



November 15, 2007

Dear Shareholders:

**OPERATING RESULTS**

I am pleased to report, on behalf of the staff and the Board of Directors, the results from operations for Trinity Bank, N.A. for the third quarter of 2007 as well as for the first nine months of 2007. Listed below are some key numbers from our third quarter press release (the entire press release and summary financial report is attached for your review).

Average for Quarter Ending

	<u>9-30-07</u>	<u>9-30-06</u>	<u>%Δ</u>
Loans	\$50,328,000	\$36,604,000	37.5%
Deposits	\$96,942,000	\$69,797,000	38.9%

Actual for Quarter Ending

	<u>9-30-07</u>	<u>9-30-06</u>	<u>%Δ</u>
Pre-Tax Income	\$418,000	\$257,000	62.6%
After-Tax Income	\$271,000	\$257,000	5.4%

We were fortunate to be able to achieve our twelfth consecutive quarter of increased pretax profit. I have provided on the next page a quarterly history of operations since inception. We are pleased with the progress and trust that this performance is acceptable to you, the shareholder.

<u>Period</u>	<u>Gain (Loss)</u> <u>From Operations</u> <u>Before Taxes *</u>
5-28-03 to 9-30-03	(\$426,028)
4 Q '03	(\$218,316)
1 Q '04	(\$158,143)
2 Q '04	(\$ 91,878)
3 Q '04	(\$ 37,379)
4 Q '04	\$ 10,422
1 Q '05	\$ 44,869
2 Q '05	\$ 96,177
3 Q '05	\$138,855
4 Q '05	\$182,976
1 Q '06	\$205,409
2 Q '06	\$225,162
3 Q '06	\$257,351
4 Q '06	\$282,268
1 Q '07	\$328,822
2 Q '07	\$372,118
3 Q '07	\$417,867

\* For comparative purposes, I have used pretax income. We started paying Federal Income Tax in the 4<sup>th</sup> quarter of 2006 thereby making it difficult to compare growth in after-tax income.

### **SHAREHOLDER VALUE**

The Board and the staff of Trinity Bank have worked for several months to come up with a more formal plan to create shareholder value. We have chosen to use the Economic Value Added (EVA) Financial Management System introduced by Stern Stewart & Company in 1990. Without overwhelming you with the theoretical basis of EVA, we are convinced that this system should be the focal point of our efforts to create shareholder value.

What truly determines shareholder value (evidenced by stock prices) is the cash, adjusted for time and risk, which an investor can expect to get back over the life of the business. There are three ways to maximize EVA.

1. Increase cash flow without investing any more capital.
2. Invest excess capital in projects that will earn more than the cost of capital (the return that a shareholder requires to invest money in your business).
3. Divert or liquidate capital from business activities that do not provide adequate returns.

Number three does not apply to Trinity Bank, so we will focus on numbers one and two.

In laymen's terms, number one is "internal growth" and number two is "find new investment opportunities".

What are Trinity Bank's alternatives? Under scenario number one, we can increase cash flow without investing any more capital by growing internally.

### **Internal Growth**

This is basically, "Keep on doing what we are doing". As you can see from page one, loans are up 37.5%, deposits are up 38.9% and pretax income is up 62.6% over the same period last year. We are not sitting still or going backwards. Considering the competition in the market, we feel like this is acceptable performance. We still believe that we have a competitive advantage in our products, prices, and responsive personal service.

The other side of this coin is twofold. "How does Trinity's growth compare to the overall growth in the market?" And, "What kind of return are you producing on my investment?"

First, this is a good market – one of the best in the country. But, it is not growing 30% annually. Our slice of the pie, however small, is growing faster than the pie.

Second, in the third quarter of 2007, we generated a 14% return on the shareholder's investment (this and all numbers shown below are pre-tax and annualized). How does this compare to other investments? Today, you can buy a risk-free 10 year U.S. Treasury Bond that will yield 4.27%. That same dollar if invested in Trinity earned 14%. On the other hand, Frost Bank (one of our local competitors) earned 24% in the same quarter. Are we making progress? Yes. Do we have a way to go? Yes, but we have a plan to get there with internal growth.

Under the second scenario (invest excess capital in new ventures that will earn more than the cost of capital), we have two opportunities.

### **Acquire**

Would we do an acquisition? Yes, if it adds value. Would we acquire another bank just to get bigger and hope we could sell out? Probably not, even though there has been a lot of money made in the last 10 years in Texas banking by people who put together assets and locations and then sold them to a larger bank that wanted in the Texas market.

If a lot of money has been made in that scenario, why don't we go that way? That is a difficult question to answer, but I will share my opinion with you (always with the understanding that I could be wrong).

History is littered with examples of companies (in all industries) that have sacrificed profitability for market share. The number of failures is many times higher than the number of successes. However, companies that grow faster than the market and focus on making a profit have almost always created more shareholder value over the long run. The key is growing faster than the market and making a profit. I think Trinity, at this point, fits that description.

Second, as some of you are aware, a local community bank, Fort Worth National Bank (founded in 1998) recently was purchased by a Tyler bank for \$35.7 million in cash. Fort Worth National was more profitable than Trinity (being five years older), but roughly the same size. If Trinity were to pay the announced price for Fort Worth National, it would take all of the cash produced by both banks for 14 years to repay the debt that would have to be incurred to make the purchase.

