



March 31, 2014

Dear Shareholders:

You are cordially invited to attend the Annual Meeting of the Shareholders of Highlands Bankshares, Inc. on Tuesday, May 13, 2014, at 3:00 p.m., at The Grant County Bank, 1 North Main Street (the "Old Bank Building"), Petersburg, West Virginia.

Enclosed in this mailing you will find formal notice of the meeting, a proxy and a proxy statement detailing the matters upon which the shareholders will act at the Annual Meeting. Our Company's Annual Report for 2013 is also enclosed.

We urge you to complete, date and sign the proxy and return it as soon as possible in the enclosed postage prepaid envelope, even if you intend to attend the meeting. You may revoke your proxy at any time prior to its exercise.

Sincerely,

A handwritten signature in black ink that reads "John G. Van Meter". The signature is written in a cursive style with a large initial "J".

John G. Van Meter
Chairman of the Board

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Shareholders of Highlands Bankshares, Inc.

The annual meeting of shareholders of Highlands Bankshares, Inc. will be held on Tuesday, May 13, 2014, at 3:00 p.m., at The Grant County Bank, 1 North Main Street (the "Old Bank Building"), Petersburg, West Virginia, for the following purposes:

1. Election of four class A directors to serve until the annual meeting of shareholders in 2017.
2. Ratification of the appointment of Brown, Edwards & Company, LLP as independent registered public accountants for 2014.
3. Transaction of other business as may properly come before the meeting, or any adjournments thereof.

The Board of Directors recommends a vote in favor of the nominees for director and a vote in favor of the ratification of the appointment of the independent registered public accountants. Only shareholders of record at the close of business on March 31, 2014 are entitled to notice of and to vote at the annual meeting or any adjournments thereof.

To assure that your shares are represented at the annual meeting, please complete, date and sign the enclosed proxy, and return it as soon as possible in the enclosed postage prepaid envelope. You may revoke your proxy at any time prior to its exercise.

By Order of the Board of Directors



George L. Ford
Corporate Secretary

March 31, 2014

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HIGHLANDS BANKSHARES, INC.
P.O. Box 929 * Petersburg WV 26847 * (304) 257-4111

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies for use at the annual meeting of shareholders of Highlands Bankshares, Inc. ("Highlands" or the "Company") to be held Tuesday, May 13, 2014, at 3:00 p.m., at The Grant County Bank, 1 North Main Street (the "Old Bank Building"), Petersburg, West Virginia, and at any adjournments thereof ("Annual Meeting"). The accompanying proxy is solicited by the Board of Directors of the Company (the "Board"). The principal executive offices of the Company are located at 3 North Main Street, Petersburg, West Virginia 26847. The approximate mailing date of the proxy statement and the accompanying proxy is March 31, 2014.

The Company will bear the cost of soliciting proxies and will only make solicitations by the use of the mail, except that, if necessary, officers, directors and regular employees of the Company, or its affiliates, may solicit proxies by telephone or by personal calls. The Company may request brokerage houses and nominees to forward proxy solicitation material to the beneficial owners of the stock held of record by such persons, and the Company may reimburse them for their charges and expenses in doing so.

All properly executed proxies delivered pursuant to this solicitation will be voted at the Annual Meeting in accordance with any instructions thereon. A shareholder executing a proxy may revoke it at any time before it is voted by:

- Notifying Highlands in person,
- Giving written notice to Highlands of the revocation of the proxy,
- Submitting to Highlands a subsequently dated proxy, or
- Attending the meeting and withdrawing the proxy before it is voted at the meeting.

OUTSTANDING SHARES AND VOTING RIGHTS

Only shareholders of record at the close of business on March 31, 2014, will be entitled to vote at the Annual Meeting. As of that date, the Company had outstanding 1,336,873 shares of its common stock, \$5 par value, each of which is entitled to one vote at the Annual Meeting. Cumulative voting rights are available, in certain instances, for the election of directors, as further described in this proxy statement.

Any number of shareholders holding together a majority of the stock outstanding, who are either present in person or represented by proxy at the Annual Meeting, shall constitute a quorum. If a share is represented for any purpose at the Annual Meeting, it is deemed to be present for purposes of establishing a quorum. Abstentions and shares held of record by a broker or its nominee, which are voted on any matter, are included in determining the number of votes present or represented at the Annual Meeting. Conversely, broker shares that are not voted on any matter will not be included in determining whether a quorum is present.

