



May 9, 2023

Dear Shareholder

With the banking industry being “Headline News” daily since March 10<sup>th</sup>, the Trinity Bank management team feels as though this is one of our most important attempts to communicate with our shareholders. As always, we prefer to give you facts instead of opinions.

### **HOW DID THIS SITUATION ARISE?**

When the Federal Reserve (“Fed”) turned on its “magic money printing machine” in 2019 and subsequent years, a very significant portion of the \$5 trillion it printed made its way into the banking system in the form of deposits. When banks have deposits, they usually have two options. Make loans or buy investment securities. With interest rates at all-time lows, some banks made all of the loans they could and used the remaining funds to buy securities. A large number of those loans were long-term loans at a fixed rate (in the 4-4.5% range) and a large portion of the securities were long-term (in the 1.5-2.5% range). As late as March 2022, the Fed was still printing money. Then they abruptly moved interest rates up at the fastest pace in history. Thus, the market value of those loans and securities fell.

(Opinion – I know we said facts, not opinions – but we couldn’t resist. The Fed kept rates too low for too long. They have now raised rates too high, too fast, and will keep them too high for too long. All government bureaucrats desire to do whatever is **LEAST** embarrassing. The **MOST** embarrassing thing would be to let inflation flare up again. The **LEAST** embarrassing thing would be to keep rates high to fight inflation even if it created a banking crisis - because then you could lay the blame on poor bank management. The Fed is trying to solve a problem it created and is creating another problem – the answer to which is most likely more regulation and supervision).

### **SO, WHAT DID TRINITY BANK DO?**

We saw an influx of deposits especially with the SBA PPP program. We made loans and purchased securities. The main difference is that all of our fixed-rate loans have a rate adjustment date somewhere between 3 to 5 years from the original date of the loan. *See pages 3 and 4 for more detail.*

Of the securities we purchased (at low rates), over 80% have a re-price date – 2023, 2024, and 2025. That is the primary reason our income from securities continues to increase despite having slightly fewer dollars invested in the securities portfolio.

The data on the next page is on our website [Monthly Shareholder Updates \(trinitybk.com\)](https://www.trinitybk.com) but we thought it important enough to share in this letter as well.

## TRINITY BANK WAS BUILT FOR TIMES LIKE THESE

May 4, 2023

We want to keep you informed of your bank's liquidity, capital, and deposits with the recent upheaval in the banking world. We will continue to keep you updated monthly during this turbulent time.

**The numbers presented in the comments and chart below include results as of 02/28/2023, 03/31/2023, and 04/30/2023:**

**Liquidity** – As of 04/30/2023 cash at the Federal Reserve Bank or "**Overnight Money**" was \$22,500,000. This is a decline from last month. However, we consistently see a decline in deposits during April due to federal income tax payments made by our customers. In addition, we could sell \$63,300,000 in securities with **NO** reduction in Capital or impact on Net Income.

Therefore, we could create liquidity (to fund deposit withdrawals) of \$85,800,000 with no impact on Capital or Net Income. This would represent over 21% of our total deposits.

**Additional Liquidity** – We could sell our entire bond portfolio, at current prices, to generate an additional \$73,300,000 in liquidity.

The sale would generate only a (\$4,099,000) reduction in the bank's Net Income. In this worst-case scenario, the bank would remain profitable and well above the minimum capital requirements.

We also have access to \$22,500,000 in the form of two lines of credit we maintain with other financial institutions that have never been utilized. This would create total liquidity of \$181,600,000. This would represent over 46% of our total deposits.

Additionally, two government liquidity programs have been made available to banks. We have **not** utilized either of these programs.

**Capital** increased due to the unaudited \$655,000 net income we produced in April.

**Deposits** were \$392,000,000 as of 04/30/2023. As previously mentioned, this slight decrease (2.72%) is primarily attributable to the federal income tax payments our customers made in April. This decline is in line with historical April deposit declines.

(000's)	February 28, 2023	March 31, 2023	April 30, 2023
Overnight Money	\$ 37,500	\$ 37,300	\$ 22,500
Liquidity	\$ 200,000	\$ 203,500	\$ 181,600
Reduction in Net Income	\$ (6,203)	\$ (3,680)	\$ (4,099)
Capital	\$ 49,819	\$ 48,574	\$ 49,144
Deposits	\$ 402,000	\$ 403,000	\$ 392,000

## HOW IS TRINITY BANK DIFFERENT?

All banks must keep access to cash to fund deposit withdrawals (the fancy term is “Liquidity”) if necessary. As you can see from the preceding page, Trinity Bank could withstand a very significant outflow of deposits. We have not been faced with large withdrawals. Why? We have tried to build your bank on relationships, not transactions. And we have attempted to structure your bank to survive and prosper in any situation.

