

2001

FUNDAMENTALS

TCC ANNUAL REPORT
2001

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The fundamentals of Smart Banking.

Since the founding of Los Alamos National Bank in 1963, the financial services industry has undergone great change. Over the last four decades, the Bank has relied on its fundamental principles of delivering excellent customer service, providing an enriching environment for employees, staying up-to-date on technology, and investing in the communities we serve. These fundamentals have guided the Bank to where it is today. As the landscape of financial services continues to evolve, LANB will plan for and anticipate change while relying on our fundamental values to guide our organization on the path of long-term sustainability and continued profitability.

I am happy to announce another year of record profits and growth. In a year of September 11, an economy in recession and the largest drop in short term interest rates, it is an impressive feat to report these results.

The tragic events of September 11 reminded all of us of the importance of family, friends and community. The LANB family has long known the importance of providing the best service possible. By sticking to the basics, we have consistently shown our dedication and commitment to our customers. Even though we have experienced tremendous growth over the many years, we continue to pay attention to the details and it shows.

On behalf of the Board of Directors, I want to thank the management and staff of LANB for another great year.



Jerry Kindsfather, TCC Chairman

In 2001, Trinity Capital Corporation reached a significant milestone by passing \$800 million in total assets. This represents a growth rate of 19.3 percent. This growth rate is impressive in light of our nation's economic slowdown that has occurred over the past year. This accomplishment is a tribute to our dedicated employees and loyal customers. Due to the high level of growth LANB achieved over the past number of years, TCC purchased \$6 million in Trust Preferred Securities for additional capital to support the Bank's future needs. In addition to our asset growth, the earnings of the company were also at record levels. TCC had a net income of \$9.3 million compared to \$6.9 million in 2000. This record level of income allowed the Board of Directors to increase dividends by 10.6 percent in 2001, to \$0.94 per share for the year.

Los Alamos National Bank continues to increase our market share in northern New Mexico. Our Santa Fe office is growing rapidly and we are in the process of analyzing the best site for our next Santa Fe location. Low interest rates on home mortgages during the year initiated a large volume of business for our title company and mortgage department.

It is always a pleasure to be able to report good financial results for Trinity Capital Corporation to our stockholders. Thank you for your support and please join us at this year's annual stockholders meeting for a more comprehensive report on TCC.



Bill Enloe, TCC President



Joe Arellano wants to protect his investments for his children and grandchildren.



Anna Ney wants to expand her flower shop business.



Glen Johns wants to have the financial independence to pursue a career as a weatherman.



Yash Sabharwal wants to grow a high-tech business in Santa Fe.



Lucy Thomas wants to have enough to live comfortably and do some traveling.



Neil Rosenshein wants to give back to the community.

Nothing is more fundamental than great customer service.

More than ever before, bank customers expect their financial institution to view them as individuals with unique needs. Customers also want to be assisted by responsive, capable people who understand what their expectations are when it comes to financial solutions.

We realize that no two customers, no two loan requests, and no two checking accounts are alike. This is why our people take the time to fully understand what our customers' expectations are so that we can exceed them. Our fundamental value of treating customers with excellent care governs everything we do. The art of listening and being flexible is a large part of our appeal as an independent bank and sets us apart from our competitors. We have fewer levels in our decision-making process, which allows us to respond quickly to our customers' needs. Our customers enjoy the fact that they can get the personal attention and service of a small bank and still benefit from a big bank's ability to get the job done. Our commitment to excellent customer service strengthens the long-term stability of our company.

Before we take any action as an organization, we look at what the impact will be on our customers in terms of what is important to them – convenience and value. Any action taken, from changing hours of operation to introducing a new product, is geared to have the most positive result possible for the customer. Fulfilling customer needs is what drives our organization.



Danette Clark has put 20,000 miles on her Harley.



Jonathan Neal has visited twenty-one countries.



Eden Weinbrecht sings in the light opera.



Monte Thompson worked for a dot com in Hollywood.



Ralph Flores is an ordained minister.



Anne Wilson competes in team roping rodeo events.

Our employees play a fundamental role in our success.

One of our fundamental principles of doing business is to encourage our employees to pursue individual accomplishments and achievements in their career paths. As employers, our goal is to provide an environment where employees are enriched as people for having worked at the Bank. We want to ensure that our employees are proud of where they work and believe in what the Bank is doing. This is why we empower our employees to be a part of the decisions affecting the Bank. Our culture encourages employees to share their insights and feedback with management, so all voices can be heard.

Another important principle of human resource management is recruiting and retaining the right people for the right jobs. Aside from education and past work experience, we seek a certain intangible quality in a potential employee – the effect that person has on people. Our employees bring their unique range of life experiences to work every day, which helps our organization relate better to individual customers. Our employees are our front-line interface with customers, so everyone we hire has to understand the Bank's goals and mission and translate these values to our customers through the services we provide. Customers judge us in large part based on the daily interactions they have with our employees. Satisfied customers lead to better business for the Bank in the form of higher customer retention levels and customer referrals, our strongest source of customer growth.

The quality of our workforce is one of the Bank's greatest strengths. In short, we have learned that a satisfied, fulfilled employee delivers excellent customer service.



Access Banking gives our customers the ability to manage their money from anywhere at any time.



Computer training classes help employees stay in touch with the latest software.



A network of 25 ATMs provides 24-hour convenience to our customers.



Our mainframe computer processes 32,000 transactions a day.



Check imaging software allows our customers to see checks they've written.



Advanced document sorters help to ensure accurate delivery of monthly statements.

Investing in technology is a fundamental belief of our organization.

At LANB, we think of technology in terms of convenience. We want to invest in technology that enables our customers and employees to do things in faster, better and smarter ways. The key is to invest in technology that provides value to the customer and to the Bank.

Our customers live in a fast-paced world, which leads them to expect simple, effective solutions from the institutions they do business with. In 1996, LANB was one of the first banks in the country to offer online banking with our Access Banking service. Our early efforts at establishing Access Banking have given us a competitive edge by underscoring our position as a leader in the marketplace. Today, many of our customers use Access Banking to manage their money from anywhere in the world. The Bank continues to examine technologies that can assist us in our fundamental desire to exceed our customers' expectations. The numerous ways the Bank employs technology helps enhance and simplify the customer's experience, making banking more convenient while increasing customer satisfaction.

Technology is a powerful ally in our business. It will continue to help the Bank earn greater market share in the communities we serve and contribute to the efficiency and profitability of our organization.



Los Alamos Research Park is home to five high-tech employers.



The Tierra Contenta community provides affordable housing for more than 400 families.



The Overlook Softball and Soccer Fields host hundreds of games a year.



The "Reaching for the Sky" sculpture honors those who lost their homes in the Cerro Grande fire.



Built to house a monumental piece of art, the "Awakening" sanctuary will also be a center for charitable and educational outreach programs.



Proceeds from the Raul Julia Hunger Project Home will help fund efforts where hunger persists.

Giving back to the community is a fundamental corporate focus.

Since its founding, LANB has played a major role in the communities we serve by staying committed to enhancing the overall quality of life. We do this not only by sponsoring a variety of charitable and social causes, but also by investing in the economic development of the state. From helping hospitals and schools to investing in new neighborhoods and business parks, LANB has had a strong, consistent community presence for decades.

