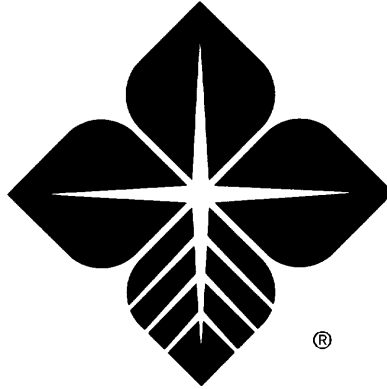





**2011
Quarterly Report
First Quarter**




For the Quarter Ended March 31, 2011

REPORT OF MANAGEMENT


The undersigned certify that we have reviewed this report, that it has been prepared in accordance with all applicable statutory or regulatory requirements, and that the information contained herein is true, accurate and complete to the best of his or her knowledge and belief.



William M. Tandy, Chief Executive Officer
May 5, 2011



Jerry Nelson, Audit Committee Chairman
May 5, 2011



Jenny Sloan, Chief Financial Officer
May 5, 2011

HERITAGE LAND BANK, ACA
MANAGEMENT'S DISCUSSION AND ANALYSIS
(dollars by thousands, except as noted)

The following commentary reviews the financial performance of the Heritage Land Bank, ACA (Agricultural Credit Association), referred to as the Association, for the quarter and three months ended March 31, 2011. These comments should be read in conjunction with the accompanying financial statements and the December 31, 2010 Annual Report to Stockholders.

The Association is a member of the Farm Credit System (System), a nationwide network of cooperatively owned financial institutions established by and subject to the provisions of the Farm Credit Act of 1971, as amended, and the regulations of the Farm Credit Administration (FCA) promulgated thereunder.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The consolidated financial statements were prepared under the oversight of the Association's Audit Committee.

Significant Events:

The Association underwent an examination by the Farm Credit Administration (FCA) in 2010. The examination cited serious management and credit weaknesses. As a result, the Association was placed under the special supervision of the Office of Examination of FCA. Under special supervision, the Association was required to undertake specific corrective actions. The Board and management immediately took action to correct those items cited in the exam. It was the opinion of the Board and management that material compliance with these requirements had been accomplished by the timeline outlined by FCA.

In December 2010, FCA determined that the response to one of the corrective actions was inadequate. At that time, the Board of Directors entered into a supervisory agreement with FCA. This agreement outlined new requirements for the Board of Directors and management. The Board and management have worked diligently in the first quarter of 2011 to accomplish all actions required in this agreement. The Board is committed to fully satisfying all requirements of the FCA and remediating the underlying causes of the conditions which led to the supervisory agreement. See details regarding the agreement in Note 9 to the consolidated financial statements, "Supervisory Agreement with the Farm Credit Administration," included in this quarterly report.

In 2010, the credit quality of the loan portfolio was steadily deteriorating. The deterioration led to losses in a number of large loans within the Association's loan portfolio and the addition of reserves to the allowance for loan losses. Consequently, these items significantly affected the Association's earnings in 2010 which resulted in a violation of the Return on Assets (ROA) covenant in the general financing agreement with the Farm Credit Bank of Texas (the Bank). The Bank has issued a limited waiver effective through January 31, 2012, related to not achieving this minimum standard subject to the Association meeting other designated conditions. All other conditions/covenants of the general financing agreement remain in full force and effect. It is management's opinion that compliance with the limited waiver issued for 2011 will be maintained.

During the first quarter ended March 31, 2011, the Association continued efforts to strengthen its financial position and manage the credit risk within its portfolio. High risk assets declined from \$34.0 million to \$23.9 million representing a decrease of \$10.1 million from December 31, 2010 to March 31, 2011. This decline was primarily due to the reduction in other property owned of \$5.8 million and nonaccrual loans of \$5.8 million offset slightly by an increase in accrual loans that were 90 days past due or restructured of \$1.5 million. Net income before provision for loan losses was \$1.6 million for the three months ending March 31, 2011. The Association's credit quality, however, remains weakened which management attributes to the continued stress in the economy and the decline in land values. Consequently, the Association recognized \$1.4 million in provision for loan losses reducing net income to \$122 thousand for the three months ended March 31, 2011.