Why would someone pay that price? The Tyler bank is in a relatively low growth market. To gain access to a market with more growth potential, they were willing to pay that price. Trinity Bank is in the same market. Why would we pay that premium? We would not, especially since it takes 14 years to recoup our investment. But someone else was willing to pay that price and that is why we would not choose to do an acquisition unless the price is right for us.

### **Open/Acquire Branch(es)**

Why don't we open a new branch? The answer is, "We would, if we have the people on board that can make that branch profitable". We would not open a branch just because we found a good location. Our target market segment does not choose its bank based upon geography or convenience. The people in Trinity Bank's target segment are most interested in products, prices, and responsive personal service.

Let me give you an example in our own market. Approximately five years ago, First Horizon (formerly First Tennessee National Bank) decided to come into the Dallas/Fort Worth market. I am sure that the Tennessee region was growing at a slower rate than Texas. Therefore, Texas looked inviting. First Horizon was unable (or unwilling) to pay the premium necessary to purchase a local franchise. They decided to go the new branch route.

Over the last five years, First Horizon opened five branches in Dallas County and five branches in Tarrant County. These were all new, expensive buildings in good geographical locations (population, traffic, personal income, etc.). One Fort Worth branch that I am familiar with is near the medical district in southwest Fort Worth (near the intersection of Oakmont and Bryant-Irvin). They opened these branches with relatively few people with any local knowledge of the community.

In July of this year, First Horizon announced that they were leaving the Dallas/Fort Worth market to concentrate on their strengths in the Tennessee region. They announced the sale of the ten Dallas/Fort Worth branches to Sterling Bank in Houston (once again, someone wanting in this market). In the announcement, it was reported that the ten branches combined had \$100 million in deposits and \$81 million in loans. After five years, with ten expensive new locations, First Horizon had been able to achieve about the same amount of deposits as Trinity Bank with one location. And these ten locations generated \$81 million in loans versus Trinity's \$50 million from one location. I can assure you that these branches were not profitable and had very little chance of becoming profitable in the near future.

The question then becomes, "How do you find the right people to open a new location?" It is very difficult right now. Experienced employees with a portfolio of relationships (either lending or depository relationships) are very expensive. I don't mean just expensive in dollars. I mean that experienced bankers are very expensive in proportion to the amount and the profitability of business that they can bring with them.

Can we hire some experienced bankers and open a branch in a new market? Probably. Can we make any money? Probably not. But it is surely more fun to talk about a new branch over a cup of coffee or to a newspaper reporter or investment banker. The theme usually is, "We are growing now. We will worry about making money later". In my 36½ years in banking, I have just not seen that work very well.

I hope that I am not being short-sighted in focusing on making money. We are growing at a good rate and we are making more money each quarter than the quarter before. And opportunities will arise in the future. That is one thing that I am sure of. And we will be well positioned to take advantage of them.

Well, enough of that. As my best little buddy Micah often says, "Boring, boring, boring!". I hope this discussion wasn't that bad. One of the nice things about being able to write this letter is that I can say what I think. And I am willing to be held accountable for the results.

Let me end this letter by remembering that we are in the Thanksgiving season. I am trying to be thankful in proportion to what I have been blessed with. I have a great family, great friends, good health, material blessings, and the opportunity to build a first class banking organization. These blessings are way out of proportion to anything I have done to deserve them. I hope that you feel the same way. As the first line of the old hymn goes, "To God be the glory, great things He hath done!".

Please let me know if you have any comments or questions (or suggested topics for future letters). I am available by phone, email, or in person.

Thankfully yours,



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Jeffrey M. Harp  
President

Attachment

### **Special Cautionary Notice Regarding Forward-Looking Statements**

This letter may contain certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 regarding future financial conditions, results of operations and the Bank's business operations. Such forward-looking statements involve risks, uncertainties and assumptions, including, but not limited to, monetary policy and general economic conditions in Texas and the greater Dallas-Fort Worth metropolitan area, the risks of changes in interest rates on the level and composition of deposits, loan demand and the values of loan collateral, securities and interest rate protection agreements, the actions of competitors and customers, the success of the Bank in implementing its strategic plan, the failure of the assumptions underlying the reserves for loan losses and the estimations of values of collateral and various financial assets and liabilities, that the costs of technological changes are more difficult or expensive than anticipated, the effects of regulatory restrictions imposed on banks generally, any changes in fiscal, monetary or regulatory policies and other uncertainties as discussed in the Bank's Registration Statement on Form SB-1 filed with the Office of the Comptroller of the Currency. Should one or more of these risks or uncertainties materialize, or should these underlying assumptions prove incorrect, actual outcomes may vary materially from outcomes expected or anticipated by the Bank. A forward-looking statement may include a statement of the assumptions or bases underlying the forward-looking statement. The Bank believes it has chosen these assumptions or bases in good faith and that they are reasonable. However, the Bank cautions you that assumptions or bases almost always vary from actual results, and the differences between assumptions or bases and actual results can be material. The Bank undertakes no obligation to publicly update or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise, unless the securities laws require the Bank to do so.