There is nothing like the power of a gift that does not require anything in return. We feel honored to be able to offer the Bank's financial strength to worthy causes and efforts that add value to the lives of the people of Los Alamos and Santa Fe. We aim to support a wide variety of projects without any inference or imposition of a political, religious or social statement. Our goal is to invest in the fabric of our community. And the community is where all our decisions begin and end.

We know that our continued success depends on the success of New Mexico. Our futures are tied together. The Bank will always stay committed to investing in the potential of the communities we serve. It's one more way we provide value as an organization to our customers.



John Browne
TCC Director since 1999



George Cowan
TCC Chairman, 1965-1995; TCC Director since 1963



Bill Enloe
LANB CEO and Chairman; TCC Director since 1978



Jeffrey Howell
TCC Director since 2002



Deborah Johnson
TCC Director since 2001

Jerry Kindsfather
TCC Chairman; TCC Director since 1984



Arthur Montoya, Jr.
TCC Director since 2001



Lewis Muir
TCC Director since 1990



Stanley Primak
TCC Director since 2001



Charles Slocomb
TCC Director since 1999





Robert Waterman
TCC Director since 1972



Steve Wells
LANB President; TCC Director since 1985



Robert Worcester
TCC Director since 1995

Financial Review

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CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2001 AND 2000

	(\$ In thousands)	
	2001	2000
ASSETS		
CASH AND CASH EQUIVALENTS		
Cash and due from banks	\$ 27,290	\$ 26,600
Interest-bearing deposits with banks	14,110	260
Federal funds sold	—	6,754
TOTAL CASH AND CASH EQUIVALENTS	41,400	33,614
Investment securities, available-for-sale	44,810	36,136
Investment securities, held-to-maturity	34,342	37,202
Loans, net	644,827	545,931
Loans held for sale	16,372	1,686
Premises and equipment, net	11,867	11,288
Accrued interest receivable	7,670	7,195
Mortgage servicing rights, net	4,627	3,512
Other real estate owned	2,338	604
Other assets	1,686	1,661
TOTAL ASSETS	\$ 809,939	\$ 678,829
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES		
DEPOSITS		
Demand	\$ 43,745	\$ 38,198
Negotiable orders of withdrawal (NOW)	142,756	110,855
Savings accounts	155,502	130,894
Time, \$100,000 and over	193,633	158,466
Time, other	134,618	123,974
TOTAL DEPOSITS	670,254	562,387
Notes payable	60,747	50,771
Accrued interest payable	5,764	5,392
Other liabilities	4,608	3,739
TOTAL LIABILITIES	741,373	622,289
Company obligated mandatorily redeemable trust preferred securities of subsidiary trust, holding solely junior subordinated debentures (trust preferred securities)	15,483	9,683
STOCKHOLDERS' EQUITY		
Common stock, no par		
Authorized 20,000,000 shares; issued 3,428,400 shares outstanding 3,413,836 and 3,420,011 shares, respectively	6,836	6,836
Held in treasury, at cost 14,564 and 8,389 shares, respectively	(559)	(272)
	6,277	6,564
Retained earnings	46,222	40,157
Accumulated other comprehensive income, net	584	136
TOTAL STOCKHOLDERS' EQUITY	53,083	46,857
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 809,939	\$ 678,829

The accompanying notes are an integral part of these consolidated balance sheets.

CONSOLIDATED STATEMENTS OF INCOME

YEARS ENDED DECEMBER 31, 2001 AND 2000

	(In thousands, except share and per share amounts)	
	2001	2000
INTEREST INCOME		
Loans, including fees	\$ 52,522	\$ 47,160
Investment securities	4,208	3,827
Other	330	278
	<u>57,060</u>	<u>51,265</u>
INTEREST EXPENSE		
Time deposits, \$100,000 and over	11,264	9,062
Other deposits	16,087	16,156
Federal funds purchased and other	1,801	2,235
	<u>29,152</u>	<u>27,453</u>
NET INTEREST INCOME	27,908	23,812
Provision for loan losses	2,900	1,215
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>25,008</u>	<u>22,597</u>
OTHER INCOME		
Mortgage loan servicing fees	1,367	1,216
Loan and other fees	1,361	1,116
Mortgage servicing rights originated and capitalized	2,456	846
Service charges on deposits	1,002	802
Gain on sale of loans	222	22
Other	845	223
	<u>7,253</u>	<u>4,225</u>
OTHER EXPENSES		
Salaries and employee benefits	9,476	7,616
Occupancy	1,711	1,626
Data processing	1,025	1,068
Marketing	891	717
Amortization and valuation of mortgage servicing rights	1,341	620
Supplies	672	537
Other	3,299	2,385
	<u>18,415</u>	<u>14,569</u>
INCOME BEFORE MINORITY INTEREST IN TRUST PREFERRED SECURITIES AND INCOME TAX EXPENSE	<u>13,846</u>	<u>12,253</u>
Minority interest in trust preferred securities	1,154	851
INCOME BEFORE INCOME TAX EXPENSE	12,692	11,402
INCOME TAX EXPENSE		
Current	3,827	4,659
Deferred	(412)	(130)
	<u>3,415</u>	<u>4,529</u>
NET INCOME	<u>\$ 9,277</u>	<u>\$ 6,873</u>
Earnings per share	\$ 2.71	\$ 2.01
Weighted average number of shares outstanding	3,419,825	3,418,338

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

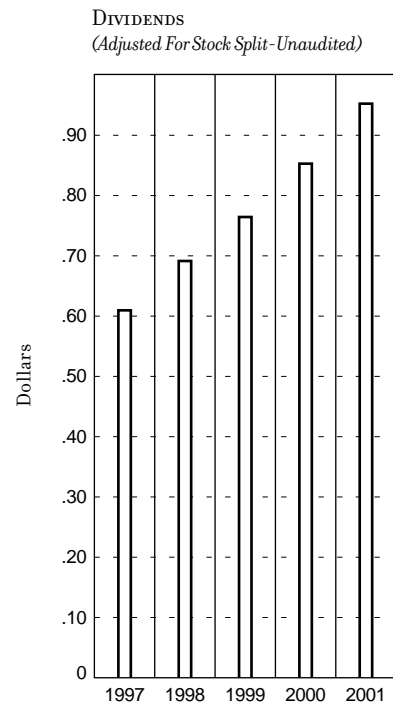
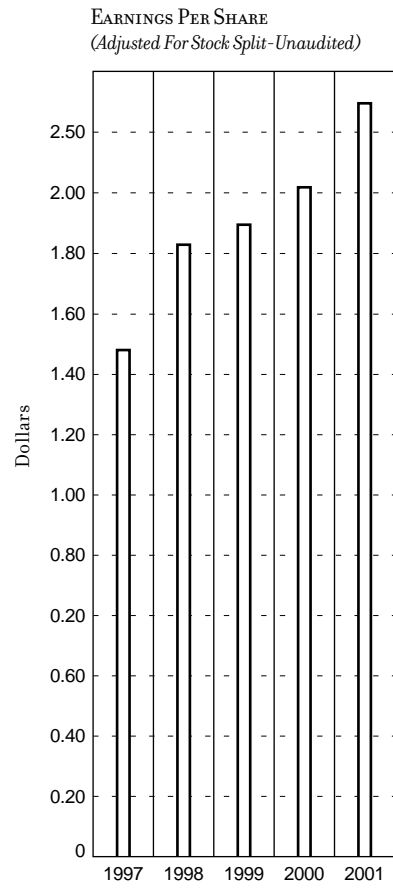
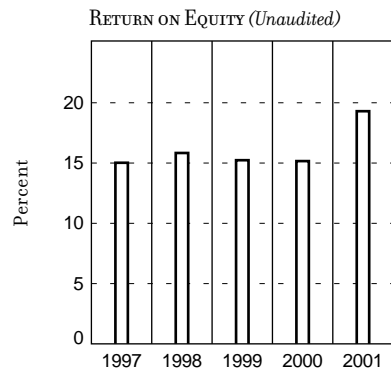
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CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2001 AND 2000

