



Business Overview

1. Basic Description

Los Alamos National Bank is an independent community bank established in 1963 by local investors to provide convenient, full-service banking to a unique community. Los Alamos, New Mexico is a small mountain community of 18,000 people possessing a worldwide reputation for scientific and technological development. The city was created in 1943 as the site for the Manhattan Project. The Project evolved into Los Alamos National Laboratory, the city's largest employer.

Contributing to its geographic isolation, the city remained a "closed community" for national security purposes for over 20 years. Residents enjoy small-town living, low crime, and excellent schools. In a state ranked first in the nation for percent of population in poverty, it is practically non-existent in Los Alamos, with per-capita income at 117% of the national average.

Nearly half (7,000) of the population are scientists, engineers, and technicians who work at or support the Lab. This has resulted in an exceptionally sophisticated customer base in an otherwise sparsely populated, rural region.

We have met the challenge of this customer base through effective design of the best financial products available, and superior, personalized customer service. At a time when banking mergers are everyday news, we remain committed to our founders' vision of a true community bank: independent, responsive, locally-owned and a major contributor to the quality of life "on the hill" and in northern New Mexico. We make decisions locally versus our regional competitors, who use distant loan committees. This results in faster decisions for customers, and better risk assessment by us, since we live and work with our customers.

We position ourselves nearly the opposite of regional/national banks, as illustrated in Figure 0.1. Our niche has been

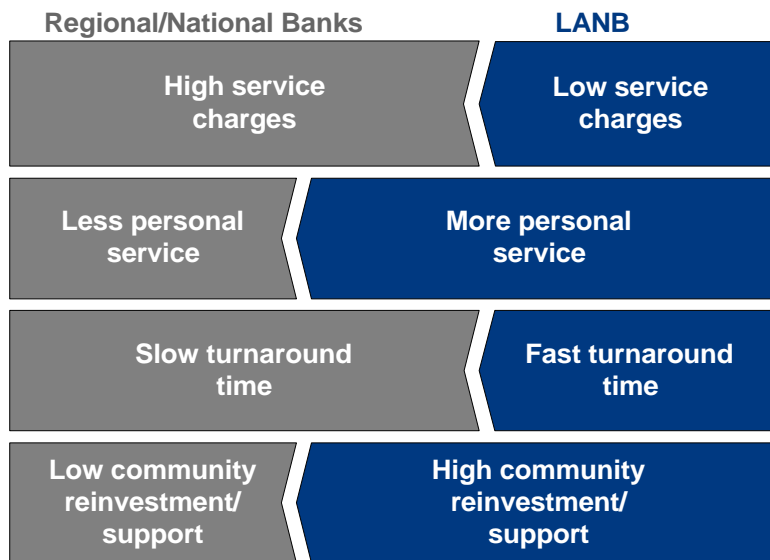


Figure 0.1 As the banking landscape changes, we capitalize on our core competencies.

"created" by bank mergers which removed many middle-size banks. As a result, LANB has become the largest independent community bank in New Mexico with an average 15% return on equity to shareholders in 1999. Assets currently exceed \$540 million.

LANB's key business factors and corresponding measures are shown in Figure 0.2. We have been successful because every improvement or product/service offering

has been in response to or anticipation of customer or market needs. Our market niche is that we are customer-driven.

We are the leader in mortgage filings in Los Alamos and Santa Fe Counties. Nearly every dollar deposited with LANB is loaned to borrowers in the local community. We could invest deposits out of the community at a higher return, but we believe that our long-term success is tied to the community.

Key to being customer driven is an unceasing focus on customer service quality. To this end, the bank formed Quality Council (QC) in 1996 to test new products and services for impact on customer service quality, internal performance and employee satisfaction. The council is made up of executive management, officers, supervisors, and employees. Emphasis on quality of service is also reflected in LANB's Core Guiding Values (Figure 0.3), Service Standards (Figure 0.4) and Code of Ethics (Figure 0.5). Our mission is shown in Figure 1.1-2, and our vision is shown in Figure 0.7 and discussed in the Business Directions section of this overview.

Corporate Structure. Trinity Capital Corporation, a one-bank holding company, owns and operates LANB. Most of the approximately 500 shareholders of Trinity Capital stock live and work in Los Alamos or northern New Mexico. Currently, eight percent of Trinity Capital stock is owned by employees; the stock is not publicly traded.



Key Business Factors	National/Regional Approach	LANB Approach	Impact	Measures and Indicators
Service	Service is sacrificed in the interest of profits	Personal, friendly service supported by telephone and Internet banking and an extensive ATM network	Builds customer loyalty, relationships and referrals	Customer satisfaction surveys, market share, Access Banking signups and logins
Efficiency	Most banks spend \$.65/dollar on overhead expenses	Through technology and personnel development, we only spend \$.49/dollar on overhead	Allows us to provide lower service charges and better interest rates	Efficiency ratio; low service charges, competitive deposit rates, low operating expenses
Competitive Pricing	Most banks derive 1/3 of their income from service charges	Less than 1/8 of our income is from service charges	Low service charges develop trust and customer loyalty	Rate watch, low service charges, deposit/mortgage growth, # relationships per customer, referrals
Net Interest Margin Management	Most over 5% (spread between what is paid on deposits and charged on loans)	Less than 4%	More attractive to customers; LANB pays higher rates on deposits and charges lower rates on loans	Deposit rates, loan rates, market share, customer satisfaction and dissatisfaction
Employee Ownership & Empowerment	Profit sharing and bonuses for top mgt only, no ESOP; hands tied by nonresident decision committees	Profit sharing and ESOP for all employees, personal service, agility and fast response, high lending limits	Promotes trust, loyalty and efficiency among employees	Efficiency ratio, employee satisfaction, ESOP and profit sharing data
Community support/ reinvestment	Little local commitment or decision-making	Strong community reinvestment and contributions, local decision-making	Faster, better loans, customer loyalty and satisfaction	Rapid turn-around time, net charges offs, community donations (money and labor)
Financial security & sustainability	Mergers and acquisitions, volatile earnings, cultural dissonance, and confused customers	Consistent, innovative formula for success since 1963; local ownership	Employees understand and implement vision, customer loyalty, and value to shareholder	Net income, return on assets, NIM, return on equity, stock price, earnings per share, asset growth, regulatory/ audit growth

Figure 0.2 LANB key business factors position us for success in a market dominated by mergers.

Products and Services. LANB is in business to provide a full range of financial services for customers, and to lend money to credit-worthy borrowers at competitive interest rates. We maximize return for our stockholders and provide a good work environment for our employees. Our products include: CDs, checking and saving accounts; loans; mortgage loan servicing; trust and brokerage services; international services; and safe deposit boxes. These business activities make up our three key processes: Investment of Funds, Generation of Funds, and Fee and Other Income. LANB is positioned in the market as a low-service-

charge bank. We achieve this by minimizing charges relating to the investment and generation of funds processes, ie. loans, credit cards, checking, and savings accounts. We remain profitable through our fee and other income processes, such as mortgage loan servicing premiums and trust and brokerage fees, and by maintaining an efficient operation. The difference in rate of return between investment of funds and generation of funds is the net interest margin (NIM), our key performance measure.

Major Markets. The bank's customers are concentrated in these geographic markets within northern and central New Mexico:

Customer Driven

Valuing Employees

Managing for Results

Operational Efficiency

Flexibility

Innovative

Creating Value

Figure 0.3 LANB's Core Values guide organizational behavior



- Major: Los Alamos and Santa Fe
- Emerging: Española, Rio Rancho, Albuquerque and Internet customers

Geographic segmentation is the most meaningful for market targeting and expansion purposes. Within each geographic market, we serve consumers, business and commercial enterprises and government customers.

Market Share and Competitive Position. In Los Alamos County, 66% of residents use LANB as their primary bank; 80% of mortgage filings in Los Alamos County identify LANB as the lender. Mortgage filings in Santa Fe county consistently indicate LANB as one of the top three lenders.

Organization and Employee Base. We currently employ 167 full-time people, 32 of whom are officers. All employees hold high school diplomas, and 25% have bachelor degrees or higher. No segment of our employee base is unionized.

We are the seventh largest employer in our market, competing for employees in a region with a mere 1.5% unemployment. Nearly half of the total workforce now lives in neighboring counties, as the number of employees within Los Alamos exceeds the county's population. This regional workforce is highly educated, with 30% possessing a college degree, and 15% a graduate degree.

Our organizational structure is relatively flat, with one level of management between the President and front line supervisors. This structure fosters empowerment of all employees, who are trained and rewarded for taking independent actions to satisfy customers on

- Greet all customers positively and quickly.
- Know bank products and services. Listen to customers and fulfill their needs.
- Escort customers to other departments.
- Say, "Here's a way", not "No way."
- Do it right the first time.
- Cross sell, when appropriate.
- Thank customers for their business. Do everything possible to retain your customers.
- Treat fellow employees as customers.
- Own your commitments.
- Learn from constructive criticism and suggestions for improvement.
- Take pride in the Bank.

Figure 0.4 LANB's service standards provide clear direction for all employees.

the spot, and promotes flexibility and rapid response to customer needs.

Our marketplace successes are directly translated into employee benefits through profit sharing and our Employee Stock Ownership Program (ESOP).

Major equipment, facilities and technologies. LANB built new corporate offices in 1996, remodeled the White Rock office in 1998 and opened an office in Santa Fe in 1999. We pursue technological excellence in the banking industry, as evidenced by a complete update of our computing system in the mid-1990s and introduction of

Access Banking, our online banking system at www.lanb.com, early in 1999. As of 2000, only 5% of community banks have internet banking capability. Other recent technological developments at LANB include document imaging and automated mortgage underwriting as part of our new loan origination platform.

Regulatory environment. LANB operates in a highly regulated industry which requires compliance to numerous laws and regulations. External auditors and examiners from the Office of the Comptroller of the Currency (OCC), Federal Reserve, Federal Deposit Insurance Corporation (FDIC) and Federal National Mortgage Association (Fannie Mae) are on-site during at least 15% of bank working hours.

For example, each year, the OCC conducts an extensive audit of LANB's safety and soundness. The extent of federally mandated regulatory oversight is such that four full-time employees are needed to assure compliance. In addition, LANB complies with all federal and state employment, employee protection and safety laws.

- Maintain the confidentiality and security of bank information.
- Maintain the highest standards of professional conduct.
- Maintain loyalty to LANB and pursue its objectives in ways that are constructive and consistent.
- Do not use your position to secure special privilege, gain or benefit.
- Protect Bank employees and customers from an unsafe, dangerous or hostile work environment.

Figure 0.5 LANB's Code of Ethics is incumbent on all officers and employees.



2. Customers and Market Requirements

Key customer requirements can be found in Figure 0.6.

3. Supplier and Partnering Relationships

LANB has partnerships with 33 suppliers, five of which are key suppliers:

- Wausaw Financial Systems (item processing)
- EastPoint Technologies (core database processor)
- STAR (ATM processor)
- Sybase (database software)
- US West (voice and data lines)

In addition, we maintain special relationships with three partners:

- Fannie Mae: mortgage loans
- Small Business Administration (SBA): small business loans
- Rural Housing Service (RHS), Department of Agriculture: Guaranteed Rural Housing program (GRH)

Working with Fannie Mae and RHS, we exert a significant positive impact on meeting the housing needs of low-income and rural families in northern New Mexico.

We manage our suppliers using a preferred supplier system, which provides incentives for meeting contract requirements within budget and for responding to our changing needs. Eighty-one percent of our suppliers are preferred suppliers.



4. Competitive Environment

Competitors are defined as those local banks and credit unions with whom we compete for market share. Although credit unions operate under different regulations, customers perceive them as offering the same services as banks. Local competitors for the Los Alamos market are Community Bank, Del Norte Credit Union, Zia Credit Union and First National Bank of Santa Fe; local competitors for the Santa Fe market are First National Bank of Santa Fe, Bank of Santa Fe, Bank of America, Century Bank, First Security Bank and Wells Fargo Bank.

Customer Requirement	Measures & Indicators
Competitive rates on checking & savings accounts	Savings and checking account rates
Low service charges	Service charges
Convenience	Multiple locations; online Access Banking; ATM up-time
Local ownership/decision making	Turnaround time on loans; high lending limits; loan charge-offs; locally owned since 1963
Efficient mortgage services	Satisfaction survey; referrals; turnaround time; % mortgage market share
Friendly service	Satisfaction survey; # of relationships per customer

Figure 0.6 LANB listens and learns from customers, competitors and employees to obtain current customer requirements.

National peers are local, regional and national banks of similar size and characteristics which are selected by a national banking service. Performance and efficiency data is provided by an independent organization, the nationally recognized Uniform Banking Procedures Report.

Principal factors which determine our competitive success include the efficiency ratio, a measure of how hard and effectively each of our employees works. The efficiency ratio is a widely used measure of bank productivity, and we continually outpace our competitors in this factor. This high level of productivity is enabled by an innovative customer relational database, which allows us to quickly produce customized reports for projecting the success of new product offerings among our market segments. This gives us a tremendous competitive advantage

in product/market analysis, as very few, if any financial institutions in New Mexico have such sophisticated database capabilities.

Our position in the industry is defined by our status as a community bank. We are the largest financial institution in Los Alamos, and our annual growth exceeds the total assets of our nearest competitor, Los Alamos Credit Union. As a new entrant into the Santa Fe market, our relative size is \$100 thousand in a field of \$1.3 million; we are experiencing rates of growth greater than five times projections



by experienced market analysts. Increasing consolidation and legislative changes described under major new thrusts are the primary changes affecting competition.

5. Business Directions

LANB's goal is to reach \$750 million in assets by the end of 2002, and \$1.3 billion in 2005 (Figure 0.7). We plan to accomplish this by expanding our regional markets and maintaining a steady 3% growth in market share, resulting in a 15% growth rate over the next three years. While there are other components to our vision, asset growth is the one which is best understood by our employees.

The key to reaching these goals is to continually improve the quality of LANB products and services. The bank has been an active participant in Quality New Mexico (QNM) for the last three years. The bank's CEO serves on the QNM Board of Directors, and several bank officers and other employees serve on the Board of Examiners. LANB is honored to be the third recipient of the Zia, the highest level of the state quality award, in QNM's 8 year history.

To firmly instill Baldrige quality concepts into our culture, we prepared the award application with volunteer teams of employees representing every department in the organization, including Executive Management – fully 20% of our staff.

Major New Thrusts. Two major trends affect the environment in which we compete. The first is increasing consolidation. This trend provides us with a market advantage as consumers and small-to-mid-sized businesses turn away from financial institutions that charge higher fees and make loan decisions regionally or nationally.

The second trend is the passage of the Gramm-Leach-Bailey Financial Modernization Act early in 2000. This new legislation provides two key changes in financial regulations: (1) banks and insurance companies can engage in each other's business; and (2) banks can engage in securities activities. As we monitored this bill's progress, we applied, received approval from our regulating agency, the OCC, and had an agreement in place to purchase a title company before the bill was passed. LANB has partnered with an investment firm for brokerage office locations in the Los Alamos and Santa Fe branches. Our long-range goal is to provide all financial services possible to our customers.

New Business Alliances. LANB is the first bank in New Mexico to purchase and operate a title company. This enables us to provide value to our stockholders and seamless home purchasing services to our customers. We are

actively negotiating purchase/partner relationships with casualty and life insurance companies.

New Technology. As online banking evolves, we are developing a third-generation web site, using customer feedback to enhance basic features and provide e-commerce capability.

Changes in Strategy. While our focus in the past was on expanding our physical presence ("bricks and mortar") to our customers, in order to achieve our future growth goals, we are embracing all ways of serving all customers. This "click and mortar" strategy, combines friendly, personal service with the fastest, easiest way to check balances, transfer funds, order checks, stop payments and view check images.

Unique Factors. Our unique factors are high employee efficiency and a low net interest margin, which go hand-in-hand. We are profitable at a lower NIM than our competitors because of our employee efficiency. These two factors support and drive all other key business factors, as shown in Figure 0.2.

6. Update

As the May 10, 2000 headlines read "New Mexico Burns," and Los Alamos, White Rock and parts of Española were evacuated, over 48,000 acres of land and 280 homes were reduced to ashes. Throughout the disaster, all bank operations remained fully functional at our Santa Fe office, thanks to our reliable back-up data systems and highly committed employees. During the evacuation and in the aftermath of the fire, LANB took the following initiatives to meet unique customer and employee needs:

- Zero interest loans available to anyone affected by the fire.
- No overdraft charges or late fees
- Immediate doubling of ATM withdrawal limit
- Suspended loan payments on burned homes
- Coordination of federal, state and local disaster relief assistance to the business community
- Full salary to all employees during fire evacuation days plus double time paid to employees that worked during evacuation
- Counseling, bonuses and cash to employees affected by the fire
- Sponsorship of benefit concert



Category 1: Leadership

1.1 - Organizational Leadership

LANB senior leaders are executive management and department heads. Executive management consists of the CEO, Bill Enloe, and President, Steve Wells. Our leadership system is depicted in Figure 1.1-1

1.1a(1) Senior leaders set organizational values and performance expectations with input from customers, community, board of directors (BOD), and employees. Senior leaders gather this information during the budgeting and planning of the leadership system. Systematic processes such as employee focus groups, employee survey, customer contacts, and the customer survey are inputs. Vision 2002 (Figure 0.3) is a result of setting organizational values and performance standards. As shown below, senior leaders gather input from customers, employ-

LANB Mission
Exceed the expectations of our customers, employees and investors.

Figure 1.1-2 Our mission statement is a dynamic, shared view of our corporate purpose.

ees and shareholders. Vision 2002 addresses BOD financial concerns, customer and employee desires, and shareholder expectations. This aggressive goal translates to a 15% annual growth rate, which we will sustain beyond 2002. Senior leaders developed Vision 2002 in 1997 with a *long-range view of the future* and input from customers, employees and shareholders (Figure 1.1-1).

LANB Senior leaders communicate and deploy values and performance expectations using a multi-faceted communication process in the alignment and implementation step of the leadership system. The process involves monthly officer meetings, monthly department meetings, quarterly employee meetings, annual officer retreats, departmental goals and objectives, employee goals and objectives, "Breakfast with Bill", "Snacks with Steve", monthly newsletters and orientation. LANB instituted the meals with Bill and Steve to provide non-supervisory employees an opportunity to discuss their individual jobs and departmental issues with executive management. This process allows manage-

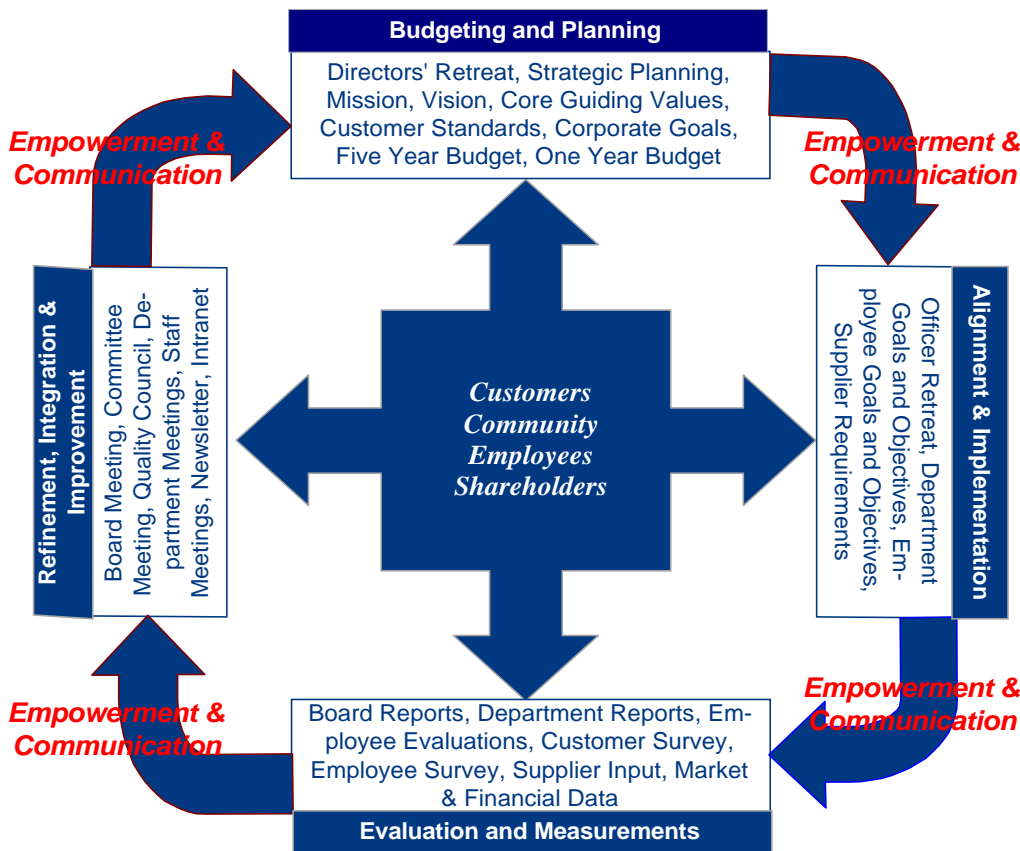


Figure 1.1-1 Demonstrates how LANSB deploys leadership responsibilities throughout the bank. At the center of the leadership system are sources of constant input which influence bank direction and decision making. Moving clockwise, the blocks represent the processes which guide the bank and monitor organizational performance.



ment to determine priorities of employee issues and to address them accordingly (Section 6.1). Wide dissemination and communication of our Core Values (Figure 0.3) provides another way for senior management to continuously reinforce values and performance measures.

Senior leaders focus on creating and balancing value for customers by constantly gathering input throughout the entire leadership cycle. LANB gathers this information through customer input, customer surveys, employee surveys, extensive community involvement, BOD meetings and established financial ratios. For example, a liquidity issue with three possible solutions faced senior management: (1) buy State CDs, (2) borrow money from the Federal Home Loan Bank, or (3) offer higher CD rates to customers. Each of the three options would have the same financial impact on LANB, but while the first two were easier to implement, they did not offer value to the customer. Input from employees and customers, through the leadership system, told senior leaders that customers were searching for higher investment rates to balance their investments in the stock market. To create value and build stronger relationships with customers, LANB decided on the third option, and created the CD Plus program.

1.1a(2) Senior leaders establish and reinforce an environment for empowerment and innovation within the context of the evaluation and measurement step in the leadership system. As we move from alignment and implementation, where leadership aligns department and individual activities, to evaluation and measurement, em-

ployee empowerment plays a key role. We recognize that empowerment develops over time as employee commitment and competence increase. A three-stage process—in which management directs, coaches, supports and entrusts—emphasizes the importance of this empowerment (Figure 1.1-3). Employees, in turn, form teams, take action and move into self-direction.

Senior management supports and encourages employee and organizational learning through substantial training budgets that provide both pay for leave while in training/education and raises for the successful completion of training. The training evaluation form, which employees complete (see Item 5.2a(4)) for entry into the AbraTrain database, supports employee and organizational learning by tracking and evaluating training activities. Furthermore, the evaluation form is used to determine future educational opportunities and training credibility. Once an employee completes a valuable training course, he/she is encouraged to present pertinent issues to other employees. New processes are presented at employee meetings, management meetings or Quality Council for consideration and implementation.

