



# Highlands State Bank

To our shareholders:

With the first quarter ended March 31, 2007, Highlands State Bank<sup>®</sup> experienced a great start for the year. Total assets were \$32.6 million as of March 31<sup>st</sup> of this year compared to \$22.8 million at the end of the first quarter of 2006. Our letter to shareholders in the annual report announced that the Bank had hired an additional loan officer. The first three months of this year were very productive for booking new loans. Net loans increased to \$12.6 million, reflecting a substantial increase over the balance outstanding on March 31, 2006 and a 62% increase over the \$7.8 million outstanding at the end of 2006. Deposits were \$24.3 million and \$13.6 million for March 31, 2007 and 2006, respectively. The reverse side of this letter contains comparative balance sheet information for March 31, 2007, December 31, 2006 and March 31, 2006.

With the fast pace of new loan originations, the Bank has become more aggressive in acquiring additional deposit balances. We have increased the interest that we pay on certain maturity terms for certificates of deposit and, as a shareholder, you are entitled to the SPIRE certificate of deposit that pays at least .25% APY higher than the prevailing APY.

Highlands State Bank<sup>®</sup> has also created a new Prime Interest Money Market Account (PIMMA). This account pays an interest rate that is indexed to the Prime Rate. *A PIMMA with a balance of \$50,000 or more will earn a rate of interest that is 60% of the Prime Rate, currently 5.07% APY.* The interest rate and the annual percentage rate will increase or decrease as the Prime Rate is raised or lowered.

The success of Highlands State Bank<sup>®</sup> will be greatly enhanced by bringing your personal and/or business accounts and loans to us. I welcome your questions and comments.

Sincerely,



George E. Irwin  
President & CEO

# HIGHLANDS STATE BANK BALANCE SHEET

(in dollars)

	March 31 2007 (unaudited)	December 31 2006 (audited)	March 31 2006 (unaudited)
<b>ASSETS</b>			
Cash and due from banks	\$514,858	\$568,607	\$382,514
Interest bearing deposits in other banks	298,000	199,000	398,000
Time deposits in other banks	4,164,000	2,676,000	1,981,000
Securities available for sale	9,420,317	9,324,030	2,897,916
Federal funds sold	4,822,000	9,944,000	16,352,000
Loans	\$12,759,650	\$7,847,281	\$204,055
less: Allowance for loan loss	(127,830)	(78,513)	(1,011)
Net loans	\$12,631,820	\$7,768,768	\$203,044
Bank premises and equipment, net	503,688	466,721	470,844
Other assets	268,970	228,700	156,756
Total Assets	\$32,623,653	\$31,175,826	\$22,842,074
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>			
<b>LIABILITIES</b>			
Non-interest bearing	\$7,711,934	\$7,217,122	\$8,824,711
Interest-bearing	16,563,531	15,335,554	4,765,769
Total Deposits	\$24,275,465	\$22,552,676	\$13,590,480
Other Liabilities	102,385	129,844	95,522
Total Liabilities	\$24,377,850	\$22,682,520	\$13,686,002
<b>STOCKHOLDERS EQUITY</b>			
Common stock, \$5 par value authorized 5,000,000 shares; issued and outstanding 1,000,000 shares	\$5,000,000	\$5,000,000	\$5,000,000
Surplus	5,178,844	5,153,695	4,965,990
Accumulated deficit	(1,935,429)	(1,660,939)	(800,081)
Accumulated other comprehensive loss	2,388	550	(9,837)
Total Stockholders' Equity	\$8,245,803	\$8,493,306	\$9,156,072
Total Liabilities and Stockholders' Equity	\$32,623,653	\$31,175,826	\$22,842,074