	(In thousands)	
	2001	2000
CASH FLOWS — OPERATING ACTIVITIES		
Net Income	\$ 9,277	\$ 6,873
Adjustments to reconcile net income to net cash (used in) provided by operating activities		
Depreciation and amortization	1,519	1,481
Net amortization (accretion) of:		
Mortgage servicing rights	841	385
Premiums and discounts on investment securities	(216)	(250)
Trust preferred security issuance costs	13	10
Provision for loan losses	2,900	1,215
Change in mortgage servicing rights valuation allowance	500	235
Loss on sale of premises and equipment	1	—
Gain on sale of loans	(222)	(22)
Loss on disposal of other real estate owned	48	78
Write-down on value of other real estate owned	200	—
Gross sales of loans held for sale	249,653	73,347
Origination of loans held for sale	(266,573)	(75,198)
Increase in accrued interest receivable and other assets	(500)	(1,723)
Increase in accrued interest payable and other liabilities	787	1,462
NET CASH (USED IN) PROVIDED BY OPERATING ACTIVITIES	(1,772)	7,893
CASH FLOWS — INVESTING ACTIVITIES		
Proceeds from maturities and paydowns of investment securities, available-for-sale	23,243	14,770
Proceeds from maturities and paydowns of investment securities, held-to-maturity	6,574	85
Purchases of investment securities, available-for-sale	(31,158)	(16,716)
Purchases of investment securities, held-to-maturity	(3,451)	(22,372)
Federal Home Loan Bank (FHLB) stock dividends received	(106)	(153)
Proceeds from sale of other real estate owned	420	1,683
Loans funded, net of repayments	(104,198)	(73,020)
Purchases of premises and equipment	(2,099)	(681)
Cash acquired in purchase of Title Guaranty	—	24
Proceeds from sale of premises and equipment	—	23
NET CASH USED IN INVESTING ACTIVITIES	(110,775)	(96,357)

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



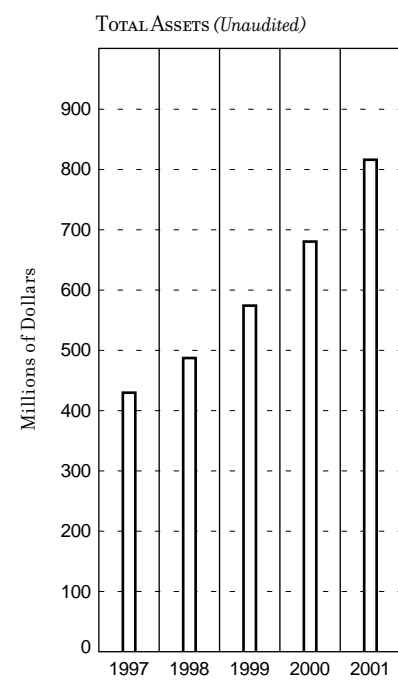
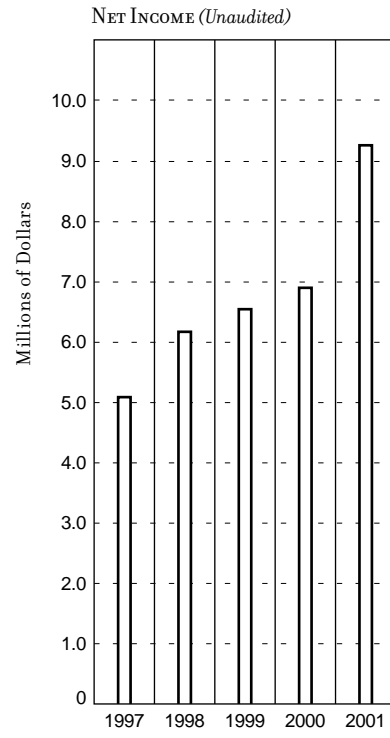
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CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEARS ENDED DECEMBER 31, 2001 AND 2000

	(In thousands)	
	2001	2000
CASH FLOWS — FINANCING ACTIVITIES		
Net increase in demand deposits, NOW accounts and savings accounts	\$ 62,056	\$ 32,512
Net increase in time deposits	45,811	43,172
Proceeds from issuance of notes payable	54,300	300,700
Repayment of notes payable	(44,324)	(283,423)
Proceeds from issuance of trust preferred securities, net of issuance costs	5,787	9,673
Purchase of treasury stock	(287)	(126)
Dividend payments	(3,010)	(2,836)
NET CASH PROVIDED BY FINANCING ACTIVITIES	120,333	99,672
Net increase in cash and cash equivalents	7,786	11,208
Cash and cash equivalents, beginning of year	33,614	22,406
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 41,400	\$ 33,614
SUPPLEMENTAL DISCLOSURES		
Cash paid for:		
Interest	\$ 28,784	\$ 26,354
Income taxes	3,560	4,860
Non-cash investing and financing activities:		
Transfers from loans to other real estate owned	2,402	1,341
Mortgage servicing rights originated and capitalized	2,456	846
Dividends declared, not yet paid	1,673	1,471
Change in unrealized gain on investment securities, net of taxes	448	278
Issuance of common stock for acquisition of Title Guaranty	—	401

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



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CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

YEARS ENDED DECEMBER 31, 2001 AND 2000

(In thousands, except share amounts)

	COMMON STOCK, NO PAR				RETAINED EARNINGS	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS), NET		TOTAL
	ISSUED		HELD IN TREASURY, AT COST			RETAINED EARNINGS	COMPREHENSIVE INCOME (LOSS), NET	
	SHARES	AMOUNT	SHARES	AMOUNT				
BALANCE, DECEMBER 31, 1999	3,428,400	\$ 6,650	(16,650)	\$ (360)	\$ 36,192	\$ (142)	\$ 42,340	
Issuance of common stock for acquisition of Title Guaranty		186	10,836	215			401	
Comprehensive income								
Net income					6,873			
Net change in unrealized loss on investment securities, available-for-sale, net of taxes of \$178,000						278		
Total comprehensive income							7,151	
Dividends					(2,908)		(2,908)	
Purchase of treasury stock			(2,575)	(127)			(127)	
BALANCE, DECEMBER 31, 2000	3,428,400	6,836	(8,389)	(272)	40,157	136	46,857	
Comprehensive income								
Net income					9,277			
Net change in unrealized loss on investment securities, available-for-sale, net of taxes of \$252,000						448		
Total comprehensive income							9,725	
Dividends					(3,212)		(3,212)	
Purchase of treasury stock			(6,175)	(287)			(287)	
BALANCE, DECEMBER 31, 2001	3,428,400	\$ 6,836	(14,564)	\$ (559)	\$ 46,222	\$ 584	\$ 53,083	

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2001 AND 2000

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**PRINCIPLES OF CONSOLIDATION**

The accompanying consolidated financial statements include the consolidated balances and results of operations of Trinity Capital Corporation ("Trinity") and its wholly owned subsidiaries: Los Alamos National Bank (the "Bank"), Title Guaranty (the "Title Company"), Trinity Capital Trust I ("Trust I"), and Trinity Capital Trust II ("Trust II"), collectively with Trinity referred to as the "Company". The business activities of Trinity consist solely of the operations of its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

The Bank conducts its operations from its main office in Los Alamos and separate branch locations in Santa Fe and White Rock, New Mexico. The Bank also operates drive-up facilities and several automatic teller machines (ATM's) in Los Alamos and surrounding geographic areas.