Loan Portfolio:

Total loans outstanding at March 31, 2011, including nonaccrual loans, were \$355.5 million compared to \$371.8 million at December 31, 2010, reflecting a decrease of 4.4 percent. The decrease in loan volume is related to the shrinking demand for new loan financing, the collection of loans in default and additional principal payments by borrowers. Management attributes these factors to the stressed economic environment and the decrease in demand for real estate, recreational property, and large land tract purchases.

The credit quality of the portfolio declined slightly in the first quarter of 2011. Loans classed substandard increased from 9.3 percent to 9.8 percent of the loan portfolio from December 31, 2010 to March 31, 2011. Loans with potential weaknesses, classed special mention, decreased from 5.2 percent at December 31, 2010 to 4.7 percent at March 31, 2011. Acceptable credit remained the same at 85.5 percent at both December 31, 2010 and March 31, 2011.

The Association recorded \$28 thousand in recoveries and \$1.9 million in charge offs for the quarter ending March 31, 2011, and \$11 thousand in recoveries and \$1.6 million in charge offs for the same period in 2010. The Association's allowance for loan losses remains the same at 2.7 percent of total loans outstanding as of March 31, 2011, and December 31, 2010, respectively.

Risk Exposure:

High-risk assets include nonaccrual loans, loans that are past due 90 days or more and still accruing interest, formally restructured loans and other property owned. The following table illustrates the Association's components and trends of high-risk assets.

	March 31, 2011		December 31, 2010	
	Amount	%	Amount	%
Nonaccrual	\$ 19,318	80.9%	\$ 25,083	73.7%
90 days past due and still accruing interest	378	1.6%	55	0.2%
Formally restructured	1,207	5.1%	88	0.2%
Other property owned, net	2,982	12.4%	8,813	25.9%
Total	<u>\$ 23,885</u>	<u>100.0%</u>	<u>\$ 34,039</u>	<u>100.0%</u>

High risk assets decreased \$10.2 million from December 31, 2010 primarily due to decreases in nonaccrual loans of \$5.8 million and other property owned of \$5.8 million. The decrease in nonaccrual loans is due to charge offs totaling \$1.9 million, repayments totaling \$1.1 million, and the upgrade of a loan to accrual status for \$4.7 million because of the borrower's improved financial condition and past performance. The decrease in nonaccrual loans was offset somewhat by the transfer of loans from accrual to nonaccrual status for \$1.9 million.

The decrease in other property owned is due to the sale of acquired properties totaling \$5.5 million and adjustments in the market value of other properties held totaling \$341 thousand.

The increase in formally restructured loans of \$1.1 million is related to the workout of credits where loan terms were modified on existing loans to maximize a borrower's ability to repay.

Investments:

During the first quarter of 2010, the Association exchanged \$6.9 million of mortgage loans for a Federal Agricultural Mortgage Corporation (Farmer Mac) guaranteed agricultural mortgage-backed security that previously were covered under a Long-Term Standby Commitment to Purchase Agreement with Farmer Mac. No gain or loss was recognized in the financial statements upon completion of the exchange transaction. The Association's intent is to hold the investment until maturity and therefore will carry it at amortized cost. The Association continues to service the loans included in this transaction. These investments in guaranteed securities are included in this report's Consolidated Balance Sheet as Investments – Held-to-Maturity.

