

BOARD APPROVED

Highlands State Bank

Date September 21, 2010
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WHISTLEBLOWER POLICY

Highlands State Bank, referred to in this policy as the "Bank" or "we", is committed to providing a workplace conducive to open discussion of our business practices and are committed to complying with all applicable laws and regulations, as well as our own corporate governance policies, including our Code of Ethics and Business Conduct. Accordingly, we have an open door policy and encourage all employees to share their questions, concerns, suggestions or complaints with someone who can address them properly and, when applicable, to provide us with an opportunity to investigate and correct any alleged misconduct that is found or perceived to exist. To that end, we, in conjunction with the Audit Committee of our Board of Directors, referred as the "Audit Committee," have adopted this policy to facilitate the communication of questions, concerns, suggestions or complaints, including those of alleged misconduct.

Employee Reporting Process

In most cases, your supervisor will be in the best position to address any questions, concerns, suggestions or complaints that you may have.

If you have a complaint regarding accounting, internal accounting controls, or auditing matters, collectively referred to as "Accounting Matters", you should report your complaint directly to the Audit Committee. Employees may report complaints to the Audit Committee, openly or anonymously, by one of the following methods:

- by telephone, to (201) 444-8800, Attn: Mr. Douglas Verduin- Audit Committee Chair
- by e-mail (which will not be anonymous), to(dverduin@bvkcpcas.com), or
- by mail, overnight courier or hand delivery, to Douglas Verduin, Audit Committee, Highlands State Bank, PO Box 160, 310 Route 94 Vernon, NJ 07462.

If you have a concern or complaint about any matter other than an Accounting Matter, and you are not comfortable speaking with your supervisor or you are not satisfied with your supervisor's response, you are encouraged to communicate with any of the following persons:

- the Compliance Officer, or Bank President
- the Audit Committee as shown above.

Employees should make every effort to report their concerns using one or more of the methods specified above. The reporting procedure is specifically designed so that employees have a mechanism that allows the employee to bypass a supervisor he or she believes is engaged in misconduct. Anonymous reports should be factual and should contain as much specific information as possible to allow the persons investigating the report to adequately assess the nature, extent and urgency of the situation. Employees should realize that if an anonymous report cannot be properly investigated without additional information, we may have to close the matter for lack of sufficient information.

Accounting Matters and Role of the Audit Committee

The Audit Committee of our Board of Directors is responsible for addressing all reported complaints regarding Accounting Matters. Any employee, supervisor or other officer, including the Compliance Officer or Bank President, who receives a complaint regarding Accounting Matters should immediately notify the Audit Committee.

Upon receipt of a report regarding Accounting Matters or any other report made to the Audit Committee pursuant to this policy, the Audit Committee will, to the extent it deems appropriate, appoint one or more internal and/or external investigators to promptly and fully investigate the matter or matters identified in the report.

If any investigation by the Audit Committee confirms that misconduct has occurred, we will take appropriate corrective action with respect to the person(s) involved, including possible termination of such person(s), and will also take appropriate steps to correct and remedy any misconduct by the Bank, in accordance with the report and recommendation of the Audit Committee.

Other Matters and Role of the Compliance Officer

Our Board of Directors has appointed Joanne E. Sagaas as Compliance Officer. She, or such other officer as the Board of Directors may appoint as Compliance Officer from time to time, is responsible for investigating and resolving all reported matters other than Accounting Matters and, at the request and under the authority and direction of the Audit Committee, may assist in the investigation and resolution of Accounting Matters. At the Compliance Officer's discretion, he or she will report any matters other than Accounting Matters to the Audit Committee or the entire Board of Directors.

With respect to matters other than Accounting Matters, the Compliance Officer will determine the level of investigation the complaint warrants and who the appropriate party is to perform the investigation. The Compliance Officer will be responsible for determining if the facts support or do not support the complaint.

If any investigation by the Compliance Officer of a matter other than an Accounting Matter confirms that misconduct has occurred, we will take appropriate corrective action with respect to the person(s) involved, including possible termination of such person(s), and will also take appropriate steps to correct and remedy any misconduct by the Bank, in accordance with the report and recommendation of the Compliance Officer.

Should the Compliance Officer assist in the investigation of any complaint regarding Accounting Matters at the request of the Audit Committee, the results of any such investigation by the Compliance Officer must be reported to the Audit Committee for review and final determination.

Investigation Procedures

Upon receipt of a report under this policy, the Audit Committee or Compliance Officer, as applicable, will inform the reporting person (if his or her identity is known) that the report has

been received and, to the extent appropriate, provide him or her with the name of, and contact information for, the investigator or investigators assigned to the report.