In May 2000, Trinity entered into a purchase agreement with the shareholders of Title Guaranty. Upon consummation of the transaction all outstanding shares of common stock of Title Guaranty were converted into an aggregate of 10,836 shares of Trinity's common stock. This transaction was accounted for as a purchase and, accordingly, the results of operations of the Title Company are included in the Company's consolidated financial statements only for the period following the transaction. The Title Company continues to conduct its operations from its office in Los Alamos.

In March 2000 and November 2001, Trinity established the special purpose trusts, Trinity Capital Trust I and Trust II, (the "Trusts") respectively, in order to issue trust preferred securities as a method of providing the Company a means of obtaining Tier I capital for regulatory purposes without issuing additional shares of common stock or another class of stock. The Trusts operate for this sole purpose.

USE OF ESTIMATES IN THE PREPARATION OF FINANCIAL STATEMENTS

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts and disclosures in these consolidated financial statements. The principal areas requiring the use of estimates and judgments by management are the allowance for loan losses, valuation of mortgage servicing rights and the fair values of financial instruments. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

For purposes of the consolidated statements of cash flows, cash on hand, cash on deposit at other institutions and federal funds sold with original maturities of three months or less are considered cash and cash equivalents.

INVESTMENT SECURITIES

The Company's investments in securities are classified in two categories and accounted for as follows:

Securities, Available-for-Sale — These bonds, notes, and equity securities are reported at fair market value.

Unrealized holding gains and losses, net of tax, are recorded as a net amount in accumulated other comprehensive loss or income until realized. Gains and losses on the sale of securities available-for-sale are determined using the specific identification method. FHLB and Federal Reserve securities are accounted for at historical cost.

Securities, Held-to-Maturity — These bonds and notes, which the Bank has the positive intent and ability to hold to maturity, are reported at cost and adjusted for amortization of premium and accretion of discount.

This amortization and accretion is recognized in interest income approximating the level yield method over the period to maturity.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LOANS AND ALLOWANCE FOR LOAN LOSSES

Loans receivable are stated at their unpaid principal balances, less the allowance for loan losses and net deferred loan origination fees.

Loan loss provision in the consolidated statements of income results from the combination of an estimate by management of loan losses that occurred during the current period and the ongoing adjustment of prior estimates of losses occurring in prior periods. In addition, certain regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses for adequacy. Such agencies may require the Bank to change the allowance based on their judgement about information available to them at the time of their examination.

As a basis for making this provision each quarter, the Bank maintains an extensive credit risk monitoring process that considers several factors including: current economic conditions affecting the Bank's customers, the payment performance of individual large loans and pools of homogeneous small loans, portfolio seasoning, changes in collateral values, and detailed reviews of specific large loan relationships. For large loans deemed to be impaired due to an expectation that all contractual payments will probably not be received, impairment is measured by comparing the Bank's recorded investment in the loan to the present value of expected cash flows discounted at the loan's effective interest rate, the fair value of the collateral or the loan's observable market price.

The provision for loan losses increases the allowance for loan losses, a valuation account that is netted against loans on the consolidated balance sheets. As the specific customer and amount of a loan loss is confirmed by gathering additional information, taking collateral in full or partial settlement of the loan, bankruptcy of the borrower, etc., the loan is written down, reducing the allowance for loan losses. If, subsequent to a writedown, the Bank is able to collect additional amounts from the customer or obtain control of collateral worth more than earlier estimated, a recovery is recorded, increasing the allowance for loan losses.

LOANS HELD FOR SALE

Loans held for sale to Federal National Mortgage Association (FNMA) by the Bank are stated at the lower of cost or market, in the aggregate, and generally are sold within 30 to 60 days of origination.

PREMISES AND EQUIPMENT

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using straight-line and accelerated methods over the estimated useful lives of the assets, which range from three to thirty-nine years. Maintenance and repairs which do not extend the useful lives of premises and equipment are charged to expense as incurred.

OTHER REAL ESTATE OWNED

Foreclosed real estate is initially recorded at the lower of cost or fair value, less estimated selling costs, upon acquisition. Estimated losses arising from the acquisition of loan-related properties are charged against the allowance for loan losses at the time of acquisition. Subsequent declines in value are charged to other real estate owned expense and are included in other expenses in the consolidated statements of income.

LOAN SERVICING AND MORTGAGE SERVICING RIGHTS

The Bank recognizes, as separate assets, rights to service mortgage loans for others, whether the rights are acquired through purchase or after origination and sale of mortgage loans. In the case where the mortgage loan is originated and sold, the total cost of the mortgage loan is allocated to the mortgage servicing right and to the loan based on their relative fair values.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The carrying amount of mortgage servicing rights, and the amortization thereon, is periodically evaluated in relation to estimated fair value. The Bank stratifies the underlying mortgage loan portfolio by certain risk characteristics, such as loan type, interest rate and maturity, for purposes of measuring impairment. The Bank estimates the fair value of each stratum by calculating the discounted present value of future net servicing income based on management's best estimate of remaining loan lives. The Bank has determined that the primary risk characteristic of the mortgage servicing rights is the contractual interest rate of the underlying mortgage loans.

The carrying value of mortgage servicing rights is amortized in proportion to, and over the period of, estimated net servicing revenues.

INTEREST AND FEES ON LOANS

Interest on loans is accrued and reported as income using the interest method on daily principal balances outstanding. The Bank generally discontinues accruing interest on loans when the loan becomes 90 days or more past due or when management believes that the borrower's financial condition is such that collection of interest is doubtful. Interest payments received on impaired loans are recorded as interest income when received unless collection of the remaining recorded investment is doubtful, in which case payments received are recorded as reductions of principal. Loan origination fees are offset against direct loan origination costs. Net deferred fees on real estate loans sold in the secondary market reduce the cost basis in such loans.

EARNINGS PER SHARE

Earnings per common share were computed by dividing net income by the weighted average number of shares of common stock outstanding during the year.

INCOME TAXES

Trinity, the Bank, and the Title Company file consolidated income tax returns and, as agreed, the income taxes of the Bank and the Title Company determined to be currently payable are remitted to Trinity. The Trusts are pass-through entities. As such, the income of the Trusts is taxable to the holders of beneficial interests in the Trusts. Therefore the Trusts are not part of the consolidated return. The calculation of taxes payable is based on Trinity's, the Bank's and the Title Company's respective contribution to consolidated taxable income.

