

HIGHLANDS STATE BANK
SENIOR MANAGEMENT
CODE OF ETHICS

POLICY

The directors and officers of the Highlands State Bank (the “Bank”) firmly believe that fair and ethical business practices are a fundamental part of business conduct. Further, the very nature of our business imposes special obligations that build a public trust. The Bank is firmly committed to conducting business in a professional manner that clearly satisfies all moral and legal business obligations.

This Code of Ethics is designed to satisfy, and exceed, the requirements of Section 406 of the Sarbanes-Oxley Act of 2002 and Securities and Exchanges Commission (“SEC”) regulations implementing those requirements. This code is designed to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;
- Full, fair, accurate, timely and understandable disclosure in reports and documents that the Bank files with or submits to the SEC or the NASDAQ and in the Bank's other public communications;
- Compliance with all applicable laws, rules and regulations;
- Prompt internal reporting of violations or apparent violations of the Code in accordance with the section entitled " Procedure and Reporting" below; and
- Accountability for adherence to this Code.

This Code shall apply to all members of the Bank’s senior management, including members of the Board of Directors (whether or not employees), the Bank's President and Chief Executive Officer, Chief Financial Officer and other financial and senior officers.

Under this Code of Ethics, the actions of all Bank Officers shall be governed by the highest standards of integrity and fairness. Strict compliance with all applicable laws and regulations is the policy of the Bank, and all decisions shall be made to

honor the spirit and letter of all such laws and regulations. Business shall be conducted honestly and ethically to effectively use the technical expertise, business skills and sound judgments needed to benefit customers and shareholders alike.

PROCEDURE & REPORTING

When any individual associated with the Bank, as an officer, Director, employee or otherwise, becomes aware of a known or suspected irregularity, illegality or violation of this Code of Ethics, that person is obligated to take action. This includes prompt reporting, which shall be in the form of an oral or written report to Carol Hults, who is the Corporate Secretary of the Bank, and whose telephone number is 973-764-3200 X1113 and whose address is: 310 Route 94, PO Box 160, Vernon, NJ 07462, or, in the alternative, the President, who is the Director-Investor Relations of the Bank, and whose telephone number is 973-764-3261 and whose address is: 310 Route 94, PO Box 160, Vernon, NJ 07462. In addition, any questions regarding the interpretation of this Code of Ethics may be directed to either Carol Hults or The President.

After reviewing any report of a known or suspected irregularity, illegality or violation of this Code of Ethics, Carol Hults or The President will report their findings to the Board of Directors of the Bank for review and action, if appropriate. Failure to adhere to this Code of Ethics will result in disciplinary action, up to and including potential termination of employment. In addition, to the extent appropriate, the Board shall contact proper authorities to report any illegal conduct.

CONFIDENTIAL & NON-PUBLIC INFORMATION

- It is very important for all Bank Officers to appropriately safeguard the Bank's confidential and non-public information and to refuse any improper access or improper or untimely disclosure of confidential or non-public information.
- Confidential or non-public information is any information, which at the time it is known, is not generally available to the public and which is useful or helpful to the Bank, which would be useful or helpful to competitors of the Bank or which would be deemed important to investors in deciding whether or not to trade in the Bank's securities. Confidential or non-public information can include customer, employee, stockholder, supplier, financial or operational information and plans for stock splits, business acquisitions and mergers, or an important pending

regulatory action.

- We should always be alert to inadvertent disclosures that may arise in either social conversations or in normal business relations with our suppliers and customers.
- Under SEC Regulation F-D, the Bank may be subject to numerous requirements and obligations in the event that non-public information is selectively disclosed. Selective disclosure means disclosure to individuals or groups without a broad-based disclosure to the securities markets in general, either through the issuance of a press release or the filing of SEC Form 8-K. In order to limit the risk of an inadvertent disclosure and possible violation of SEC Regulation F-D, all inquires and discussions regarding the Bank, its operations, performance and prospects will be referred to George E. Irwin, who will determine whether the Bank will respond to any requests for information or interview requests from members of the media, financial analysts, stockholders or others and which Bank official will respond to such request. Bank Officers should not respond to any such requests on their own without reporting the request to George E. Irwin and receiving direction.

CONFLICTS OF INTEREST

- No Bank Officer shall pursue or engage in any outside employment, business or other commercial activity, either during or outside of his Bank work hours, which conflicts or competes directly or indirectly with his duties or responsibilities as a Bank Officer, or with any business interests or activities of the Bank. Engaging in activities that benefit family members or friends during Bank work hours is also prohibited.
- We cannot illustrate every situation that may be considered a conflict of interest; however, we do expect each Bank Officer to carefully consider if any of his or her actions during or outside of Bank hours rise to the level of a conflict of interest. Even the **appearance** of a conflict of interest must be avoided.
- Bank Officers have an affirmative obligation to disclose to the President any interest, including but not limited to a financial interest, in any outside activities or business that may conflict or compete with those of the Bank. This affirmative disclosure obligation extends to the immediate family member(s) of a Bank Officer.