Results of Operations:

	For the Quarter Ended March 31,			
	2011	2010	\$ Change	% Change
Net Interest Income	\$ 2,589	\$ 3,008	\$ (419)	-13.9%
Provision for Loan Losses	(1,439)	(1,651)	212	12.8%
Noninterest Income	615	821	(206)	-25.1%
Noninterest Expense	(1,643)	(1,390)	(253)	18.2%
Net Income	<u>\$ 122</u>	<u>\$ 788</u>	<u>\$ (666)</u>	<u>-84.5%</u>
Average loan volume	365,556	428,982	(63,426)	-14.8%
Average direct note	317,413	365,513	(48,100)	-13.2%
Interest rate spread	2.30	2.26	0.04	1.8%
Return on Average Assets	0.13	0.71	(0.58)	-81.7%
Return on Average Equity	0.83	4.42	(3.59)	-81.2%

The Association had net income of \$122 thousand for the three months ended March 31, 2011, as compared to net income of \$788 thousand for the same period in 2010 reflecting an decrease of 84.5 percent. The decrease in net income, as shown in the table above, is due to several factors. Net interest income was \$2.6 million for the three months ended March 31, 2011, compared to \$3.0 million for the same period in 2010 reflecting a decrease of 13.9 percent. The decrease is due to the decline in average loan volume of \$63.4 million, offset by an increase in the interest spread of 4 basis points. The decrease in loan volume is attributable to the slow demand for new loan financing, the collection of loans in default, and additional principal pay down on loans by borrowers.

Noninterest income for the first quarter 2011 decreased \$206 thousand, or 25.1 percent, as compared to the first quarter 2010, due to a decrease in fee income because of the reduction in new loan financing, a lower patronage accrual from FCBT due to a decrease in the average direct note of \$48.1 million, and less patronage received from other farm credit institutions.

Noninterest expense increased by \$253 thousand, or 18.2 percent, as compared to the first quarter 2010, primarily due to losses recorded in the first quarter 2011 related to other property owned.

The Association's return on average assets for the three months ended March 31, 2011, was 0.13 percent compared to 0.71 percent for the same period in 2010. The Association's return on average equity for the three months ended March 31, 2011, was 0.83 percent, compared to 4.42 percent for the same period in 2010. The decrease in both returns from 2010 is related to the decline in earnings from reduced net interest income and increased operating expenses as well as the recognition of \$1.4 million in provision for loans losses.

Liquidity and Funding Sources:

The Association secures the majority of its lendable funds from the Farm Credit Bank of Texas (the Bank), which obtains its funds through the issuance of Systemwide obligations and with lendable equity. The following schedule summarizes the Association's borrowings.

	March 31, 2011	December 31, 2010
Note payable to the bank	<u>\$ 309,759</u>	\$ 328,507
Accrued interest on note payable	<u>836</u>	906
Total	<u><u>\$ 310,595</u></u>	<u><u>\$ 329,413</u></u>

The general financing agreement outlines covenants that the Association is required to maintain. The Association was in violation of the Return on Assets (ROA) covenant as of March 31, 2011. The Bank issued a limited waiver effective through January 31, 2012 of the covenant subject to the Association meeting other designated conditions. All other conditions/covenants of the general financing agreement remain in full force and effect.

At March 31, 2011, the Association's adversely classified loans to risk fund's ratio of 58% exceeded a standard of 50% set out in the general financing agreement with the Bank. Although the ratio exceeded the standard, the Association was not in default. Association management submitted a plan showing actions to be taken to reduce this ratio and the plan was approved by the Bank.

Capital Resources:

The Association's capital position increased by \$50 thousand at March 31, 2011, compared to December 31, 2010. The Association's debt as a percentage of members' equity was 5.30:1 as of March 31, 2011, compared to 5.62:1 as of December 31, 2010.

Under regulations governing minimum permanent capital adequacy and other capitalization issues, the Association is required to maintain a minimum adjusted permanent capital of 7.0 percent of risk-adjusted assets as defined by the FCA. The Association's permanent capital ratio at March 31, 2011, was 14.2 percent, which is in compliance with the FCA's minimum permanent capital standard. The Association's core surplus ratio and total surplus ratio at March 31, 2011, were 13.5 and 13.5 percent, respectively, which is in compliance with the FCA's minimum surplus standard.

One of the Board of Directors single most important considerations, particularly during times of economic uncertainty is the Association's long-term financial health and protection of capital. As a result of the Association's first quarter financial results, the Board has determined that, while possible, it is unlikely that a patronage distribution will be declared from 2011 earnings. In the future, as the Association experiences improvement in credit quality and earnings, the Board of Directors is committed to returning earnings back to its members.