1.1a(3) Senior leaders set direction and seek future opportunities for LANB by continuously analyzing economic conditions, products, and input from customers, employees, community and shareholders, as noted in the center of the leadership system (Figure 1.1-1). As opportunities arise, senior leaders evaluate them for customer impact, philosophical alignment and financial impact on the bank. If they deem it favorable to stakehold-

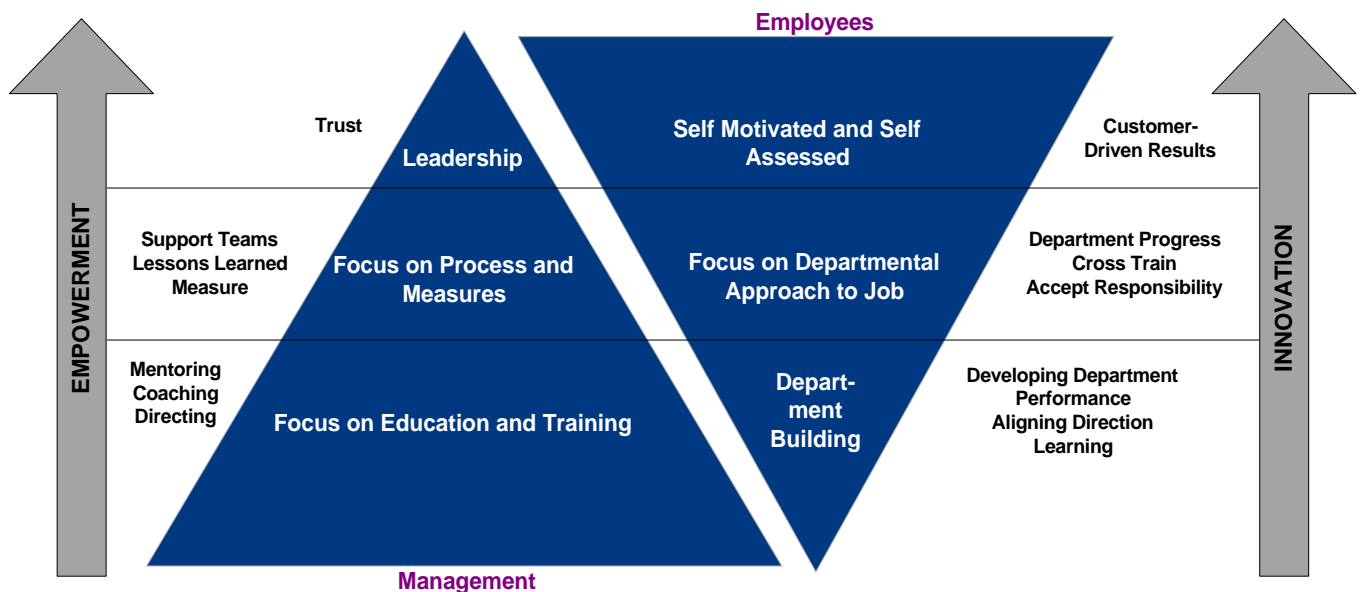


Figure 1.1-3 Through coaching and mentoring, senior leaders create empowered, innovative employees. Each triangle represents the level of involvement by management and employees respectively.



ers, we proceed with the project plan. Figure 6.1-1 outlines this process and provides an example of how senior leaders set direction and seek future opportunities. The Business Overview describes our response to the recent Financial Modernization Act, which opens both opportunities and threats to LANB.

1.1b(1) Senior leaders review organizational performance to assess organizational health during the re-

“The art of banking is charting a course that works—growth, balanced with profitability and sustainability.”
Steve Wells, LANB President

finement and integration phase of the leadership system. The process entails systematic review of key performance measures during committee meetings, monthly officer meetings and BOD meetings. Senior leaders review key performance measures on a weekly basis to measure progress toward Vision 2002, as displayed in Figure 1.1-5. The difference in rate of return between investment of funds and generation funds is the net interest margin, our most important performance measure.

1.1b(2) Senior leaders translate organizational performance findings into priorities for improvement and innovations during monthly reviews, and during the budgeting and planning meeting process of the leadership system. LANB uses an Asset/Liability Management simulation software to forecast financial results and perform “what if” scenarios. It is a comprehensive tool used in planning, interest rate risk management, budgeting, and profitability analysis. The model forecasts financial results monthly out to five years based upon the interrelationships of investment and generation of funds. Results are reviewed with Senior Leaders and the Board of Directors. Strategies, objectives, and products are then modified and changed as needed to insure the results are within the desired range.

Longer-term improvement strategies are created during the Directors’ Retreat and the Strategic Planning, Five Year Budget, and One Year Budget meetings. Senior Management communicates these priorities during the alignment and implementation process. This process includes input from senior management at the annual Officers’ Retreat and the setting of department goals and objectives. Once department goals are set, employee goals and objectives are set accordingly. This process assures that senior lead-

ers communicate organizational findings that are aligned bank-wide. Please refer to the Quality Council process in Category 6.1 and to Figure 6.1-2.

We embrace innovation and have welcomed the opportunity to be a beta test site for several new technological innovations. For example, LANB is the beta site for M&I Eastpoint, who is developing a relational database program for banks to use as their processing system. LANB also embraced innovation with the development of online Access Banking, making us the only independent bank in New Mexico to offer full-service Internet banking, including bill payment capability.

1.1b(3) Senior leaders regularly review the key performance measures. Recent key performance review findings are given in Figure 1.1-5. These calculations are the core of LANB’s profitability. NIM is the single most important measurement tool we have in determining optimal loan and deposit rates. Our cashier, Daniel Bartholomew, measures NIM and liquidity on a daily basis, reporting significant changes or anticipated changes to senior management. If there is no significant change, he e-mails these measures to senior leadership twice weekly. They are then shared with department leaders, who in turn deploy them at their respective weekly staff meetings.

Organizational Performance Review Findings	
Performance results	Figure #
• Net interest margin	7.2-3
• Efficiency ratio	7.5-1
• Total assets	7.5-10
• Net income	7.2-1
• Return on assets	7.2-2
• Return on equity	7.2-5
• Loan growth	7.2-15, 7.2-16
• Deposit growth	7.2-13
Priorities for Improvement	
• Employee satisfaction survey	
• Customer complaint analysis	
• Santa Fe expansion	
Opportunities for innovation	
• Insurance/title services	
• Access Banking growth	

Figure 1.1-4 Key recent performance review findings are analyzed by leadership on a monthly basis.



1.1b(4) Senior leaders use employee feedback from the annual employee opinion survey to improve leadership effectiveness. Senior leaders analyze this survey to determine what areas they may improve upon. Once LANB identifies these areas, the issues are taken to the necessary level: Employee Meetings, Management Meetings or Quality Council. The appropriate area will determine and implement necessary steps to resolve issues brought forth from the employee opinion survey. One example of senior management acting on requests from the employee survey was the placement of the President’s desk in the lobby, encouraging employees to use our open-door policy.

The QC plays a key role in communicating the bank’s performance review findings and aggregate employee feedback to all employees throughout the organization. Because the QC consists of employees from all levels and from various departments throughout the organization it provides a valuable source of feedback, dialogue and solutions to challenges that arise in pursuit of our corporate objectives.

1.2 Public Responsibility and Citizenship

1.2a(1) LANB senior leaders address the societal impact of our products, services, and operations through continual auditing and oversight of our financial strength. The main impact of our services is the availability of a full array of local financial services and loans for individuals, families and small businesses, which keep our isolated communities vibrant, strong and growing. We address this impact by maintaining a financially secure, sustainable bank for our customers to conduct business. Key

to our financial strength is compliance with extensive regulatory oversight, including regular external audits by the OCC, FDIC, FNMA and Federal Reserve, as well as ongoing internal audit activities. Our target is 100% compliance, which we have achieved since 1963. Measures of our financial security and sustainability include net income, return on assets, net interest margin, return on equity, stock price, earnings per share, and asset growth.

The OCC examines the Bank on a yearly basis for loan and asset quality, operational stability and non-discriminatory practices. To comply with government requirements, as well as to maintain customer safety and satisfaction, we have internal loan examiners and audit personnel responsible for ensuring that LANB identifies risks taken and has developed proper controls to manage these risks. We also perform an annual bank-wide risk assessment of our products, services and operations. LANB monitors the direction of expected change for each area of risk to assure that risks are stable.

The impact of our services was never more clear than in the aftermath of the Cerro Grande fire, three weeks ago. We evacuated our main office and one branch office (and our homes) while increasing access to banking services. This enabled 12,000 customer-evacuees to obtain the resources they needed to feed and shelter themselves and their families, pets and livestock. The “banker’s hours” of our national/regional competitors simply missed the mark on serving displaced refugees of these fires.

1.2a(2) Senior leaders anticipate public concerns with current and future products, services and operations through constant input from customers and community leaders. Evaluating the impact a product will have on customers and community is a critical part of new product analysis. Category 6 provides detail on new product analysis and the resulting impact on customers and communities. For example, the Los Alamos National Laboratory recently announced a major layoff affecting about 1000 employees, many of whom had multiple accounts, loans and home mortgages with the bank. Upon receiving the information, LANB management set up a team to determine how the bank could minimize the impact of the lay offs on the community and the workers involved. The team made a number of recommendations that included suspending loan payments, sponsoring job fairs, financial counseling for individuals and businesses that were affected, training on writing resumes, and low rate loans for support until new jobs were obtained. The council

Senior Leadership Involvement in Community Organizations	
• Housing Partnership – CEO Bill Enloe	• YMCA – President Steve Wells
• Hospital Board – VP Laura Bohn	• Los Alamos Schools Capital Improvement Committee – CEO Bill Enloe
• Sombrillo Elderly Care – VP Tammy Thorn	• Las Cumbres Learning Center – VP Liz Cavasos
• Los Alamos and Santa Fe Economic Development Corp. – CEO Bill Enloe	• Los Alamos National Laboratory Civilian & Industrial Technologies Oversight – CEO Bill Enloe
• Tri Area Development Corp. – VP Fidel Gutierrez	

Figure 1.2-1 Senior leaders generously support community organizations as valuable contributors in leadership positions.



implemented all of the recommendations and employees of the bank volunteered their time to carry out the program. The result was positive and the adverse impact on the community, individuals, and businesses was minimal. All but 60 of the individuals involved in the lay offs had new jobs within six months, resulting in little negative impact on the bank in terms of loan defaults, lost accounts or mortgage foreclosures.

1.2a(3) LANB ensures ethical business practices in all stakeholder transactions and interactions through our Core Values (Figure 0.3), Service Standards (Figure 0.4), and Code of Ethics and Conduct (Figure 0.5). We also recognize that the banking industry requires a high level of trust and confidentiality and, therefore, stress these important qualities during new employee training and orientation. The employee handbook covers ethical behavior in depth to ensure that new employees understand the importance of ethical business practices. In addition, LANB maintains an internal audit and compliance department, which continuously reviews bank activities. One process is the review of loan application approvals and denials to insure equality. Government guidelines, such as the Bribery Act, also heavily regulate fair business practices within the banking industry.

1.2b LANB identifies key communities by the concentration of deposits and loans, which are currently concentrated in Los Alamos and Santa Fe.

Senior leaders and employees actively support and strengthen key communities with a unique volunteer process. Figure 1.2-1 details some of the leadership positions held by senior management in volunteer organizations. Employees follow the example set by the senior leaders, which is evidenced by the 130 organizations, including United Way of Northern New Mexico, Los Alamos Public School activities and teams, and the YMCA, that benefit from LANB volunteers. We determine areas of emphasis by gathering input from our key communities, customers, and various other sources, and compile an extensive list of upcoming events in these communities. Figure 1.2-2 illustrates our filtration and funding process. Customer input is weighed heavily, as we firmly believe that community support is one of the key reasons we enjoy strong customer loyalty and referrals. LANB provides employees time off with pay to support the events documented in this process, and encourages senior management and officers to participate in business and professional associations.

We provide community support to educational activities, and with products and services needed by the community that are our core competencies. For example, we provided Y2K support to our key communities, as well as financial seminars and workshops. Over half of area residents rank LANB as the number one bank in community involvement.

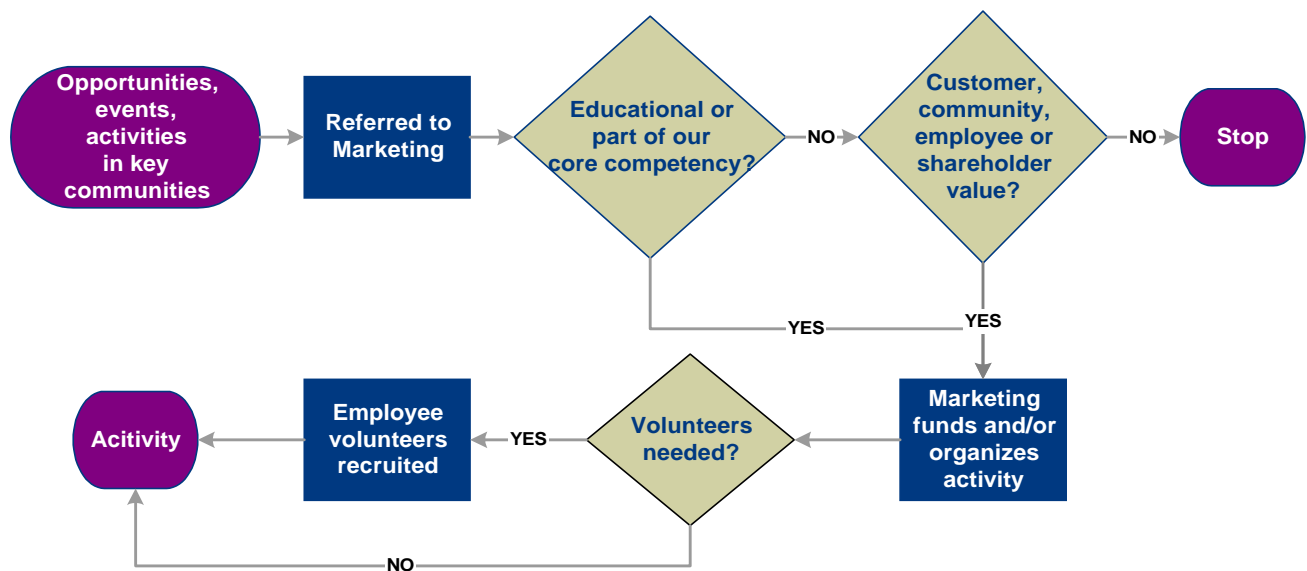


Figure 1.2-2: LANB systematically implements community event funding and volunteer support.

Category 2: Strategic Planning

2.1 Strategy Development

The LANB strategic planning process is structured to align employee actions with the *long term vision of our future* and corporate objectives, producing consistent momentum and direction and a high level of corporate achievement.

2.1.a(1) LANB's strategic planning process is a continuous cycle (Figure 2.1-1) which focuses organizational action on specific corporate objectives and is reinforced by regular assessment. Figure 2.1-2 identifies responsibilities and key participants for each step. Leading and lagging indicators are gathered and analyzed as input to this process.

Step 1. The foundation of the strategic planning process is our corporate vision. It defines where we want our organization to be in 2-5 years and is seen as a long-term view of our future. Action plans that span two years or less are the short-term components of our corporate vision. In 1997, LANB adopted Vision 2002, which we communicate to every employee during their initial orientation, and refer to often in daily tasks, interactions and performance assessments. It clearly sets a path of growth to \$750 million in total assets (15% annualized growth) and calls for ex-

pansion beyond our traditional Los Alamos market. Much of this vision has been achieved as we move into its final two years. We have developed our next five-year vision, which extends our focus and definition of organizational success to 2005.

Step 2. At our annual strategic planning meeting, the BOD and Executive Management adopt, re-affirm and/or redirect the vision, and review and assess the effectiveness of the current strategic direction. Our BOD has been carefully chosen based on business experience and knowledge of the Los Alamos and New Mexico economic climate. The Strategic Planning Committee, made up of Board Members and Executive Management, meets quarterly to review, assess and recommend changes in strategic direction. Key factors include market analysis, customer profile and behavior trends, competitor analysis, risk assessment, and resource allocation. The data is reviewed to assure that our strategic direction is balanced with the public responsibility and citizenship to which we are committed as a community bank.

Step 3. Executive Management establishes annual corporate objectives that serve this strategic direction and eventual realization of the bank's vision. These objectives are a framework for Department Leaders to assure consistency of their identified action plans with strategic direction. The specific contributions needed to accomplish departmental initiatives are communicated to employees through performance assessment and goal identification.

Once existing objectives are evaluated, additional ones are explored using a comprehensive SWOT analysis while ensuring alignment

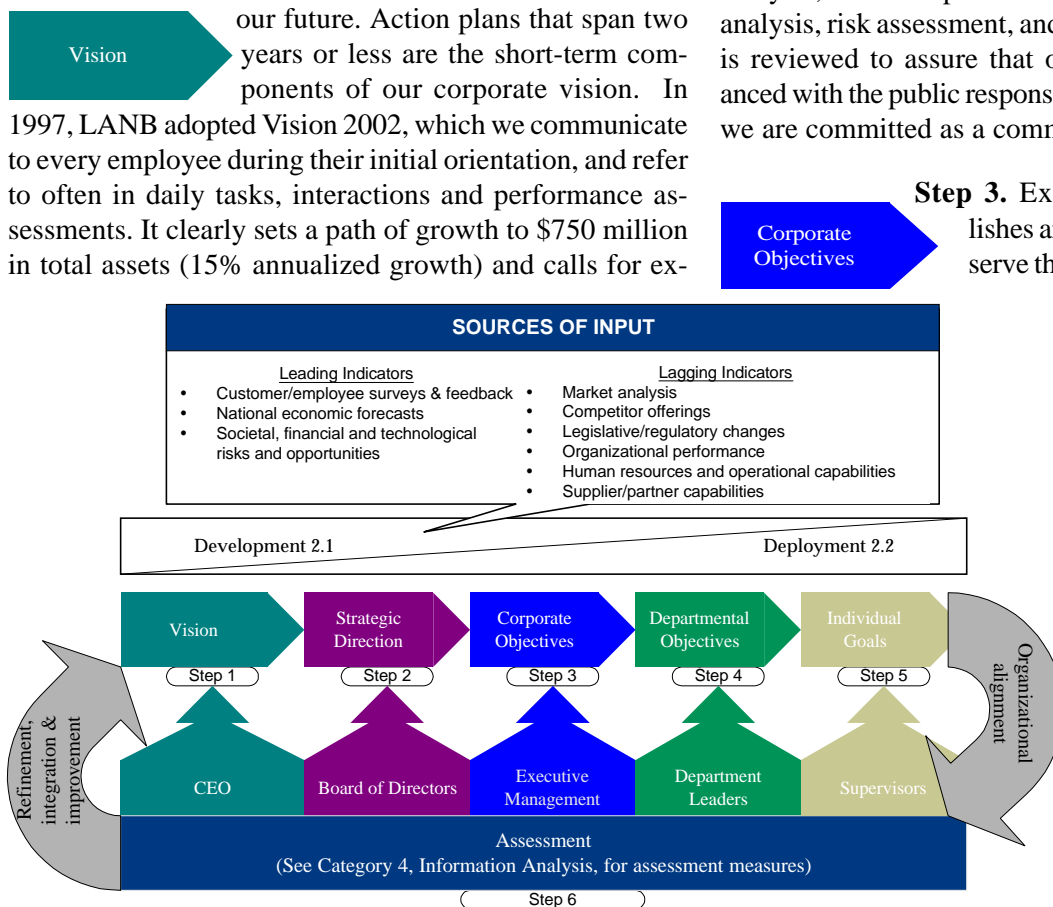


Figure 2.1-2 Stakeholder input is vital to our strategic planning process.



with the bank’s vision and strategic direction. Factors considered when selecting and prioritizing the final list of corporate objectives include customer needs and wants, societal and industry trends, efficiency, and regulatory compliance. For the year 2000, six key corporate objectives were established and are discussed specifically in Section 2.1.b.

Step 4. All bank personnel are involved in identifying and recommending departmental initiatives for the coming year. These initiatives are aligned with the corporate objectives during the bank’s annual Officers Retreat. Only those initiatives that specifically address one or more corporate objectives result in an action plan.



Step 5. LANB deploys the strategic direction and corporate objectives through careful alignment of action plans and subsequent identification of work goals for all personnel. This process is detailed in Figure 5.1-2. Deployment is accomplished via an effective network of communications that reaches all bank personnel (Figure 2.2-3). The result of this process is that employees can identify their individual goals as essential components in reaching the vision for the entire organization.



Step 6. LANB practices *management by fact* and constantly reviews and assesses the performance of individual goals, action plans, corporate objectives, key measures, and cumulative effectiveness of the organization’s strategic direction through personnel performance reviews, QC action plan oversight, tracking software, and committee and Board



oversight. Assessment and review occur at all levels of the six-step process as shown in Figure 2.1-2

The most specific and measurable assessments occur at the individual goal level, which are detailed in Area 5.1a(2). Departmental and corporate-level assessment considers objectives through a comprehensive communications network and careful alignment of action plans focused down to individual performance targets.

By implementing this assessment process, LANB meets identified corporate objectives and promotes job enrichment by creating value from an understanding of the importance of the daily contributions of each individual employee. A key component in the deployment of the bank’s strategic plan is the role of the QC. The QC plays a vital role by reviewing action plans prior to initiation, balancing them against the bank’s corporate objectives and identifying synergies within other departmental initiatives that have been approved or are currently in formulation. The QC also serves as an important mechanism in communicating the bank’s vision, corporate objectives and action plans to all employees throughout the organization. Because the QC consists of employees from all levels and departments, it provides a valuable source of feedback, dialogue and solutions to challenges that arise in pursuit of our corporate objectives.

2.1a(2) LANB expands its corporate awareness and opportunity to achieve success by including knowledge gained in analyzing the following key factors:

STEP					
ASSESSMENT	VISION	STRATEGIC DIRECTION	CORPORATE OBJECTIVES	DEPARTMENTAL INITIATIVES	INDIVIDUAL GOALS
RESPONSIBILITY	CEO	Board of Directors	Executive Management	Department Leaders	Supervisors
PARTICIPANTS	Board of Directors Executive Management	Executive Management Management Team	Management Team Department Leaders	Executive Management Management Team Supervisors Personnel	Personnel
FREQUENCY A=Annually Q=Quarterly M=Monthly W=Weekly D=Daily	A-CEO Q-Board of Directors	A-Board of Directors Retreat A-Strategic Planning Committee M-Board of Directors Meetings	A-Officer's Retreat M-Management Team Meetings	A-Officer's Retreat M-Officer's Meeting W-Departmental Meetings	A-Performance Assessment W-Departmental Meetings D-Communication & Interaction

Figure 2.1-2 The results of LANB’s Strategic Planning Process are evaluated throughout the year by all bank personnel.



Customer and Market Needs. LANB actively gathers customer perspectives as shown in Figure 3.1-2. Customer feedback and survey findings guide the Bank in identifying future opportunities and assist in measuring the performance of specific corporate objectives. Community organizations provide timely insight to issues facing members of our community and immediate feedback on the effectiveness of our strategic efforts.

Competitive Environment. We continually calibrate our strategic direction to industry direction, legislative changes and competition. Conferences, trade associations and publications expose us to the changing landscape within our industry. In a highly regulated service environment, we must understand the opportunities and restrictions created by new legislation. We do this by closely associating with state and national officials, banking association members and our consulting partners. We continuously monitor competitive products and services and reactions to our strategies by watching rates and industry performance measures, and by identifying customer preferences in annual surveys. Our marketing plan assembles a competitive profile for each of our prime competitors and further details perceived strengths and weaknesses, which may prove to be opportunities or potential competitive holes in our strategies. We review rate comparison reports, county loan filings, permits, and other sources of competitive data on a monthly basis.

Risk Management. LANB actively manages risk via an extensive risk assessment process that incorporates constant review of societal, financial and other potential risks that could impact and cause redirection of the organization's strategic direction. Our emphasis is to balance risk associated with our strategic direction with appropriate returns to our shareholders.

Human Resource Needs and Capabilities. LANB projects the personnel, skills and salary expense necessary to carry out the strategic direction for a three-year period. LANB has established a training database (See Figure 5.2-1) that assists in determining employee capabilities and depth in the various disciplines available to meet the challenges of the strategic direction. Each action plan specifically addresses the required resources.

Operational Capabilities and Needs. In developing the strategic direction, Executive Management considers the organization's operational capabilities and needs. In developing departmental initiatives (Step Four), each action plan details the operational capabilities and needs required to

achieve the desired outcomes of the action plan. Awareness of human resources and operational capability and needs serve to balance the chosen strategic direction with the strengths and weaknesses inherent in the organization. Gaps/needs can spawn new initiatives and/or partnership development to bring capabilities to a level required by our strategic direction, such as our partnership with a brokerage firm to provide investment products to customers.

Supplier/Partner Capabilities and Needs. The pace of technological change, diverse knowledge requirements, and the workforce available to the Bank often requires strategic partnerships to obtain corporate success. We actively serve as beta testers for new products, and frequently host demonstrations for our suppliers' prospective customers so they can witness a product or service in action as described in Area 6.3a(5). These efforts, while somewhat costly and time consuming, have proven to be valuable in building synergistic partnerships that consistently result in our receiving priority and preference in pricing and level of services.

