



Dear Shareholder:

August, 2009

The year 2009 has been an exciting one for Highlands State Bank. Assets grew to \$136.7 million as of June 30, 2009, an increase of \$17.1 million or 14.3% compared to total assets of \$119.6 million as of December 31, 2008. Net loans, including loans held for sale, increased 16.2% to \$103.9 million. As of year end 2008, net loans equaled \$89.5 million. Deposits increased \$18.3 million or 18.9%, to \$115.1 million at the end of June compared with \$96.8 million at year-end. Detailed financial reports are available on our web site, www.highlandsstatebank.com.

We are still recognizing the benefits of the merger between Highlands and Noble Community Bank that was completed at the end of 2008, and expect that our future performance will more fully demonstrate the benefits of the merger. In addition, we are particularly pleased with the growth of the Totowa office that opened in January 2009. The office is exceeding our expectations. Highlands is very fortunate to have attracted the staff that is driving the growth of Highlands in that market.

In our last letter we reported that we had applied to the United States Treasury and been approved to participate in the Capital Purchase Program (CPP). In May we issued 3,091 Series A preferred shares and 155 Series B preferred shares to the Treasury. This investment increased our capital by \$3.1 million, and increased our lending limit to \$2.3 million, allowing us to better serve the needs of our customers. Subsequent to our receiving the investment, the Treasury announced the Capital Purchase Program Expansion for Small Banks. The program allows strong banks with less than \$500 million of total assets to apply for an additional capital investment of up to 2% of their Risk Weighted Assets. We have applied for the additional investment, and our application is pending. In order for us to participate in the new program, we will be required to hold a special shareholders meeting to approve issuance of additional preferred stock. Further information regarding that meeting will be forthcoming.

As a result of the merger with Noble Community Bank, Highlands State Bank has filed a Registration Statement under the Securities Exchange Act of 1934 (the "Exchange Act"), registering shares of the Bank's Common Stock under Section 12(g) of the Exchange Act. The Bank became a "reporting company" under the Exchange Act when the Federal Deposit Insurance Corporation declared the Registration Statement effective. We will now file annual reports on Form 10K and quarterly reports on Form 10Q with the FDIC. We will also post the filings on our web site www.highlandsstatebank.com. You can access them by signing on to the site, clicking on the "About Us" tab and then clicking on the report you wish to look at.

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

Sincerely,

George E. Irwin,
President & CEO