Significant Recent Accounting Pronouncements:

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the Financial Accounting Standards Board (FASB) issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association’s financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition and results of operations but resulted in additional disclosures.

Relationship with the Farm Credit Bank of Texas:

The Association’s financial condition may be impacted by factors that affect the Bank. The financial condition and results of operations of the Bank may materially affect the stockholder’s investment in the Association. The Management’s Discussion and Analysis and Notes to Financial Statements contained in the December 31, 2010 Annual Report of Heritage Land Bank, ACA more fully describe the Association’s relationship with the Bank.

The Texas Farm Credit District’s (District) annual and quarterly stockholder reports are available free of charge, upon request. These reports can be obtained by writing to Farm Credit Bank of Texas, The Ag Agency, P.O. Box 202590, Austin, Texas 78720, or by calling (512) 483-9260. Copies of the District’s quarterly and annual stockholder reports also can be requested by e-mail at fcf@farmcreditbank.com. The District makes its annual and quarterly stockholder reports available on its website at www.farmcreditbank.com. The Association’s quarterly stockholder reports are also available free of charge, upon request. These reports can be obtained by writing to Heritage Land Bank, ACA, 4608 Kinsey Drive, Suite 100, Tyler, Texas 75703 or calling 903-534-4974. The Association also makes its annual report and quarterly reports available on its web site at www.heritagelandbank.com.

HERITAGE LAND BANK, ACA

CONSOLIDATED BALANCE SHEET

(dollars in thousands)

	March 31, 2011 (unaudited)	December 31, 2010
<u>ASSETS</u>		
Cash	\$ 3,529	\$ 586
Investments - Held-to-Maturity	5,104	5,288
Loans	355,501	371,795
Less: allowance for loan losses	(9,484)	(9,876)
Net loans	<u>346,017</u>	<u>361,919</u>
Accrued interest receivable	2,550	2,277
Investment in and receivable from the Bank:		
Capital stock	7,174	7,174
Other	446	805
Other property owned, net	2,982	8,813
Premises and equipment	1,969	2,001
Other assets	714	609
Total assets	<u><u>\$ 370,485</u></u>	<u><u>\$ 389,472</u></u>
<u>LIABILITIES</u>		
Note payable to the Bank	\$ 309,759	\$ 328,507
Accrued interest payable	836	906
Drafts outstanding	-	15
Other liabilities	1,049	1,253
Total liabilities	<u><u>311,644</u></u>	<u><u>330,681</u></u>
<u>MEMBERS' EQUITY</u>		
Capital stock and participation certificates	2,306	2,362
Allocated retained earnings	6,359	6,365
Unallocated retained earnings	49,864	49,742
Accumulated other comprehensive income	312	322
Total members' equity	<u><u>58,841</u></u>	<u><u>58,791</u></u>
Total liabilities and members' equity	<u><u>\$ 370,485</u></u>	<u><u>\$ 389,472</u></u>

The accompanying notes are an integral part of these financial statements.

HERITAGE LAND BANK, A CA

CONSOLIDATED STATEMENT OF INCOME

(dollars in thousands)

(unaudited)

	Quarter Ended	
	March 31,	
	2011	2010
<u>INTEREST INCOME</u>		
Loans	\$ 5,014	\$ 6,054
Investments	<u>69</u>	<u>17</u>
Total interest income	<u>5,083</u>	<u>6,071</u>
<u>INTEREST EXPENSE</u>		
Note payable to the bank	<u>2,494</u>	<u>3,063</u>
Net interest income	<u>2,589</u>	<u>3,008</u>
<u>PROVISION FOR LOAN LOSSES</u>		
Net interest income after provision for loan losses	<u>1,439</u>	<u>1,651</u>
<u>NONINTEREST INCOME</u>		
Patronage Income from the Bank	520	559
Patronage Income from the other Farm Credit Institutions	19	71
Loan fees	42	165
Financially related services income	2	3
Other noninterest income	<u>32</u>	<u>23</u>
Total noninterest income	<u>615</u>	<u>821</u>
<u>NONINTEREST EXPENSES</u>		
Salaries and employee benefits	833	830
Directors' expense	68	67
Purchased services	127	83
Travel	38	40
Occupancy and equipment	66	78
Communications	17	17
Advertising	18	6
Public and member relations	30	42
Supervisory and exam expense	49	41
Insurance Fund premiums	51	90
Loss on other property owned, net	280	34
Other noninterest expense	<u>66</u>	<u>62</u>
Total noninterest expenses	<u>1,643</u>	<u>1,390</u>
Net income	<u>\$ 122</u>	<u>\$ 788</u>

