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HeritageLandBank.com



Tyler Corporate Office

4608 Kinsey Drive, Suite 100
Tyler, Texas 75703
903-534-4975
877-404-5263

Athens Branch Office

113 S. Murchison Street, Suite B
Athens, Texas 75751
903-675-8010
877-456-4684

Greenville Branch Office

6601-A Wesley Street
Greenville, Texas 75402
903-455-2835
866-576-9508

McKinney Branch Office

2790 Virginia Parkway
McKinney, Texas 75071
972-562-6906
888-265-7506

Nacogdoches Branch Office

3925 N.W. Stallings Drive
Nacogdoches, Texas 75963
936-564-8271
877-395-8271

Palestine Branch Office

505 North Church Street
Palestine, Texas 75801
903-729-4667
877-456-5061

Rockwall Branch Office

2825 South Ridge Road
Rockwall, Texas 75032
972-722-7549

Tyler Lending Office

4608 Kinsey Drive, Suite 200
Tyler, Texas 75703
903-534-5040
877-404-5263

We Share Our Success and Earnings With You!



Dear Stockholder:

Some days it seems like our mailboxes are filled with nothing but junk mail: store fliers, credit card offers and solicitations from all kinds of organizations. This past spring, however, our stockholders received something in the mail that they could literally take to the bank — a patronage refund check.

As a cooperative, Heritage Land Bank supports the cooperative principle of sharing our success with our stockholders in the form of patronage. This past year, Heritage Land Bank had an outstanding year, with record earnings in the amount of \$8.5 million. Due to this outstanding performance, our board of directors

approved the largest patronage ever paid to stockholders in the amount of \$7.2 million, with 60 percent paid in cash and the remaining 40 percent coming to borrowers as allocated equities.

Patronage is one of the many distinct advantages of doing business with a cooperative. Investor-owned lenders pay dividends to their shareholders based on their ownership shares in the company. In contrast, we pass our earnings along to our customers in the form of patronage, based on the amount of business you do with the cooperative that year.

Whether you used your recent patronage check to help pay your taxes or other bills, to purchase something on your wish list, or to invest for the future, your patronage payment effectively reduced your cost of borrowing and **SAVED YOU MONEY.**

Heritage Land Bank is proud to be your lender and to serve the financing needs of our rural community. We appreciate your business, and hope you will tell your friends about the benefits of doing business with your cooperative, Heritage Land Bank.

Sincerely,

A handwritten signature in black ink that reads "Stephen R. Ogletree". The signature is written in a cursive style with a large, stylized initial "S".

Stephen R. Ogletree
Chief Executive Officer



Part of the Farm Credit System

Greg Horn Participates in Farm Credit Young Leaders Program



Greg Horn, left, with Jamie Stewart, president and chief executive officer of the Farm Credit Banks Funding Corporation in New Jersey

Greg Horn of Fairlie, Texas, a customer of Heritage Land Bank's Greenville branch office, traveled to Washington, D.C., and New York City in December 2006 as part of the Farm Credit Young Leaders Program. The week-long event was sponsored by the Tenth District Farm Credit Council.

The program gave young Farm Credit stockholders an overview of the Farm Credit System, and an opportunity to interact with System leaders and decision-makers in Washington, D.C. As one of 16 young leaders chosen to participate, Horn had a first-hand look at the Farm Credit System and the nation's banking system. Highlights of the trip included a meeting with U.S. Secretary of Agriculture Mike Johanns and tours of the Federal Reserve Bank of New York and the Federal Farm Credit Banks Funding Corporation.

Horn is a partner in Horn Cattle Company LLC, a cow-calf and yearling-feeding operation near Fairlie, and is also a co-owner of Fairlie Seed Company LLC. He received a bachelor's degree in animal science from East Texas State University. Horn and his wife, Leslie, have two children.

Record Earnings, Loan Volume and Patronage

Last year was a record-setting year for Heritage Land Bank, ACA.

The lending cooperative reported record earnings of \$8.5 million in 2006, resulting in a return on average stockholder's equity of 15.4 percent. Loan volume of \$364.7 million at Dec. 31, 2006, was up from \$286.2 million at year-end 2005. This increase of \$78.5 million, or 27 percent, from the previous year was attributed to growth in new business. In fact, Heritage Land Bank closed more than 729 new loans totaling \$189 million during the year.