Deferred income taxes arise from reporting certain revenues and expenses in different periods for financial statement purposes from those in which they are taxed.

NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities." (SFAS) No. 133 establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the consolidated balance sheets and measure those instruments at fair value. If certain conditions are met a derivative may be recognized as one of three hedging designations. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation. Special accounting for qualifying hedges allows derivative gains and losses to offset related results on the hedged item in the income statement, and requires that a company must formally document, designate and assess the effectiveness of transactions that receive hedge accounting. In June 1999, this statement was amended by SFAS No. 137 "Accounting for Derivative Instruments and Hedging Activities Deferral of the Effective Date of FASB Statement No. 133" and is effective for periods beginning after June 15, 2000. In June 2000, the FASB issued SFAS No. 138 "Accounting for Derivative Instruments and Hedging Activities— an amendment of FASB Statement No. 133" that provides certain technical amendments to SFAS No. 133. Adoption of these standards on January 1, 2001 did not adversely affect the Company's financial condition or results of operations. The Company has adopted procedures for identifying derivative instruments and hedging activities as defined and is able to report these activities appropriately.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In July 2001, FASB issued SFAS No. 141, "Business Combinations", and SFAS No. 142, "Goodwill and Other Intangible Assets". They also issued SFAS No. 143, "Accounting for Obligations Associated with the Retirement of Long-Lived Assets", and SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", in August and October 2001, respectively.

SFAS 141 requires all business combinations initiated after June 30, 2001 be accounted for under the purchase method. SFAS 141 supersedes APB Opinion No. 16, "Business Combinations", and SFAS No. 38, "Accounting for Preacquisition Contingencies of Purchased Enterprises", and is effective for all business combinations initiated after June 30, 2001.

SFAS 142 addresses the financial accounting and reporting for acquired goodwill and other intangible assets. Under the new rules, a company is no longer required to amortize goodwill and other intangible assets with indefinite lives, but will be subject to periodic testing for impairment. SFAS 142 supersedes APB Opinion No. 17, "Intangible Assets". Effective January 1, 2002, the Company will adopt SFAS 142 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

SFAS 143 establishes accounting standards for the recognition and measurement of an asset retirement obligation and its associated asset retirement cost. It also provides accounting guidance for legal obligations associated with the retirement of tangible long-lived assets. SFAS 143 is effective in fiscal years beginning after June 15, 2002, with early adoption permitted. The Company expects that the provisions of SFAS 143 will not have a material impact on its consolidated results of operations and financial position upon adoption. The Company plans to adopt SFAS 143 effective January 1, 2003.

SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including discontinued operations. SFAS 144 superseded SFAS No. 121, "Accounting or the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of", and APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions". The provisions of SFAS 144 are effective in fiscal years beginning after December 15, 2001, with early adoption permitted, and in general are to be applied prospectively. The Company plans to adopt SFAS 144 effective January 1, 2002 and does not expect that the adoption will have a material impact on its consolidated results of operations and financial position.

TRUST ASSETS

Assets held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying consolidated balance sheets as such items are not assets of the Bank.

RECLASSIFICATIONS

Certain amounts in the 2000 consolidated financial statements have been reclassified to conform to the 2001 presentation.

(2) CASH AND CASH EQUIVALENTS

The Bank is required by regulations to maintain a certain amount of cash for liquidity. In addition to cash on hand, a certain portion of the Bank's deposits with correspondent banks are designated as applying to this reserve requirement. The Bank's reserve requirement approximated \$15,613,000 and \$12,247,000 as of December 31, 2001 and 2000, respectively.

(3) INVESTMENT SECURITIES

The amortized cost and estimated market values of investment securities consist of the following:

DECEMBER 31, 2001

	(In thousands)			ESTIMATED MARKET VALUE
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	
AVAILABLE-FOR-SALE				
DEBT SECURITIES				
U.S. government and agency securities	\$ 40,647	\$ 916	\$ —	\$ 41,563
EQUITY SECURITIES				
FHLB, Federal Reserve, and FNMA Stock	3,240	7	—	3,247
	<u>\$ 43,887</u>	<u>\$ 923</u>	<u>\$ —</u>	<u>\$ 44,810</u>
HELD-TO-MATURITY				
DEBT SECURITIES				
U.S. government and agency securities	\$ 27,981	\$ 671	\$ 22	\$ 28,630
State and municipal securities	6,361	128	—	6,489
	<u>\$ 34,342</u>	<u>\$ 799</u>	<u>\$ 22</u>	<u>\$ 35,119</u>

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(3) INVESTMENT SECURITIES (CONTINUED)

DECEMBER 31, 2000

	(In thousands)			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
AVAILABLE-FOR-SALE				
DEBT SECURITIES				
U.S. government and agency securities	\$ 33,052	\$ 248	\$ 32	\$ 33,268
EQUITY SECURITIES				
FHLB, Federal Reserve, and FNMA Stock	2,861	7	—	2,868
	<u>\$ 35,913</u>	<u>\$ 255</u>	<u>\$ 32</u>	<u>\$ 36,136</u>
HELD-TO-MATURITY				
DEBT SECURITIES				
U.S. government and agency securities	\$ 30,762	\$ 370	\$ —	\$ 31,132
State and municipal securities	6,440	59	13	6,486
	<u>\$ 37,202</u>	<u>\$ 429</u>	<u>\$ 13</u>	<u>\$ 37,618</u>

The amortized cost and estimated market value of debt and equity securities at December 31, 2001, by contractual maturity, are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without penalties.

	(In thousands)			
	AVAILABLE-FOR-SALE		HELD-TO-MATURITY	
	AMORTIZED COST	ESTIMATED MARKET VALUE	AMORTIZED COST	ESTIMATED MARKET VALUE
One year or less	\$ 5,136	\$ 5,259	\$ 20,246	\$ 20,739
One to five years	35,511	36,304	11,298	11,565
Five to ten years	—	—	2,798	2,815
Over ten years	—	—	—	—
FHLB, Federal Reserve, and FNMA stock - no stated maturity	3,240	3,247	—	—
	<u>\$ 43,887</u>	<u>\$ 44,810</u>	<u>\$ 34,342</u>	<u>\$ 35,119</u>

Investment securities carried at approximately \$62,418,000 and \$51,127,000 on December 31, 2001 and 2000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law. There were no security sales during 2001 or 2000.

(4) LOANS

Loans consist of the following at December 31:

	(In thousands)	
	2001	2000
Real estate – mortgages	\$ 453,914	\$ 383,692
Real estate – construction	101,605	80,100
Commercial	55,839	47,188
Consumer	39,185	39,653
Other	648	732
	651,191	551,365
Less: Allowance for loan losses	5,637	4,621
Deferred loan fees	727	813
	\$ 644,827	\$ 545,931

Non-performing assets were as follows as of December 31:

	(In thousands)	
	2001	2000
Non-performing loans:		
Impaired loans on non-accrual status	\$ 6,472	\$ 3,562
90 days past due, still accruing	877	37
Total non-performing loans	7,349	3,599
Other real estate owned (OREO)	2,338	604
	\$ 9,687	\$ 4,203

The Bank recorded a valuation allowance on impaired loans of \$712,000 and \$0 at December 31, 2001 and 2000, respectively. The balance of impaired loans with valuation allowance was \$1,331,000 at December 31, 2001. The Bank's average recorded investment in impaired loans for the years ended December 31, 2001 and 2000 was approximately \$6,224,000 and \$2,663,000, respectively.

