



November 24, 2004

Dear Shareholder:

Enclosed you will find the 10Q-SB and Financial Report for Trinity Bank, N.A. for the third quarter of 2004 and for the nine months ending September 30, 2004. Since we opened on May 28, 2003, our first full quarter of operation was the three months ending September 30, 2003. Therefore, we now have the opportunity to compare our quarterly operating performance to the same quarter from the prior year. What a difference a year makes!

(in 000's)	<u>9-30-03</u>	<u>9-30-04</u>	<u>Δ%</u>
Loans	\$ 7,301	\$23,809	226%
Securities	4,970	14,957	
Other Short-Term Investments	<u>18,466</u>	<u>10,788</u>	
Total Earnings Assets	\$30,737	\$49,554	61%
Total Assets	\$34,380	\$54,156	
Demand Deposits	\$ 5,932	\$11,536	
Time Deposits	<u>18,105</u>	<u>32,742</u>	
Total Deposits	\$24,037	\$44,278	84%

The key improvements are:

- 1) we continue to add quality customer relationships as evidenced by the growth in loans and deposits;
- 2) we continue to move more of our Short-Term Investments, which earned an average of 1.7% in the third quarter, into Loans earning 5.24% and Securities earning 3.67%, with the resulting positive impact on interest income;
- 3) our Loss from Operations for the third quarter dropped from (\$299,839) in 2003 to (\$37,379) in 2004;
- 4) **AND FINALLY, WE EARNED OUR FIRST MONTHLY PROFIT IN SEPTEMBER, 2004.**

When we originally applied for the Bank Charter in November, 2002, our Base Case estimate for breaking even was in the 16<sup>th</sup> month after inception. September of 2004 was our 16<sup>th</sup> month, and although the profit of \$835.60 was minimal, it is a major step for Trinity Bank, N.A.

We are about to begin work on a new three year plan for Trinity which will be available in June 2005. Now that we are profitable, I will start talking more about the future than the past. However, I would like to give you, our investors, one last look at the start-up results of your bank.

As of September 30, 2004, we met or exceeded all of our goals for the balance sheet.

(in 000's)	<u>Projected</u>	<u>Actual</u>
Loans	\$23,996	\$23,809
Investments	\$12,800	\$25,746
Deposits	\$32,754	\$44,339
Total Assets	\$38,852	\$54,156

We have not met the profitability projections. The two major reasons are:

- 1) loan volume came on more slowly than expected; and
- 2) the margin between what we can earn on loans and securities and what we pay for deposits was much less than I projected.

Nevertheless, we have made steady progress as shown below:

<u>Period</u>	<u>Loss From Operations</u>
5-28-03 to 9-30-03	(\$426,028)
4Q '03	(\$218,316)
1Q '04	(\$158,143)
2Q '04	(\$ 91,878)
3Q ' 04	(\$ 37,379)

We expect to report a small profit in the fourth quarter of 2004.

We enter into the holiday season with optimism. We have a great staff, a great physical facility, competitive products and services and we have received a great response from our target market – small and medium-size business and individuals that desire a high level of personal service. You, our shareholders, are our eyes and ears out in the community. If you hear of anyone that mentions a banking need, please let us know. We are very confident in our ability to perform, and if we can just get people to try us, we feel like they will be customers for life.

We also expect to have a couple of financial issues working for us in 2005 – more of a tailwind than a headwind. The first of these issues involves a concept called operating leverage. When a bank achieves a certain level of earning assets, then it produces incremental increases in Net Interest Income much faster than incremental increases in Operating Expense. For example, let me compare the third quarter of 2003 with the third quarter of 2004 in the chart below.

	<u>3Q '03</u>	<u>3Q '04</u>	<u>Change</u>
Net Interest Income	\$ 72,826	\$345,205	\$272,379
Operating Expense	\$351,031	\$413,642	\$ 62,611

Net Interest Income increased \$272,379 while operating expenses only increased \$62,611. The benefits of operating leverage will continue and will increase as long as we can add quality loans at an acceptable rate.

The second financial issue where we see improvement involves the margin problem that I have talked about in several previous reports. In the “good old days”, we (bankers) enjoyed a significantly larger spread between what we paid for money and what we charged for money. For example, the type of account at Trinity Bank where we have the largest number of dollars is our Special-T Money Market Account (both personal and business). Deposits in these accounts make up approximately 45% of our total deposits – \$20 million out of \$44 million in total deposits. The chart on the next page depicts the changes in the margin.

	<u>Average '99 and '00</u>	<u>Inception 5-28-03</u>	<u>11-24-04</u>
Prime Rate	8.50%	4.00%	5.00%
Rate Paid on Money Mkt Acct.	4.35%	1.72%	1.77%
Margin	4.15%	2.28%	3.23%

As you can see, there was a significant drop in the margin from '99 and '00 to the day that Trinity Bank opened for business. However, the margin has improved in the last half of this year. We expect to see more improvement in 2005 unless the economy falters.

I have mentioned the two improvements that we expect to assist us in 2005. To be fair, I need to tell you about the “headwind” that we are facing and expect to continue to face – increased competition. The current margin mentioned in the preceding paragraph is not back to the average level for '99 and '00. Nor do I expect it to reach the prior level for the foreseeable future. The Dallas/Fort Worth Metroplex is rapidly becoming the most competitive banking environment in the United States. The competition is coming from every direction. The national banking organizations (Chase, Wells Fargo, Bank of America), local banking organizations (Texas Bank, Frost, Summit Bank), and newly chartered banks (such as our Trinity Bank) are all actively expanding and/or establishing new physical locations. Add to this situation the new national banking organizations (such as Citibank, Wachovia, Regions) that have announced plans to enter this market. The result of all this is going to be increased competition and I think it will last a good while.

We are not afraid of competition. In our target market segment, we feel like we can beat any competitor if we have any equal shot at the business. But what a lot of competition typically does is create some “dumb” competition, especially in terms of interest rates (which affect profitability) and loan terms and provisions (which affect loan quality).

We will compete. But we intend to compete based upon sound financial principles. This may reduce the returns that we can generate for a time, but we remain committed to taking the long-term view of creating shareholder value.


Enough about business, although if you have any questions, concerns, or comments, please feel free to contact me. As you can see I am writing this letter on November 24, the day before Thanksgiving. I am thankful for;

- 1) my faith,
- 2) my wife and children and Micah,
- 3) my friends and associates,
- 4) the opportunity to work with the Board and staff of Trinity Bank as we seek to create a great banking organization,
- 5) the fact that we live in a great region that is part of a great state that is a part of a great nation.

I keep trying to be thankful for all the blessings that I have received, but they keep coming in faster than I can say thanks. I hope you feel the same way.

Thanks for your continued support. I trust that you will have a great holiday season.

Sincerely,



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Jeffrey M. Harp  
President

Enclosure