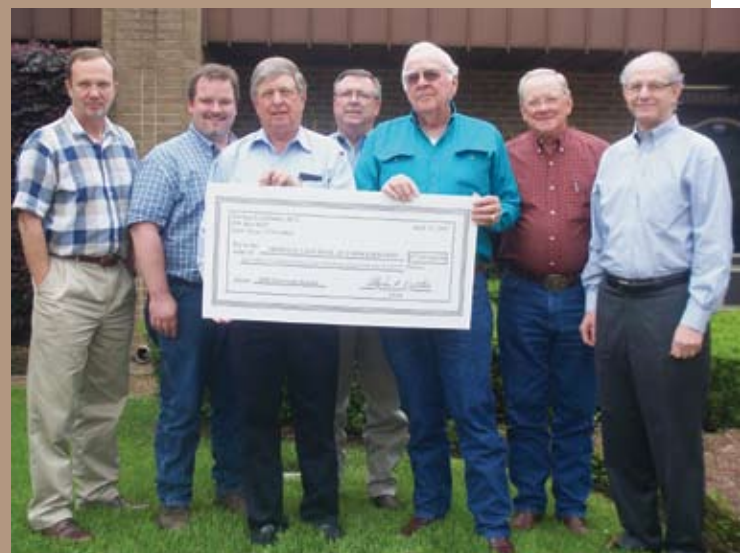
At the same time, Heritage Land Bank's credit quality remained historically high, with 96 percent acceptable loan volume reported at Dec. 31, 2006. The association's capital position also remained strong, with a permanent capital ratio of 14.6 percent at year-end 2006, well above the 7 percent minimum set by the Farm Credit Administration.

Based on the association's outstanding performance in 2006, the board of directors approved a patronage distribution to customers totaling more than \$7.2 million, the largest patronage payment ever paid by Heritage. Customers received checks in April 2007 totaling more than \$4.3 million in cash, and a distribution of another \$2.9 million in allocated equities.

"Heritage Land Bank has a long history of paying patronage dividends, as well as providing competitive funding for our

customers. We are pleased to be able to offer our customers these benefits, both of which set us apart from other lenders," said Stephen Ogletree, chief executive officer. "It pays, literally, to do business with a cooperative."

Since 1994, Heritage has consistently returned a portion of its earnings to its customers in the form of a patronage distribution.



Heritage Land Bank board members display a check showing the association's \$7.2 million record patronage distribution to customers. Pictured, left to right, are Tom Gay, Kevin Sampson, Bill Ashworth, Jackie Pullen, Horace McQueen, Harold Baty and Jerry Nelson.

Meet Your New CEO, Steve Ogletree

Talk to anyone in the Farm Credit System who knows Stephen R. “Steve” Ogletree, and you’re sure to hear accolades about his knowledge, integrity, honesty and sound decision-making skills. No wonder he has spent the last 31 years in management positions throughout the Tenth Farm Credit District.

In November 2006, Ogletree was named chief executive officer of Heritage Land Bank. “We are so fortunate to have someone with his knowledge and experience taking over the reins at Heritage Land Bank,” stated Bill Ashworth, board chairman.

Ogletree graduated from Rice University in 1973 with a bachelor’s degree in commerce. He began his career as a loan officer for Tyler Production Credit Association (PCA), and in 1980, he accepted a position as credit reviewer with the Farm Credit Bank of Texas. In 1982 he was named president of Valley PCA in Harlingen. Ogletree briefly returned to the Farm Credit Bank of Texas as vice president of association supervision in 1984, but deciding that East Texas was where he wanted to raise his family, he moved back to Tyler in 1985 as president of Tyler PCA. When the association merged in 1999, forming AgriLand, Farm Credit Services, Ogletree was named CEO. He and his wife, Cindy, have three sons and one granddaughter.



Landscapes recently visited with Ogletree about his plans for Heritage Land Bank now and in the future.

Q: Typically, new leadership brings changes. As the new CEO, what changes, if any, do you have planned for Heritage?

A: Initially, my emphasis is to develop a transparent management style that fully discloses issues at the board of directors’ level and also at the stockholder and employee levels. This means business plans will be fully discussed with the board and agreed upon before implementation. We are continuing to empower our customer relationship managers with the authority to price loans to our customers. I have stressed to our team that our responsibility is to help make both our customers and our organization successful. Each part of the team must be well-trained, knowledgeable and energetic for the entire organization to be highly successful. We are also streamlining our loan-analysis and loan-processing segments to become more cost-efficient. We can only develop trust, grow in knowledge and meet our mission objectives through careful planning and by monitoring the results. Heritage Land Bank has been a very successful organization and has exceptionally high-quality employees. I plan to build on those assets and continue the high level of accomplishment that Heritage Land Bank has enjoyed.

