



Highlands State Bank[®]

To Our Shareholders:

October, 2008

The economy was subjected to significant upheaval in the third quarter of this year and it is continuing into the current period. Fannie Mae and Freddie Mac were taken over by the US Treasury, AIG was bailed out by the government, Merrill Lynch was taken over by Bank of America, Wachovia is being taken over by Wells Fargo and Lehman Brothers filed for bankruptcy. On top of all that, many financial institutions are dealing with credit problems. The Federal Reserve, the Treasury and the FDIC are all working together to prevent the collapse of more banks and to encourage the granting of credit by the financial industry.

Highlands State Bank has been directly affected by one of these events. In May of this year Highlands purchased \$100,000 of a new issue of Fannie Mae preferred stock. At the time of the purchase the security was rated as investment grade by both Moodys and by S&P. In September the bank recognized a \$90,000 loss on this investment.

Despite this setback, growth at Highlands is continuing. On September 30, 2008 total assets were \$63.4 million, an increase of \$20.5 million over December 30, 2007 and \$23.8 million over September 30, 2007. Loan demand has been strong. Net Loans also increased to \$50.8 million on the final day of September 2008 compared to \$31.0 million and \$25.3 million on December 31, 2007 and September 30, 2007 respectively.

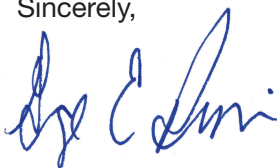
Our current challenge is to obtain deposits with which to fund the loan demand. Deposits grew to \$49.3 million on September 30, 2008, up from \$33.2 million on December 30, 2007 and \$31.3 million last September 30. As shown on the Balance Sheets on the reverse side of this letter for the periods referred to, we have taken advantage of opportunities to borrow funds to finance loans.

One of the actions taken by the FDIC to strengthen confidence in the safety of banks was to increase the insurance on deposits in banks. Accounts that were previously insured for \$100,000 are now insured for \$250,000 until December 31, 2009. Owners can structure their accounts to substantially increase the amount covered. The FDIC also guaranteed that all non-interest bearing checking accounts will be fully insured regardless of amount until December 31, 2009. As I noted above, Highlands needs additional deposits to fund the loan demand volume and to continue our strong growth.

Please consider opening or increasing your deposit relationship with Highlands. I encourage you to call me directly at 973-764-3200 extension 101 and I will personally make sure your requirements are met.

You will soon receive notice of a special shareholder meeting to approve the pending merger with Noble Community Bank. We expect the merger to take place, subject to shareholder approval, on or before December 31, 2008.

Sincerely,



George E. Irwin
President & CEO

HIGHLANDS STATE BANK BALANCE SHEET

(in dollars)

	September 30 2008 (unaudited)	December 31 2007 (audited)	September 30 2007 (unaudited)
ASSETS			
Cash and due from banks	\$981,345	\$1,161,515	\$664,765
Interest bearing deposits in other banks	231,054	-	189,000
Time deposits in other banks	396,000	2,481,000	2,880,000
Securities available for sale	9,831,296	7,364,599	8,107,891
Restricted investment in bank stock	337,100	50,000	50,000
Federal funds sold	-	-	1,593,000
Loans	\$51,272,276	\$31,327,016	\$25,504,435
less: Allowance for loan loss	(492,622)	(304,144)	(253,037)
Net loans	\$50,779,654	\$31,022,872	\$25,251,398
Bank premises and equipment, net	447,765	468,443	483,124
Other assets	435,399	329,195	340,259
Total Assets	<u>\$63,439,613</u>	<u>\$42,877,624</u>	<u>\$39,559,437</u>
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Deposits:			
Non-interest bearing	\$8,489,274	\$6,693,759	\$9,347,381
Interest-bearing	40,849,096	26,518,735	21,969,343
Total Deposits	\$49,338,370	\$33,212,494	\$31,316,724
Borrowings	6,072,000	759,000	-
Other liabilities	238,555	204,554	172,717
Total Liabilities	\$55,648,925	\$34,176,048	\$31,489,441
STOCKHOLDERS EQUITY			
Common stock, \$5 par value; authorized 5,000,000 shares; issued and outstanding 1,095,159 shares 9/30/2008 and 12/31/2007; 9/30/2007 1,023,894 shares	\$5,475,795	\$5,475,795	\$5,119,470
Surplus	5,766,788	5,730,086	5,348,612
Accumulated deficit	(3,154,881)	(2,566,089)	(2,388,621)
Accumulated other comprehensive loss	(297,014)	61,784	(9,465)
Total Stockholders' Equity	\$7,790,688	\$8,701,576	\$8,069,996
Total Liabilities and Stockholders' Equity	<u>\$63,439,613</u>	<u>\$42,877,624</u>	<u>\$39,559,437</u>