If a quorum is established, directors will be elected by a plurality of the votes cast by shareholders in person or by proxy at the Annual Meeting. As required by West Virginia law, each share is entitled to one vote per nominee, unless a shareholder requests cumulative voting at least 48 hours before the meeting. Ratification of the appointment of the independent public accountants will be approved if the votes cast in favor exceed the votes cast opposing. Votes that are withheld and broker shares that are not voted will not be included in determining the number of votes cast.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the name and address of and the number and percentage of shares of common stock held as of March 31, 2014 by each of the Company's directors, director nominees and Highlands' executive officers and by all of the Company's directors, director nominees and executive officers as a group. To the best of the Company's knowledge, no person is the beneficial owner of more than 5% of the Company's common stock.

Name	Position with Company	Amount Beneficially Owned	Percent of Class
John G. Van Meter	Director; Chairman	54,063	4.0%
Jack H. Walters	Director; Vice Chairman	10,524	*
Alan L. Brill	Director; Treasurer	4,122	*
George L. Ford	Director; Secretary	1,926	*
Leslie A. Barr	Director	6,876	*
Morris M. Homan, Jr.	Director	1,890	*
Gerald W. Smith	Director	3,282	*
Kathy G. Kimble	Director	4,596	*
Donald J. Baker, Jr.	Director	2,082	*
Jack C. Barr	Director	1,400	*
All of the directors, director nominees and executive officers of the Company, as a group		90,764	6.8%

An asterisk denotes less than 1% of class.
Further notes regarding ownership are on the following page.

NOTES TO SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Mr. Van Meter's beneficial ownership includes 26,933 shares owned directly and 27,130 shares held by his wife over which he holds no voting or dispositive powers. Mr. Van Meter disclaims beneficial ownership of the shares held by his wife.

Mr. Walters' beneficial ownership includes 10,524 shares owned directly.

Mr. Brill's beneficial ownership includes 363 shares owned directly and 1,547 shares owned jointly with his wife and 2,212 shares held in Mr. Brill's behalf through the Company's Employee Stock Ownership Program.

Mr. Leslie Barr's beneficial ownership includes 2,820 shares owned directly, 3,300 shares owned jointly with his wife and 756 shares held by his wife over which he holds no voting or dispositive powers.

Mr. Homan's beneficial ownership includes 1,890 shares owned directly.

Mr. Smith's beneficial ownership includes 540 shares owned directly and 2,742 shares owned jointly with his wife.

Ms. Kimble's beneficial ownership includes 3,051 shares owned directly and 1,545 shares held jointly with her husband.

Mr. Ford's beneficial ownership includes 550 shares owned directly and 180 shares owned jointly with his wife and 996 shares held in Mr. Ford's behalf through the Company's Employee Stock Ownership Program and 200 shares held by his wife over which he holds no voting or dispositive powers. Mr. Ford disclaims beneficial ownership of the shares held by his wife.

Mr. Baker's beneficial ownership includes 300 shares owned directly and 1,782 shares owned jointly with his wife.

Mr. Jack Barr's beneficial ownership includes 400 shares owned directly and 1,000 shares owned jointly with his wife.

PROPOSAL ONE

ELECTION OF DIRECTORS

General

Highlands Articles of Incorporation currently provide for a classified board of directors. There are three classes. Each class is elected for a three-year term. There are presently 10 directors on the Board, four of whom are nominees for election at the 2014 Annual Meeting.

Directors are elected by a plurality of the shares voted. As required by West Virginia law, each share is entitled to one vote per nominee, unless a shareholder requests cumulative voting for directors at least 48 hours before the meeting. If a shareholder properly requests cumulative voting for directors, then each shareholder will have the right to vote the number of shares owned by that shareholder for as many persons as there are directors to be elected, or to cumulate such shares and give one candidate as many votes as the number of directors multiplied by the number of shares owned shall equal, or to distribute them on the same principle among as many candidates as the shareholder sees fit. If any shares are voted cumulatively for the election of directors, the proxies, unless otherwise directed, shall have full discretion and authority to cumulate their votes and vote for less than all such nominees. For all other purposes, each share is entitled to one vote.