2.1.b. Vision 2002 and 2005 set forth the guiding direction for our entire organization and are the backdrop for development of corporate objectives. LANB's strategies of low fees, high value, progressive technology, personal service, quick turnaround time, a high degree of community reinvestment/support, and local decision making in an increasingly concentrated industry are threads that weave their way through all corporate objectives. Executive Management defines the annual corporate objectives that will best achieve the strategic direction and ultimately move the organization closer toward Vision 2002. These objectives define the focus that all action plans serve. Department Leaders align their action plans with these objectives as described in Item 2.2.a (1). This is the key point of integration between development and deployment of the strategic planning process. The corporate objectives for the year 2001 are defined in Figure 2.1-1 We evaluate options to assess how well they respond to customer needs and the competitive environment based on several criteria, which includes a key question: "Is the target market underserved in an area of our strength?" If so, we then proceed to a more detailed evaluation process, which includes human resources, operational, and supplier capabilities.

2.2 Strategy Deployment

LANB effectively deploys its strategic direction through careful alignment of departmental initiatives and subsequent action plans and individual job goals.



2.2.a(1) Department Leaders utilize their expertise and daily interactions with customers and staff to identify and recommend departmental initiatives to become action plans. While this occurs annually in conjunction with the annual Officers Retreat, changing conditions may require reprioritization of existing action plans or a recommendation of new ones. For example, a rapid reduction in national mortgage rates in early 1998 produced an unprecedented flow of inquiries and applications for mortgage refinance to more attractive rates. Department Leaders proposed several new action plans to Executive Management which required top priority, suspending other action plans already in process. Seizing this unique business opportunity accelerated the realization of key performance measures and their related corporate objectives. Not only did we preserve our reputation with existing and new

customers, but also over a one-year period, we financed more mortgage loans than in the previous two years and became the largest mortgage lender in the Santa Fe market (without a branch or staff presence). The flexibility to rapidly realign our efforts in concert with changing conditions is essential to our competitive survival and to realization of our vision.

Figure 2.2-1 provides a summary of short- and long-term action plans for each corporate objective.

LANB routinely modifies products and services to match customer needs. On many occasions, we have structured new products and customized product pricing to meet individual customer needs. For example, we consider the entire customer relationship when negotiating certificate of deposit rates and terms with a customer.

Many banks simply post a rate; LANB encourages front-line staff to identify what is needed to satisfy a customer's rate expectations, consider the entire customer relationship and advocate for the customer to obtain approval. We consider it a failure to fall short of a customer's service or price expectations. These are key inputs in Step Two that our BOD and Executive Management identify when setting the strategic direction for our organization.

2.2.a(2) LANB aligns key human resource requirements and plans with corporate objectives and departmental action plans. Departments periodically report key measures to Senior Leaders for use in strategic planning and projecting key human resource requirements, including staffing requirements and educational and travel needs.

The human resource action plan is then compiled using 3-5 key department initiatives for the upcoming year. Senior Leaders reviews goals, budgets and plans and alters them as necessary. They are then reviewed and assessed by Executive Management to ensure their alignment with the bank's corporate objectives.

In order to maintain high performance, it is necessary to advance our organizational structure to provide an effective adaptation to our changing competitive environment.

Strategic Objectives	Action Plans (Initiatives)	
	Short Term (through 2002)	Long Term (2002-2005)
Personnel Development	<ul style="list-style-type: none"> Develop training programs Employee focus groups Internal personnel committee New-employee referral program 	<ul style="list-style-type: none"> Develop employee & job related goals Employee performance & efficiency Employee retention
Product Innovation	<ul style="list-style-type: none"> Internet banking Desktop underwriting Document imaging 	<ul style="list-style-type: none"> Insurance products
Service Excellence	<ul style="list-style-type: none"> Customer service training Complaint resolution Customer survey 	<ul style="list-style-type: none"> Expanded cross selling
Operational Efficiency	<ul style="list-style-type: none"> Document imaging New accounts platform Mortgage loan platform Quality council 	<ul style="list-style-type: none"> Commercial loan platform Process flow chart training
Market Expansion	<ul style="list-style-type: none"> Santa Fe branch Internet banking Expanded trust services ATMs Title company 	<ul style="list-style-type: none"> Insurance products Investment banking
High Performance	<ul style="list-style-type: none"> Management reporting system Meet budget projections Market growth 	<ul style="list-style-type: none"> Consistent high return to shareholders Advance organization structure Continued ESOP & profit sharing

Figure 2.2-1 LANB's key short and long-term action plans bring corporate objectives to fruition.

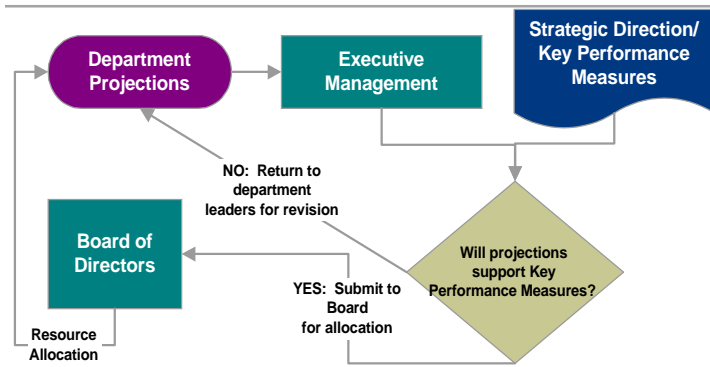


Figure 2.2-2 Our resource allocation and budget process focuses on achieving key performance measures.

2.2.a(3) LANB’s budgeting process allocates financial resources toward the accomplishment of action plans.

The process begins with Department Leaders projecting revenues, expenses, human resources and capital equipment needed to meet their departmental initiatives (see Figure 2.1-2). Capital equipment projections are amortized into projected expenses over the period of their depreciation life. Human resource needs are projected over a three-year period. Executive Management filters the resulting projections for alignment with LANB’s strategic direction and projected key performance measures. Projections that do not meet these goals are returned to Department Leaders for revision. Once Executive Management approves the departmental revisions, aggregated projections are submitted as a budget to the Board of Directors for funds allocation.

2.2.a(4) Key performance measures and indicators are used to track progress relative to our action plans.

Prior to implementation of action plans, the performance measures must be agreed upon to assure that they will have a desired impact on the bank and fall within appropriate time and budget projections. LANB has more than 90 action plans in progress at any one time. On a daily, weekly, and monthly basis, the project champions and Department Leaders monitor the progress of these action plans through ongoing project management and communication. The Quality Council often serves as a sounding board and facilitator in this process.

2.2.a(5) Communication and deployment of our corporate objectives, action plans, and performance measures/indicators to achieve overall organizational alignment is performed through a communication network that is established by our culture.

Communication is enhanced via the bank’s extensive communications network as shown in Figure 2.2-3.

2.2.b(1) LANB’s has five-year projections for key performance measures. The projections listed for LANB are minimum standards set by management. Each is a bottom-line target that consists of a wide array of underlying figures that, in total, cover the entire spectrum of bank operations. Management monitors them frequently to ensure they remain on track to meet year-end goals. Early detection of potential weaknesses allows for the opportunity to identify causes and to implement alternate actions to achieve the desired results. LANB has been highly successful in monitoring its key performance measures to yield top-level performance. LANB projections are derived from a 5-year budget that considers historical trends and anticipated changes in economic, industry and market conditions.

2.2.b(2) Based on historical trends, LANB’s projected performance is expected to compare well with competitors and key benchmarks. Since actual competitor projections are unknown, the numbers used are based on a six-year rolling average of prior years. Refer to Items 7.2 through 7.5 for comparisons.

Selecting an appropriate benchmark organization for our key performance findings was critical. Due to the interrelationship of many financial indicators, it would be misleading to select an organization which had a better shareholder return, for instance, when that was achieved at the expense of sustainable growth enabled by technology and training investment. Our market strategy has sustained us for over 30 years; we could find a bank with a better NIM, obtained by high service charges on savings and checking accounts, but we would not pursue such a strategy.

MEDIA	FREQUENCY
Employee assessment	Daily
Departmental meetings	Weekly
Committee meetings	Monthly
Quality Council meetings	Bi-Weekly
All bank personnel meetings	Quarterly
Strategic planning meeting	Annually
Shareholders’ meeting	Annually
e-mail	Daily
Newsletter	Monthly
Intranet	Daily
Marketing briefs	Daily

Figure 2.2-3 LANB uses an extensive communications network to deploy strategic objectives, action plans and performance measures.

Category 3: Customer & Market Focus

3.1 Customer and Market Knowledge

3.1a(1) Based on changes in legislation, regulation and mega-mergers among banks, we find it increasingly important to segment our customers geographically, and provide tailored, personal attention to the locales we serve. Our polls underscore the importance of local ownership, local decision-making and personal service. This is the foundation of community banking which we continue to build upon and which differentiates us from the national banking merry-go-round currently frustrating consumers. Within our geographic markets, we serve consumers and commercial and government customers.

Prior to 1998, LANB conducted in-house customer opinion polls. Our success with outside resources for employee surveys (Item 5.3) lead us to hire an outside agency, Research and Polling of Albuquerque, to conduct baseline market surveys of Los Alamos (1998) and Santa Fe (1999) counties. A third-party organization uses non-leading questions to reduce bias and improve accuracy of findings. We commission these surveys, which include our own customers and potential and competitors' customers, on an annual basis, alternating between Los Alamos and Santa Fe.

The 1998 survey pointed out that 63% of Los Alamos residents used LANB as their primary financial institution and 11% used LANB as their secondary financial institution. These results confirmed what the BOD and Executive Management had already concluded: potential and competitor customer growth in Los Alamos did not present sufficient opportunity to meet our long-range goals.

The BOD and executive management began examining opportunities for market expansion. They considered numerous factors in various alternative markets, including customer demographics, growth patterns and competing financial institutions, and evaluated their impact on long-term profitability and growth. They found that the demographics of LANB's existing customers and those of the Santa Fe market (about 35 miles away) were very similar, which would make our product and service offerings compatible. In addition, a national buyout weakened that market's most dominant competitor, furthering our interest in Santa Fe. The bank's deposits and loans in the Santa Fe market were increasing even without a branch office there.

Another market under consideration was Española and Rio Arriba county. Española has a strong competitor, Valley National Bank, and several credit unions have recently expanded into this market. Española does not represent a significant portion of total LANB deposits or loans, and there are some key differences in customer preferences which create uncertainty as to whether our products and services would be well received.

Management reviewed financial models to assure that entry into the Santa Fe market would contribute to our profitability and growth within a short period of time. Santa Fe County records pointed out that the bank was the leading loan closer, but had only a small share of deposits in that market. Our reputation as a leading mortgage lender in the county would give us good recognition and a strong growth foundation.

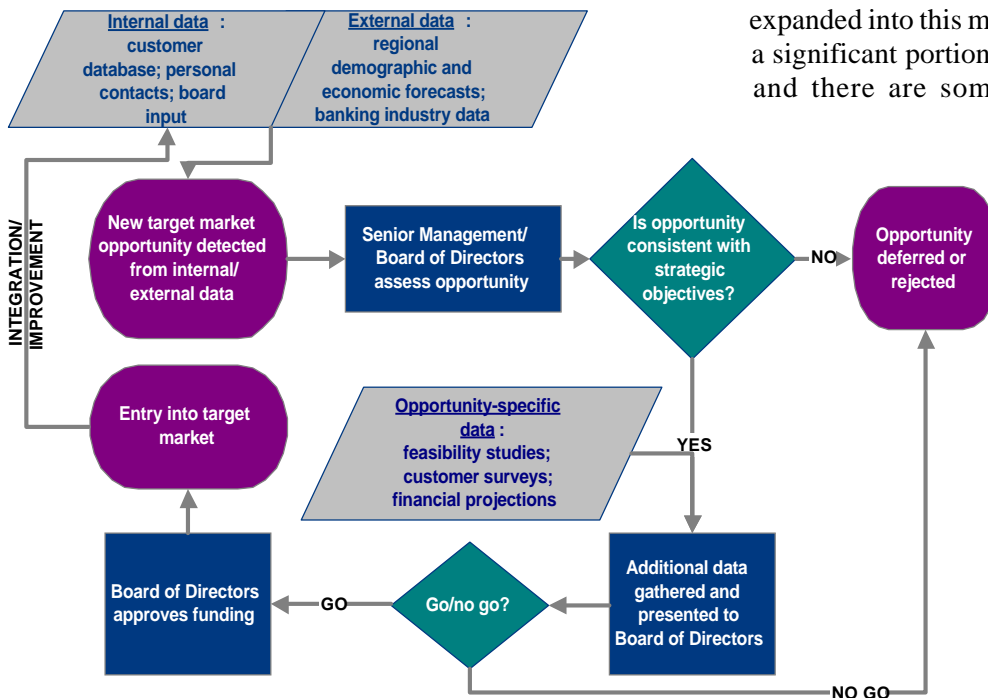


Figure 3.1-1. LANB's BOD and senior management carefully investigate opportunities for new geographical markets prior to entry.



Based upon these factors, we decided to expand into the Santa Fe market with a new branch office. To assure the best customer service, LANB commissioned another study to determine the most convenient location within Santa Fe for current and potential customers. As a result of this strategic approach, the Santa Fe expansion has been very successful, contributing significantly to deposit growth in its first year and expected to contribute to profitability by the end of its second year.

3.1a(2) LANB listens and learns from customers to determine key requirements and drivers of purchase decisions (Figure 3.1-2). Customer service employees are empowered to meet most customer expectations without requiring approval from their supervisors (Area 1.1a(2)). Technology is in place that allows many product modifications (i.e. interest rate considerations) to be implemented virtually instantly, maximizing flexibility in responding to customers (see Figure 3.1-2, Steps 1-3).

Listening and learning techniques are an integral part of employee training, which we implement on a departmental level. LANB conducts employee focus groups to fully capture listen-and-learn information.

Because the government and commercial sectors are represented by only a few individuals, we determine key requirements of these customers primarily through personal contact on the part of officers and senior management. In addition, governmental key requirements are often provided in Requests for Proposals and other government documents.

LANB determines key requirements of potential and former customers by surveying these customers and by tracking competitive activity. We track competitive activity using public and industry data bi-weekly, such as Market Rate Insight (monthly data on competitive loan and deposit rates) and county loan recordings. Another valuable source of information is continual contact between bank personnel and their peers and potential customers in community group settings (Item 1.2). For example, interface between the senior management of LANB and that of Los Alamos National Laboratory led to the creation of an International Teller desk to serve the travel needs of laboratory personnel.

3.1a(3) LANB projects key product/service features using data sources shown in Figure 3.2-1, and competitive data. The loan department surveys customers directly upon completion of each loan. LANB gleans marketing, sales and customer-retention information from a customer database populated with transaction data. Examples of the use of this relational database include direct mail campaigns to customers with loans and no deposits, and the development of our “Smart Refinance” program (Area 4.1a (1)). Senior Management uses this data to identify and analyze opportunities as shown in Figure 3.1-1, and to manage key product/service design and delivery as described in Figure 6.1-1.

Online banking. An example of these processes working together is the introduction of online Access Banking. Customer surveys indicated that our customers were interested in banking online, and that 70% of them had access to the

Internet. Review of external data revealed that the largest segment of home banking users in the U.S. matched the education and income level of our customers. It became apparent that allowing customers to view their account transactions online would save time and improve efficiency for them and for us.

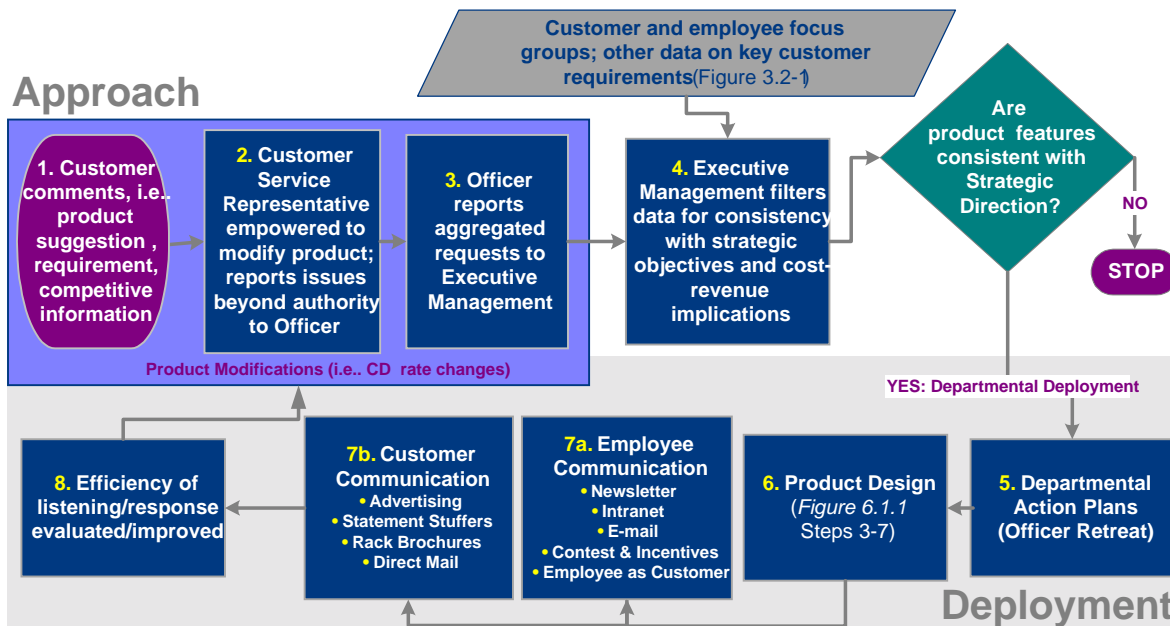


Figure 3.1-2 LANB has a systematic process for listening and learning customer requirements which determines key product/service features.



To determine the features to offer online, we evaluated competitive offerings. After beta testing by over 300 customers, Access Banking was introduced.

We divided our target geographic market into three groups: the technologically advanced, tentative and phobic. We determined that the tech-advanced group required only awareness of Access Banking to be persuaded to try it, while the tech-phobics required too great an investment to educate early in the introduction. Thus we aimed our advertising toward tech-tentatives, developing a campaign to educate them on ease of use. Within eight months of introduction, Access Banking had 3,400 users, representing 12% of customer checking accounts. There are over 800 logins to Access Banking each day. Our goal is to increase penetration by this cutting-edge, high-value product to 25% (10,000 accounts) by 2002.

3.1a(4) LANB keeps listening and learning current with business needs by using in-house and third-party expertise. Suppliers such as Research & Polling keep current with emerging trends in information gathering, and provide recommendations to us as part of the contracting process. In addition, listening and learning activities are incorporated into every major new initiative we launch. A re-

cent example is an e-mail help line for Access Banking which logs customer needs for evaluation and action.

LANB measures the effectiveness of new or modified products in meeting key customer requirements using many of the same listening techniques and other critical data sources as in the original determination of these requirements (Figure 3.1-1). Product effectiveness is also reflected in overall organizational performance, which is measured using well-established banking-industry benchmarks (see Figure 4.1-1 for a list of measures).

3.2a Customer Relationships

3.2.a(1) LANB determines key customer access mechanisms and customer contact requirements by customer and market surveys and active listening and learning on the part of customer contact employees (Figure 3.2-1). Because our business is almost entirely service-based, the methods of determining key customer access mechanisms and contact requirements are similar to those for determining key product requirements (Item 3.1 above). We know our customers want easy access, so our mechanisms include face-to-face contact, phone, mail and the Internet. We use the information we gather from these contacts and survey results to update our customer contact training. For example, the 1998 Los Alamos survey pointed out that there was dissatisfaction with accuracy among former customers. As a result, department-level training was deployed through meetings and training sessions (see Area 5.2.a) to develop and reinforce accuracy of transactions. Data in the 2000 survey of the same market show that the dissatisfaction level has significantly decreased (Figure 7.1-3).

3.2a(2) We determine requirements for customer contact employees by listening and learning (Figure 3.1-2), **and through our work and job alignment process** (Figure 5.1-1). Our service standards (Figure 0.4) distill our core values (Figure 0.3) into concrete guidelines for behavior. LANB deploys these requirements to customer contact employees via newsletters, e-mails, the LANB intranet, employee orientation and department training. The presence of LANB’s President in the bank lobby helps promote compliance with these requirements, and assures rapid customer recourse to senior management.

3.2a(3) LANB manages and aggregates customer complaints in the manner described in Figure 3.2-4. The process empowers employees to resolve complaints on the spot, where possible, and then report them for further analysis. The QC formed a Customer Relations Team to review the complaint process and make necessary

Measurement Method	Key Requirements	Key Access Mechanisms	Customer Satisfaction
Market surveys and other commissioned studies			
Employee focus groups			
Community group interactions			
Personal contacts with decision makers (Government and Commercial sectors)			
Customer database			
Customer complaint forms			
Loan department customer surveys			
Customer feedback to employees			
Competitor observation			
Internal customer data			
Information technology project list			
County real-estate recordings			
Rate watch competitive rate information			

Figure 3.2-1 LANB uses a variety of measurement methods to determine key customer requirements and access mechanisms and to track customer satisfaction.



changes to revitalize the program. The team consists of members of management and staff from all areas of the bank. Cross-functional representation gives the team a broader base of knowledge and experience while promoting organizational and individual learning opportunities. Under their direction, the process underwent two improvement cycles in the past year, following the improvement process shown in Figure 6.1-1.

The Customer Relations Team meets on a bi-weekly basis to review and analyze aggregate data from throughout the organization. They divide the data into categories, including customer service, accuracy, facilities/safety and others. Categorization helps team members identify recurring problems, and provides benchmarks for the future. Recurring problems are evaluated for root cause and solutions are found and acted upon. Since its inception, the team has implemented solutions for automatic-transfer and address-change problems.

3.2a(4) LANB builds customer relationships with high-retention products, active cross-selling, low fees and other customer conveniences, and with high visibility in the communities we serve (Figure 3.2-3). LANB strives to maintain loyalty of retail customers by minimizing their fees. High-retention products or services are those which are not easily moved from one financial institution to another, such as a Certificate of Deposit or a trust account. Likewise, cross-selling, i.e. selling a deposit account to a loan customer, increases the number of relationships that customers have at LANB. High visibility in

and commitment to our key communities leads to many positive referrals.

LANB’s new-product project teams assess the impact on customer retention of all new product designs (see Step 4 of Figure 6.1-1). The result is *customer-driven quality*, which fosters high retention and referrals.

3.2a(5) LANB assures that customer access and relationships remain current with strategic needs and directions by testing access mechanisms against the bank’s strategic direction, as illustrated in Figure 3.2-2. Customer access and relationships are also subjects of discussion at annual BOD and Officer retreats (see Area 1.1b(2)).

3.2b Customer Satisfaction Determination

3.2b(1) LANB determines customer satisfaction, dissatisfaction, and loyalty using measures listed in 3.2-5. While customer satisfaction is important, we believe that customer loyalty is even more important, because it is predictive of future behavior. The same customer surveys used in the product planning and customer relationship improvement (Figure 3.1-1) also provide critical data for determining customer satisfaction. Customer satisfaction questions in the Los Alamos baseline study included rating of satisfaction, least favorite features and an overall evaluation of customer’s primary financial institution. Because the survey identified the customer’s primary financial institution, the survey provided the same information about LANB competitors. Our loan survey rates staff friendliness, professionalism and product knowledge, clarity of explanations and timeliness of loan processing, and referral intentions.

