



FOR IMMEDIATE RELEASE

August 9, 2016

Highlands Bankshares, Inc. Announces Second Quarter 2016 Results

Highlands Bankshares, Inc. (OTCQB: HBSI) announces results of operations for the second quarter of 2016.

Highlands Bankshares, Inc., the parent company of The Grant County Bank and Capon Valley Bank, posted second quarter 2016 earnings of \$1,893,000 or \$1.42 per share of common stock outstanding (EPS), compared to \$1,586,000 or \$1.19 EPS for the same period of 2015.

On July 12, 2016, the Board of Directors declared a quarterly dividend to shareholders of \$0.28 per share. The dividend was payable to all shareholders of record as of July 29, 2016 and was paid on or about August 5, 2016.

Net interest income, on a fully taxable equivalent basis increased \$157,000 during 2016 as compared to the same period in 2015, as a result of the changes in average rates earned on assets and paid on interest bearing liabilities and the changes in the relative mix of earning assets and interest bearing liabilities. As of June 30, 2016, the Company's average earning assets increased 3.35% compared to the same period in 2015 and average interest bearing liabilities increased 2.05% comparing the same periods. Even though the increase in the volume of earning assets was higher than the increase in the volume of interest bearing liabilities, the net interest margin is showing a decrease due to the decline in the rates earned on assets outpacing the decline in rates paid on interest bearing liabilities. Net interest margin decreased 6.0 basis points to 4.45% at June 30, 2016 from 4.51% at June 30, 2015.

Gross loans decreased \$290,000 or 0.09% to \$319,076,000 at June 30, 2016 from \$319,366,000 at December 31, 2015. Comparing loan growth for a one year period ending June 30 2016, gross loans increased \$12,822,000 or 4.19%. Total non-performing loans and foreclosed properties decreased to 2.16% of total assets as of June 30, 2016 from 2.24% at December 31, 2015. Those same non-performing assets decreased to 17.05% of capital at June 30, 2016 from 18.19% at December 31, 2015.

Return on average assets (ROAA) increased in 2016 to 0.95%, as compared to 0.81% in the same period of 2015. Likewise, the return on average equity (ROAE) increased to 7.67% at June 30, 2016, as compared to 6.72% at June 30, 2015.

Total assets, as of June 30, 2016, decreased \$6,000 to \$397,794,000 compared to December 31, 2015. Total liabilities decreased \$1,445,000 or 0.40% as of June 30, 2016 to \$347,368,000 compared to December 31, 2015 driven by the decrease in time deposits.

Shareholders' Equity at June 30, 2016 was \$50,426,000 or \$37.72 per outstanding share, compared to December 31, 2015 of \$48,987,000 or \$36.64 per outstanding share.

John Van Meter, Chairman and Chief Executive Officer of the holding company, stated "The first half of 2016 has proven to be a good year for Highlands as our financial position continues to strengthen and our

asset quality continues to improve. We are sensitive to the decrease in our net interest margin caused by the continued low interest rate environment. Our continued trend of stable core income growth is supported by growth from non-interest income and continued attention to cost control thereby decreasing non-interest expenses. We continue to see positive indicators throughout the business communities we serve and are optimistic that this will translate to improved growth prospects.

“As our balance sheet and capital ratios strengthen, we continue to provide our shareholders a fair return on their investment. Based upon the current market price and annualizing the dividends paid to shareholders this quarter, Highlands’ current dividend yield is 3.86%. The market price of our stock has increased \$3.50 or 13.73% since year end.

“We are fully confident in Highlands’ ability to perform as we move forward and concentrate on what we do best – serving our customers, creating products and services to exceed their expectations, while providing a solid return to shareholder investments and maintaining a strong capital position.”

Highlands Bankshares, Inc. is listed on the OTCQB market under the symbol HBSI (<http://www.otcmarts.com>) and is the holding company for The Grant County Bank and Capon Valley Bank. Highland’s subsidiary banks operate twelve banking locations in West Virginia and Virginia and offers credit insurance through its wholly-owned subsidiary, HBI Life Insurance Company.

Certain statements in this press release may constitute “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include projections, predictions, expectations or beliefs about future events or results or otherwise are not statements of historical fact. Such statements are often characterized by the use of qualified words (and their derivatives) such as “expect”, “believe”, “estimate”, “plan”, “project”, “anticipate” or other similar words. Although the company believes that its expectations with respect to certain forward-looking statements are based upon reasonable assumptions within the bounds of its existing knowledge of its business and operations, there can be no assurance that actual results, performance or achievements of the company will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Actual future results and trends may differ materially from historical results or those anticipated depending on a variety of factors, including, but not limited to, the effects of and changes in: general economic conditions, the interest rate environment, legislative and regulatory requirements, competitive pressures, new products and delivery systems, inflation, changes in the stock and bond markets, technology, downturns in the trucking, mining, and timber industries, downturns in the housing market affecting manufacturers of household cabinetry and thus, employment, effects of mergers and/or downsizing in the poultry industry in Hardy County, continued challenges in the current economic environment affecting our financial condition and results of operations, continued deterioration in the financial condition of the U.S. banking system impacting the valuations of investments the company has made in the securities of other financial institutions, and consumer spending and savings habits, particularly in the current economic environment. Additionally, actual future results and trends may differ from historical or anticipated results to the extent: (1) any significant downturn in certain industries, particularly the trucking and timber industries are experienced; (2) loan demand decreases from prior periods; (3) the company may make additional loan loss provisions due to negative credit quality trends in the future that may lead to a deterioration of asset quality; (4) the company may not experience significant recoveries of previously charged-off loans or loans resulting in foreclosure; (5) the company is unable to control costs and expenses as anticipated, (6) legislative and regulatory changes could increase expenses (including changes as a result of rules and regulations adopted under the Dodd-Frank Wall Street Reform and Consumer Protection Act); and (7) any additional assessments imposed by the FDIC. The company does not update any forward-looking statements that may be made from time to time by or on behalf of the company.