Leadership

Currently, the roles of non-executive Chairman of the Board and CEO of the Company are combined. The Board and executive management have agreed that due to the Board and management oversight at the subsidiary level the combination of the Chairman and CEO is economically beneficial at this time. The Board retains the right to exercise its judgment to combine or separate the roles of Chairman of the Board and CEO. The Company believes that the Chairman of the Board, Mr. John G. Van Meter, has significant leadership experience, including executive experience in both business and banking, that positions him well to lead the Board.

Nominations

Highlands does not have a separate nominating committee and the entire board of directors serves this function. The reason the board has determined not to have a formal Nominating Committee is that Highlands' Board is small and vacancies are rare. The board of directors makes nominations based upon its belief that candidates for director should have certain minimum qualifications as defined by West Virginia State banking law. The Board of Directors of Highlands, in addition to adherence to state banking law, has set forth the following as criteria for the Company's directors:

The board of directors of Highlands makes nominations based upon its belief that candidates for director should have certain minimum qualifications. These qualifications include the following:

- *Directors should be of the highest ethical character.*
- *Directors should have excellent personal and professional reputations in Highlands' market area.*
- *Directors should be accomplished in their professions or careers.*
- *Directors should be able to read and understand financial statements and either have knowledge of, or the ability and willingness to learn, financial institution law.*
- *Directors should have relevant experience and expertise to evaluate financial data and provide direction and advice to the chief executive officer and the ability to exercise sound business judgment.*
- *Directors must be willing and able to expend the time to attend meetings of the Board of Directors of Highlands and Highlands' subsidiary banks and to serve on board committees.*
- *The Board of Directors will consider whether a nominee is independent, as legally defined. In addition, directors should avoid the appearance of any conflict and should be independent of any particular constituency and be able to serve all shareholders of Highlands.*
- *Because the directors of Highlands also may serve as directors of either or both of the subsidiary banks, a majority of directors must be residents of West Virginia, as required by state banking law.*
- *Directors must be acceptable to Highlands and the subsidiary banks' regulatory agencies, including the Federal Deposit Insurance Corporation, the Federal Reserve, and the West Virginia Division of Banking and must not be under any legal disability which prevents them from serving on the Board of Directors or participating in the affairs of a financial institution.*

- *Directors must own or acquire sufficient capital stock to satisfy the requirements of West Virginia law and the bylaws of each of the subsidiary banks.*
- *Directors must be at least 21 years of age.*

The Board of Directors of Highlands, reserves the right to modify these minimum qualifications from time to time, except where the qualifications are required by the laws relating to financial institutions.

The process of the Board of Directors for identifying and evaluating nominees is as follows. In the case of incumbent directors whose terms are set to expire, the Board of Directors shall consider the directors' overall service to Highlands during their term, including such factors as the number of meetings attended, the level of participation, quality of performance and any transactions between such directors and Highlands, and the subsidiary banks. The Board of Directors also reviews the payment history of loans, if any, made to such directors by either subsidiary bank to ensure that the directors are not chronically delinquent and in default. The Board also considers whether any transactions between the directors and either Bank have been criticized by any banking regulatory agency or either subsidiary bank's external auditors and whether corrective action, if required, has been taken and was sufficient. The Board of Directors also confirms that such directors remain eligible to serve on the Board of Directors of a financial institution under federal and state law.

Pursuant to the Company's Amended and Restated Bylaws, a shareholder may nominate persons for election to the Board of Directors and the Board will consider nominees recommended by shareholders, if written notice is submitted to the Company's secretary at the principal executive offices of the Company not less than 90 days prior to the date of the meeting.

No candidates for director were nominated by any stockholder for election at the 2014 Annual Meeting of Shareholders.

INFORMATION CONCERNING DIRECTORS AND NOMINEES

The following information, including the principal occupation during the past five years, is given with respect to the four director nominees and the six directors continuing in office.

Name	<u>Position with the Company</u>	<u>Age</u>	<u>Director Since</u>	<u>Principal Occupation During the Last Five Years</u>
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DIRECTOR NOMINEES

Class A Directors to serve until the 2017 Annual Meeting of Shareholders

Alan L. Brill	Director; Treasurer	59	April 2001	President & Chief Executive Officer of Capon Valley Bank since 2001
Kathy G. Kimble	Director	68	April 2001	Retired Retail Business Owner
Morris M. Homan, Jr.	Director	61	May 2008	Self Employed Veterinarian
John G. Van Meter	Director; Chairman of the Board of Directors	76	May 1985	Attorney at Law Van Meter & Van Meter

The Board of Directors recommends that shareholders vote "FOR" all of the nominees shown above.