3.2b(2) LANB’s problem and complaint follow-up process provides actionable feedback on customer satisfaction. This process, described in Figure 3.2-4, pointed out a problem with accuracy in setting up automatic loan payments. As a result, the setup process was revised to limit the number of people

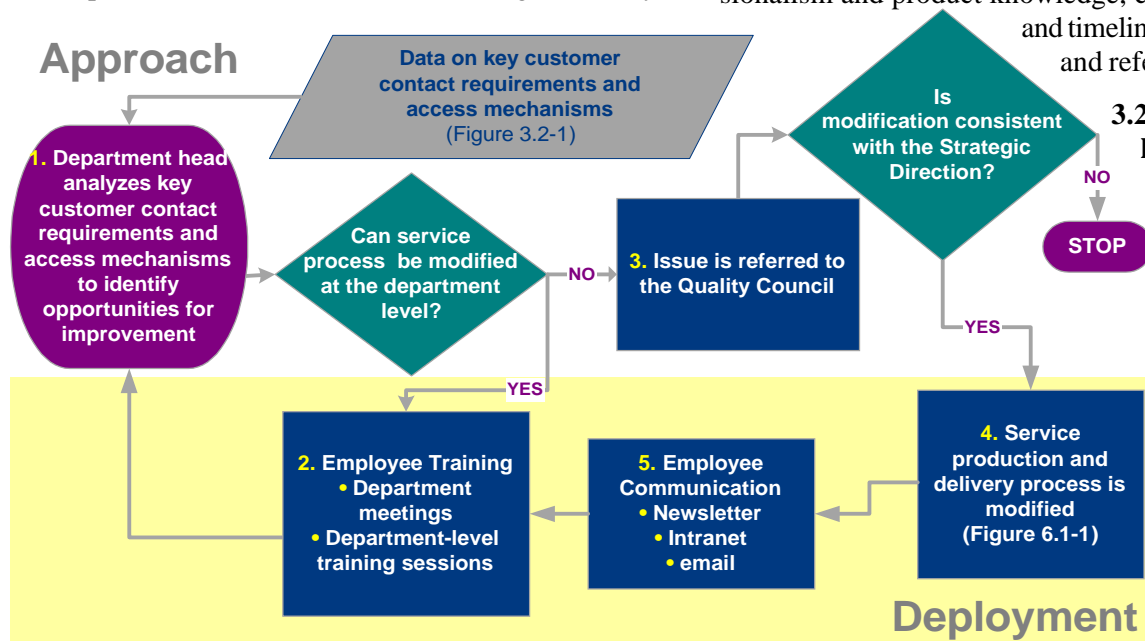


Figure 3.2-2 LANB modifies key customer access mechanisms and customer contact processes through its Quality Council.



HIGH-RETENTION PRODUCTS	
CD-Plus	Attractive yields for one-year investment
Direct Accounts	Incentives to have recurring income deposited directly into account
Campus Account	Convenience and fee considerations when student and parent accounts are linked
Trust services, title services, brokerage offices	Discourage “shopping around” for additional services
CROSS-SELLING	
Automatic loan payments	Converts loan customer to deposit customer
Direct mail programs	Incentives to loan customers to open deposit accounts
“Smart” online banner advertising program	Advertises products on Access Banking website which may be useful for customer
CUSTOMER CONVENIENCE	
Low fees	Builds loyalty to LANB
Access Banking web site	24-hour account access
DataBank telephone banking	24-hour account access
Drive-up ATM locations	24-hour cash and account access
“Live” telephone operators	Convenience, personal relationship enhancement
COMMUNITY VISIBILITY & COMMITMENT	
Donations	Support for customers’ preferred non-profits
Event sponsorships	Support for customers’ preferred non-profits; advertising and publicity opportunities

Figure 3.2-3 LANB builds customer relationships for repeat business and positive referrals.

Factors	Measures
Customer satisfaction	Market share, deposit growth, customer survey
Customer dissatisfaction	Complaints, customer survey, loan survey
Customer loyalty	Number of relationships, loan department referrals, Access Banking growth

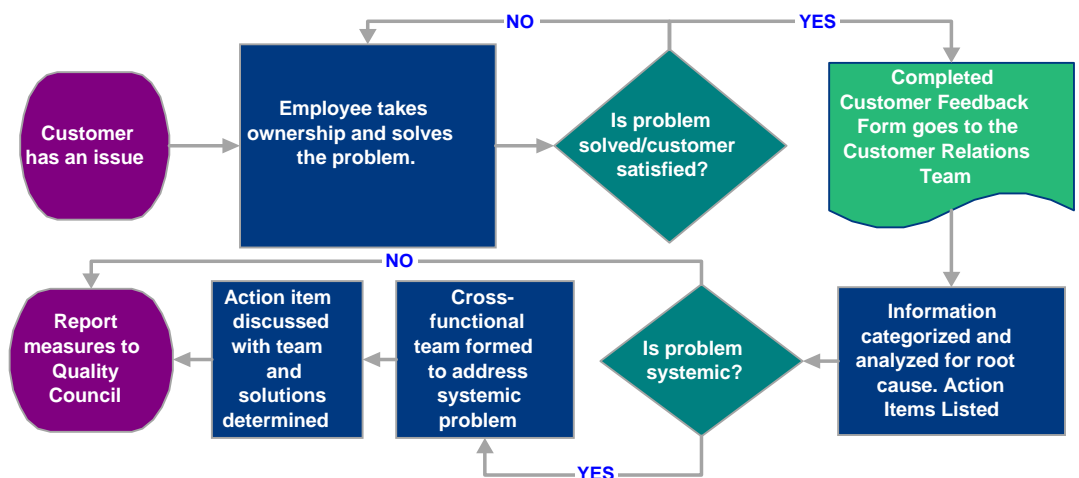
Figure 3.2-5 We measure both attitudinal and behavioral aspects of customer relationships and satisfaction.

inputting data and to include a check system. The loan customer questionnaire also provides information, which is used to improve loan application and processing procedures.

3.2b(3) LANB monitors the measures listed in Figure 3.2-5 to improve service delivery methods and product offerings. This information is also used to highlight specific products in advertising by pointing out where LANB has significant product advantages. LANB loan officers always ask new customers why they chose LANB. This question invariably yields information about dissatisfaction with competitors (i.e. loan rates are too high, not responsive, too much red tape). At regular meetings and at their annual retreat, the officers translate this customer information into opportunities and initiatives

3.2.b(4) LANB keeps approaches to customer satisfaction current within the context of its strategic planning process (Figure 2.1-1). The BOD reviews approaches and results at their monthly meetings, and annually at the Director and Officer retreats. Use of third party surveys and competitor information also keeps approaches current, as discussed in Area 3.1.a(4).

Figure 3.2-4 LANB uses complaint data for process improvement, building quality into products and services and efficiency into production and delivery processes for long-term customer satisfaction, preference and retention.



Category 4: Information & Analysis

4.1 Measurement of Organizational Performance

4.1a(1) LANB addresses major components of an effective performance measurement system by maintaining state-of-the-art data gathering and analysis tools, and utilizing the results in regular performance reviews. To meet the bank's ever growing need for comprehensive performance measurement, we began actively searching for a system to replace our mainframe in 1992. We selected a client-server system on which much information is pre-stored on the PC (client) and only necessary information has to be downloaded from the server. This reduces information retrieval time, and allows the bank to move away from expensive, large, single-system computers (mainframes) to a system that distributes the workload over multiple servers.

In 1996, LANB installed Eastpoint software, a relational database system, to improve data storage and retrieval efficiency. The system allows everyone to manage data. Employees from different departments (i.e. Cashiers, Audit, Marketing and Loan Department) have been trained to create reports by manipulating and retrieving data. With a relational database system, management receives and analyzes important information, tailored to their decision-making needs, within hours of their request.

This ability to quickly gather information allows us to initiate a *fast response* when opportunities for improvement arise. For example, in January of 1998, when mortgage loan interest rates approached a 30-year low, LANB's management team reviewed the mortgage loan rate survey, which pointed out that our loan pricing was not as favorable

Organizational Performance Measurement Frequency	ANNUALLY	QUARTERLY	MONTHLY	DAILY	MEASUREMENTS
Personnel Development					
Turnover reports					
Exit interviews					
Employees trained by topic (%)					
Absenteeism					
Employee opinion survey					
Performance appraisal					
EEOC review of affirmative action plan					
Personnel expense per employee					
Contribution to ESOP and profit sharing					
Product Innovation					
New product usage					
New technology					
Products and Services					
Market Expansion					
Mortgage and deposit rates					
Mortgage filings					
Market share					
Service Excellence					
Loan survey results					
Complaint resolution results					
Relationships per customer					
Operational Efficiency					
Operating expenses					
Efficiency ratio					
Net income per employee					
Assets serviced per employee					
Mortgage loan turnaround time					
ATM uptime					
Financial Indicators					
Net Interest Margin					
Total deposits					
Net deposit growth					
Total assets					
Total loans					
Loan growth					
Loan/deposit ratio					
Average monthly deposits					
Average monthly loan/deposit ratio					
Fed funds sold					
Current net liquidity					
Average net liquidity, month-to-date					
Mortgage loan servicing income					
Service fees/assets serviced					
Fee/income ratio					
Net charged-off loan ratio					
ROE					
ROA					
Asset growth					
Stock price					
Earnings per share					
Dividends per share					
Performance to budget/strategic direction					
Organizational Performance Measures Comparison Key					
 Local competition Benchmark National average No comparison					

Figure 4.1-1 LANB's measurement system is the brain center for alignment of organizational performance with strategic direction and corporate objectives.



as our local competition. The risk of customers refinancing mortgage loans with a more competitive lender would have exposed the bank to a decrease in the mortgage loan portfolio, and consequently, our mortgage loan servicing income.

Faced with this threat to customer satisfaction and the bank’s primary source of fee income, management re-priced mortgage loan points and rates to be more competitive, and set up an innovative program to allow fast mortgage loan refinancing, minimum documentation, and a streamlined process. Our relational database quickly identified those customers who qualified and would benefit most from the enhanced product, which we called “Smart Refinance”. Our President sent a personal letter directly to those target customers announcing this enhanced product. Our *agility* and *management by fact* not only preserved the existing mortgage loan portfolio, but increased it by 16%.

LANB selects measures and indicators to support daily operations by identifying those which reflect the values set forth in our Vision and Strategic Direction, and which quantify the goals established in our strategic planning process (Figure 2.1-1). Measures which have been identified as most critical to our performance include the “vital three indicators,” i.e. net interest margin, efficiency ratio and mortgage loan servicing income, and those which measure performance of our three key processes, i.e. generation of funds, investment of funds, and generation of fee income (Figure 4.1-1). These indicators and measures are reviewed on a daily and monthly basis, giving management the information needed to make informed decisions.

LANB selects measures and indicators to track overall organizational performance through the strategic planning process. We track progress toward objectives, initiatives and goals by identifying measures at three levels: corporate, departmental, and individual. Bank personnel stay

focused on results and creating value through an ongoing review and assessment of measures and indicators and through an understanding of how departmental initiatives and individual goals affect corporate objectives (Figure 4.1-1).

LANB selects comparative data from well-established benchmarks in a variety of industries, as shown in Figure 4.1-2. We receive quarterly key performance numbers of banks in our peer group. Other sources of comparative data include a quarterly bank comparison report prepared by an independent consulting firm for banks. These reports are clear in nature, providing a uniform scoreboard to compare LANB with best-in-class and industry averages. This data gives us the basis to set stretch goals compared to high-performance banks. LANB also uses this comparative data, along with additional data related to

market share, products and services, pricing and growth, to assess where we stand relative to local competitors. This information is key to identifying competitive risks and opportunities for improvement.

The LANB management team gathers informal comparative data through seminars, trade associations and networking with industry and non-industry leaders. This interaction helps identify best practices in our industry – and related industries – and

gives us a head start on product and technology breakthroughs.

LANB insures reliability of financial and operational data through third-party audits and surveys. Few industries are as highly regulated as banking. A CPA firm and federal examiners conduct annual audits of our financial and operational performance.

An independent banking organization conducts employee satisfaction surveys and an independent research and polling company conducts customer satisfaction and market surveys. We have been using third-party services for 11 years.

Comparative Data	
Source	Type
Bank Peer Group Report	Quarterly key performance
Independent Bank Consulting Firm Report	Quarterly bank comparisons
Independent Rate Forecast Report	Interest rate
Baldrige Award winners	Systematic approaches to strategic planning, information analysis, human resources and customer satisfaction
State quality award winners	Customer service, employee turnover, sales and profits
Successful companies	Employee reward and recognition
National economic forecasts	Market indicators

Figure 4.1-2 LANB seeks and uses comparative data from a variety of sources to analyze our performance and implement best practices and improvements.



LANB insures reliability of software and delivery systems through a formal process of checks and balances. Our staff verifies accuracy of data input the following day. Our cashier's department balances data input against control general ledger accounts on a daily basis.

LANB gains a cost/financial understanding of improvement options by performing cost/benefit analyses before new initiatives are implemented. Senior management identifies opportunities and needs by analyzing information prepared for the strategic planning retreat. They assign opportunities/needs to the appropriate management team members to perform a cost/benefit analysis. The management team and Quality Council review the analysis to determine the impact on the overall organization and to ensure that the proposed initiative aligns with the vision, strategic direction and corporate objectives.

For example, during 1996, LANB placed a strong emphasis on operating systems and facilities in order to meet the Vision 2002 target of evolving into a regional bank with \$750 million in assets. It was apparent from customer feedback, employee surveys and from the high cost of lease space, that the bank would need a larger, more efficient facility to meet this target. We ran a cost/benefit analysis on several potential sites in Los Alamos, and selected the existing site based on: its central location and easy access to parking; its capacity for a building large enough to relocate all employees to one central facility to improve efficiency and working conditions. The financial impact on the bank was very positive. With *focus on the future*, LANB built the facility to accommodate long-term growth goals. The impact on operating expense was alleviated with tenant space, which realized a net increase in rental income of \$172,000 per year.

Cost/benefit analyses do not always support implementing a new initiative. For example, LANB learned through networking with local business owners that a Los Alamos supermarket wanted a bank office inside its store. We conducted a thorough cost-benefit analysis and found: the branch office would be less than a mile from our main facility; 74% of Los Alamos residents already bank with LANB; the supermarket's extended work hours were not supported by our customer surveys. LANB already faces a substantial human resource challenge, and less desirable working hours would compound the problem. Our analysis pointed out that overhead costs would greatly increase with a supermarket office, with no added benefits to customers, causing us to abandon the initiative.

LANB uses data correlations/projections to support planning, including a comprehensive asset and liability simulation model which forecasts financial results. This tool is used for interest-rate risk management, budgeting, profitability analysis and planning. The model mirrors LANB's entire database, including customer accounts and loans, so the consequences of alternative strategies can be compared and analyzed. The simulation accurately reflects both external (economic, regulatory, consumer behavior) and internal (pricing strategies, corporate policies) conditions. It incorporates the relationship between the bank's pricing of deposits and loans and the external interest rate environment, and the relationship between the level of account balances and the bank's financial performance. It provides Executive Management with a systematic approach to creating a growth model, a pricing matrix, and a pre-payment model for assets (loans) and liabilities (deposits). To validate the model's results, LANB contracts with an independent service to perform a simulation forecast on a quarterly basis.

The pricing matrix identifies the spread between market rates and corresponding bank products. The Federal Reserve statistical reports and comprehensive independent financial and rate forecasts are used to update the matrix with a monthly forecast with three rate scenarios— consensus, high, and low. Using different rate scenarios, the program forecasts monthly financial results for up to five years. Results are reviewed by the Funds Management Committee, comprised of the Board of Directors, Executive Management and Department Leaders, where strategies, products and pricing are modified as needed.

This process helps LANB manage the net interest margin independent of changes in interest rates. For example, LANB has a large portfolio of adjustable-rate mortgages that re-price annually. In 1998, the bank had to increase customer deposits (generation of funds) to meet growing loan demand (investment of funds). In response, the committee developed the CD Plus program, which offered a higher interest rate. The product was given a one-year term, to allow annual re-pricing and protection of net interest margin.

Prior to the annual planning retreat, a trend analysis is performed to gain an understanding of where we have been, where we stand and why. The analysis keeps us *focused on the future* and is used to identify initiatives that need to be taken in order to achieve Vision 2002 and sustain long-term growth and profitability.



4.1a(2) LANB keeps performance measurement systems current with business needs and directions by ongoing review and alignment of initiatives and their associated measures as described in Area 1.1b(1). Figure 6.1-8 shows how the current performance requirements of key processes drive the measures we collect and analyze for use in daily operations. Figure 4.1-1 shows the measures and frequency to track overall organizational performance. These are updated at least annually through our strategic planning process (Figure 2.1-1), and more often if needed. Data is obtained through our various listening and learning methods (Figure 3.1-2) and the improvement process (Figure 6.1-1).

To stay *customer driven*, we test initiatives against customer needs indicated in surveys, customer feedback forms and employee input. For example, we postponed selection and implementation of a new mortgage loan platform system until 1999, although it had been identified as a 1998 departmental initiative, in order to allow staff to focus full efforts and resources on providing excellent customer service during the “Smart Refinance” promotion described previously (4.1a(1)). As a result, our loan customer questionnaire indicated that 85% of our customers rated our service as excellent, and 14% rated our service as good, with no one indicating our service needed improvement.

4.2 Analysis of Organizational Performance

4.2a(1) LANB performs analyses to support executive management’s organizational performance review by gathering internal and comparative performance data, both current and historical, in areas supporting the bank’s vision,

strategic direction/philosophies, and corporate objectives (Figure 4.1-1). This data is used in the assessment described throughout Category 2. The BOD, executive management and management team analyze this data at the annual strategic planning retreat, and the Strategic Planning Committee analyzes it quarterly. The quarterly analysis is used to reevaluate the vision and strategic direction, and to measure performance against the corporate objectives and operating budget. LANB ensures that analyses address the

overall health of the organization, including key business results by using a balanced set of performance measures. Figure 4.1-1 shows the breadth of data analyzed. The ongoing assessment process of organizational performance is shown in Figure 2.1-2.

To balance our performance measures, we focus on our corporate strategy to achieve long-term, sustainable high performance for the bank. By carefully balancing profitability measures, growth objectives and reinvestment in personnel and technology, LANB has achieved a consistent, long-term, and high level of performance for over a decade and a half.

Leading indicators	
Competitive factors	Indicator
Market area demographics	<ul style="list-style-type: none"> • Age • Income • Population
Major employer budgets	<ul style="list-style-type: none"> • Large Federal Employer • Federal Contract Employers • Local Governments
Local economy	<ul style="list-style-type: none"> • Unemployment • Inflation • Tourism
Competition	<ul style="list-style-type: none"> • Mergers/acquisitions • Interest rates • Products/services • Banking Peer Group
Social	<ul style="list-style-type: none"> • Internet transactions • Point-of-sale transactions • Automated teller transactions
Regulatory	<ul style="list-style-type: none"> • Gramm-Leach-Bailey Financial Modernization Act

Figure 4.2-1 LANB analyses indicators (1-5 years) to support strategic planning and long-term competitiveness.

Essential to continually improving in profitability is daily monitoring of the bank’s net interest margin and efficiency ratio. We significantly out-perform Bank A, against whom we benchmark for efficiency. Our net interest margin is intentionally narrow as compared to our competitors. This enhances our pricing power and sustained competitiveness as margins narrow with increased competition from super regional banks. As stewards of our shareholders’ investment, we scrutinize return on equity to assure consistency and sustainability at a high level of return. We vigorously monitor loan and deposit growth to assure salary expansion, new technology investment and increased market share. We monitor net interest margin and key indicators that influence NIM every business day of the year.



LANB performs analyses to support organizational planning by staying abreast of and analyzing long term (1-5 years) industry and competitive indicators (Figure 4.2-1). As stated above, the measures shown in Figure 6.1-8 and Figure 4.1-1 are reviewed at appropriate intervals to assess overall health. For example, total deposits are reviewed on a daily basis, while overall deposit growth is calculated monthly. The analyses of this data has lead to several strategic initiatives, including the implementation of an online banking system and the program to assist customers who were laid off during the town's largest employers' reduction in force described in Area 1.2a(2).

More recently, regulatory indicators revealed that the Gramm-Leach-Bailey Financial Modernization Act was about to pass. With this fundamental change in the competitive environment, and the new opportunities and risks it presents, the landscape upon which we compete is changing. In response, we formed a team consisting of Senior Leaders, with the CEO as team leader, to analyze and prepare for passage of the act. The team evaluated which of the opportunities to pursue and in what priority. They made further cost-benefit analyses to determine whether to perform these functions at the holding company level or within the bank, and whether to purchase an existing company, partner with an existing company, or to start up a new company to provide the new services. Resources and employee skill sets were identified for each of the options. Because of this analysis and planning, the bank is in a position to provide many of the new services.

We address overall health of our bank by using a balanced set of composite measures. For example, our efficiency ratio is a key business result, and is influenced by employee satisfaction, training, technology and turnover. Senior leaders receive quarterly efficiency data, while HR tracks turnover, a leading indicator of efficiency, on a daily basis. This allows quick identification and removal of root causes of dissatisfaction, before efficiency is affected.

4.2a(2) LANB ensures that the results of organizational-level analysis are linked to departments to enable effective support for decision making by aligning departmental initiatives with corporate objectives. This approach begins with the strategic planning process (see Figure 2.1-1), during which we assess and analyze departmental initiatives to determine their effectiveness in achieving the corporate objectives for the prior year. This keeps department leaders *focused on results and creating value* as they see how departmental performance affects the overall health of the organization. It also gives department

leaders the *opportunity for organizational and personal learning* by building the foundation to make fact-based decisions in support of their objectives.

For example, the management team reviewed and analyzed the results of employee opinion surveys, focus groups and exit interviews. Their analysis indicated that employees would have greater job satisfaction with an improved performance appraisal process. Because personnel development is one of the bank's corporate objectives, the management team revised the process to include self-assessment and individual goal setting in support of departmental initiatives. Once developed, human resources held employee meetings to introduce the new process and seek feedback for further improvement. The revision not only resulted in increased employee satisfaction, but it gave department leaders and supervisors a framework for focusing employees on individual goals, departmental initiatives and corporate objectives.

4.2a(3) LANB conducts analyses to support daily operations throughout the organization by determining the cause and effect of performance measures affecting our three key processes (generation of funds, investment of funds, and generation of fee income), which subsequently affect our overall organizational performance. Our Head Cashier and Chief of Operations review LANB's balance sheet and income statement daily, with focus on the data in Figure 6.1-8. They compare this data to the annual operating budget and perform ongoing daily, monthly and quarterly trend analysis. They analyze the composition of any unexpected change, and present it to Executive Management to determine an immediate course of action. In addition, they use multiple sources of comparative data (see Figure 4.1-2) to ensure that bank performance remains high compared with others.



Category 5: Human Resource Focus

5.1 Work Systems

LANB organizes work and job design around our three key processes: investment of funds, generation of funds, and fee and other income, as well as processes that support all three. For example, the loan department exists to invest funds, the new accounts department exists to generate funds, and the mortgage-servicing department exists to manage the servicing of mortgage loans.

5.1.a(1) LANB designs, organizes and manages work to promote cooperation and collaboration by aligning all work and jobs with our key processes, and by communicating corporate objectives to all employees. We design and organize work as shown in Figure 5.1-1. The inputs form the basis of the design of operational activities. Senior leaders work with department managers to develop working scenarios to meet customer needs and to effectively utilize technology improvements. We test these requirements against existing human resource capabilities. A recent example is the development of our Internet banking capability. Senior leaders worked with the department managers who were most familiar with customer service functions such as checking and savings accounts transactions. Together they assessed technical requirements and assigned a group within the bank to work with vendors

on meeting those requirements. Design elements included desired outcomes, roles and responsibilities, and parameters to guide investment decisions and in-house versus procured services. Design reviews included all department managers to test assumptions and provide input. After implementing the new group within the bank, weekly reviews were held to assure that operational and technical requirements were understood and implemented according to plan. Now, the new group operates as its own department, with weekly department meetings and monthly strategic reviews.

Employees also participate in team activities as assigned by the QC. For example, a customer relations team (3.2a3) was established on an ad hoc basis to improve our customer complaint process. When it became evident that this process required on-going management, review, and improvement, the team became permanent. Project teams implement opportunities for improvement using the Project Template (6.1-3). We have found that using employees from across the organization provides richer ideas, better results, and cross-pollination of “best practices.” Of our 167 employees, over 30% currently participate in long- or short-term teams.

