

Board Approved 9-15-09

**HIGHLANDS STATE BANK
COMPENSATION COMMITTEE
CHARTER**

I. AUTHORITY AND MEMBERSHIP

Appointment Members of the Compensation Committee (the "Committee") of Highlands State Bank (the "Bank") will be appointed annually by the Board of Directors of the Bank and may be removed by the Board. The members will serve until their successors are duly elected and qualified by the Board.

Qualifications of Members The Committee will be composed of at least three members, all of whom must qualify as "independent directors" as defined under NASDAQ Rule 4200 or any successor rule and any additional standards of independence as may be prescribed for purposes of any federal securities, tax, or other laws relating to the Committee's duties and responsibilities. Each member of the Committee shall meet the definition of "outside director" for purposes of Section 162(m) of the Internal Revenue Code of 1986.

Committee Chair and Secretary The Board will appoint one of the members of the Committee to serve as Committee Chair. The committee may also appoint a secretary, who need not be a director.

II. OBJECTIVES

The objectives of this Committee are to: Attract and retain top quality executives and provide compensation programs designed to motivate and reward executives to achieve business goals; and to foster both the enhancement of long-term shareholder value through stock appreciation, dividend yield and the long-term interests of the organization. In that regard, the Committee has the responsibility for evaluating and approving the benefit, bonus, incentive compensation, severance, equity-based, or other compensation plans, policies, and programs of the Bank and its subsidiaries, all of which are intended to function as the basis of fostering alignment of executive compensation with the interests of shareholders.

- To the extent required by the Securities Exchange Act of 1934 and regulations of the Securities Exchange Commission ("SEC") there under, prepare the annual report concerning executive compensation for inclusion in the Bank's proxy statement; and
- Undertake such reviews of executive compensation, and make such certifications, as may be required under the Emergency Economic Stabilization Act of 2008 and Treasury regulations there under.

III. RESPONSIBILITIES OF THE COMMITTEE

Charter Review

- Review and reassess the adequacy of the Committee's charter annually and recommend to the Board any necessary or desirable changes to the charter; and
- Publicly disclose the charter and any amendments to the charter on the Bank's website and/or as otherwise required by the Securities and Exchange Commission, the regulations of the primary market on which the Bank's common stock is traded, and rules or regulations of any other regulatory body having authority over the Bank or its securities.

Executive Compensation Approval

- Annually review and approve corporate and/or individual goals and objectives relevant to the compensation of the President and Chief Executive Officer ("CEO"), evaluate performance in light of those goals and objectives, and recommend to the Board the compensation level based on this evaluation. In determining any long-term incentive component of compensation, the Committee will consider all such factors as it deems relevant, such as the Bank's performance and relative shareholder return, the value of similar incentive awards at comparable companies and the awards granted in previous years.
- Annually review and recommend to the Board for the President and CEO and the senior executives of the Bank:
 - a. The annual base level salary;
 - b. The level and requirements of any annual incentive opportunity;
 - c. The level and requirements of any long-term incentive community; and
 - d. Any special or supplemental benefits
- Negotiate and approve employment agreements, severance agreements, and change in-control agreements or provisions with the Bank's senior executive officers, in each case when and if appropriate.
- Administer and implement any and all incentive compensation and equity-based plans and awards there under, including amendments to the plans or awards made under any such plans, unless such authority is provided to the full Board under the terms of any such plans.

Compliance Oversight

- Periodically review the Bank's insider trading policies and procedures; any and all benefit, incentive compensation, and equity-based plans; compensation agreements, plans, policies, and arrangements and adopt necessary or desirable amendments or changes to the same, and establish procedures and mechanisms designed to cause the same to comply with all provisions of applicable corporate, securities, tax, banking, ERISA, or other laws and regulations or Listing Requirements including those regarding:
 - a. Reimbursement of the Bank for, or forfeiture of any profits, bonus or equity-

based compensation by the Bank's President, CEO, principal financial officer, and/or executive officers in connection with an accounting restatement;

- b. Investment elections and changes thereto, blackout periods, and restrictions on trading by plan participants under any such benefit plans;
- c. Related party or affiliate transactions with the Corporation; and
- d. Section 16 of the Exchange Act and the rules and regulations promulgated there under.

General

- Form and delegate authority to subcommittees when appropriate. In creating any subcommittee, the Committee shall select the members of the subcommittee, define its powers and authorities and provide for the subcommittee to report to the full Committee on its activities.
- Report regularly to the Board with regard to the Committee's activities.
- Annually review the performance of the Committee.
- The Committee shall meet as often as may be deemed necessary or appropriate in its judgment, but not less frequently than semi-annually. The Chairman will chair all regular sessions of the Committee and set the agendas for Committee meetings.

In performing their responsibilities, Committee members are entitled to rely in good faith on information, opinions, reports, or statements prepared or presented by:

- One or more officers or employees of the Bank which the Committee members reasonably believe to be reliable and competent in the matters presented;
- Counsel, independent auditors or other persons as to matters which the Committee members reasonably believe to be within the professional or expert competence of such person; and
- Another committee of the Board as to matters within its designated authority.