DIRECTORS CONTINUING IN OFFICE

Class B Directors to serve until the 2015 Annual Meeting of Shareholders

Gerald W. Smith	Director	70	May 2009	Self employed Envirco Inc. Specialty Security Services, LLC
Donald J. Baker, Jr.	Director	64	May 2012	Self employed Baker Insurance Services
Jack C. Barr	Director	65	July 2012	Attorney at Law Jack C. Barr Attorney at Law

DIRECTORS CONTINUING IN OFFICE

Class C Directors to serve until the 2016 Annual Meeting of Shareholders

Leslie A. Barr	Director	76	July 1987	Retired President & Chief Executive Officer of Highlands
Jack H. Walters	Director; Vice Chairman	66	July 1987	Attorney at Law Partner, Walters & Krauskopf
George L. Ford	Director; Secretary	45	January 2011	President and Chief Executive Officer of The Grant County Bank since 2011

Qualifications of Directors and Nominees.

Each director and director nominee brings a strong and unique background and set of skills to the Board, providing the Board as a whole competence and experience in a wide variety of areas. Set forth below is additional information regarding the specific experience and skills of each director and director nominee that are relevant to their service as a Highlands director.

John G. Van Meter. Attorney at Law Van Meter & Van Meter. Highlands board member since May 1985 and The Grant County Bank board member since 1977. Mr. Van Meter graduated from West Virginia University College of Law in 1961 and has been practicing law in Petersburg WV since 1961. Mr. Van Meter was one of the founding board members of the Company. Mr. Van Meter's education, years of experience practicing law, involvement in the community and his substantial legal insight lends diversity to the Board. Mr. Van Meter also previously served on the Petersburg City Council for eight years.

Jack H. Walters. Partner, Walters & Krauskopf, Attorneys at Law. Highlands board member since July 1987 and Capon Valley Bank board member since 1983. Mr. Walters received his law degree from West Virginia University College of Law in 1972. After receiving his degree, he began practicing law in Moorefield, WV with the firm of See & Walters. In 2005, Mr. Walters established the law firm of Walters, Krauskopf, & Baker which has since become Walters & Krauskopf. His firm practices corporate, partnership, real estate, and family law, which gives the board yet another diverse perspective on the discussion and decisions it faces. For many years, Mr. Walters has served as a Board Member of the Potomac Highlands Guild, which is a comprehensive behavioral health center. He has also chaired the Zoning Committee in Hardy County, WV.

Alan L. Brill. President & Chief Executive Officer of Capon Valley Bank since 2001. Highlands board member since April 2001 and Capon Valley Bank board member since 1997. Mr. Brill graduated from Shepherd University in 1975 with a bachelor's degree in secondary education. Mr. Brill began his career in banking at Capon Valley Bank in 1975 as a teller. In 1979, he was promoted to Assistant Cashier and in 1986 was promoted to Vice President of Operations. In 1994, Mr. Brill was named Executive Vice President and Chief Operating Officer, and in 2001, he was named President and Chief Executive Officer of Capon Valley Bank. Mr. Brill is currently a board member and Vice-Chairman of the West Virginia Bankers Association, board member of the Federal Reserve Bank of Richmond, and formerly the Chairman of the West Virginia Association of Community Bankers. Mr. Brill currently serves as a member of the Region 8 Planning and

Development Council, Vice-President of the Hardy County Community Foundation, and is an active member and officer of the Timber Ridge Christian Church. Mr. Brill has prior experience serving on the Hampshire County Chamber of Commerce and the Cacapon and Lost Rivers land Trust Board. Mr. Brill's professional and community service experience brings a diverse viewpoint to the board.