While our direct customer contact employees (tellers, customer relations team members, customer service employees, etc.) provide current customer trends, our BOD and senior leadership keep current with business needs on a

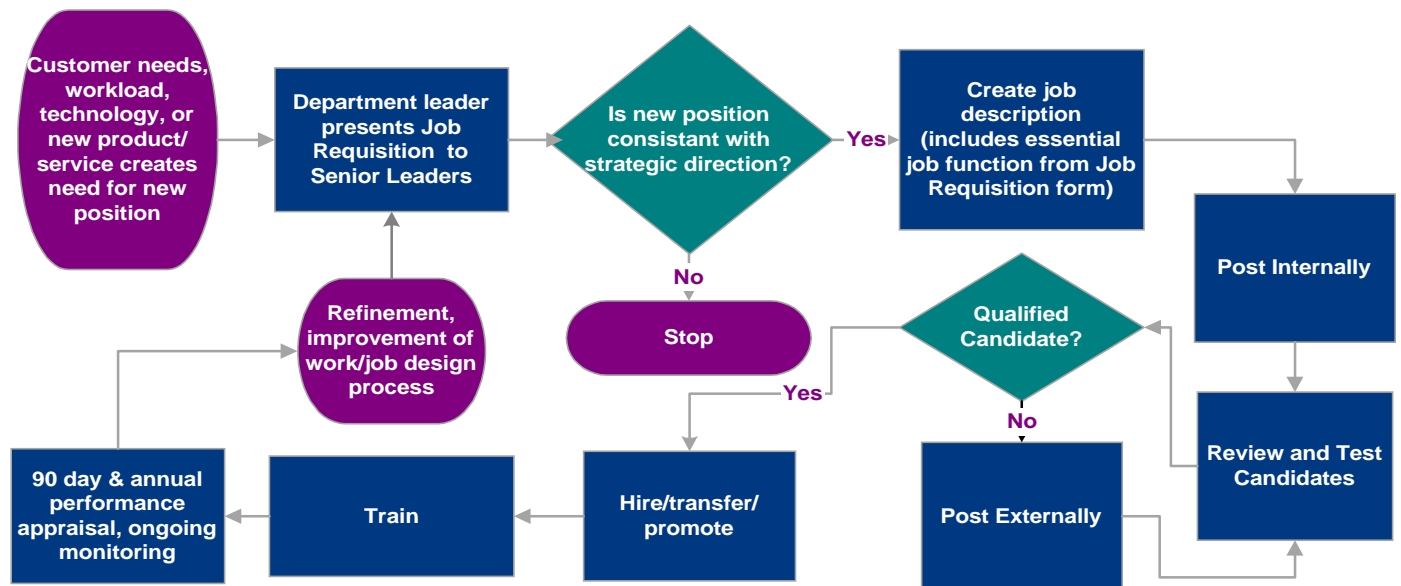


Figure 5.1-1 LANB's work and job design aligns workload, new technology and new products and services with the strategic direction of the bank. The process is designed to promote from within the organization before seeking talent elsewhere.



broader perspective, as detailed in 2.1a(2). These two viewpoints meet in the strategic planning process.

5.1.a(2-3) LANB’s managers and supervisors encourage and motivate employees to develop and utilize their full potential through frequent informal feedback on their performance and the formal performance appraisal system. As described in item 2.1, objectives flow from senior leaders into department action plans, which then define employee performance goals. These goals provide employees and their supervisors direction for development and training. Individual initiative, innovation and flexibility are emphasized in our performance appraisal system, and are enabled through department and team initiatives. This flexibility also extends to the departmental level and is evaluated at weekly and monthly department meetings. For example, in 1998, the mortgage loan department was implementing a new mortgage technology platform as part of their departmental goals when interest rates dropped and the refinance volume increased. Efforts were quickly redirected from the platform to serving our mortgage loan customers until the refinance volume lessened.

We redesigned our performance appraisal system in 1997 with input from employee focus groups, meetings and employee opinion results. The employee survey revealed that employees did not understand their role in the strategic direction of the bank. The new system was developed through the QC using the project template outlined in Area 6.1a(1). The new, Baldrige-based performance appraisal form (Figure 5.1-2) includes LANB’s current strategic and department goals. The employee adds his/her annual goals, last year’s achievements to goals, a personal development plan for the year, as well as long-term career goals. The employee also completes a personal self-assessment of strengths and opportunities for improvement relating to their customer service skills and technical competence. This provides the employee a complete snapshot of what to do in order to achieve high performance and reward for the upcoming year.

The supervisor reviews the employee’s plan, and verifies or provides further input on strengths and Opportunities for Improvement (OFIs). We are strongly committed to employee empowerment, and our appraisal process supports this by giving the employee the authority and responsibility to fully develop their potential as bank employees and human beings. As these plans are aligned with the bank’s strategic objectives, we are eager to support the training and development that ensure their success.

5.1.a(3) LANB’s employee performance management system supports high performance through joint goal development between supervisors and employees.

We have found that employees are more motivated when they participate in setting their own goals than they are when their goals are handed to them. The bank believes in professional development of employees, and promoting from within is a conscious strategy. Over 18% of our employees (and 70% of officers/supervisors) have received internal promotions, compared with a two-time Baldrige winner at just 9.5%. We also ensure high performance by hiring the right employees. We identify success traits for each job, and using behavior-based interviews, match candidates to those traits.

5.1.a(4) LANB’s compensation, profit sharing, employee ownership and recognition practices encourage high performance.

We believe that the primary incentive for any business is profit; and we have found no better way to provide incentive to individual performance than that of sharing the profits of the organization as a whole. Therefore, we created a profit sharing program, based on bank performance, for all full-time employees. Another key principle that has been in place for many years is our belief in employee ownership. Employees participate in an employee stock ownership program (ESOP) after they have completed 1,000 hours of work. It is a discretionary plan entirely funded by bank profits. Presently, the bank employees own over 8% of our corporation, equating to an

Employee Appraisal Process Tracking			
Deadline to HR	Deadline to employee (completed by HR)	Deadline to supervisor (completed by employee)	Deadline to HR (completed by employee)
(Assign date)	4 wks prior	2 wks prior	HR Assign date

Employee Name:	Original Hire Date:
Employee Title:	Sick leave used YTD:
Employee Department:	Vacation Balance:

Bank Strategic Goals		
BALDRIGE CATEGORY	CORPORATE GOALS	CORPORATE OBJECTIVE
Cat. 1 and 5 Leadership and HR Development	Personal Development	Department training programs Employee develop job and career related goals
Cat. 3	Product Innovation	Introduce interest banking

Figure 5.1-2 LANB’s performance appraisal form includes strategic objectives, department goals and individual goals.



employee ownership value of nearly \$10 million dollars. These two plans develop cooperation and collaboration between employees and departments.

In our monthly newsletter, *Interest Bearing Notes*, we recognize employee milestones and include letters from customers thanking employees for excellent service. We recognize employees for high performance in weekly e-mails, known as “Weekly Reminders.” We have a formal recognition program where employees receive one, five, ten and fifteen year pins; twenty years of service earns a gold pin with a five-point diamond. Five employees recently passed their twentieth year of service; in addition to their gold pin, we gave each of them a week off and all-expense paid trip for two to Las Vegas, Nevada. Our initiative for 2000 in rewarding employees is to offer a four-week “sabbatical” to everyone who has worked for the bank longer than 10 years. We believe that this program will reap rich personal and professional benefits.

In the early 1980s, we made a conscious decision to avoid recognition programs that singled out categories of employees. For example, instead of observing secretary’s day, we hold an Employee Appreciation Day. We believe that thanking all of our employees together promotes teamwork and cooperation.

5.1.a(5) LANB ensures effective communication, cooperation and knowledge skill sharing across work functions and locations by aligning department goals with bank strategic objectives, by QC, cross-functional teams, and through the communication process described in Figure 2.2-3. Process improvements are shared with all employees at the quarterly employee meetings, monthly officer and supervisor meetings, weekly departmental meetings, and project results are included in the monthly employee newsletter, *Interest Bearing Notes*. All results from process improvements are posted on the QC website, accessible to all employees. QC also organizes special training sessions. For example, upon completing the 1999 Quality New Mexico Zia application, each team presented a description and key elements of their category at a series of employee meetings, and new employees read the application as part of their orientation. Quarterly employee meetings are held in Los Alamos and Santa Fe. The CEO and President spend at least one day per week in the Santa Fe office. The Santa Fe and White Rock branch managers are members of QC.

5.1.a(6) LANB identifies characteristics and skills needed by potential employees through a Job Requi-

sition Form completed in our job design process (Figure 5.1-3). General key performance requirements are outlined in the employee handbook and specific key performance requirements are outlined in job descriptions.

Figure 5.1-3 LANB outlines key performance requirements in the Hiring Requisition form, which is completed as part of the work and job design process.

LANB seeks to promote employees internally for new job opportunities by placing openings on our intranet and company bulletin boards. Internal job posting creates a win-win opportunity. When we hire from within, we know we are getting a committed and motivated employee. Likewise, the employee is self-selecting career progression and professional development in an area of personal interest. If there are no qualified applicants for the position the bank will recruit externally. LANB has a successful employee referral incentive program, whereby an employee who recruits a new hire receives \$500. LANB also participates in job fairs at local high schools and colleges in Northern New Mexico, the Society of Human Resource Management meetings, and Americans with Disabilities Organization. The bank also posts jobs with the New Mexico Department of Labor and local newspapers.

The bank has an Affirmative Action Plan in which we compile and compare our diversity with the communities we serve. We believe in hiring for attitude, and training for the skills needed for the position. Los Alamos National Laboratories, as the main employer in our community, hires scientists from around the world and brings them and their families to Los Alamos. This influx of nationalities, combined with the existing Native American, Hispanic, and



Anglo cultures in our county, offers LANB a wonderful melting pot of employees.

5.2 Employee Education, Training, and Development

5.2a(1) LANB balances short and longer term organizational and employees needs through our strategic planning process (Figure 2.1-2), our performance review process described previously and our employee training program (Figure 5.2-1). Our strategic objective of personnel development carries annual objectives which are shown in Figure 2.2-1. A full-time training director organizes and oversees delivery of all in-house training, and maintains a training database (ABRA Train). ABRA Train provides training and education information for employees and supervisors, and is available through our computer network. The personnel development section (containing annual and long-term goals) of performance appraisals are input to ABRA Train, which is updated as employees complete training toward their goals. The training director reviews monthly reports, identifies training needs and guides employees to external sources of training. She organizes internal training needs resulting from the introduction of new technology. For example, when we introduced Access Banking, all employees completed a concentrated training session. Evaluations from the training session were input to ABRA Train to guide the design and delivery of future training offerings (See Figure 5.2-2), enabling *continuous improvement*.

LANB supports improved employee performance by offering an educational program that pays for all business class tuition and books. Employees who successfully complete a class with a grade “B” or better receive a raise. All internal training is taped and made available to employees via the Intranet or VHS tape.

5.2a(2) LANB designs education and training to keep current with business and individual needs by linking the employee goals which drive training requirements to the strategic plan,

as described in 5.1a(2-3). Our annual strategic objectives reflect current business needs; employee developments identify individual needs. Monthly departmental meetings can alter, cancel, or accelerate training based on changing needs.

5.2a(3) LANB seeks and uses input from employees and supervisors on education and training needs, expectations, and design through the employee opinion survey, employee performance appraisal process, strategic direction, and informally through requests. To identify areas for improvement, we have had a well-established employee opinion survey process in place since 1987 that includes an initial, confidential survey, designed and processed by the Bank Administration Institute(BAI). We share results of the survey, and follow up through monthly “Breakfast with Bill” focus groups (Figure 5.3-1). If a need is identified, an improvement effort follows the design process outlined in Figure 6.1-1.

When a department finds a need for training they submit a request to human resources to design and provide the training. For example, several employees in the loan department asked to have internal training over four areas in loans. Human Resources organized the training with the input of employees. It was delivered in-house; evaluations were completed at the conclusion and input to ABRA Train.

5.2a(4) LANB delivers and evaluates education and training at multiple levels. Internal training is delivered by qualified instructors in our conference rooms which are

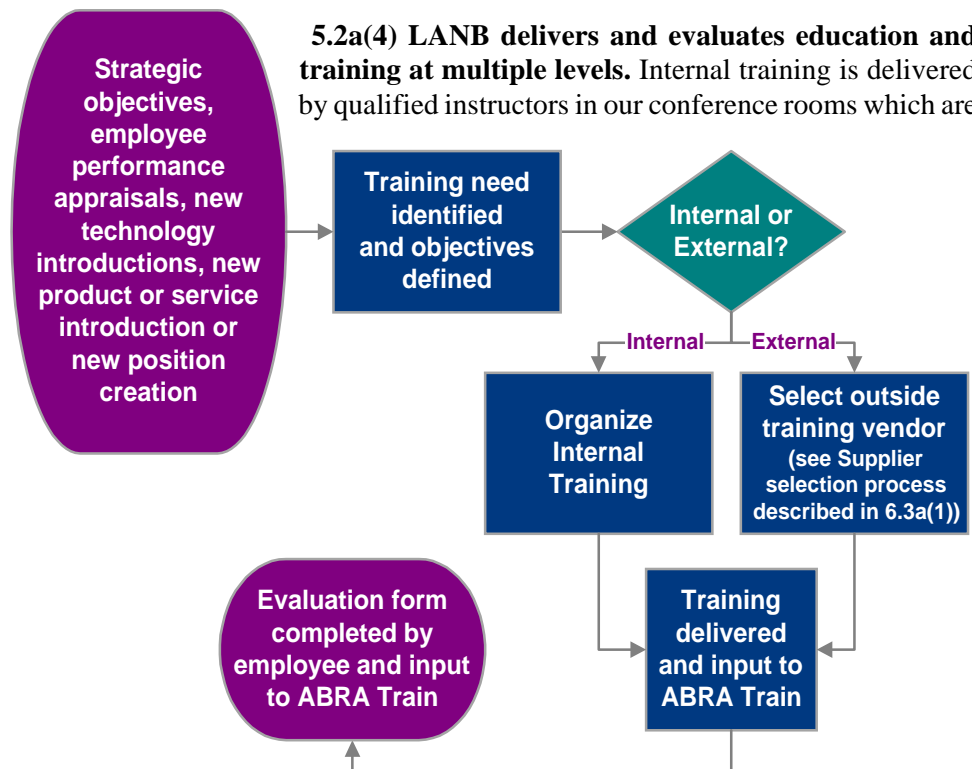


Figure 5.2-1 LANB's training process begins with defining training objectives and concludes with a training evaluation input into our ABRA Train database.



Figure 5.2-2 LANB’s education evaluation form provides employee input on short- and long-term organizational needs. The information is compiled in a database for organizational learning.

equipped with audio-visual equipment and computer workstations. The training is evaluated at the end of the course and the results are entered in ABRA Train. Departments evaluate training by their ability to reach annual goals with trained and qualified employees. Senior leadership indirectly evaluates training through performance reviews that reflect employees’ ability to apply training to improving bank processes. The QC also plays a vital role by evaluating educational classes and training programs prior to implementation, balancing them against the bank’s corporate objectives. The results of all evaluations are aggregated and reviewed by the QC.

5.2a(5) LANB addresses key developmental and training needs through annual and periodic training and communication. The training calendar includes bank-wide training at periodic intervals such as weekly new-hire orientation, monthly leadership skills training, quarterly customer service training, and annual safety and security training. Our new-hire orientation was developed using the design process outlined in Figure 6.1-1. This three-day comprehensive training session includes, but is not limited to:

- Talk from the Top (initial meeting with our CEO and President, includes an overview of our corporate culture and beliefs)
- Discussion of Core Values (Figure 0.3)

- LANB Service Standards (Figure 0.7)
- LANB Mission and Vision (Figure 1.1-2)
- Discussion of Employee Handbook
- Customer Service training video and workbook
- Security Training

Other management/leadership training includes SMILE Los Alamos, Conflict Resolution, Qualities of Leadership, Management and Styles, Trust, Personality Analysis and Stress Management. These seminars are often led by CEO Bill Enloe, and supported by external guest speakers who are subject-matter experts. Based on feedback, the most valuable classes are offered again.

5.2a(6) LANB addresses performance excellence in our education and training through various quality tools and use of the employee performance appraisal, as described in 5.1a(1-3). Quality tools training is offered by the Quality Council and outside consultants, and includes such tools as flowcharting, brainstorming, Ishikawa analysis and force-field diagrams. Memory joggers on quality tools are provided to teams and reinforced through recurring presentations at team meetings.

A significant part of our performance improvement effort is employee participation in the Quality New Mexico writing and examiner process. Through this participation, employees learn to interpret and apply the Criteria for Performance Excellence, achieve bank-wide perspectives on performance and are exposed to best practices.

5.2a(7) LANB reinforces knowledge and skills on the job through informal supervisor feedback, and in the employee appraisal process. The supervisor reviews goals and personal development plans with the employee, and mentors the employee so that goals and development plans are realized. The employee is then evaluated on these accomplishments and the employee’s pay raise, transfer request, or promotion is based on the meeting of these goals.

5.3 Employee Well-Being and Satisfaction

We believe that caring for employees who serve our customers is as important as caring for our customers. This philosophy has resulted in several improvements to employee well being, satisfaction and motivation. To identify areas for improvement, we conduct annual employee opinion surveys and openly share survey results with all employees. We conduct focus groups (ie. “Breakfast with Bill”) to identify opportunities for improvement. Quality Council then prioritizes and acts on OFIs as described in Category 6.



5.3a LANB addresses and improves workplace health, safety and ergonomic factors through surveys, training, and workspace design. Health and safety issues are taken into account in all workplace design activities. For example, when we built our new building in 1996, we designed the offices to accommodate ergonomic factors. Prior to purchasing new furniture, employees complete questionnaires to identify computer use or time spent in customer contact. This enables us to obtain the ergonomically appropriate furniture for employees.

We conduct an annual review of our facilities to improve health, safety, and ergonomic features. We offer workspace redesign and workshops on how to combat repetitive motion syndrome, eyestrain, office fatigue, etc., as a part of this process. Our measures are the OSHA factors defined for a routine office environment such as ours. Our target is zero OSHA findings, which we achieve each year.

Safety of our employees and customers is a top priority. The bank's full-time security officer conducts new-employee training and an annual bank-wide training program in conjunction with local police departments. Safety training includes safe vault operations and precautions and actions to take in the event of a suspected or actual bank robbery.

5.3.b(1) LANB enhances employees' work climate with a comprehensive benefits package, free bank services and flexible policies (Figure 5.3-2). Our employee handbook is located on the Intranet, accessible to all employees. While we do not compromise on policies related to our core values such as integrity or honesty, we exercise flexibility relative to other employee needs. For example, employees can use their Family Medical Leave time creatively. If someone wants to work part-time before returning to work full-time after having a child, we allow them to do this and still maintain full-time status and benefits.

LANB has frequent activities to promote interaction and collaboration among employees, such as: an annual bank picnic; sporting events such as baseball and hockey games;

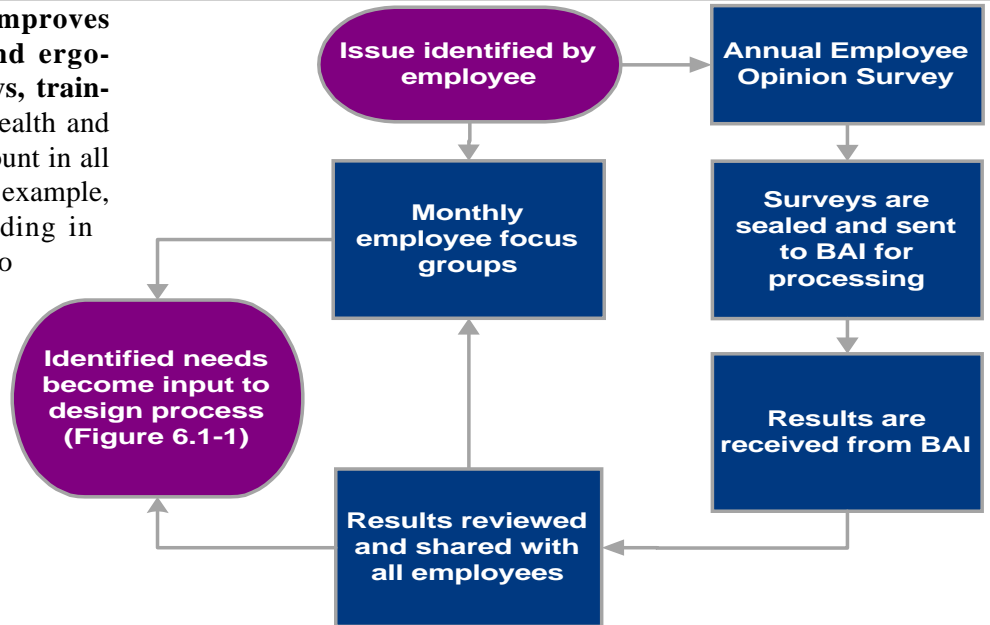


Figure 5.3-1 LANB's employee feedback process includes anonymous opinion surveys and

employee appreciation day; and a Christmas party at a local hotel with hors d'oeuvres and cocktails, full-course meal, live music and dancing, and several large gifts as door prizes. We use employee feedback to select and design future activities.

We seek input to enhance employees' work climate, including focus group feedback, "Breakfast with Bill" meetings, employee opinion survey, face-to-face interviews, employee appraisal process, e-mail and exit interviews. Any employee may initiate a request for improvement of benefits or policies to the QC. The design process, described in Figure 6.1-1, is used to design or improve a benefit or other human resource process.

5.3b(2) LANB uses diversity and fair work force practices to insure that all employees are treated equally. The bank has an Affirmative Action Plan to measure the diversity of the workforce to our local community. This plan is examined on an ongoing basis to assure that we are meeting the strategic goals of the bank as well as reflecting the diversity of our communities. Fair work practices are aligned with our strategic goals by the use of a trained management team and the Human Resource Department. LANB complies with all local, state, and federal regulations to insure that fair work force practices are incorporated into all strategic planning.



We respect our Hispanic and Native American employees by giving time off for religious and cultural occasions. Examples include the Good Friday pilgrimage to Chimayo, New Mexico, Indian Festival days, Rodeo Days and special Native American feasts and religious days.

5.3.c(1-2) LANB determines key factors that affect employee well being, satisfaction and motivation through the BAI employee survey, focus groups, face to face interviews, employee appraisals, meetings, email, exit interviews and opportunities shown in Figure 2.2-3. Through these formal and informal means, we have identified five key factors for our employees, as shown in Figure 5.3-3.

5.3.c(3) LANB relates assessment findings to key business results to identify improvement priorities. For example, a high turnover rate leads to inefficiency because employees are not trained. To meet our strategic objectives of operational efficiency and employee development (Figure 2.2-1), we concentrated our efforts on reducing turnover. Based on feedback from employee focus groups, we developed an approach to reducing turnover that included improving our hiring and training processes, and increasing visibility and access to senior leaders.

BENEFIT PLAN	COVERAGE PROVIDED
Sick Leave	2 weeks per year
Vacation	2-3 weeks per year, tenure-dependent
Vacation Incentive	1 day of vacation awarded annually for every 3 days of unused sick leave
Vacation Bonus	2 days per year
ESOP	Discretionary contribution used to purchase bank stock
Profit Sharing	Discretionary bonus set aside by the board of directors
401(K) Plan	Nine tax deferred investment options
Medical/dental	60% of premiums, entire family
Vision	60% of premiums
Long Term Disability	60% of wages paid
Life and AD&D Insurance	Equal to salary
Fitness Center Membership	Choice of several locations for employees, spouse and dependants
Bank services: Credit cards, Loans Overdraft Protection Checking Account, Checks, Money Orders, Safe Deposit Box, ATM use, etc.	1% below market interest rate 3% below market interest rate No charge
Sabbaticals	Tenure-dependent
Civic Involvement	Paid time off, dues and expenses for professional organizations
Educational Assistance	Tuition and books, plus raises for good grades
Employee Assistance Program	Counseling length depends on need; 800 number for services

Figure 5.3-2 LANB offers employees a generous benefit package.

Satisfaction factor or indicator	Measure	Results Figure #
Job security	Employee survey, turnover	7.3-3; 7.3-8
Well-being	Employee survey	7.3-8
Clear vision	Employee survey	7.3-5; 7.3-9
Working in organization committed to excellence	Employee survey	7.3-4, 7.3-7, 7.3-10
Quality of customer service	Employee survey	7.3-6; 7.3-11

Figure 5.3-3 LANB measures employee satisfaction on an ongoing basis. Results of these measurements can be found in Category 7.

