

PRESS RELEASE – FOR IMMEDIATE RELEASE

Highlands State Bank
Reports Results for the Second Quarter
Ended June 30, 2010

Vernon, NJ – July 30, 2010 – Highlands State Bank (OTC BB: HSBK.OB) reported a second quarter net income of \$124,000 compared to a net loss of \$312,000 for the same period in 2009. For the six months ended June 30, 2010 net income was \$202,000. The same six month period of 2009 resulted in a net loss of \$607,000. After dividends on preferred stock and discount accretion net income available to common stockholders for the second quarter was \$44,000 or \$.02 per diluted share compared to a loss of \$342,000 or \$.19 per diluted share, for the same period in 2009. The comparable six month results reflect net income available to common stockholders for 2010 of \$43,000 or \$.02 per diluted common share compared to a net loss of \$637,000 or \$.36 per diluted common share for 2009. The 2010 results reflect six months impact of the dividends and discount accretion on the preferred stock issued to the United States Treasury on May 8, 2009. During 2009 Highlands State Bank elected and was approved to participate in the CPP and CPP for Small Banks, and received investments from the Treasury of \$3,091,000 in the second quarter of 2009 and \$2,359,000 during the fourth quarter of 2009.

Net interest income increased by \$435,000 for the second quarter of 2010 when compared to the three month period ended on June 30, 2009 due to growth in the loan portfolio and lower deposit rates. In the first six months of 2009 net interest income was \$1,969,000 rising to \$2,896,000 in the same period of the current year. The provision for loan losses increased by \$59,000 and \$76,000 for the three and six month periods respectively, reflecting the increase in non-performing loans. Charge-offs and recoveries for the first six months of 2010 were \$106,000 and \$5,000, respectively, compared to no charge-offs or recoveries during the same period in 2009. Non-interest expenses increased by \$61,000 for the quarter and \$215,000 for the six months ended June 30, 2010 compared to the similar periods of 2009. The 2010 results include increased legal, consulting, equipment maintenance and equipment depreciation costs, which were partially offset by lower salary, benefits, and deposit insurance premium charges.

Total assets at Highlands State Bank were \$167.4 million on June 30, 2010, an increase of \$1.4 million or .8% when compared to total assets of \$166.0 million at December 31, 2009. Deposits for the same periods reflect an increase of \$500,000 or .4% from \$143.6 million on December 31, 2009 to \$144.1 million on June 30, 2010. Total loans outstanding on June 30, 2010 were \$115.9 million compared to \$113.3 million on December 31, 2009, an increase of 2%.

Highlands State Bank is a full service community bank headquartered in Vernon, New Jersey with branch offices in Sparta and Totowa, New Jersey. Highlands State Bank provides deposit and loan banking services to consumers and businesses in northern New Jersey.

Forward-Looking Statements

This news release contains certain forward-looking statements, either expressed or implied, which are provided to assist the reader in understanding anticipated future financial performance. These statements involve certain risks, uncertainties, estimates and assumptions made by management, which are subject to factors beyond the company's control and could impede its ability to achieve these goals. These factors include general economic conditions, trends in interest rates, the ability of our borrowers to repay their loans, and results of regulatory exams, among other factors.

Highlands State Bank
Financial Highlights
(Unaudited)
(In thousands, except per share data)

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2010	2009	2010	2009
INCOME STATEMENT				
Net interest income	\$ 1,468	\$ 1,033	\$ 2,896	\$ 1,969
Provision for loan losses	244	185	437	361
Non-interest income	184	63	291	118
Non-interest expense	1,284	1,223	2,548	2,333
Net income (loss)	124	(312)	202	(607)
Preferred stock dividends and accretion	(80)	(30)	(159)	(30)
Net income (loss) available to common stockholders	<u>\$ 44</u>	<u>\$ (342)</u>	<u>\$ 43</u>	<u>\$ (637)</u>

EARNINGS (LOSS) PER COMMON SHARE:

Net income (loss) available to common stockholders:				
Basic and diluted	<u>\$ 0.02</u>	<u>\$ (0.19)</u>	<u>\$ 0.02</u>	<u>\$ (0.36)</u>
Weighted average common shares				
Basic and diluted	<u>1,788,262</u>	<u>1,788,262</u>	<u>1,788,262</u>	<u>1,788,262</u>

SELECTED BALANCE SHEET DATA

AT END OF PERIOD	6/30/2010	12/31/2009
Total loans	\$ 115,851	\$ 113,319
Allowance for loan loss	1,773	1,438
Investment securities	17,503	19,134
Total Assets	167,410	165,955
Total Deposits	144,122	143,566
Stockholders' Equity	16,049	15,746
Book value per common share	\$ 5.91	\$ 5.75
Tangible book value per common share	\$ 5.46	\$ 5.30

ASSET QUALITY

Non-accrual loans	\$ 5,383	\$ 4,600
Loans past due 90 days and still accruing	9	-
OREO property	-	-
Allowance for loan losses to total loans	1.53%	1.27%
Non-performing loans to total loans	4.65%	4.06%