If interest on non-accrual loans had been accrued, interest income would have increased by approximately \$600,000 and \$297,000 for 2001 and 2000, respectively.

Changes in the allowance for loan losses were as follows:

	(In thousands)	
	2001	2000
Balance, beginning of year	\$ 4,621	\$ 4,237
Provision for loan losses	2,900	1,215
Loans charged off	(2,225)	(962)
Recoveries on loans previously charged off	341	131
	\$ 5,637	\$ 4,621

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(4) LOANS (CONTINUED)

The following is an analysis of the activity in OREO for the years ended December 31, 2001 and 2000:

	(In thousands)	
Balance, January 1, 2000	\$	1,024
OREO write-downs		(59)
Additions to OREO		1,341
OREO sold		(1,702)
		<hr/>
Balance, December 31, 2000	\$	604
OREO write-downs		(200)
Additions to OREO		2,402
OREO sold		(468)
		<hr/>
BALANCE, DECEMBER 31, 2001	\$	2,338

The following table presents the income and expense components of other real estate owned and related collection expenses for the year ended December 31, 2001:

	(In thousands)			
	2001		2000	
	\$	(48)	\$	(78)
Net loss on sale				
Operating and collection expenses		(23)		(49)
		<hr/>		<hr/>
OREO loss, net	\$	(71)	\$	(127)

(5) LOAN SERVICING AND MORTGAGE SERVICING RIGHTS

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid balance of these loans at December 31 is summarized as follows:

	(In thousands)			
	2001		2000	
Mortgage loan portfolios serviced for:				
Federal National Mortgage Association (FNMA)	\$	514,755	\$	461,664
Federal Home Loan Mortgage Corporation (FHLMC)		23,740		33,987
Other investors		944		1,236
		<hr/>		<hr/>
		539,439		496,887
Mortgage loans underlying pass-through securities—				
FNMA		270		373
		<hr/>		<hr/>
	\$	539,709	\$	497,260

(5) LOAN SERVICING AND MORTGAGE SERVICING RIGHTS (CONTINUED)

Custodial balances on deposit at the Bank in connection with the foregoing loan servicing were approximately \$2,443,000 and \$1,713,000 as of December 31, 2001 and 2000, respectively. There were no custodial balances on deposit with other financial institutions during 2001 and 2000.

An analysis of changes in mortgage servicing rights, follows:

	(In thousands)	
	2001	2000
Balance, beginning of year	\$ 3,512	\$3,286
Servicing rights originated and capitalized	2,456	846
Amortization	(841)	(385)
Valuation allowance due to changes in prepayment assumptions	(500)	(235)
	\$ 4,627	\$ 3,512

(6) PREMISES AND EQUIPMENT

Premises and equipment consist of the following at December 31:

	(In thousands)	
	2001	2000
Land	\$ 971	\$ 791
Buildings	7,127	7,083
Furniture, Fixtures and Equipment	12,320	10,528
	20,418	18,402
Less accumulated depreciation	8,551	7,114
	\$ 11,867	\$ 11,288

(7) DEPOSITS

At December 31, 2001, the scheduled maturities of time deposits are as follows:

	(In thousands)	
2002	\$	290,761
2003		28,666
2004		4,490
2005		2,996
2006		1,238
Thereafter		100
	\$	328,251

The amount of deposit accounts with overdraft balances that have been reclassified as other loans, approximated \$606,000 and \$639,000 as of December 31, 2001 and 2000, respectively.

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(8) NOTES PAYABLE

Notes payable to the Federal Home Loan Bank (FHLB) at December 31 are secured by a blanket assignment of mortgage loans or other collateral acceptable to FHLB, and generally have a fixed rate of interest, interest payable monthly and principal due at end of term, unless otherwise noted.

MATURITY DATE	RATE	TYPE	INDEX	PRINCIPAL DUE	(In thousands)	
					2001	2000
01/23/2001	6.410%	Fixed	—	At maturity	\$ —	\$ 27,000
03/19/2001	5.378%	Fixed	—	At maturity	—	5,000
03/19/2001	6.548%	Variable	3 Month LIBOR	At maturity	—	5,000
03/27/2001	6.450%	Variable	3 Month LIBOR	At maturity	—	5,000
03/01/2002	4.911%	Fixed	—	At maturity	15,000	—
10/07/2002	2.500%	Variable	3 Month LIBOR	At maturity	5,000	5,000
01/02/2007	4.121%	Fixed	—	Monthly Amortization	15,000	—
01/02/2007	4.078%	Fixed	—	Monthly Amortization	22,000	—
01/03/2011	6.031%	Fixed	—	Monthly Amortization	1,447	1,471
07/28/2020	7.035%	Fixed	—	At maturity	2,300	2,300
					\$ 60,747	\$ 50,771

The following is a summary of debt payments required for years after 2001:

2002	\$ 26,255
2003	7,095
2004	7,391
2005	7,700
2006	8,022
Thereafter	4,284
	\$ 60,747

(9) TRUST PREFERRED SECURITIES

In March 2000, the Company issued \$10 million in trust preferred securities to outside investors through a newly formed special-purpose trust, Trinity Capital Trust I. The trust is a wholly owned consolidated subsidiary of the Company and its sole assets are the junior subordinated debentures and the interest receivable from these debentures. Distributions are cumulative and are payable semi-annually at a rate of \$108.75 per annum of the stated liquidation amount of \$1,000 per preferred security. Distributions of \$1,088,000 and \$499,000 were paid to outside investors for the year ended December 31, 2001 and 2000, respectively. The obligations of the Trust are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

In November 2001, the Company issued \$6 million in trust preferred securities to outside investors through a newly formed special-purpose trust, Trinity Capital Trust II. Trust II is a wholly owned consolidated subsidiary of the Company and its sole assets are the junior subordinated debentures and the interest receivable from these debentures. Distributions are cumulative and are payable semi-annually at a rate of \$99.50 per annum of the stated liquidation amount of \$1,000 per preferred security. No distributions were paid to outside investors for the year ended December 31, 2001. The obligations of Trust II are fully and unconditionally guaranteed, on a subordinated basis, by the Company.

The Company issued the trust preferred securities to enhance its regulatory capital base, while also providing added liquidity. Under applicable regulatory guidelines, the trust preferred securities qualify as Tier 1 capital up to a maximum 25% of Tier 1 capital. Any additional portion of trust preferred securities would qualify as Tier 2 capital. As of December 31, 2001, all outstanding trust preferred securities qualified as Tier 1 capital. As the Company's shareholders' equity increases, the amount of Tier 1 capital that can be comprised of trust preferred securities will increase.

(9) TRUST PREFERRED SECURITIES (CONTINUED)

The trust preferred securities are mandatorily redeemable upon the maturity of the debentures on March 8, 2030 for Trust I and December 8, 2031 for Trust II, or to the extent of any earlier redemption of any debentures by the Company, and are callable beginning March 8, 2010 and December 8, 2006, respectively for Trust I and Trust II.