Category 6: Process Management

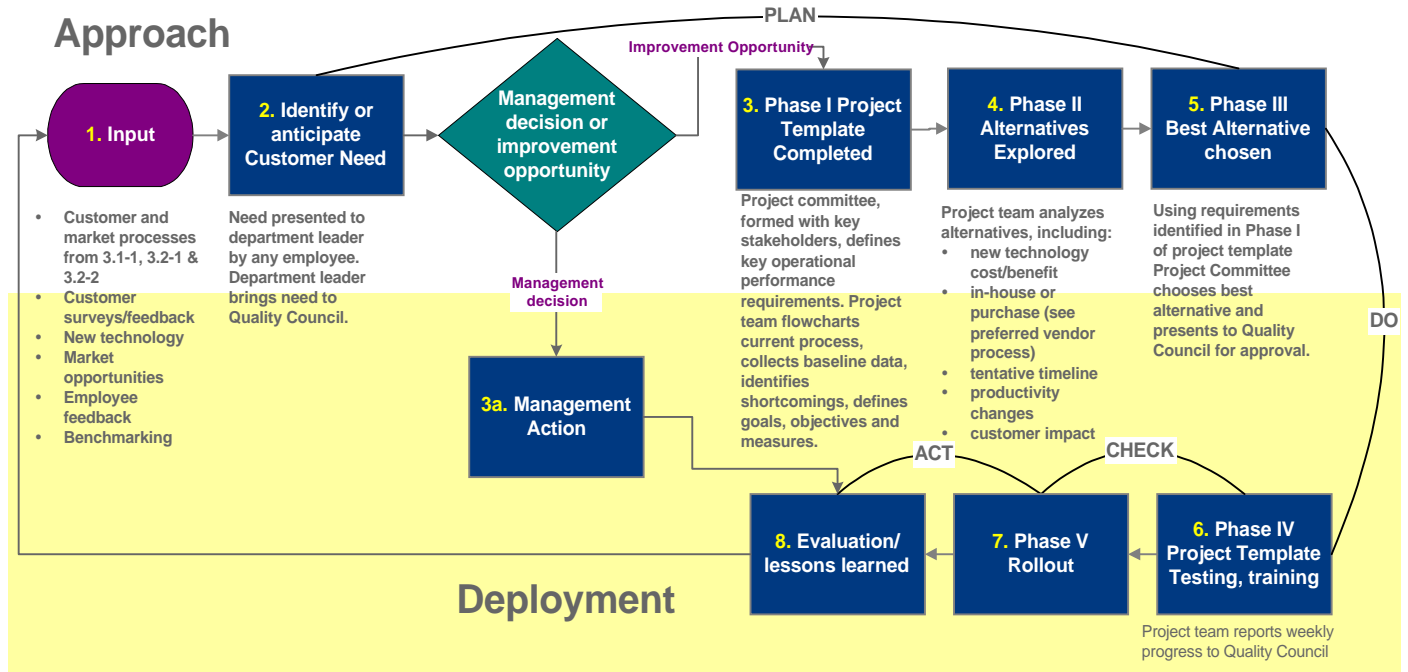


Figure 6.1-1 LANB's design and improvement process begins with customer-driven quality and incorporates Plan-Do-Check-Act methods in a closed loop system.

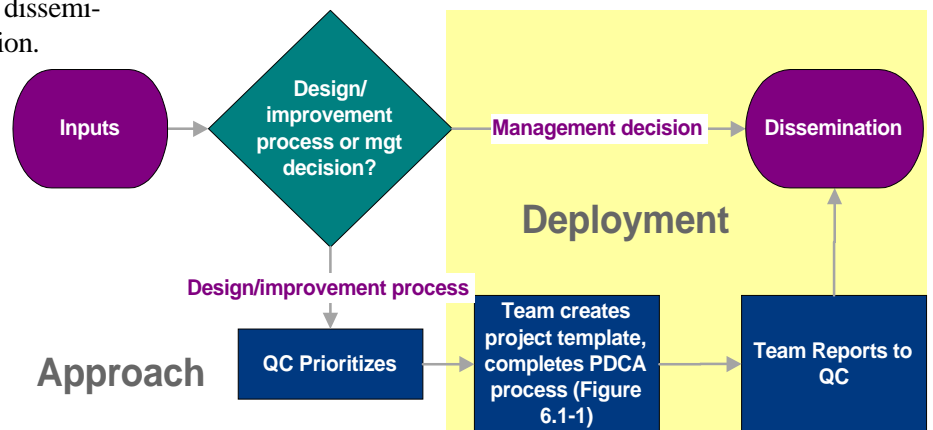
6.1 Product and Service Processes

6.1a(1) LANB's Quality Council is an inter-departmental team whose charter is to 1) establish criteria, review and prioritize opportunities for improvement; 2) coordinate and oversee continuous improvement; 3) train employees on process improvement, and; 4) disseminate knowledge throughout the organization.

LANB follows an eight-step design process shown in Figure 6.1-1. To ensure a bank-wide, systematic approach to designing or improving products and services we have developed the Project Template, Figure 6.1-3, located in a shared folder on our intranet. Our Project Template is used for every new (or improvement to an existing) product or service. Key activities are detailed below each phase in Figure 6.1-1.

After the project is completed, organizational learning occurs through shar-

ing lessons learned which is the final piece of the Project Template. Our lessons learned directory is also located on a shared directory accessible by all employees via the Intranet. We use the Project Template for all projects, from selection and implementation of new technology to improv-



6.1-2 Quality Council prioritizes opportunities for improvement and drives organizational learning through disseminating information to the organization through quarterly meetings, e-mail, newsletter, employee handbook, and departmental meetings.



ing our customer complaint process. Our design process is also used when improving an existing process, product or service designated by QC as an improvement priority. See Figure 6.1-3.

The QC meets bi-weekly and is open to any employee to participate. Membership consists of employees from each functional area including senior leadership and department leaders. For design improvement opportunities, Project Teams are created with members of QC, employees in the related area, and technical experts, if needed. Each team created must complete a charter (Figure 6.1-4) and file it with QC. The charter includes information like the project champion, team purpose, timeline, and measures to be used.

Anyone in the organization can identify an opportunity for improvement and present it to QC. Based on the impact on the organization, resources, current projects, and cus-


tommer impact, QC decides if it is an opportunity for improvement to be assigned to a Project Team or a decision to be made and disseminated to the organization. Quality Council also drives organizational learning through disseminating information to the organization through quarterly meetings, e-mail, newsletter, employee handbook, and departmental meetings.

6.1a(2) LANB incorporates changing customer and market requirements into our product and service design through surveys and face-to-face interviews (see Figure 6.1-1 and Area 3.1a(2)). Consumer, commercial and government customers all give us immediate feedback through face-to-face interaction, loan surveys and via e-mail surveys in Access Banking. Our process of determining key customer requirements (Figure 3.1-2) and our customer feedback process (Figure 3.2-1) are key input

sources of changing customer requirements, and feed the design process.

6.1a(3) LANB incorporates new technology into our products and services through industry surveys and by attending industry conventions. Industry surveys are annual reports published by the American Bankers' Association (ABA) that report new business opportunities, technological developments, new customer and market segments, evolving regulatory requirements and strategic changes by competitors. Senior leaders attend the ABA annual convention where new technology is introduced to the industry. Senior leaders attend this convention.

New technology is incorporated in one of two ways. First, we can become aware of a new technology and use our design and improvement process to determine if it offers advantages that other alternatives do not. Secondly, we can initiate the eight-step process shown in Figure 6.1-1. At Step 4, Alternatives Explored, we seek out new technologies to support our desired outcomes.



Project Template

This form is designed to aid in analysis, implementation and follow up of a process improvement. This template is to be used for any project implementation.

PHASE I

Background
Describe the circumstances related to this project. What lead up to why this project is being undertaken?

Goals
State the key goals of the project. What is to be accomplished?

Objectives
State how the goal is to be accomplished. For example, if the goal is to "Penetrate New Markets" the objective would be to "Open a branch in Santa Fe."

Project Leader
Who will lead this project? Who are the employees most responsible for its performance? Who do you need on the team to have the right expertise in analysis and implementation?

Stakeholders
Who else needs to be involved in this project? Who does the project effect—upstream or downstream?

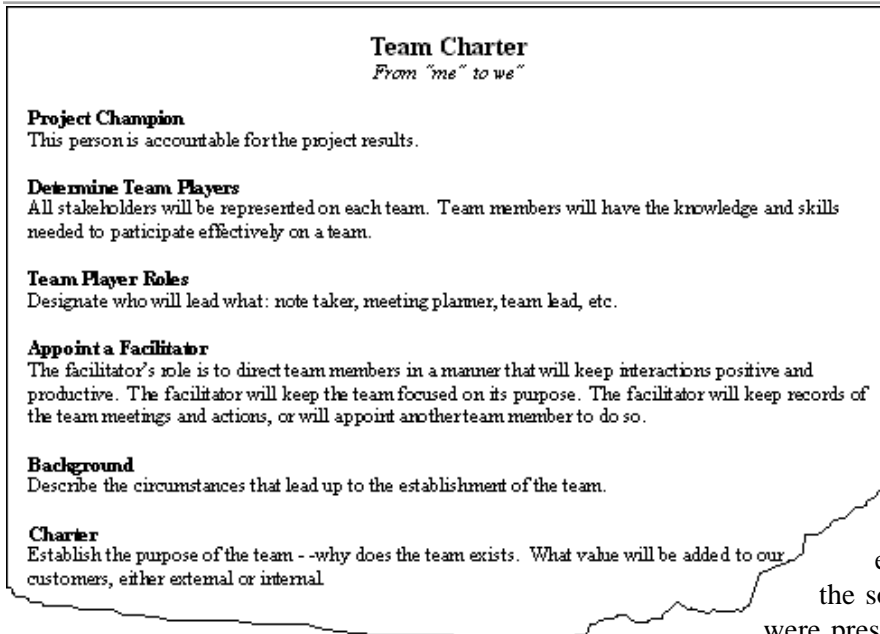
What other departments does this affect? Are the effects short-term or will the project involve long term support?

Current Process
How does this process currently work? Detail in bullet or flowchart format the steps involved in this process.

Shortcomings
What are the obstacles, gaps, constraints of current process?

Costs
What are the project costs:
Direct: include contract costs, excess labor, supplies
Indirect: include overtime, training time and materials

Figure 6.1-3 The Project Template and Quality Council review process are tools for overseeing development of new processes or improving existing processes.



For example, when we identified a need to automate our timekeeping system, a key operational requirement was cycle time for employee time records to be entered into our payroll processing system. We chose a timekeeping system that was already integrated with our payroll processing system.

6.1a(6) The Process Team coordinates and tests the process to ensure capability for trouble-free and timely introduction and presents those results to QC as depicted in Phase IV (Figure 6.1-1). For example, after the timekeeping software had been purchased and installed, the project team coordinated training of all employees and selected a pilot group to test the software. The results of training and testing were presented to QC.

Figure 6.1-4 Every new team must have a charter stating its purpose, organization and duration.

Examples of emerging technologies we have implemented early in their product life cycle have been online banking, document and check imaging, and check cards. As a beta test site, we are among the first banks in New Mexico to offer such services.

6.1a(4) LANB addresses design quality, cycle time and transfer of learning, cost control, and other efficiency/effectiveness factors through the use of our Project Template. As illustrated in steps 2, 3, 4 and 8 of our design process (Figure 6.1-1); the project team prepares a detailed analysis for each of these factors.

6.1a(5) LANB ensures that our process design accommodates all key operational performance requirements by identifying and incorporating them into development of the new process, product, or service (Figure 6.1-1, Step 3). When a customer need is recognized, any employee presents it to QC. QC forms a project team containing key stakeholders. The project team, which consists of the functional process owner and key stakeholders, presents Phase I of the Project Template to QC.

6.1b(1) LANB has three key production delivery processes: Generation of Funds; Investment of Funds; Fee and Other Income. The key performance requirements for each are growth, profitability and cost control.

Generation of Funds (Figure 6.1-5) is the process of gathering money into the bank. Our funding and growth objectives, profitability and projected return on assets are determined during the Strategic Planning Process. We gather money through customer deposits or by borrowing from other sources, i.e. the Federal Home Loan Bank or the Federal Discount Window. We evaluate all sources on avail-

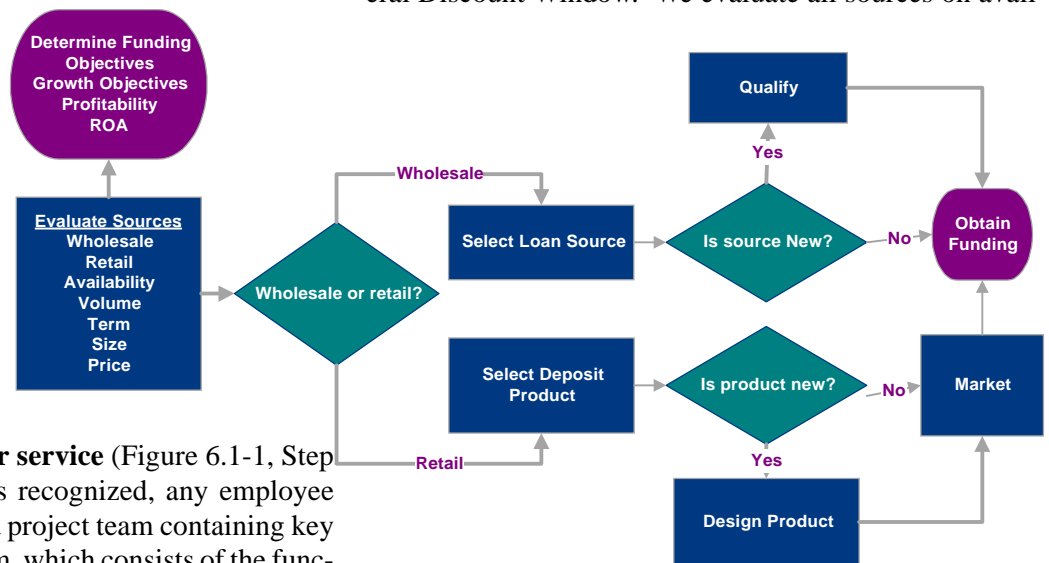


Figure 6.1-5 The Funds Management Committee ensures LANB's Generation of Funds process meets key performance requirements (see Category 2.0).

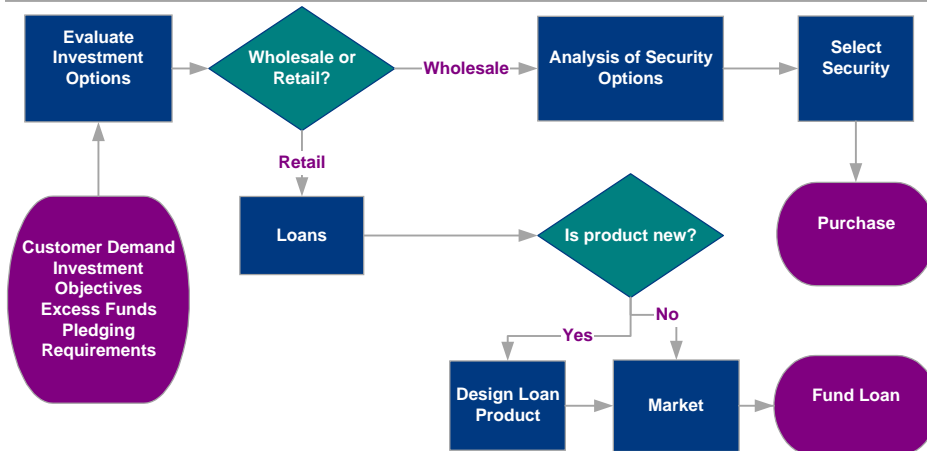


Figure 6.1-6 LANB's Internal Loan Committee ensures that the Investment of Funds process meets key performance requirements (see Category 2.3).

ability, volume needed, term needed, amount needed, and price.

Investment of Funds (Figure 6.1-6) is the process of investing money. Our needs are based on excess funds in the bank, and pledging requirements on our department accounts. We invest funds either by loaning to borrowers or purchasing a security instrument. We evaluate our options based on availability, volume needed, term needed, amount needed, and price.

As a matter of philosophy, LANB tries to gather and invest funds locally in support of our communities. Because of our market competition, we could pay lower rates by gathering funds outside our market, and we could obtain higher returns by investing in loans outside our market. We chose not to do that, because we believe that it is more important to us and our community's long-term success to invest in and support our community, rather than generate a few more basis points in interest.

The third key process is **Fee and Other Income** (Figure 6.1-7). It includes mortgage loan servicing, trust services, rental properties, etc. As pointed out in Category 3 and the organizational overview, we generate income from services other than fees to retail customers. For example, we are the largest lender of first mortgage loans in Los Alamos County. Rather than tie up money for 30 years, which we have generated through the Generation of Funds process, we purchase money on the secondary market, and use it to fund our mortgage loans. We retain ser-

ving, ie. process payments and handle inquiries, so our customers receive the benefit of competitive interest rates while continuing to deal with us. The secondary market source pays us a fee to do so.

6.1b(2) Department leaders ensure LANB's key processes meet our key performance requirements in our day-to-day operations. There is a delicate balance that must be maintained between how much we generate and what interest rate we are paying for those funds, and how much we invest and what return we are earning on those funds.

This balance is reflected in Net Interest Margin (NIM). NIM is the single most important measure we have in determining loan and deposit rates. With over \$480 million in loans, an increase or decrease in NIM of one-tenth of one percent can affect our annual profitability by over \$48,000. Because small changes in NIM affect our profitability so dramatically, we monitor this key indicator on a daily basis.

Department leaders present results of operations at our weekly Internal Loan Committee and Funds Management Committee, committees chartered to ensure key performance requirements are met and maintained in each process. Monthly, the BOD reviews process results.

6.1b(3) LANB's key performance measures for each process are outlined in Figure 6.1-8. Although we seek real time customer input in our Design Process, our key bank processes are carefully managed through daily attention to performance measures. Customer and market information are the primary input sources that drive improve-

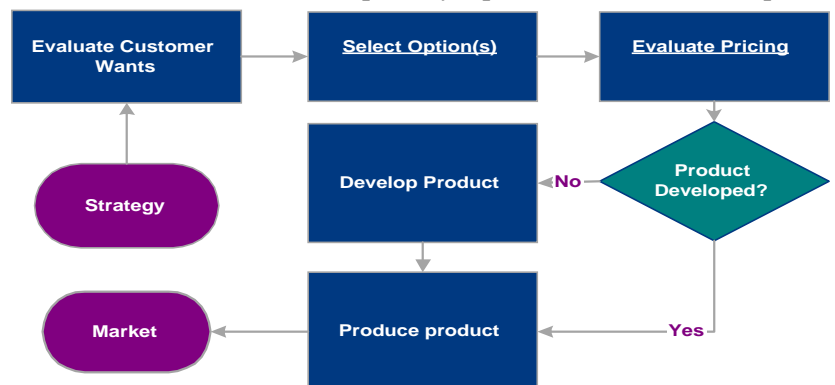


Figure 6.1-7 LANB's Funds Management Committee ensures that the Fee and Other Income process meets key performance requirements (see Category 2.0).



Key Processes	Key Performance Requirements	Key Performance Measures	Results
Generation of Funds	Growth Profitability	Net Interest Margin Loan to Deposit Ratio Operating Expense Ratio Deposit Growth Relationships per Customer	7.2-2 7.2-10 7.2-4 7.2-14 7.1-8
Investment of Funds	Growth Profitability Cost Control	Net Interest Loan to Deposit Ratio Loan Growth Return on Equity Net Charge Off Loan Ratio Return on Average Assets Turnaround Time	7.2-3 7.2-10 7.2-13 7.2-5 7.5-7 7.2-2 7.5-6
Fee/Other Income	Profitability Cost Control	Service Fee/Assets Serviced Fee Income Ratio	7.5-2 7.1-11

Figure 6.1-8 LANB uses key performance measures for control and improvement.

ment. Customer-driven examples within this document include CD plus and Internet banking. Market-driven examples include: Smart Refinance and opening the SF branch

6.1b(4) The QC dissemination process, and our online lessons learned database, are used to improve our key processes to achieve better process performance and improvements to products and services. Our QC also serves a continuous improvement function. The interaction between QC and project teams facilitates sharing of lessons learned and improvements.

6.2 Support Processes

6.2a(1) LANB has seven key support processes. Key support processes and performance requirements are presented in Figure 6.2-1.

6.2a(2) LANB determines key support process requirements through input from customers of the processes (i.e. department leaders and employees) requirements defined in key delivery and production processes, and our strategic objectives. For example, we have strategic

Key Support Process	Key Performance Requirements
Item Processing/ Bookkeeping	Productivity Accuracy
Finance and Accounting	Accuracy Productivity
Human Resources	Retention Training Employee Satisfaction
Risk Management	Low-Medium Risk
Information Systems	Up Time
Communication to Customer	Effectiveness Cost Control
Supplier/Partner Relations	Reliability Cost Control

Figure 6.2-1 LANB's key performance requirements and measures are used to track process effectiveness and improvement.

objectives of operational efficiency and personnel development. Therefore, training and retention are key performance requirements of our Human Resource System. We use our customer feedback process to gather input for our customer communication support process.

6.2a(3) We design our support processes to meet all key requirements through the design process outlined in Figure 6.1-1. Input is sought from department leaders, employees, requirements of key delivery, and production processes; strategic objectives are also included.

6.2a(4) Support department leaders ensure LANB's day-to-day operations meet key performance requirements. For example, the Vice President of Human Resources tracks our training hours per employee and our retention results on a monthly basis. She compares results to our performance requirements and implements improvement efforts, through the project template, if necessary. Our in-process measures are determined in Phase I of the Project Template.

6.2a(5) LANB improves support processes through the project template overseen by QC. An example of an improvement implemented by QC was the new hire orientation process as discussed in Item 5.3. QC shares results from improvement efforts with other organizational units through the dissemination step in Figure 6.1-2.

6.3 Supplier and Partnering Processes

6.3a(1) LANB purchases many products and services from suppliers and partners as detailed in the Organizational Overview and Figure 6.3-1. Our "preferred" suppliers are those proven reliable and competitive through past



Key Supplier/Partner	Key Performance Requirement	Key Performance Measures
Core Database (Eastpoint)	Reliability Flexibility Product Innovation	Up Time
ATM Processing (STAR)	Reliability Flexibility Accuracy	Up Time
FANNIE MAE Guaranteed Rural Housing, GRH Small Business Administration, SBA	Product Mix Competitiveness in Pricing	Number of Loans Cycle Time
Database Software (Sybase)	Reliability Compatibility	Up Time
Item Processing (Wausau)	Reliability Accuracy Cost	Up Time Cycle Time Number of Rejects
Voice/Data Lines (US West)	Responsiveness Capacity	Uptime

Figure 6.3-1 LANB’s partners and their key performance requirements.

performance. Partners are those providers that would cripple or significantly inhibit the operation of the bank if they were removed. We manage our supplier relationships with a preferred supplier system. A new company can achieve preferred supplier status by consistently meeting the requirements of our agreement(s), within budget, and being flexible to our changing needs. LANB has identified eight suppliers/partners who provide key products or services critical in our operation (Figure 6.3-1).

When our design process identifies a need, we first check our preferred supplier list and partners to learn whether one of them can meet our requirements. If not, we put out a request for proposal to local firms first. LANB’s philosophy is to buy locally, even if it costs a little more.

6.3a(2) LANB incorporates key performance requirements into supplier and partner process management by first defining key requirements as outlined in the Project Template and then incorporating those into the supplier/partner contract. Key performance requirements and measures for our partners are shown in Figure 6.3-1.

6.3a(3) Department leaders ensure performance requirements are met by reviewing supplier perfor-

mance against the contract and assessing their flexibility in accommodating our changing needs. Department leaders update the preferred supplier database with information supporting whether or not a company should be considered a preferred supplier. If the supplier has not met performance requirements, measures or targets as defined in Figure 6.3-1, a member of QC contacts the supplier to address the issue. We always attempt to support and develop suppliers, rather than remove them from the “preferred list.”

6.3a(4) LANB minimizes overall costs associated with inspections, tests and audits by requiring suppliers to conform to industry standards. Use of preferred suppliers reduces inspections and audits because long-term relationships and communications have built confidence in their ability to deliver quality products and services. Whenever possible, we select suppliers who use Baldrige-based assessments and improvement philosophy, such as our new check vendor, whom we met at the Quest for Excellence 2000.