Leslie A. Barr. Retired President & Chief Executive Officer of Highlands. Highlands board member since 1987 and Capon Valley Bank board member since 1968. Mr. Barr is a member of the Company's Audit Committee. Mr. Barr graduated in 1957 with an associate's degree in business administration from the Potomac State College. Mr. Barr started his career with Capon Valley Bank in 1962 as cashier, later becoming Vice President and then becoming Capon's CEO. Mr. Barr served Capon for 38 years. Mr. Barr was selected as a director of Highlands in 1987 and became President and CEO of Highlands in 2002. Mr. Barr began his banking career with South Branch Valley Bank in 1957 as teller and bookkeeper. In 1960, he became CEO trainee at the Pendleton County Bank. Additionally, Mr. Barr has served for 25 years on the board of directors and Chairman for the Hardy County Rural Development Authority, 16 years with the West Virginia Rail Authority as a board member, the West Virginia Banking Board for six years in various offices, and previously served on the West Virginia economic development board for eight years. Based on Mr. Barr's extensive experience in the banking industry, qualifies him to sit on the board.

Morris M. Homan, Jr. Self Employed Veterinarian. Highlands board member since May 2008 and Capon Valley Bank board member since 1997. Dr. Homan is the chairman of the Company's Audit Committee. He graduated from West Virginia University and continued his education at The Ohio State University College of Veterinary Medicine and graduated in 1977. He established his practice serving the same communities as the Company serves. Dr. Homan's years of experience in business, his knowledge and involvement in the community, and his diverse background provides the Board with a focused perspective on the needs of the community while balancing the needs of the business. Dr. Homan is also an active member of Hardy County Board of Health, a member of the West Virginia Veterinarian Medical Association, a member of the American Veterinarian Medical Association, and an active member of the Moorefield Presbyterian Church where he serves as an elder, chairman of the stewardship committee, and is a member of the choir. Dr. Homan served for several years as a member of the Moorefield Athletic Boosters. Dr. Homan's business experience and community involvement bring another valued perspective to the Board.

Gerald W. Smith. Self-employed Envirco Inc. & Specialty Security Services, LLC. Highlands board member since 2009 and Capon Valley Bank board member since 1997. Mr. Smith is a member of the Company's Audit Committee. Mr. Smith began his career working as an electrical contractor in 1962. In 1973, Mr. Smith established his electrical contracting business known today as Broadway Electric. In 1992, Mr. Smith purchased Envirco, a solid waste removal company, and acted as president and CEO. In 1995, Mr. Smith established Borderline LLC recycling business. In 2000, he started Specialty Security Services providing executive personal protection and armed security and is licensed in West Virginia, Virginia, and Maryland. Mr. Smith's entrepreneurial experience brings a vast diversity of knowledge to the organization.

Kathy G. Kimble. Retired Retail Business Owner. Highlands board member since April 2001 and The Grant County Bank board member since 1989. Ms. Kimble is the secretary of the Company's Audit Committee. Ms. Kimble graduated in 1967 with a bachelor's degree from West Virginia Wesleyan College. From 1981 through 1998, Ms. Kimble was President of Kanor, Inc. which operated a large variety and crafts retail store. From 1998 through 2001, Ms. Kimble worked for the Grant County Board of Education, and from 2001 through 2010 she worked at Peddler's Crossing Country Store, an antique and country retail store. Ms. Kimble has served on many community boards and committees, including the Petersburg Merchant's Association and the Grant County Chamber of Commerce. Her diversity as a well respected business woman in the community brings an additional perspective to the board.

George L. Ford. President and Chief Executive Officer of The Grant County Bank since January 15, 2011. Mr. Ford graduated in 1991 with a bachelor's degree from West Virginia University. He was employed for five years with the United States Department of Agriculture, Farmers Home Administration and joined The Grant County Bank as a Collections Officer in 1996. He was promoted to Vice President in 2006 and to Executive Vice President in February 2010. Mr. Ford currently serves on the Boards of the Grant County Library Commission and Grant County Development Authority. With twenty years of banking experience coupled with his commitment to the community, Mr. Ford brings a fresh perspective to the organization.