Issuance costs of \$328,000 for Trust I and \$212,000 for Trust II related to the trust preferred securities were netted against the proceeds and are being accreted over the period until mandatory redemption of the securities. During the year ended December 31, 2001 and 2000, the accreted issuance costs were \$13,000 and \$10,000, respectively.

Dividends accrued and unpaid to securities holders totaled \$408,000 and \$352,000 on December 31, 2001 and 2000, respectively.

The trust preferred securities are not publicly traded and do not have a readily determinable market value.

(10) RETIREMENT PLANS

Trinity, the Bank and the Title Company have a qualified Employee Stock Ownership Plan (ESOP) for the benefit of all Bank and Title Company employees who have met eligibility requirements. The ESOP provides for annual discretionary contributions by the Company as determined by its Board of Directors. The Company's discretionary contributions to the ESOP were approximately \$330,000 in 2001 and \$298,000 in 2000.

Bank and Title Company employees may also participate in a tax-deferred savings plan (401k) to which the Bank does not contribute.

(11) INCOME TAXES

Income tax expense for the years ending December 31, 2001 and 2000 is different from the amount computed by applying the statutory Federal income tax rate of 35% to income before income tax expense due to the following:

	(In thousands)	
	2001	2000
Expected tax expense	\$ 4,442	\$ 3,990
Increase (decrease) in taxes resulting from:		
Non-deductible interest expense	17	15
Tax-exempt interest	(109)	(46)
State income tax and other	(935)	570
	\$ 3,415	\$ 4,529

Deferred tax assets and liabilities at the end of each period are determined using the marginal tax rate in effect. Accordingly, income tax expense will increase or decrease in the same period a change in tax rates is enacted. The Company's net deferred tax liabilities, included in other liabilities, consist of:

	(In thousands)	
	2001	2000
Deferred tax assets	\$ 2,636	\$ 1,956
Deferred tax liabilities	(3,137)	(2,619)
	\$ (501)	\$ (663)

Management has not recorded a valuation allowance with respect to the deferred tax assets because it is anticipated that the assets are fully realizable through expected future taxable income.

(11) INCOME TAXES (CONTINUED)

The deferred taxes are attributable to temporary differences such as the excess of the provision for loan losses over the allowable income tax deduction, the accretion of discount on investment securities, tax depreciation, deferral of income and deductions for mortgage servicing rights, exclusion from taxable income for certain stock dividends, mark-to-market adjustment for investment securities available-for-sale, and deferral of deductions for bonuses and vacation pay.

(12) RELATED PARTY TRANSACTIONS

The Bank has entered into transactions with its directors, executive officers, and significant shareholders of Trinity and their affiliates (related parties). Management believes such transactions were made on substantially the same terms and conditions as those prevailing at the same time for comparable transactions with other customers and did not involve more than normal credit risk or present other unfavorable features. The aggregate amount of loans to such related parties at December 31, 2001 and 2000 approximated \$8,171,000 and \$6,742,000, respectively.

(13) COMMITMENTS, CONTINGENCIES, AND RISKS

LITIGATION

The Company is party to litigation and claims arising in the normal course of business. Management is of the opinion, after consulting with counsel, that the ultimate outcome of these lawsuits will not result in any material adverse effects on the consolidated financial statements.

COMMITMENTS

The Bank is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include mortgage loans sold with recourse, commitments to extend credit, standby letters of credit, and financial guarantees. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for similar instruments included in these consolidated financial statements.

As of December 31, 2001, the Bank had the following commitments:

	(In thousands)
Mortgage loans sold with recourse	\$ 117
Commitments to extend credit	103,101
Standby letters of credit	18,824

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses; the total commitment amounts do not necessarily represent future cash requirements. Management evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant, equipment, and income-producing commercial properties.

Standby letters of credit are short-term conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally does not require collateral to secure letters of credit.

(13) COMMITMENTS, CONTINGENCIES, AND RISKS (CONTINUED)

LEASE COMMITMENTS

The Bank leases certain equipment, ATM location space, office space and storage space from other parties under operating leases expiring through 2006. Lease payments for the years ended December 31, 2001 and 2000, totaled \$328,000 and \$321,000, respectively. Commitments for minimum future rentals under these operating leases are as follows at December 31, 2001:

2002	\$	286
2003		255
2004		67
2005		15
2006		4
		4
	\$	627

CONCENTRATIONS OF CREDIT

The Bank grants commercial, installment and residential loans to customers throughout the state with a concentration of loans in Los Alamos and surrounding communities. Although the Bank has a diversified loan portfolio, a substantial portion of its loans are made to businesses and individuals associated with, or employed by, Los Alamos National Laboratory (LANL). The ability of such borrowers to honor their contracts is predominately dependent upon the continued operation and funding of LANL.

(14) FAIR VALUES OF FINANCIAL INSTRUMENTS

The fair values for the financial instruments presented below were calculated as follows: (1) investment securities—based on quoted market prices, (2) loans—by discounting expected cash flows using rates currently offered by the Bank for loans with similar maturities and risk, (3) time deposits—by discounting expected cash flows using deposit rates currently offered by the Bank for time deposits with similar maturities, and (4) FHLB note payable—based on the discounted value of contractual cash flows.

Fair values are calculated based on the value of one unit without regard to any premium or discount that may result from concentrations of ownership of a financial instrument.

	(In thousands)	
	CARRYING AMOUNT	ESTIMATED FAIR VALUE
DECEMBER 31, 2001		
Investments:		
Available-for-sale	\$ 44,810	\$ 44,810
Held-to-maturity	34,342	35,119
Gross loans	651,508	650,598
Mortgage servicing rights	4,627	4,871
Time deposits	328,251	331,807
FHLB notes payable	60,747	59,600
DECEMBER 31, 2000		
Investments:		
Available-for-sale	\$ 36,136	\$ 36,136
Held-to-maturity	37,202	37,618
Gross loans	551,365	551,200
Mortgage servicing rights	3,512	4,175
Time deposits	282,440	281,829
FHLB notes payable	50,771	51,514

(14) FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

Financial instruments whose carrying value is estimated to be equal to the fair value include: cash and due from banks, federal funds sold, accrued interest receivable and payable, loans held for sale, federal funds purchased, demand deposits, negotiable orders of withdrawal and savings deposits. Management believes that the Bank's demand deposits, negotiable orders of withdrawal and savings deposits provide significant additional value that is not reflected above.

Commitments to extend lines of credit and standby letters of credit have fair values approximately equal to fees generated to extend such commitments and are not material.

No active market exists for a significant portion of the Bank's financial instruments. Because of the inherent imprecision of estimating fair value discount rates for financial instruments for which no market value exists, management does not believe that the above information reflects the amounts that would be received if assets and liabilities were sold.