6.3a(5) LANB provides business assistance to help suppliers and partners improve their overall performance and to improve their abilities to contribute to our current and long term performance by being BETA test sites for many of our new products and services. We often implement new technology when first introduced to the market in a beta status. Many times the software is not fully developed, so we choose to partner with a developing company to customize the software to fit our needs.

Instances in which we have been beta test sites include Eastpoint, for our customer relational database, and Edify, for our Access Banking services.

6.3a(6) LANB improves supplier partnerships through periodic meetings with the supplier to discuss shortcomings and areas in need of improvement. For example, when LANB converted to Eastpoint software there were several issues we needed them to address. We categorized and prioritized the issues through the issues database, and met with Eastpoint to discuss them and agree on solutions. In addition, we have an annual meeting with our preferred suppliers to discuss our strategic direction and upcoming organizational needs.



Category 7: Business Results

7.1 Customer-Focused Results

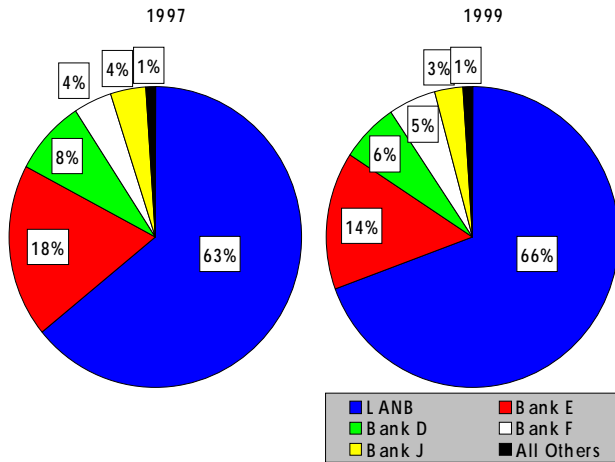


Figure 7.1-1 We're #1 in Los Alamos! 66% of Los Alamos residents say that we're their primary financial institution.

LANB commissions an independent, established market research firm to conduct market research surveys. The objectives of the surveys are to assess the image of the bank, evaluate customer satisfaction levels, measure market share of area banks and explore motivational factors for selecting a financial institution. Because these market surveys are for a selected geographical area, all area financial institutions are in the random sample. They include:

- LANB Los Alamos National Bank
- Bank J
- Bank E
- Bank F
- Bank D

Note: We have changed the names of our competitors in the banking industry to generic names (Bank "A" and so on) for this version of our Baldrige Application.

7.1.a(1) Current levels and trends of customer satisfaction, dissatisfaction, and satisfaction relative to competitors are shown in Figures 7.1-1 through 7.1-4. From 1998 to 2000, LANB's share of primary Los Alamos customers grew from 63% to 66%. Two-thirds of Los Alamos residents consider LANB to be their primary financial institution; an additional 11% use LANB as a secondary financial institution. Taken together, over three-quarters (77%) of Los Alamos area residents hold accounts at LANB.

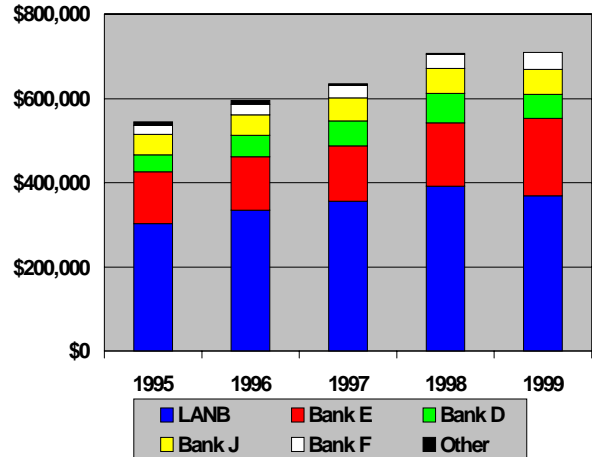


Figure 7.1-2 Deposit market share in Los Alamos.

Our market share in Los Alamos is mature and stable. The desirable results we look for in the future include: increasing market share in Santa Fe and a continued steady trend in Los Alamos market share that keeps up with growth in Los Alamos (for more market share and growth results, see Section 7.2).

LANB enjoys a positive public image. Nearly two-thirds (65%) of area residents believe that LANB is the most financially secure (strongest). LANB is clearly the leading financial institution in the Los Alamos area in terms of market share and image.

When compared to the customers of other area financial institutions, LANB customers demonstrate a higher level of satisfaction. In addition, LANB's customer satisfaction level exceeds the national average while our customer dissatisfaction level remains below the national average.

One reason for our high customer satisfaction is our practice of aggregating and analyzing customer complaint data for continuous operational improvement.

7.1a(2) Levels of customer loyalty and referral are shown in Figures 7.1-5 and 7.1-6. Because a mortgage loan is frequently the most important financial transaction that individuals or couples conduct in their lifetimes, mortgage lending remains a key factor in maintaining customer loyalty and building relationships. As Figure 7.1-5 indicates, our customers are very satisfied with our Mortgage Loan Department. This high level of satisfaction results in customer referrals and additional banking relationships.

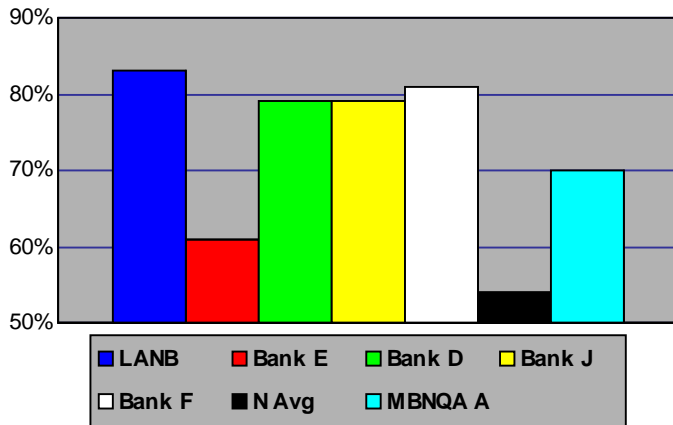


Figure 7.1-3 Customers who are “very satisfied” with the service they receive.

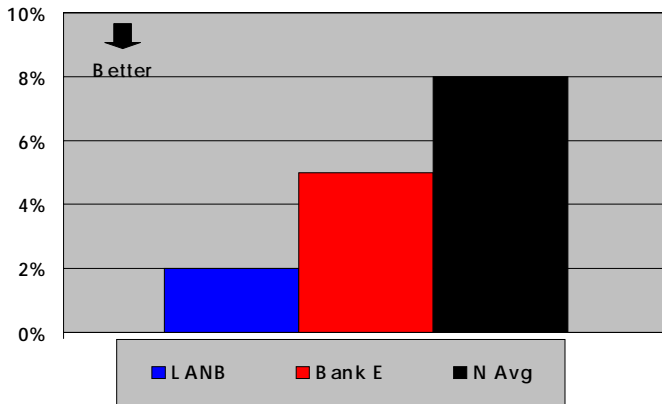


Figure 7.1-4 Customers who are dissatisfied with the service they receive.

Providing additional products to existing customers is more cost-effective than developing new business. Thus while measures of customer satisfaction are very important to us, we concentrate on indicators of customer loyalty, which we have found drive future behavior. We measure loyalty by referrals and numbers of banking relationships per customer (Figure 7.1-6).

“The high number of relationships is a result of high-retention products, active cross-selling, customer convenience, service and overall perceived value.”

Tim Doyle, VP of Operations

7.1a(3) Key measures of product and service performance include savings and checking account rates, fee income and agility. Our ability to maintain high profitability while offering competitive rates to customers reflects our organizational effectiveness and efficiency. Figure 7.1-7 demonstrates that LANB consistently offers customers higher deposit interest rates than our competition. Since competitive rates change frequently, we monitor them closely and rapidly respond to changes.

Response Choice	1998	1999 (YTD)
Excellent	85%	87%
Good	14%	13%
Average	1%	---
Needs Improvement	---	---
Unacceptable	---	---

Would you recommend our Loan Department to a friend or associate?		
Yes	100%	100%
No	---	---

Figure 7.1-5 “Top-box” satisfaction ratings of our mortgage loan department exceed RC benchmark (70%) and have improved since 1988. More importantly, our customers unanimously say that they would recommend our bank to friends or associates.

Number of Relationships	LANB	National Average
One	33%	50%
Two	19%	24%
Three	10%	13%
Four	8%	7%
Five or More	30%	6%

Figure 7.1-6 Nearly 1/3 of our customers have 5 or more banking relationships with us, exceeding the national average by 5:1.

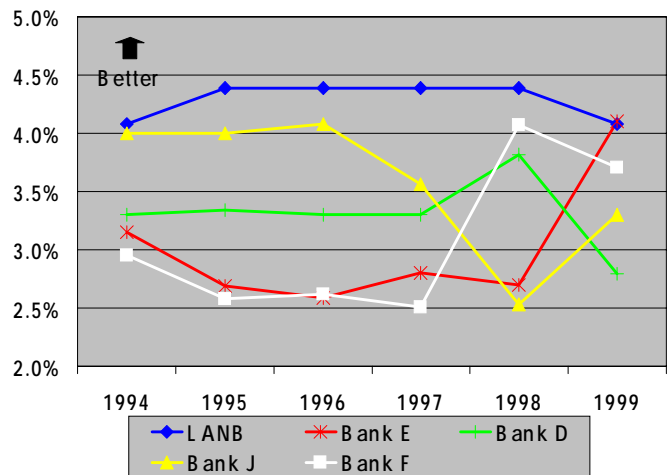


Figure 7.1-7 Historical View of Rates: Savings Accounts (Source: Funds Management Minutes)

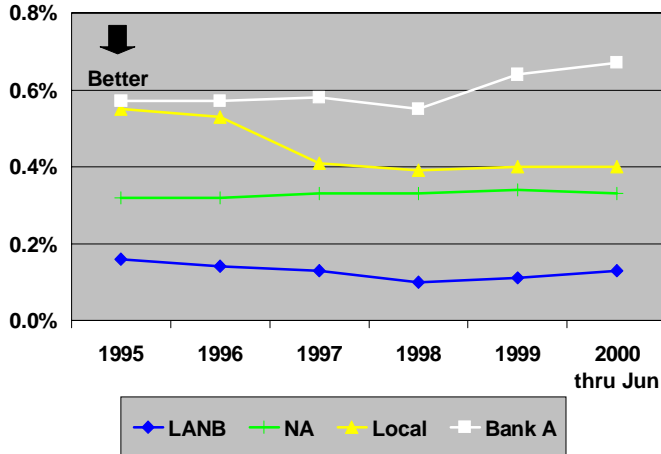


Figure 7.1-8 Service Charges as a Percent of Average Assets. (Source: Internet)

Low service charges are a part of LANB’s strategic plan (2.1.b) for remaining competitive and keeping customers satisfied. Customers hate being nicked and dimed to death with fees, so we try to remain profitable in other ways. Figure 7.1-8 demonstrates our low fee structure – we aim for a stable trend that remains lower than our competition.

7.2 Financial and Market Results

7.2a(1) Demonstrated below are current levels and trends in key measures and indicators of financial performance, including aggregate measures of financial return and economic value. In the following graphs, “NA” (National Average) refers to all banks and savings institutions in the United States. “Local Competitors” refers to a group of ten New Mexico financial institutions that compete in our markets. Our Local Competitors include the following institutions:

- Bank A - Benchmark Bank
- Bank B
- Bank C
- Bank D
- Bank E
- Bank F
- Bank G
- Bank H
- Bank I
- Bank J

Note: We have changed the names of our competitors in the banking industry to generic names (Bank “A” and so on) for this version of our Baldrige Application.

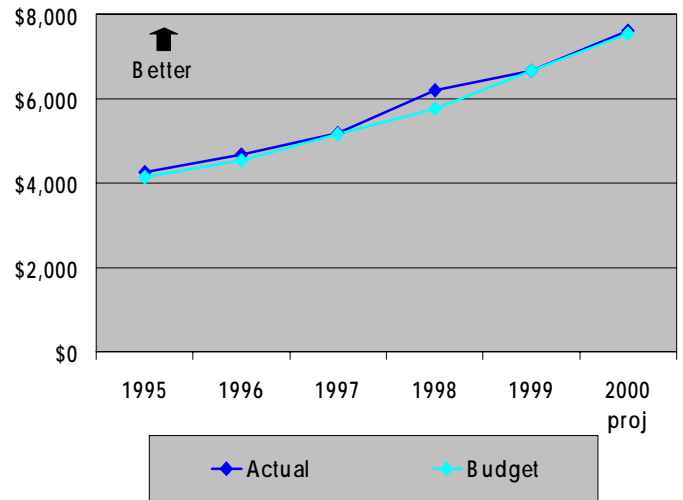


Figure 7.2-1 Net Income (in thousands) (Source: Board Reports)

As a result of the national trend in bank mergers and consolidations, many of these institutions have changed ownership and name in the periods represented. Averages were weighted by the total deposits of each institution within the given market areas (Los Alamos and Santa Fe Counties). Bank A is a national bank with a strong presence in our emerging market segment (Santa Fe). We selected Bank A as a benchmark due to outstanding performance on key parameters that we consider important to the achievement of our strategies: service fees, return on average assets, NIM, operating expenses, efficiency and return on equity.

Net Income (Figure 7.2-1) continues to grow. Over the past five years income increased over 60%, or over 10% per

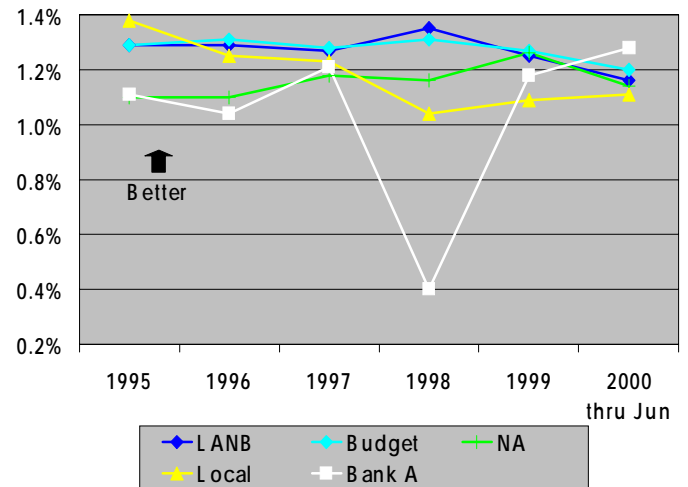


Figure 7.2-2 Return on Average Assets (Source: Internet, Board Reports)

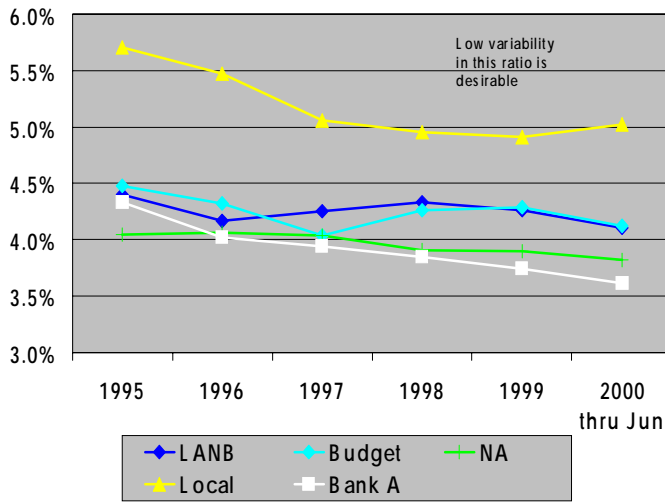


Figure 7.2-3 Net Interest Margin (Source: Internet, Board Reports)

year. Note that since this is shown in dollar amounts, comparison with peers is not applicable.

Figure 7.2-2 demonstrates our return on average assets. LANB maintains a steady ROA that exceeds national average. (NOTE: Bank A acquisition activities lowered many of their financial indicators in 1998).

Net Interest Margin (NIM) trends are provided in Figure 7.2-3. Projections for this vital indicator are shown in Figure 2.2-6. A simplified example of NIM: a loan yielding LANB 8.50% that is funded by paying our customer 5.00% for their deposits would provide a 3.50% net interest margin. With over \$480 million in loans, an increase or decrease in NIM of one-tenth of one percent can affect our annual profitability by over \$48,000. Since the margin is multiplied against such large numbers, it is difficult to make significant short term movements in it, which is why margin is best managed by establishment of a narrow ideal range.

Within this range, the bank can meet profitability targets while retaining optimal competitiveness. A margin that becomes too high can render the bank susceptible to pricing competition; a margin that is too low may not provide for the profitability required to meet targets and shareholders' expectations. Historically, we have maintained a lower NIM relative to our peers and local competitors while providing profitability that has equaled or exceeded them. A key factor that permits lower margins is our ability to hold overhead expenses significantly below that of our competitors as shown in Figure 7.2-4. Diligent management of both net interest margin and overhead expenses makes LANB a successful price competitor, and is a key ingredient of our profitability.

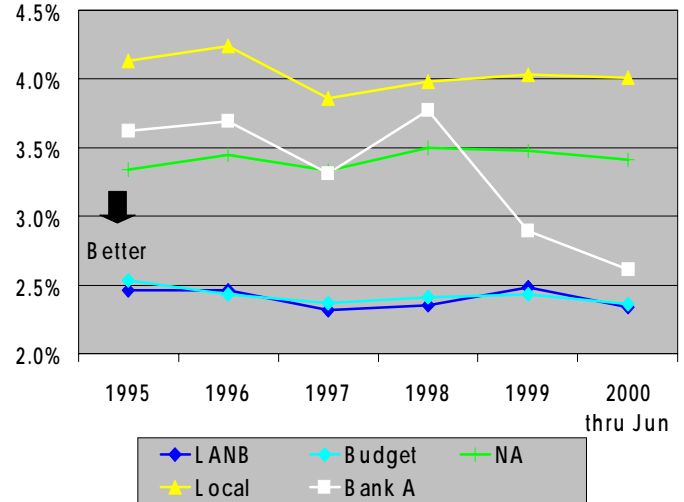


Figure 7.2-4 Operating Expense as % of Avg Assets (Source: Internet, Board Reports)

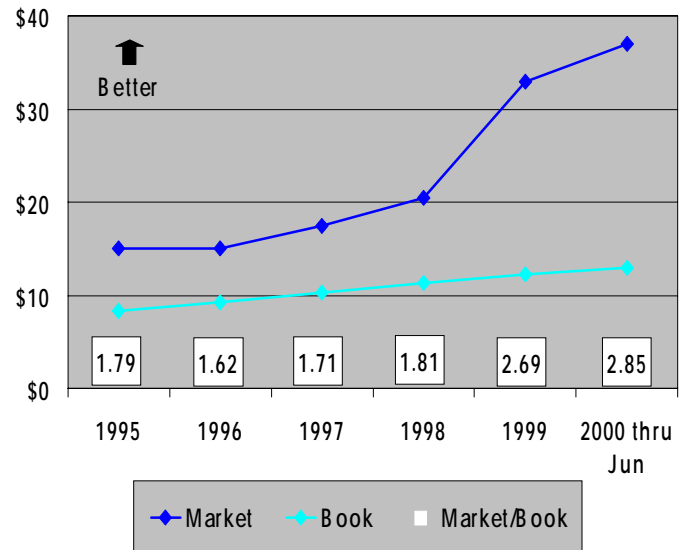


Figure 7.2-5 Stock Price (adj for splits) (Source: Board Reports)

LANB continues to provide outstanding returns to shareholders, showing consistent and increasing earnings while competitors show unstable and negative trends. Other local financial institutions show decreasing returns on equity while LANB continues to exceed the national average.

Shareholders enjoy soaring stock values, reflecting not only historic performance, but also market perception of future earnings potential. The market-to-book value is now 2.45, indicating that investors are willing to pay nearly two and a half times book value for stock (Figure 7.2-5). Earnings per share climb every year, reflecting growing earnings potential of investment in LANB (Figure 7.2-6). The bank distributes generous dividends while retaining sufficient earnings for consistent growth (Figure 7.2-7).

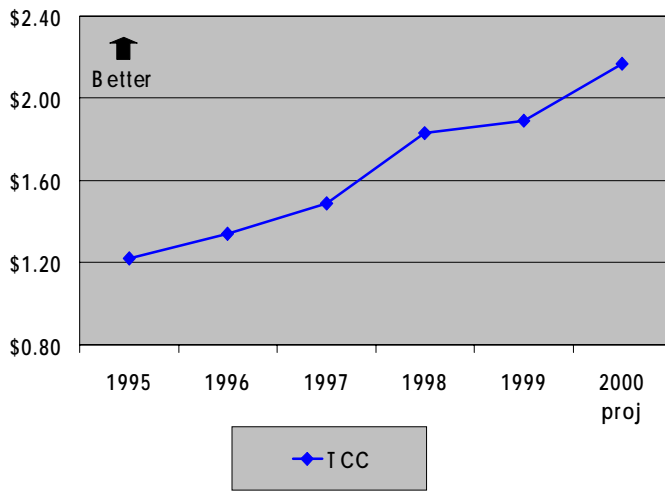


Figure 7.2-6 Earnings Per Share (adj for splits) (Source: Annual Reports)

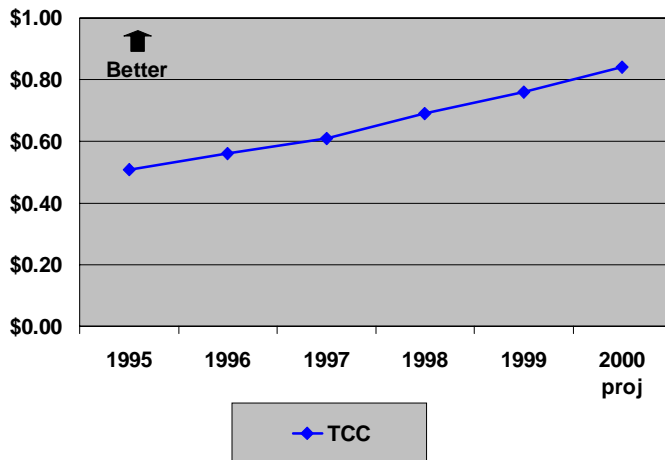


Figure 7.2-7 Dividends Per Share (adj for splits) (Source: Annual Report)

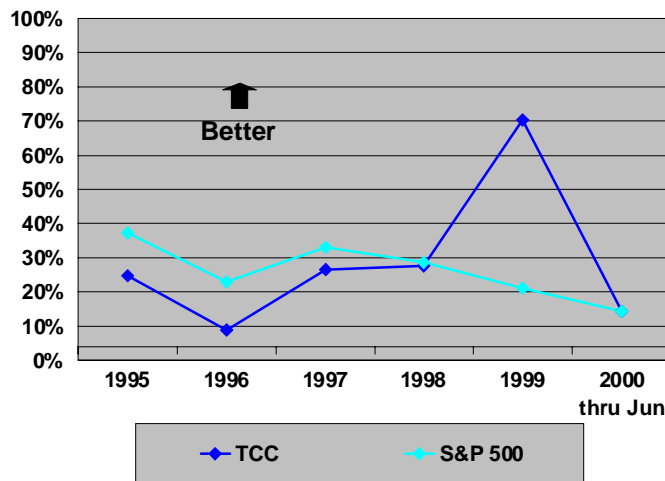


Figure 7.2-8 Annual Return on Stock

Total return on stock (Figure 7.2-8) is computed by adding the gain in its market value to the dividends paid, then dividing this sum by the prior year's ending market value of stock. Total return has climbed steadily; in 1999 it was 65%!

We strive to reinvest every dollar received in deposits back into the community in the form of local business, consumer and mortgage loans. Although a 100% loan-to-deposit ratio is neither likely nor desirable (since this would leave no funds available for other necessary bank operations), LANB meets or exceeds national peer and local competition in its ability and commitment to fund local loan demand.

7.2a(2) Presented below are current levels and trends in key measures and indicators of market-place performance, including market share, business growth, and new markets entered. LANB remains the dominant financial institution in Los Alamos County (Figure 7.2-9). We have maintained 55% or more of the market for the past five years, while total deposits at financial institutions in the county have increased 39% during this same period.

During the first six months of operation in Santa Fe, we gained \$16.8 million in Santa Fe area deposits. By way of comparison, market leader Bank F had \$243.1 million in deposits as of June 30, 1998.