The accompanying notes are an integral part of these financial statements.

HERITAGE LAND BANK, ACA

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' EQUITY

(dollars in thousands)

(unaudited)

	Capital Stock/ Participation Certificates	Retained Earnings		Accumulated Other Comprehensive Income (Loss)	Total Members' Equity
		Allocated	Unallocated		
Balance at December 31, 2009	\$ 2,573	\$ 6,498	\$ 61,032	\$ 423	\$ 70,526
Comprehensive income					
Net income	-	-	788	-	788
Change in postretirement benefit plans	-	-	-	9	9
Total comprehensive income	-	-	788	9	797
Capital stock/participation certificates issued	44	-	-	-	44
Capital stock/participation certificates and allocated retained earnings retired	(87)	(59)	-	-	(146)
Balance at March 31, 2010	<u>\$ 2,530</u>	<u>\$ 6,439</u>	<u>\$ 61,820</u>	<u>\$ 432</u>	<u>\$ 71,221</u>
Balance at December 31, 2010	2,362	\$ 6,365	49,742	322	\$ 58,791
Comprehensive income					
Net income	-	-	122	-	122
Change in postretirement benefit plans	-	-	-	(10)	(10)
Total comprehensive income	-	-	122	(10)	112
Capital stock/participation certificates issued	41	-	-	-	41
Capital stock/participation certificates and allocated retained earnings retired	(97)	(6)	-	-	(103)
Balance at March 31, 2011	<u>\$ 2,306</u>	<u>\$ 6,359</u>	<u>\$ 49,864</u>	<u>\$ 312</u>	<u>\$ 58,841</u>

The accompanying notes are an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(dollars by thousands, except as noted)

(unaudited)

NOTE 1 — ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

The Heritage Land Bank, ACA (Agricultural Credit Association), referred to as the Association, is a member-owned cooperative that provides credit and credit-related services to or for the benefit of eligible borrowers/stockholders for qualified agricultural purposes. The Association serves the counties of Dallas, Tarrant, Collin, Hunt, Rockwall, Smith, Henderson, Rusk, Cherokee, Anderson, Nacogdoches, Panola, Sabine, Angelina, San Augustine, and Shelby in the state of Texas. The Association is a lending institution of the Farm Credit System (the System), which was established by Acts of Congress to meet the needs of American agriculture.

The significant accounting policies followed and the financial condition and results of operations of the Association as of and for the year ended December 31, 2010 are contained in the 2010 Annual Report to Stockholders. These unaudited first quarter 2011 financial statements should be read in conjunction with the 2010 Annual Report to Stockholders.

In January 2011, the Financial Accounting Standards Board (FASB) issued guidance entitled, “Deferral of the Effective Date of Disclosures about Troubled Debt Restructurings.” This guidance temporarily delays the effective date of the disclosures about troubled debt restructurings required by the guidance previously issued on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses.” The effective date of the new disclosures about troubled debt restructurings and guidance for determining what constitutes a troubled debt restructuring will be coordinated and is anticipated to be effective for periods ending after June 15, 2011.