Donald J. Baker, Jr. Self-employed Baker Insurance Services. Mr. Baker has been a member of The Grant County Bank board of directors since 2002. After receiving a Bachelor of Science degree from West Virginia University in 1971, Mr. Baker taught high school social studies for six years. In 1977, Mr. Baker became Executive Director of the Hardy County Rural Development Authority serving until 1983 when he became

Executive Director of the West Virginia Rail Authority until 1993. Mr. Baker began his career as an insurance agent and in 1997 created Baker Insurance Services. He also currently serves as a member of the board of directors for the Mutual Protective Association, a mutual insurance company headquartered in Hardy County, WV. Mr. Baker has always been very active in his community. He was one of the original board members and first president of the Hardy County Chamber of Commerce. He is also active in the Moorefield Lions Club, the Hardy County Community Foundation, and the Peru Community Association. He is an active member of the Moorefield Presbyterian Church having served as an elder, trustee, deacon, and Sunday school teacher. Mr. Baker's experience in business and community service adds insight and perspective to the board.

Jack C. Barr. Attorney at Law. Mr. Barr has been a member of The Grant County Bank board of directors since 2003. He became Chairman of the Board in 2011. Mr. Barr received his law degree from West Virginia University College of Law in 1974. After receiving his degree he began practicing law in Keyser, WV as an associate and became partner in the firm of Swadley, Michael, and Barr in 1980. In 1999, Mr. Barr started his own firm. From 1977 through 1980, Mr. Barr served as Assistant Prosecuting Attorney for Mineral County, WV. Mr. Barr practices civil litigation, real estate, banking, estate and commercial law providing the board yet another diverse perspective on the discussion and decisions it faces. Mr. Barr has served as a member and past president of the Tri-State Estate Planning Counsel, was a former director at the National Bank of Keyser, American Trust Bank, and Keystone Financial Bank.

We believe that our directors and nominees have an appropriate balance of knowledge, experience, attributes, skills and expertise required for our board as a whole and that we have sufficient independent directors to comply with applicable law and regulations. We believe that our directors have a broad range of personal characteristics including leadership, management, technological, business, marketing and financial experience and abilities to act with integrity, with sound judgment and collegiality, to consider strategic proposals, to assist with the development of our strategic plan and oversee its implementation, to oversee our risk management efforts and executive compensation and provide leadership, to commit the requisite time for preparation and attendance at board and committee meetings and to provide required expertise on board committees.

We believe that each director or nominee brings a strong background and set of skills to the Board, giving the Board, as a whole, competence and experience from a wide variety of areas.

Board Meetings and Compensation

The Board met 12 times during 2013. As required by Company policy, each director attended at least 75% of the aggregate of (i) the total number of meetings held by the Board and (ii) the total number of meetings held by the committee on which the director served. Directors received \$500.00 for attending Board meetings and \$275.00 for attending committee meetings. Members of the Audit Committee received \$325.00 for attending meetings of the Audit Committee.

During 2014, directors will receive \$550.00 for attending Board meetings and \$300.00 for attending compensation committee meetings. Members of the Audit Committee will receive \$350.00 for attending meetings of this Committee during 2014.

All directors of Highlands also serve as directors of one or more of the Company's subsidiaries. Both Capon Valley Bank and The Grant County Bank have Directors who serve on the boards of the respective subsidiary who do not serve on the Board of Highlands. The Grant County Bank also employs an advisory board for its Riverton location. The board fees for the subsidiary banks are the same as those fees for Highlands.

The table below sets forth the compensation received during the fiscal year ended December 31, 2013 by each of Highlands' directors:

<u>Name</u>	<u>Fees Earned or Paid in Cash</u>	<u>All Other Compensation</u>	<u>Total</u>
John G. Van Meter	\$ 35,400	\$ 14,000	\$ 49,400
Jack H. Walters	26,206	14,000	40,206
Alan L. Brill	19,950		19,950
Leslie A. Barr	22,283		22,283
Morris M. Homan, Jr.	33,235		33,235
Gerald W. Smith	22,583		22,583
Kathy G. Kimble	22,952		22,952
George L. Ford	24,475		24,475
Donald J. Baker, Jr.	22,697		22,697
Jack C. Barr	24,325		24,325

All fees paid to directors during the fiscal year ended December 31, 2013 were paid in cash. Fees include Board and Committee fees earned by each of the directors for serving on the Boards of Highlands and one or more of the subsidiary banks and any Committees of the Board of Highlands or one or more of the subsidiary banks on which the director might serve. In addition, directors, at their discretion, receive reimbursement for mileage to and from Board or Committee meetings.

