	14,426	14,479
All other time deposits	123,540	125,904
Total Deposits	342,036	340,842
Long term debt instruments	5,086	4,968
Accrued expenses and other liabilities	7,458	7,175
Total Liabilities	\$ 354,580	\$ 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	51,554	50,246
Other accumulated comprehensive loss	(4,344)	(4,047)
Total Stockholders' Equity	\$ 52,684	\$ 51,673
Total Liabilities and Stockholders' Equity	\$ 407,264	\$ 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)

	Nine Months Ended September 30,	2018	2017
	(unaudited)	(unaudited)	(unaudited)
Cash Flows From Operating Activities			
Net Income	\$	2,911	\$ 2,568
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		(34)	48
Loss on sale of assets		0	11
Depreciation		546	495
Income from life insurance contracts		(197)	(179)
Net amortization of securities premiums		42	87
Provision for loan losses		259	225
Appraisal adjustments of other real estate owned		288	39
Amortization of intangibles		6	2
Decrease in interest receivable		(45)	(56)
(Increase) decrease in other assets		260	(51)
Increase (decrease) in accrued expenses		283	(993)
Net Cash Provided by Operating Activities	\$	<u>4,330</u>	\$ <u>2,195</u>
Cash Flows From Investing Activities			
Proceeds from sale of foreclosed assets and fixed assets		609	636
Proceeds from paydowns of securities available for sale		1,299	1,654
Proceeds from sale and maturity of securities available for sale		3,331	6,718
Purchase of securities available for sale		(2,595)	(6,743)
Net decrease (increase) in other investments		33	(91)
Net decrease (increase) in interest bearing deposits in other banks		1,214	(1,275)
Net decrease in federal funds sold		3,983	406
Settlement on Insurance Contracts		1	0
Net (increase) decrease in loans		(11,235)	838
Purchase of property and equipment		(447)	(2,565)
Net Cash Provided by (used in) Investing Activities	\$	<u>(3,807)</u>	\$ <u>(422)</u>
Cash Flows From Financing Activities			
Net (decrease) in time deposits		(2,417)	(5,550)
Net change in other deposit accounts		3,611	5,446
Additional long term borrowing		1,200	800
Additional (repayment of) long term borrowings		(1,082)	(1,664)
Additional (repayment of) short term borrowings		0	3,000
Dividends paid in cash		(1,603)	(1,123)
Net Cash from Financing Activities	\$	<u>(291)</u>	\$ <u>909</u>
Net increase in Cash and Cash Equivalents		232	2,682
Cash and Cash Equivalents, Beginning of Period		<u>5,024</u>	<u>8,499</u>
Cash and Cash Equivalents, End of Period	\$	<u><u>5,256</u></u>	\$ <u><u>11,181</u></u>
Supplemental Disclosures			
Cash paid for income taxes	\$	724	\$ 1,077
Cash paid for interest	\$	1,417	\$ 1,189
Noncash Investing and Financing Activities for other real estate acquired in settlement of loans	\$	490	\$ 272

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

Highlands Bankshares, Inc

(Unaudited)

September 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 September 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.