In July 2010, the FASB issued guidance on “Disclosures about the Credit Quality of Financing Receivables and the Allowance for Loan Losses,” which is intended to provide additional information to assist financial statement users in assessing an entity’s credit risk exposures and evaluating the adequacy of the allowance for credit losses. Existing disclosures are amended to include additional disclosures of financing receivables on a disaggregated basis (by portfolio segment and class of financing receivable) including among others, a roll forward schedule of the allowance for credit losses from the beginning of the reporting period to the end of the period on a portfolio segment basis, with the ending balance further disaggregated on the basis of the method of impairment (individually or collectively evaluated). The guidance also calls for new disclosures including but not limited to credit quality indicators at the end of the reporting period by class of financing receivables, the aging of past due financing receivables by class, the nature and extent of financing receivables modified as troubled debt restructurings by class and the effect on the allowance for credit losses. For nonpublic entities, the disclosures are effective for annual reporting periods ending on or after December 15, 2011. The adoption of this Standard will not have an impact on the Association’s financial condition or results of operations, but will result in additional disclosures for annual reporting periods ending after December 15, 2011.

In January 2010, the FASB issued guidance on “Fair Value Measurements and Disclosures,” which is to improve disclosures about fair value measurement by increasing transparency in financial reporting. The changes will provide a greater level of disaggregated information and more robust disclosures of valuation techniques and inputs to fair value measurement. The new disclosures and clarification of existing disclosures were effective for interim and annual reporting periods beginning after December 15, 2009, except for the disclosures about purchases, sales, issuances and settlements in the rollforward of activity in Level 3 fair value measurements. Those disclosures were effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The adoption of this Standard did not impact the Association’s financial condition and results of operations but resulted in additional disclosures.

The accompanying consolidated financial statements contain all adjustments necessary for a fair presentation of the interim financial condition and results of operations and conform with generally accepted accounting principles, except for the inclusion of a statement of cash flows. Generally accepted accounting principles require a business enterprise that provides a set of financial statements reporting both financial position and results of operations to also provide a statement of cash flows for each period for which results of operations are provided. In regulations issued by FCA, associations have the option to exclude statements of cash flows in interim financial statements. Therefore, the Association has elected not to include a statement of cash flows in these consolidated financial statements.

The consolidated financial statements comprise the operations of the ACA and its wholly-owned subsidiaries. The preparation of these consolidated financial statements requires the use of management’s estimates. The results for the quarter ended March 31, 2011, are not necessarily indicative of the results to be expected for the year ended December 31, 2011.

NOTE 2 — INVESTMENTS:***Held to Maturity:***

Effective February 1, 2010, \$6.9 million of agricultural mortgage loans previously covered under a Long-Term Standby Commitment to Purchase agreement with the Federal Agricultural Mortgage Corporation (Farmer Mac) were securitized. No gain or loss was recognized in the financial statements upon completion of the securitization. Terms of the agreement call for a guarantee fee of 20-50 basis points to be paid to Farmer Mac, and for the Association to receive a 30-basis-point fee for servicing the underlying loans.

The following is a summary of Farmer Mac agricultural mortgage-backed securities:

	March 31, 2011				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 5,104	\$ 40	\$ -	\$ 5,144	5.32%

	December 31, 2010				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Weighted Average Yield
Agricultural mortgage-backed securities	\$ 5,288	\$ 44	\$ -	\$ 5,332	5.23%

Substantially all of the investment securities mature within one year to five years.

NOTE 3 — LOANS AND ALLOWANCE FOR LOAN LOSSES:

A summary of loans follows:

<u>Loan Type</u>	<u>March 31, 2011</u>	<u>December 31, 2010</u>
Production agriculture:		
Real estate mortgage	\$ 295,109	\$ 305,314
Production and intermediate term	28,974	33,785
Agribusiness:		
Loans to cooperatives	1,120	740
Processing and marketing	14,776	15,666
Communication	1,376	1,441
Rural residential real estate	14,146	14,849
Total	<u>\$ 355,501</u>	<u>\$ 371,795</u>

The allowance for loan losses is maintained at a level considered adequate by management to provide for estimated losses inherent in the loan portfolio. The allowance is based on a periodic evaluation of the loan portfolio by management in which numerous factors are considered, including economic conditions, loan portfolio composition and prior loan loss experience. An analysis of the allowance for loan losses follows:

	March 31, 2011	March 31, 2010
Balance at beginning of quarter	\$ 9,876	\$ 2,931
Provision for loan losses	1,439	1,651
Charge-offs	(1,859)	(1,639)
Recoveries	28	10
Balance at end of quarter	<u>\$ 9,484</u>	<u>\$ 2,953</u>

Impaired loans include nonaccrual loans and loans that are past due 90 days or more and still accruing interest. The following table presents information concerning impaired loans:

	March 31, 2011	March 31, 2010
Impaired loans with related allowance	\$ 15,580	\$ 9,619
Impaired loans with no related allowance	5,323	10,049
Total impaired loans	<u>\$ 20,903</u>	<u>\$ 19,668</u>
Allowance on impaired loans	\$ 6,038	\$ 945
Average impaired loans	\$ 16,057	\$ 16,249
Interest income on impaired loans for the quarter	\$ 68	\$ 13

NOTE 4 — CAPITAL:

The Association's board of directors has established a Capital Adequacy Plan (Plan) that includes the capital targets that are necessary to achieve the institution's capital adequacy goals as well as the minimum permanent capital standards. The Plan monitors projected patronage distributions, equity retirements and other actions that may decrease the Association's permanent capital. In addition to factors that must be considered in meeting the minimum standards, the board of directors also monitors the following factors: capability of management; quality of operating policies, procedures, and internal controls; quality and quantity of earnings; asset quality and the adequacy of the allowance for losses to absorb potential loss within the loan and lease portfolios; sufficiency of liquid funds; needs of an institution's customer base; and any other risk-oriented activities. At least quarterly, management reviews the Association's goals and objectives with the Board.

NOTE 5 — INCOME TAXES:

Heritage Land Bank, ACA and its subsidiary are subject to federal and certain other income taxes. The Associations are eligible to operate as cooperatives that qualify for tax treatment under Subchapter T of the Internal Revenue code. Under specified conditions, the Associations can exclude from taxable income amounts distributed as qualified patronage refunds in the form of cash, stock or allocated surplus. Provisions for income taxes are made only on those earnings that will not be distributed as qualified patronage refunds. No provision for income taxes was recorded as of March 31, 2011.

Deferred taxes are recorded at the tax effect of all temporary differences based on the assumption that such temporary differences are retained by the institution and will therefore impact future tax payments. A valuation allowance is provided against deferred tax assets to the extent that it is more likely than not (more than 50 percent probability), based on management's estimate, that they will not be realized. For the three months ended March 31, 2011, and 2010 the Association carries a deferred tax asset of \$2.9 million and \$1.3 million respectively, with a full valuation allowance recorded against the asset each year.

The subsidiary, Heritage Land Bank, FLCA, is exempt from federal and other income taxes as provided in the Farm Credit Act of 1971.

NOTE 6 — FAIR VALUE MEASUREMENTS:

FASB guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability. See Note 2 to the 2010 Annual Report to Stockholders for a more complete description.

Assets and liabilities measured at fair value on a non-recurring basis for each of the fair value hierarchy values are summarized below:

March 31, 2011	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 14,369	\$ 14,369
Other property owned	-	-	2,982	2,982

December 31, 2010	Fair Value Measurement Using			Total Fair Value
	Level 1	Level 2	Level 3	
Assets:				
Loans	\$ -	\$ -	\$ 14,864	\$ 14,864
Other property owned	-	-	8,851	8,851

Valuation Techniques

As more fully discussed in Note 2 to the 2010 Annual Report to Stockholders, authoritative guidance establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The following represent a brief summary of the valuation techniques used for the Associations' assets and liabilities. For a more complete description, see Notes to the 2010 Annual Report to Stockholders.

Loans

For loans evaluated for impairment under FASB guidance, the fair value is based upon the underlying collateral since the loans were collateral-dependent loans. The fair value measurement process uses independent appraisals and other market-based information, but in many cases it also requires significant input based on management's knowledge of and judgment about current market conditions, specific issues relating to the collateral and other matters. As a result, these fair value measurements fall within Level 3 of the hierarchy. When the value of the real estate, less estimated costs to sell, is less than the principal balance of the loan, a specific reserve is established.