The headline banks that failed all had significant Unrealized Losses in their securities portfolio. Thus, when deposits started leaving, they could not sell their securities to fund deposit withdrawals without reducing their Capital to unacceptable levels. Bear with us as we try to explain.

Again, from page 2, Trinity could sell its entire securities portfolio and incur a \$4,099,000 loss. We have \$49,144,000 in Capital as of April month end. So, the loss would be less than 10% of our Capital. Trinity Bank would still be **profitable** (remember we earned over \$7,000,000 after taxes in 2022) and still have **Capital levels well above the minimum regulatory requirements**. The banks in the headlines that failed had declines in the market value of their securities typically of well over 100% of their Capital.

## LOAN PORTFOLIO PERFORMANCE

Thus far, **we have not seen any deterioration in our overall loan portfolio**. In 2022, we saw a strong performance from our customers across all industry segments. 2023 is off to a good start as well. Backlogs are strong and our customers remain cautiously optimistic in their outlook for the remainder of the year, despite the continued headwinds the U.S. and global economy are facing.

## HEADWINDS FOR NON-OWNER OCCUPIED COMMERCIAL REAL ESTATE

The next item of concern in the national headlines is Non-Owner-Occupied Real Estate loans (NOORE) – primarily office and retail. We have never participated heavily in this (investor or speculative) real estate sector. Approximately 80% of our real estate loans are Owner-Occupied which provides a source of repayment not dependent on rental rates or occupancy levels. Many banks are heavily involved with NOORE and have seen success pursuing that business model. We have always preferred to serve business customers as these relationships tend to be long-term and more in-depth than a one-off real estate transaction that typically does not come with meaningful deposits.

We are convinced the NOORE sector is in for some turbulent times if rates remain elevated. Real Estate loans are traditionally long-term loans with amortizations that range from 15 to 25 years. These loans either contain a rate adjustment clause (typically every 3 to 5 years) or are structured as balloon notes that have to be re-financed, typically every 5 to 10 years.

As you know, the Fed has raised rates sharply over the past year - Wall Street Journal Prime has increased from 3.25% to 8.25% in 14 months – by far the most rapid increase in history. Investors have not been able to raise rents nearly as fast since they have leases in place, some of which are long-term. Rents can only be adjusted once the current lease expires and only to the extent the market will allow. This means that monthly principal and interest payments will increase sharply when these loans are re-financed or the rate is adjusted and there may not be any additional rental revenue available to offer support. This could create significant deterioration in the loan portfolios of banks that participate heavily in this sector.

We currently have approximately \$35,000,000 in non-owner-occupied real estate loans that either contain a rate adjustment clause or a balloon feature – about 12.5% of our loan portfolio. Less than 4% of these loans are set to re-price or contain a balloon feature in 2023 and 2024. The remainder is laddered out over the next four years. We cannot predict the rate environment in 2025, 2026, 2027, and 2028 when the rest of these loans are set to re-price. However, if rates remain elevated, we will be prepared to work with our customers to find a workable solution for them and the bank.

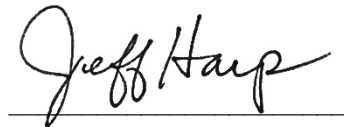
We have always tried to manage the bank to support our customers and provide a return to our shareholders with a long-term perspective. To accomplish these things, we have to be in business and make progress in good times and in tough times.

**MARK YOUR CALENDAR**

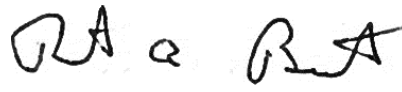
2023 is a special year for Trinity Bank because it marks our 20<sup>th</sup> anniversary. And to allow for more time to plan the celebration, we are moving our annual meeting to July 25<sup>th</sup> and hope you will join us. We know that we would not be celebrating without you - our shareholders. Thank you for your continued support of and investment in Trinity Bank.

In closing, Trinity Bank is in a very good place. And despite the divisions within our country, America still provides more opportunities than any other country in the world. We are grateful to live in this great nation and blessed in more ways than one to be in the dynamic and growing Texas market.

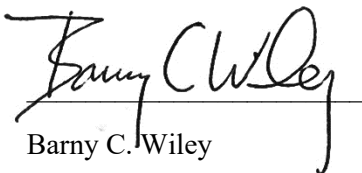
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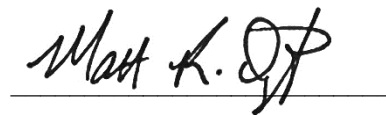
Jeffrey M. Harp



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