(15) DIVIDENDS AND CAPITAL

Trinity declared the following dividends:

YEAR ENDED DECEMBER 31, 2001

DIVIDEND PER SHARE	DATE DECLARED	STOCKHOLDERS OF RECORD AS OF	DATE PAYABLE
\$0.45	June 28, 2001	June 30, 2001	July 13, 2001
\$0.49	December 20, 2001	December 31, 2001	January 11, 2002

YEAR ENDED DECEMBER 31, 2000

DIVIDEND PER SHARE	DATE DECLARED	STOCKHOLDERS OF RECORD AS OF	DATE PAYABLE
\$0.42	June 22, 2000	June 30, 2000	July 14, 2000
\$0.43	December 14, 2000	December 31, 2000	January 12, 2001

Trinity is subject to certain restrictions on the amount of dividends it may declare without prior regulatory approval in accordance with the Federal Reserve Act. Further, the Bank is subject to certain dividend restrictions according to Office of the Comptroller of the Currency regulations.

The Company is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements.

Under capital adequacy guidelines and the regulatory framework for prompt corrective action, Trinity and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require Trinity and the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined in the regulations) to Risk-Weighted Assets (as defined), and of Tier 1 capital (as defined) to Average Total Assets (as defined). Management believes, as of December 31, 2001 and 2000, that Trinity and the Bank met all regulatory capital adequacy requirements to which they are subject.

(15) DIVIDENDS AND CAPITAL (CONTINUED)

The most recent notification from the Office of the Comptroller of the Currency as of December 31, 2001 and 2000, categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category. The actual capital amounts and ratios for Trinity and the Bank are presented in these tables:

	ACTUAL		AMOUNT NEEDED TO BE CONSIDERED ADEQUATELY CAPITALIZED		AMOUNT NEEDED TO BE CONSIDERED WELL CAPITALIZED UNDER PROMPT CORRECTIVE ACTION	
	(\$ In thousands)		(\$ In thousands)		(\$ In thousands)	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
DECEMBER 31, 2001						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 73,652	11.7%	\$ 50,468	8.0%	N/A	
Bank only	\$ 71,897	11.4%	\$ 50,390	8.0%	\$ 62,988	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 68,012	10.8%	\$ 25,234	4.0%	N/A	
Bank only	\$ 66,257	10.5%	\$ 25,195	4.0%	\$ 37,793	6.0%
Tier 1 Capital						
(to Average Total Assets)						
Consolidated	\$ 68,012	8.7%	\$ 31,336	4.0%	N/A	
Bank only	\$ 66,257	8.5%	\$ 31,302	4.0%	\$ 39,127	5.0%
DECEMBER 31, 2000						
Total Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 61,029	11.4%	\$ 42,879	8.0%	N/A	
Bank only	\$ 59,612	11.1%	\$ 42,842	8.0%	\$ 53,552	10.0%
Tier 1 Capital						
(to Risk-Weighted Assets)						
Consolidated	\$ 56,404	10.5%	\$ 21,439	4.0%	N/A	
Bank only	\$ 54,987	10.3%	\$ 21,421	4.0%	\$ 32,131	6.0%
Tier 1 Capital						
(to Average Total Assets)						
Consolidated	\$ 56,404	8.5%	\$ 26,459	4.0%	N/A	
Bank only	\$ 54,987	8.3%	\$ 26,444	4.0%	\$ 33,055	5.0%

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS



**TO THE BOARD OF DIRECTORS
OF TRINITY CAPITAL CORPORATION:**

We have audited the accompanying consolidated balance sheets of TRINITY CAPITAL CORPORATION (a New Mexico Corporation) AND SUBSIDIARIES as of December 31, 2001 and 2000, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Trinity Capital Corporation and Subsidiaries as of December 31, 2001 and 2000, and the results of their consolidated operations and their consolidated cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Arthur Andersen LLP

**ALBUQUERQUE, NEW MEXICO
FEBRUARY 15, 2002**

REPORT OF BANK CASHIER

TO OUR CUSTOMERS:

We are pleased to provide you with financial information about Los Alamos National Bank, Title Guaranty, Trust I, Trust II and their parent company, Trinity Capital Corporation. Under the provisions established by bank regulators, we are required to inform you that although these financial statements have been audited by independent public accountants, the financial information has not been reviewed, or confirmed for accuracy or relevance by the Office of the Comptroller of the Currency.

In my capacity as Vice President/Cashier, I hereby declare that these financial statements (including the supporting notes) have been prepared in conformance with the instructions issued by the appropriate federal regulatory authority and are true to the best of my knowledge and belief.

We welcome your interest and questions about this financial information. Please contact me at 505/662-1045 to discuss any issue you may have.

A handwritten signature in black ink, appearing to read "Dan R. Bartholomew".

**DANIEL R. BARTHOLOMEW
VICE PRESIDENT/CASHIER
LOS ALAMOS NATIONAL BANK**

**REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON MANAGEMENT'S ASSERTION
ON INTERNAL CONTROL STRUCTURE**



**TO THE BOARD OF DIRECTORS OF
LOS ALAMOS NATIONAL BANK:**

We have examined management's assertion that Los Alamos National Bank maintained an effective internal control structure over financial reporting as of December 31, 2001, included in the accompanying Management Report.

Our examination was made in accordance with standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the internal control structure over financial reporting, testing, and evaluating the design and operating effectiveness of the internal control structure, and such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control structure, errors or irregularities may occur and not be detected. Also, projections of any evaluation of the internal control structure over financial reporting to future periods are subject to the risk that the internal control structure may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that Los Alamos National Bank maintained an effective internal control structure over financial reporting as of December 31, 2001, is fairly stated, in all material respects, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Arthur Andersen LLP

**ALBUQUERQUE, NEW MEXICO
FEBRUARY 15, 2002**

MANAGEMENT'S ASSERTION ABOUT FINANCIAL REPORTING CONTROL

Management is responsible for establishing and maintaining an effective internal control structure over financial reporting presented in conformity with both generally accepted accounting principles and the Federal Financial Institutions Examination Council instructions for Consolidated Reports of Condition and Income (call report instructions). The structure contains monitoring mechanisms, and actions are taken to correct deficiencies identified.

There are inherent limitations in the effectiveness of any structure of internal control, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even an effective internal control structure can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of an internal control structure may vary over time.

Management assessed the institution's internal control structure over financial reporting presented in conformity with both generally accepted accounting principals and call report instructions as of December 31, 2001. This assessment was based on criteria for effective internal control over financial reporting described in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, management believes that, as of December 31, 2001, Los Alamos National Bank maintained an effective internal control structure over financial reporting presented in conformity with both generally accepted accounting principals and call report instructions.

Management is responsible for preparing the institution's annual financial statements, for establishing and maintaining an adequate internal control structure and procedures for financial reporting, and for complying with laws and regulations relating to safety and soundness which are designated by Federal Deposit Insurance Corporation (FDIC) and the appropriate federal banking agency.

Management's assessment of the Company's internal control structure and procedures as of December 31, 2001 which were effective during the year ended December 31, 2001, is that such structure and procedures provide reasonable assurance that the Company had effective procedures for ensuring compliance with applicable laws and regulations during said fiscal year.



DANIEL R. BARTHOLOMEW, VICE PRESIDENT/CASHIER



STEVE W. WELLS, PRESIDENT



WILLIAM C. ENLOE, CHIEF EXECUTIVE OFFICER

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TCC ANNUAL REPORT
2001

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Trinity Capital Corporation, Post Office Box 60, Los Alamos, New Mexico 87544