The amounts disclosed above as other compensation for Mr. Van Meter and Mr. Walters relate to legal retainers and other legal fees paid by the Company and its subsidiary banks to the law firms of Mr. Van Meter and Mr. Walters. In addition, Mr. Van Meter and Mr. Walters may, from time to time, be remunerated for other services rendered related to lending and other operations of the subsidiary banks. Portions of the fees earned by Mr. Van Meter and Mr. Walters, or their legal firms, for work in this capacity are ultimately borne by the customer(s) of the subsidiary banks, and not by the Company or its subsidiary banks, and as such are not shown within the table above.

Board Committees

The Board of Directors of Highlands has designated the following Committees: Compensation Committee, Audit Committee and Asset/Liability Management Committee. Highlands does not have a separate Nominating Committee as the full Board serves in this capacity. The table below illustrates which members served, during the past year, on the Nominating, Compensation and Audit Committees:

<u>Director</u>	<u>Nominating Committee (Full Board)</u>	<u>Compensation Committee</u>	<u>Audit Committee</u>
John G. Van Meter	X	X	
Jack H. Walters	X	X	
Alan L. Brill	X		
Leslie A. Barr	X*	X	X
Morris M. Homan, Jr.	X*	X	X
Gerald W. Smith	X*	X	X
Kathy G. Kimble	X*	X	X
George L. Ford	X		
Donald J. Baker, Jr.	X*	X	X
Jack C. Barr	X*	X	

*=Independent Director.

Attendance at Annual Meeting

Although there is no formal written policy, the Company expects all directors to attend the Annual Meeting of Shareholders each year. All of the directors attended the Annual Meeting of Shareholders held on May 14, 2013.

CERTAIN RELATED TRANSACTIONS

Loans made by The Grant County Bank and Capon Valley Bank to directors, director nominees and their affiliates were made in the ordinary course of business, were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time the loans were made for comparable transactions with other persons, and did not involve more than the normal risk of collectability or present other unfavorable features. In addition, the Company or its subsidiaries, may, from time to time, obtain goods or services from a director or their affiliates. Any such business transaction with a related party did not, during 2013, exceed \$120,000 nor was made under terms unfavorable to the Company or its affiliates as compared to the obtaining of similar goods or services from non related parties.

The Company has adopted a Related Party Transaction Policy. This policy covers substantially all material business transactions between related parties and the Company or its subsidiaries. The policy requires that all loans or business transactions above certain thresholds with insiders, as defined by the policy, be approved by the Company's Board of Directors. This policy has been designed in an attempt to ensure the appropriateness of all related party transactions and in an attempt to ensure that all required reporting of related party transactions is achieved.

PROPOSAL TWO

RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED CERTIFIED PUBLIC ACCOUNTANTS

Brown, Edwards & Company, LLP was the auditor for 2013 and is being recommended to the Company's shareholders for appointment as the auditor for 2014. A representative of Brown, Edwards & Company, LLP is expected to attend the Annual Meeting with the opportunity to make a statement or to respond to appropriate questions from shareholders.

The Board Recommends that Shareholders vote "FOR" Proposal Two

Fees of Independent Registered Certified Public Accountants

The following fees were paid to Brown, Edwards & Company, LLP, for 2013 and Smith Elliott Kearns & Company, LLC for 2012, the Company's Independent Registered Certified Public Accountants for services provided to the Company for the fiscal years ending December 31, 2013 and 2012:

	<u>2013</u>	<u>2012</u>
Audit Fees	\$53,500	\$ 63,065
Audit Related Fees	0	0
<u>All Other Fees</u>	<u>0</u>	<u>0</u>
Total	\$53,500	\$ 63,065

Audit fees are substantially all fees related to the audit of year-end financial statements and one regulatory filing for the first quarter of 2012. The reduction in audit fees was the result of a provision in the Jumpstart Our Business Startups Act (the “JOBS Act”) which allowed the company to eliminate its reporting obligations (filing annual and quarterly reports) with the Securities and Exchange Commission (“SEC”), under the JOBS Act. Financial institutions with less than 1,200 shareholders of record are allowed to de-register under the Securities Exchange Act of 1934 and therefore, are allowed to suspend and terminate their SEC reporting obligations.

By Order of the Board of Directors

A handwritten signature in black ink, appearing to read "George L. Ford".

George L. Ford
Corporate Secretary

March 31, 2014

