



Dear Shareholder:

April, 2009

Highlands State Bank is off to a good start for 2009. In addition to the benefits of the merger between Highlands and Noble Community Bank, we opened our third branch in January, in Totowa, New Jersey. Total assets as of March 31, 2009 were \$125.9 million, an increase of \$6.3 million or 5.3% from the merger date of December 31, 2008 when assets were \$119.6 million. Deposits for the same period increased \$8.5 million or 8.8%, to \$105.3 million at the end of March compared with \$96.8 million at year-end. Net loans outstanding also increased \$7.9 million or 8.8% to \$97.4 million from \$89.5 million.

Despite the economic climate growth at Highlands is continuing. We are challenged to identify deposit and loan opportunities in all of the markets we serve - Sparta, Totowa and Vernon. We believe that the upheaval in the financial industry presents us with opportunities community banks have not seen in many years. To help support our anticipated growth the bank has received conditional approval for \$3,091,000. in Capital Purchase Program (CPP) funds that we expect to receive within the next several weeks. The CPP was created for healthy, well capitalized banks like Highlands.

At the annual shareholders' meeting held on April 16, 2009 the slate of directors proposed in the proxy statement were reelected. We advised the shareholders present that the board is beginning a planning process to set the direction for the future of Highlands. We recognize that our primary objective is to maximize a return to our shareholders, both short term and long term.

As always, we appreciate your support of Highlands State Bank.

Sincerely,

George E. Irwin  
President & CEO

# HIGHLANDS STATE BANK BALANCE SHEET

(in dollars)

## ASSETS

	March 31, 2009 (unaudited)	December 31, 2008 (audited)	March 31, 2008 (unaudited)
Cash and due from banks	\$2,527,784	\$1,188,266	\$1,079,937
Interest bearing deposits in other banks	253,229	176,666	198,000
Time deposits in other banks	495,000	1,386,000	1,488,000
Securities available for sale	19,544,069	19,595,832	10,478,548
Restricted investment in bank stock	554,100	621,600	113,100
Federal funds sold	2,413,000	4,555,000	-
Loans	\$98,751,286	\$90,602,898	\$37,533,238
less: Allowance for loan loss	(1,323,325)	(1,147,192)	(377,870)
Net loans	\$97,427,961	\$89,455,706	\$37,155,368
Bank premises and equipment, net	1,164,548	1,172,883	448,604
Goodwill	755,529	756,917	0
Other assets	781,043	737,405	333,950
Total Assets	\$125,916,263	\$119,646,275	\$51,295,507

## LIABILITIES AND STOCKHOLDERS' EQUITY

### LIABILITIES

#### Deposits:

Non-interest bearing	\$12,020,534	\$11,298,884	\$7,724,911
Interest-bearing	93,276,646	85,482,441	29,561,924
Total Deposits	\$105,297,180	\$96,781,325	\$37,286,835
Borrowings	8,020,563	9,529,526	5,248,000
Other liabilities	554,998	852,907	181,110
Total Liabilities	\$113,872,741	\$107,163,758	\$42,715,945

### STOCKHOLDERS' EQUITY

Common stock, \$5 par value; authorized 5,000,000 shares; issued and outstanding 1,788,262 shares 3/31/2009 and 12/31/2008; 3/31/2008 1,095,159 shares	\$8,941,310	\$8,941,310	\$5,475,795
Surplus	7,080,501	7,073,787	5,740,982
Accumulated deficit	(3,854,001)	(3,558,863)	(2,783,722)
Accumulated other comprehensive gain/(loss)	(124,288)	26,283	146,507
Total Stockholders' Equity	\$12,043,522	\$12,482,517	\$8,579,562
Total Liabilities and Stockholders' Equity	\$125,916,263	\$119,646,275	\$51,295,507