The investigation of any matter identified in a report will be handled discreetly and appropriately, and information will be disclosed to others only on a need to know basis or as required by applicable law. The scope of the investigation will depend on the particular circumstances but may involve interviewing employees, third parties, obtaining and reviewing documents, and accessing data base information. Employees involved in the investigation as witnesses or assisting in obtaining investigation will be required to maintain the confidentiality of the subject matter and investigation.

Upon the conclusion of the investigation, the investigator or investigators shall provide a report and recommendation, together with any supporting materials, to the Audit Committee or Compliance Officer, as applicable. The report shall set out in detail the specifics of the complaint, the steps taken in the investigation, the factual findings, and the recommendations for corrective action, if appropriate.

The Audit Committee, in its discretion, or the Compliance Officer, with the approval of the Audit Committee, may retain for assistance or delegate responsibility for an investigation to outside professionals or experts where necessary, or may seek such additional advice and counsel including from outside professionals and experts before reaching a final decision concerning any matter or appropriate corrective action.

Policy of Non-Retaliation

It is our policy to comply with all applicable laws, including New Jersey's Conscientious Employee Protection Act (N.J.S.A. 34:19-1 et seq.), that protect our employees against unlawful discrimination or retaliation as a result of their lawfully reporting information regarding, or their participation in investigations involving, alleged misconduct by the Bank. Specifically, our policy is designed to prevent employees from being subject to disciplinary or retaliatory action by the Bank as a result of an employee's:

- disclosing information to a government or law enforcement agency or a representative of the Bank, where the employee has a good-faith, reasonable belief that the information demonstrates a violation or possible violation of a federal or state law, rule or regulation,
- providing information, filing, testifying or participating in a proceeding filed or about to be filed, or otherwise assisting in an investigation or proceeding regarding any conduct that the employee reasonably and in good faith believes involves a violation or possible violation of a federal or state law, rule or regulation,
- providing information to the Bank's representatives or other persons where the employee has a good-faith, reasonable belief that the information discloses a violation or possible violation of our corporate governance policies, including our Code of Ethics and Business Conduct, or

- objecting to, or refusing to participate in any activity, policy or practice that the employee reasonably and in good faith believes involves a violation or possible violation of a federal or state law, rule or regulation or of our corporate governance policies.

If any employee believes he or she has been subjected to any discrimination or retaliation or other action by the Bank for reporting suspected misconduct or objecting to potential misconduct in accordance with this policy, he or she may file a complaint by following the procedures set forth in this policy. If it is determined that an employee has experienced any improper employment action in violation of this policy, we will endeavor to take appropriate corrective action.

An employee who makes any report under this policy should exercise sound judgment and act without malice. False and malicious complaints, as opposed to complaints which, even if erroneous, are made in good faith, may be the subject of appropriate disciplinary action.

Confidentiality

The Compliance Officer and Audit Committee will treat all reports made under this policy and the matters identified in the reports as confidential to the fullest extent possible consistent with the need to investigate. Absolute confidentiality, however, cannot be guaranteed because the very fact of conducting an investigation may lead employees or other persons to reach conclusions of their own. Anyone involved in an investigation under this policy will be informed of their obligation to maintain confidentiality.

Record Retention

The Compliance Officer shall maintain a confidential file for each complaint and investigation made under this policy. Records should contain general identifying information showing the date of the complaint, the person complaining (if applicable), the general subject matter of the complaint, the date of the Compliance Officer report and recommendation, the date of the Audit Committee review and final determination, and disposition, as well as any supporting materials. All file materials shall be retained for [six] years and then discarded as required by applicable law or court order.

New Jersey Conscientious Employee Protection Act

In accordance with the New Jersey State law, an employee is protected against retaliatory action because he or she:

1. Discloses or threatens to disclose to a supervisor or public body an activity, policy or practice of his/her employer that the employee reasonably believes is in violation of a law or regulation.
2. Provides information to or testifies before a public body conducting an investigation or hearing concerning such a violation.
3. Objects to or refuses to participate in an activity, policy or practice if the employee reasonably believes that is in violation of a law or regulation or is fraudulent or criminal

or that it is incompatible with a clear mandate of public policy concerning the public health, safety or welfare.

If an employee believes that he/she has been involved in or has knowledge of, any action which may be in violation of law, regulation or public policy, or is fraudulent or criminal, the employee is urged to notify by email to dverduin@bykcpas.com, - Douglas Verduin, Audit Committee Chair. Notification will enable the matter to be investigated and corrected. Failure to notify the company may result in the loss of important legal rights.