- At no time during Bank working hours or on Bank property shall any Bank Officer engage in or pursue any non-Bank employment, business or commercial activity, or solicit Bank customers or Bank Officers for any profit-making purpose.
- No vendor or consultant shall be retained to perform services for the Bank where a Bank Officer is related to, lives with or is in a relationship with the consultant or vendor, without the express permission of the CEO. Any such existing relationships must be immediately disclosed to

GIFTS, MEALS AND ENTERTAINMENT

- Socializing is a normal and accepted component of conducting certain facets of the Bank's business; however, Bank Officers must not permit this to compromise a business judgment or give even the appearance of impropriety. Therefore, giving, accepting, soliciting or offering, or authorizing, directly or indirectly, gifts, favors or entertainment, or other consideration, of significant value, in transactions with customers, suppliers, vendors and all other organizations or individuals doing or seeking to do business with the Bank, is prohibited. Any consideration is of significant value if it could or does result in any appearance of impropriety, if it could compromise the decision of any Bank Officer in exercising a business judgment or if its acceptance is detrimental, in any way, to the Bank.
- In addition, **no** transactions with any of the groups mentioned above shall involve:
 - Monetary payments, gift certificates, or credit arrangements
 - Receipt of any materials or services at less than actual cost, or
 - Actions that result in a conflict of interest or the appearance thereof.
- Typically, this policy does not prohibit the **occasional** lunch or dinner, golf outing, sporting or fund-raising event, or vendor conference. However, if receipt of any of the above occurs on a **regular** basis, the Bank would be concerned that the meals, events or outings could be provided for an improper purpose and/or could create the appearance of impropriety. Therefore, in order for us to provide guidance to those who may be unsure as to what is or is not acceptable and to monitor the actions of the individuals and groups mentioned above, Bank Officers must report the receipt of **any and all gifts or consideration** received to determine what patterns, if any, may exist. All Bank

Officers must report to as soon as practicable, the receipt of any and all consideration from any customer, supplier, vendor or anyone with whom we do business, or anyone who may be seeking to do business with the Bank. Such reporting must be given to the President.

SECURITIES FRAUD AND INSIDER TRADING

- It is both illegal and against Bank policy for any individual to profit from undisclosed information relating to the Bank or any Bank with which we do business. Anyone who is in possession of any material nonpublic information ("inside information") that the Bank has not yet disclosed to the public may not purchase or sell any of the Bank's securities. Also, it is against Bank policy for any Bank Officer who may have inside or unpublished knowledge about any of our suppliers, customers, or any Bank we do business with to purchase or sell the securities of those companies.
- It is clearly against Bank policy, and possibly illegal as well, to trade the Bank's securities or the securities of any other Bank, in a way which attempts to hide the true identity of the trader or to mislead others as to exactly who is doing the trading. Any Bank Officer trading in the Bank's securities or the securities of other companies, using fictitious names, names of relatives or friends, or brokerage accounts under fictitious names located in foreign jurisdictions shall be subject to immediate disciplinary action. Should the Bank discover any such trading, it will disclose it to the appropriate authorities.

SECURITIES AND EXCHANGE COMMISSION REPORTING

- As a publicly traded Bank subject to the Securities Exchange Act of 1934, the Bank has an obligation to file various reports and documents with the SEC and the NASDAQ, and to generally make public material information about the Bank. The Bank is committed to providing full, fair, accurate, timely and understandable disclosure to the trading markets. In furtherance of this commitment, the Bank has formed its Management Disclosure Committee to review the Bank's periodic filings with the SEC. Any Bank Officer who knows or believes that any of the Bank's filings or proposed filings with the SEC contain inaccurate information, or omit to include information which is material to an investor's understanding of the Bank, its operations and prospects, is required to notify the Management Disclosure Committee, or any member thereof, of the Bank Officer's concerns.

WAIVERS FROM THE CODE OF CONDUCT

- Waivers from the requirements of this Code of Ethics may only be issued by the Audit Committee of the Board of Directors. The Corporate Officer wishing to request a waiver of any provision in this Code of Ethics must provide a detailed written statement to the Audit Committee explaining the anticipated facts and circumstances which the Corporate Officer believes make a waiver appropriate. It is expected that waivers will rarely, if ever, be issued, and only prospectively, not retroactively.
- In the unlikely event that the Audit Committee issues a waiver from the requirements of this Code of Ethics, or in the event this Code of Ethics is otherwise changed or amended, the Bank shall promptly provide public notice of such waiver, change or amendment in accordance with the requirements of SEC Release 33-8 177.