Other Property Owned

Other property owned is generally classified as Level 3. The fair value is based upon the collateral value. Costs to sell represent transaction costs and are not included as a component of the asset's fair value.

NOTE 7 — EMPLOYEE BENEFIT PLANS:

The Association previously disclosed in its financial statements for the year ended December 31, 2010, that it expected to contribute \$41 thousand to its postretirement benefit plan in 2011. As of March 31, 2011, \$9 thousand of contributions has been made. The Association presently anticipates contributing an additional \$28 thousand to fund its postretirement benefit plan in 2011 for a total of \$37 thousand. The unfunded accumulated benefit obligation related to this plan at March 31, 2011 is \$820 thousand.

NOTE 8 — COMMITMENTS AND CONTINGENT LIABILITIES:

The Association is involved in various legal proceedings in the normal course of business. In the opinion of management, there are no legal proceedings at this time that are likely to materially affect the Association.

NOTE 9 — SUPERVISORY AGREEMENT WITH THE FARM CREDIT ADMINISTRATION

The Association underwent an examination by the Farm Credit Administration (FCA) in 2010. The examination cited serious management and credit weaknesses, particularly in risk identification. As a result, the Association was placed under the special supervision of the Office of Examination of FCA. In December 2010, the Board of directors entered into a supervisory agreement with FCA after its Office of Examination deemed the Association's response to the findings of an independent Board governance study to be inadequate.

As required by the supervisory agreement, the Board and management are to take specific actions to strengthen several areas of Association operations and governance. The agreement requires the Board to receive additional training designed to improve its supervisory capacity. The Board is also required to hire a qualified consultant to help the Association improve its system of controls, train board members and management and assist in compliance with the agreement. The agreement also requires improvements to the board nominating process so as to improve the Board's representation of the shareholder base and to ensure ongoing identification and development of quality board candidates. The agreement also requires the Board to hire a new Chief Executive Officer and to submit a plan which addresses compliance with the Association's general financing agreement with the Farm Credit Bank of Texas. The agreement further outlines a system of monthly and quarterly reporting that keeps the FCA informed of the Association's financial, lending and operating activities.

The Board acted quickly to improve the Association's management and operations by hiring a new Chief Executive Officer with experience in turning around financial institutions operating under special regulatory supervision. The Board has charged the new Chief Executive Officer with, among other things, keeping the Association in compliance with the Agreement and developing or improving controls to lower the Association's risk, particularly in its loan portfolio. Additionally, since the FCA's examination, the Board has directed management to hire a new Chief Credit Officer and a new Special Assets Manager to assist in maximizing the value of the Association's weaker assets. The Board has further directed senior management to aggressively and continually analyze any changes in the ability of borrowers to repay their loans, to conservatively reserve funds for potential losses, and to increase the Association's focus on loan servicing. The Board completed additional training to improve its supervisory effectiveness and is dedicated to improving its capacity and competence with additional training as opportunities arise. The Board and new management are focused on establishing and keeping communication as a key priority in effectively overseeing the Association's business. The Board also has improved the structure of its oversight by chartering two new committees of the Board, one to oversee risk management and the other to address Association and Board governance. Finally, the Board has engaged a consultant to assist in revising and improving the Association's governance and internal controls to ensure the long-term financial health and soundness of Heritage Land Bank.

The Board believes the Association is in substantial compliance with the Agreement and is committed to the establishment of a new culture of accountability and professionalism. It believes the actions taken to strengthen operating practices and governing standards will result in a stronger and healthier Association which will better meet the financing needs of its stockholders. The Board will continue to update its stockholders as to its compliance with the Supervisory Agreement on a quarterly basis until such time that FCA determines this agreement is no longer in effect.

NOTE 10 — SUBSEQUENT EVENTS:

The Association has evaluated subsequent events through May 5, 2011 which is the date the financial statements were available to be issued. No subsequent events were noted to report.