Q: In 2006, Heritage Land Bank had exceptional growth, record earnings and a \$7.2 million patronage, the largest patronage distribution ever paid to our stockholders. Do you anticipate this growth to continue in 2007?

A: Our earnings and patronage program should continue to increase over record levels in 2007, but we expect growth to taper off some this year. Recent changes in our scope of lending,

as determined by our regulator, have curtailed our growth near the metropolitan areas, which fueled some of our new business in 2006. We have also reduced our investments in loan participations outside of our chartered territory and are concentrating more on the core loan portfolios that are typical for our area and expertise.

Q: With several associations in the Farm Credit System recently merging, do you anticipate Heritage Land Bank will ever attempt to merge again in the near future?

A: After the failed merger attempt in 2006, I’ll defer that question to our board of directors. I believe our board will have an open mind to any proposals which, in their analysis, will benefit Heritage Land Bank stockholders and will have a high probability of success.

Q: What do you see as the strengths of Heritage Land Bank that make the association stand out as a preferred lender over other lending institutions?

A: The quality, training and knowledge of our staff, our long history of paying patronage dividends, and our ability to obtain competitive funding for our customers sets us apart from other lenders. Our customers also enjoy a congressional requirement that we offer a borrower-rights package, which helps protect them. As a member institution of Farm Credit, we operate under the intent of the U.S. Congress to serve agriculture and rural America. This responsibility is not taken lightly, and we are dedicated to serving the interests of those involved in agriculture and improving the infrastructure and quality of life in rural America. To remain the preferred lender of choice, Heritage Land Bank must continue to provide extraordinary value to its customers.

Welcome to Our New Staff Members

Amanda Hendrix

Marketing Director
Tyler Corporate Office

Jory Parks

Branch Manager/Vice President
Palestine

Tawana Stegall

Junior Loan Processor
Tyler Corporate Office

Matt Tyler

Branch Manager/Vice President
Athens

Seth Wharton

Credit Analyst
McKinney

Jerry E. Nelson Joins Board of Directors



Jerry E. Nelson was recently appointed to the board of directors of Heritage Land Bank by the association's directors. Nelson succeeds Louis Clark, a retired commercial banker from Greenville, who served as the board-elected director for 16 years.

"We are very pleased to have Jerry joining Heritage Land Bank as a board member," said Bill Ashworth, Heritage Land Bank board chairman. "His knowledge and technical expertise will

be a great benefit to our association in helping provide an independent and objective perspective to the board's deliberations and decision making."

Nelson is a certified public accountant and has owned and operated Jerry Nelson & Associates, an accounting firm in Tyler, for the past 27 years. He is a graduate of the University of North Texas, where he received a bachelor's degree in accounting. He is a member and past president of Historic Tyler, and currently serves on the board of the East Texas Food Bank. He is also a member of the Texas Society of Certified Public Accountants and the American Institute of Certified Public Accountants. Nelson and his wife, Shari, have two children and attend Grace Community Church in Tyler. The family owns land in Cass County, where Nelson enjoys hunting.

Nominees Sought for Two Board Positions

This fall, Heritage Land Bank's annual meeting and customer appreciation dinners will be held jointly. Six consecutive meetings will be held in Athens, Greenville, McKinney, Nacogdoches, Palestine and Tyler.

Following these meetings, an election will be held for the 2008 Nominating Committee and two director positions. One board position will represent the southern region, including Anderson, Angelina, Cherokee, Henderson, Nacogdoches, Panola, Rusk, Sabine, San Augustine, Shelby and Smith counties. This position is currently held by Tom Gay, who is not seeking re-election. The other board position will represent the northern region, including Collin, Dallas, Hunt, Rockwall and Tarrant counties. This position was formerly held by Bob King, who recently resigned due to health problems.

Knowledgeable and engaged directors are critical to the success of Heritage Land Bank. Directors are paid for their board service and they are required to attend monthly board meetings and other training meetings throughout the year. To be eligible to serve on the board, a stockholder must:

- reside or have agricultural operations in the region represented.
- own voting stock in Heritage Land Bank.
- not be a director of another Farm Credit System institution.

If you are interested in becoming a member of Heritage Land Bank's board of directors, please contact a member of our nominating committee, whose names are listed at right.

Nominating Committee Members:

James Bachman
970 ACR 174
Grapeland, Texas 75844

Lewie Byers
1302 Plum Street
Rusk, Texas 78785

Michael Powell
3796 FM 36 South
Caddo Mills, Texas 75135

Johnnie Robinson
11812 CR 1104
Celina, Texas 75009