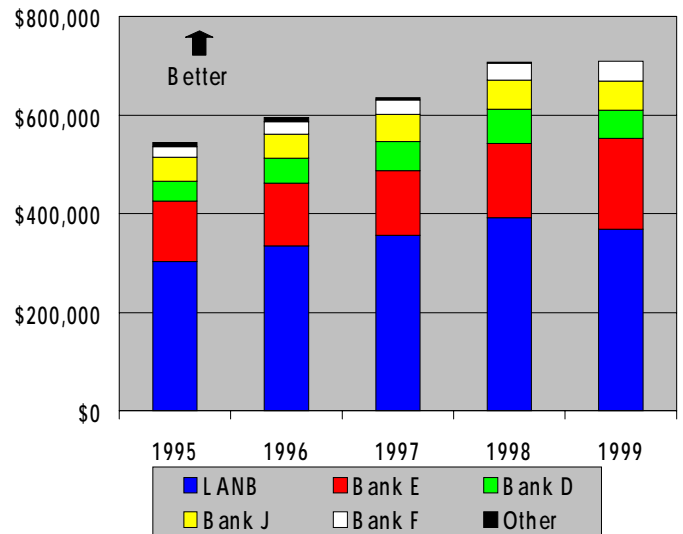


Figure 7.2-9 Market Share Los Alamos County

We hired a consultant (Lancaster Consulting) to analyze probable growth. They projected \$2.9 million in new deposits for the first year of operation, and \$16 million in new deposits after five years of operation. As stated above, we have greatly exceeded the projected growth figures, meeting our five-year growth objective in only nine months of

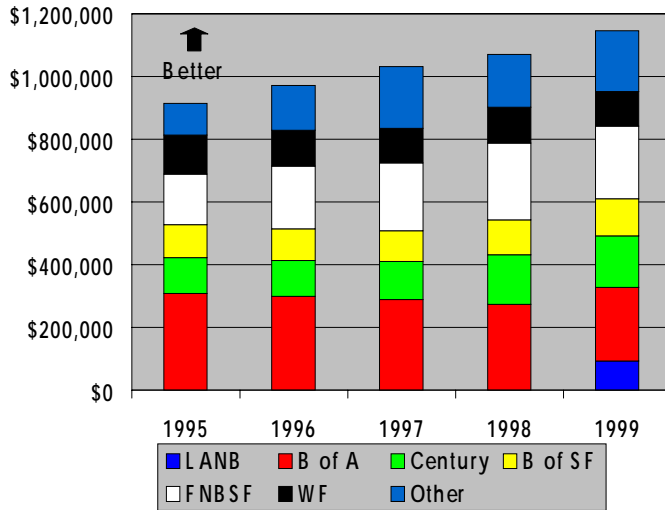


Figure 7.2-10 Santa Fe County Deposits

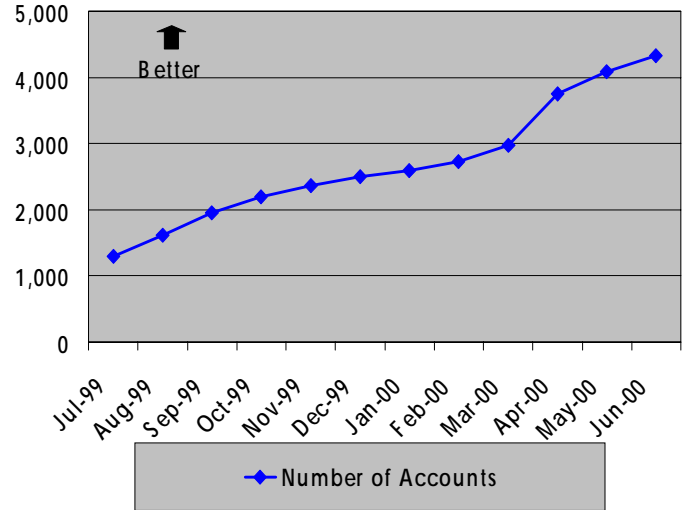


Figure 7.2-13 Santa Fe Deposit Accounts

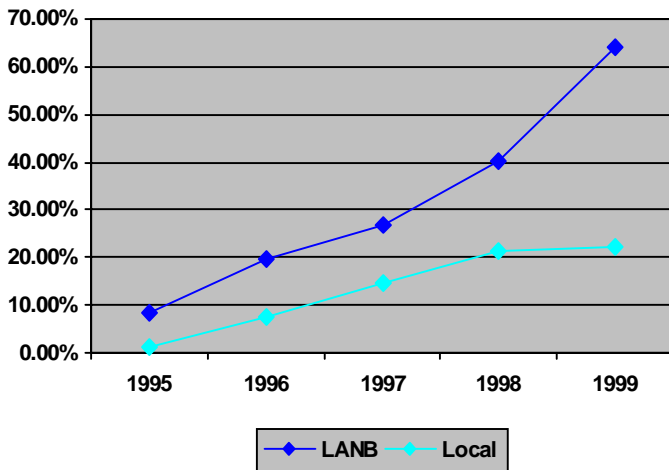


Figure 7.2-11 Cumulative Deposit Growth in Total Market

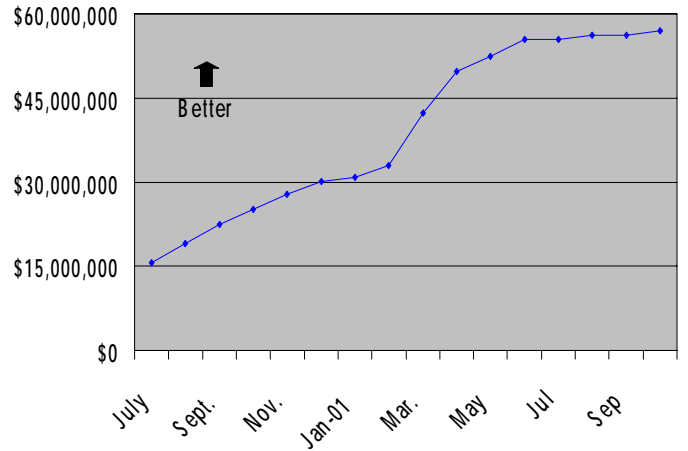


Figure 7.2-14 Santa Fe Deposit Dollar Growth

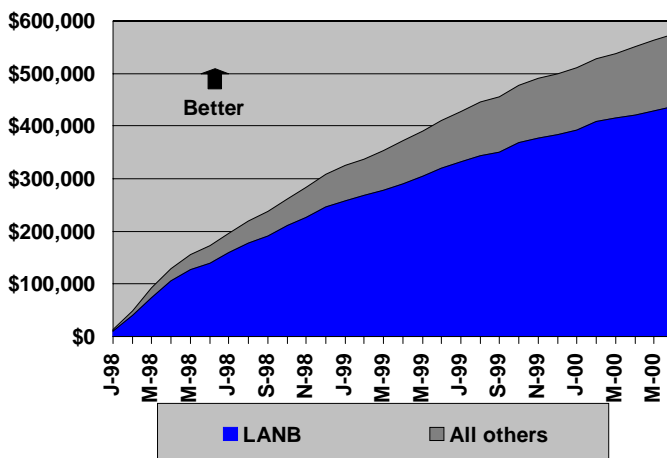


Figure 7.2-12 Cumulative Mortgage Loan Filings in Los Alamos (Source: Mortgage Filings Report)

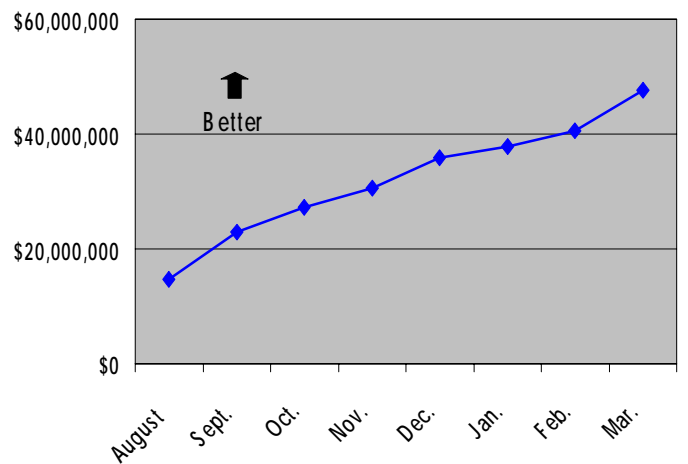


Figure 7.2-15 Santa Fe Loan Growth



operation. As a result, total deposit growth increased significantly with the opening of the Santa Fe office.

Figures 7.2-13 and 7.2-14 demonstrate the phenomenal growth in both numbers of accounts and dollars deposited. Likewise, loan growth (7.2-15) is significant. All of this growth has occurred in Santa Fe, a market experiencing only low to moderate overall growth.

7.3 Human Resource Results

LANB's profit sharing and the Employee Stock Ownership Program (Figure 7.3-1) contributions have historically provided compensation equaling 21% the value of an employee's annual salary. For example, an employee with a salary of \$30,000 a year typically receives an additional \$6,300 per year in cash and stock. By comparison, a 1998 MBNQA winner has increased incentive payouts to 10.4% of salary.

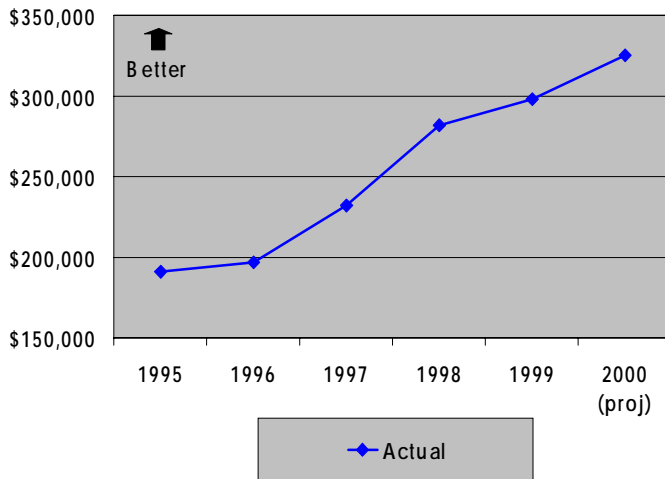


Figure 7.3-1 Contributions to ESOP (Source: General Ledger)

Figures 7.3-2 through 7.3-9 compare LANB's overall turnover rate with the national average in the banking business. We further break out our turnover data for employees that have worked here less than three years and greater than three years. As shown, once an employee passes the three year mark turnover drops significantly. The decreasing trend is due to more selective hiring practices, aggressive job training, and supervisor leadership training. Because turnover is a part of the heavily competitive labor market in Los Alamos, we aim for a flat, but manageable, trend in turnover rate.

Figures 7.3-3 and 7.3-4 present statistics from three years of employee surveys. Unless otherwise indicated, each reflects the percentage of employees who agree with the statement in the caption. Results are compared with the national average (NA).

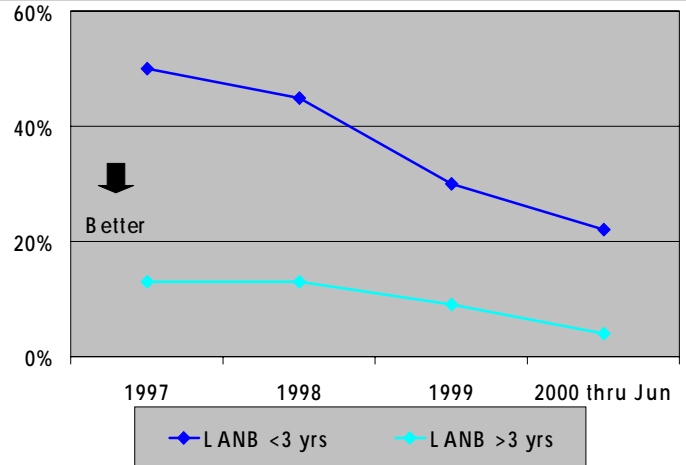


Figure 7.3-2 Turnover (Source: Human Resources)

Providing necessary resources is a large part of keeping our small but efficient (Figure 7.5-1) group of employees satisfied and working effectively. Figure 7.3-3 demonstrates satisfaction with the resources provided to do our jobs.

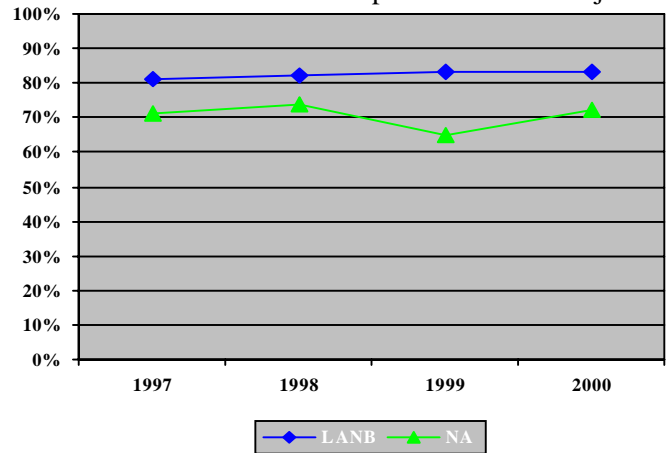


Figure 7.3-3 "I have the appropriate technology to accomplish the work in an efficient manner."

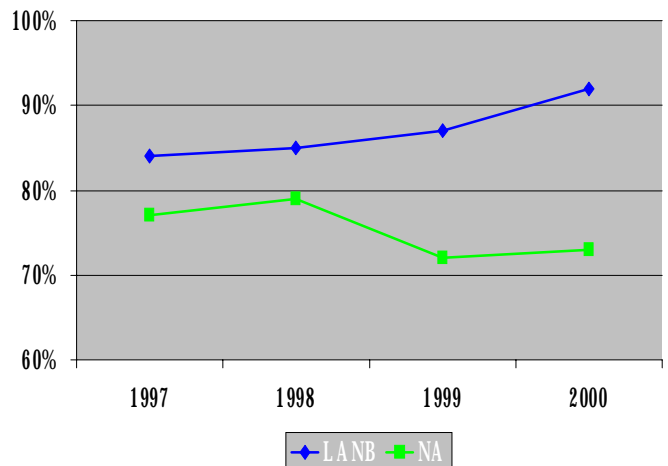


Figure 7.3-4 "Senior Management has communicated a clear vision of where this bank is headed."



In 5.1.a(5) we discussed the bank's practice of aligning department goals with bank strategic objectives and vision. Figure 7.3-4 reflects the success of this practice.

We believe it is very important to provide opportunities for skill development. Our employees tell us we are achieving this goal. We compare our performance, shown in Figure 7.3-6, to a 1997 MBNQA winner. We attribute the dip in 1998 to our entry into on-line banking. As a result, we increased our efforts in internet training and support for our employees.

Employee well-being is one of our satisfaction measures outlined in Category 5.3. We have an extensive benefits program providing employees with more than "just a paycheck."

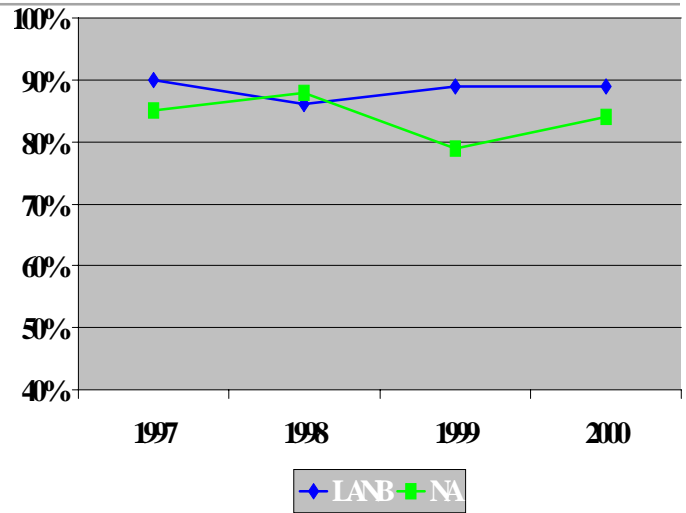


Figure 7.3-7 "I understand the relationship between my work and the goals of this bank."

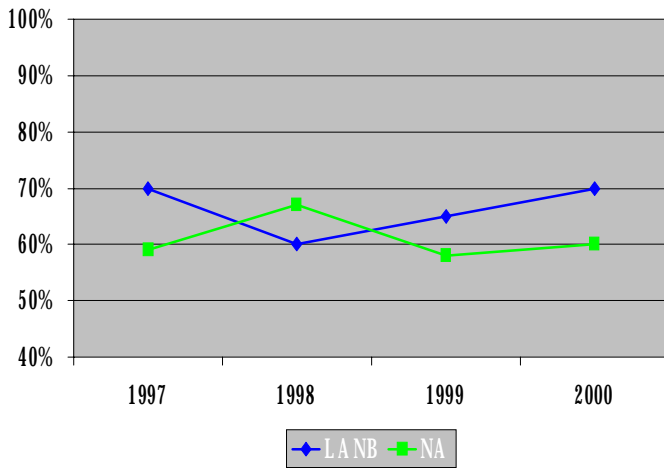


Figure 7.3-5 "Management provides the support employees need to give customers quality service."

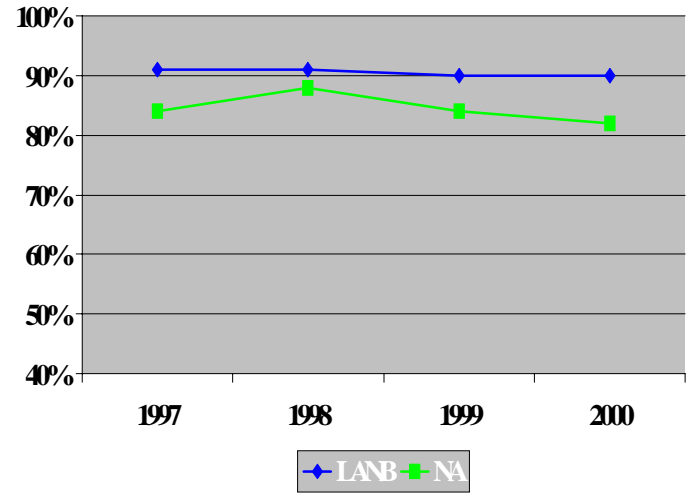


Figure 7.3-8 "I believe this organization is committed to excellence."

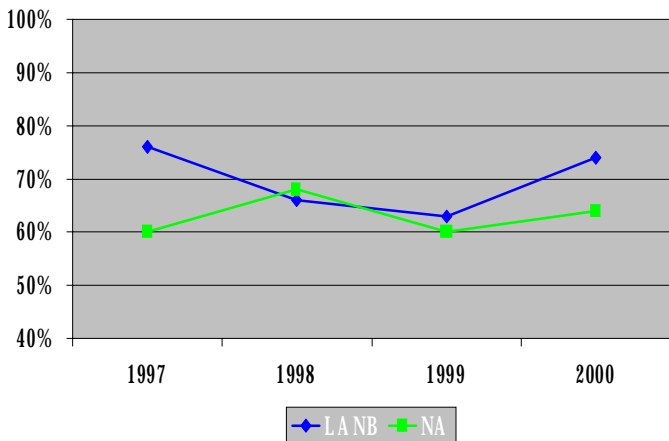


Figure 7.3-6 "I am given a real opportunity to develop my skills in this bank."

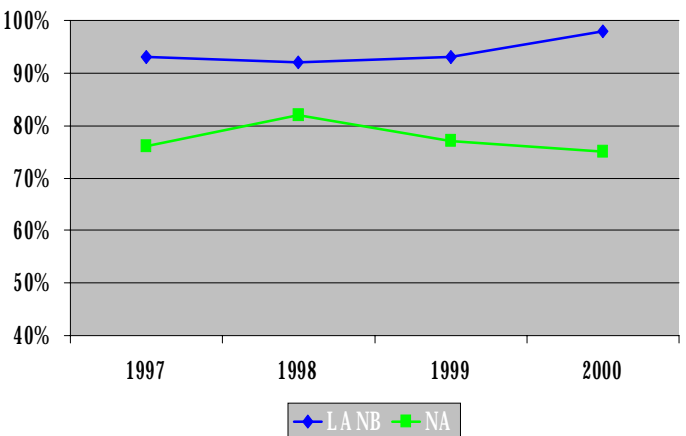


Figure 7.3-9 "Compared with the service extended by other banks, how would you rate the quality of customer service provided by this bank?"



All bank employees receive basic orientation (Category 5); in-house training sessions are open to employees, whether they have met their 90 days or not. Employees may further their education at bank expense by attending schools, colleges, and universities, if approved by supervisor.

	1997	1998	1999	National Peer
Security Training	100%	100%	100%	97.3%
New Employee Training	100%	100%	100%	100%
Customer Service Skills	100%	100%	100%	83.8%
Telephone Etiquette	50%	70%	100%	75.7%
Product Knowledge	100%	100%	100%	91.1%
Performance Management	5%	15%	40%	16.2%
Leadership Skills	25%	40%	60%	8.1%
Outside Training	45%	50%	60%	21%
QNM Examiner Training	.6%	0%	5%	
QNM Writing workshop	1%	3%	8%	
QNM Annual conference	2%	3%	15%	

7.3-10 In-house and external training opportunities are attended by many bank employees.

7. 4 Supplier and Partner Results

7.4a Supplier-partner performance is measured in various ways, depending on the supplier. Our key supplier for ATM operations is Star Systems, Incorporated. Their critical performance measure is ATM up time (Figure 7.4-1), which results in higher and more consistent availability of our ATMs. During December 1999, our average up-time was 99.43%, which means that our ATMs were available an average of 740 of 744 hours during December.

In addition to being a beta test site for M&I Eastpoint, developers of Pulse, our relational database software, we serve as their escrow agent. As such, we have a copy of the software source code, and are kept up-to-date with any corrections or enhancements. This assures our ability to

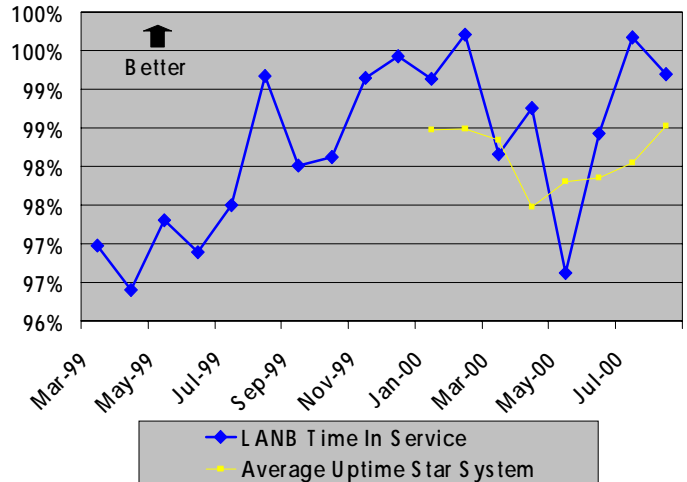


Figure 7.4-1 ATM Up Time (Source: ITC Committee Reports)

service the database ourselves in the unlikely event that M&I Eastpoint goes out of business.

LANB partners with the Small Business Administration (SBA) to aid small businesses that would not otherwise qualify for credit. We started offering SBA loans in July 1999. During the last six months of 1999, LANB completed 9 SBA loans. This made us the second largest SBA lender in Northern New Mexico for 1999.

Managing for innovation is a large part of the success of our mortgage lending process (as seen in Figure 7.2-12, we are the number one mortgage filer in Los Alamos, as well as Santa Fe, county). If our flexible underwriting standards aren't sufficient to approve a loan, we try to find innovations that will allow loan approval. For example, we partner with the Guaranteed Rural Housing Authority to make loans in rural areas to first time home buyers or to applicants with unique credit needs. For GRH fiscal years 1998 and 1999 LANB processed 13.5% of GRH loans in the state, making us the leading GRH producer in all of New Mexico. On March 30, 2000 the United States Department of Agriculture recognized LANB "for extraordinary delivery of Guaranteed Rural Housing Loans and other affordable home loans to low and moderate income rural residents in Northern New Mexico." As a community bank competing against much larger banks, we're very proud of this award.

We also partner with Fannie Mae (Federal National Mortgage Association) to provide home loans. We originate more Fannie Mae loans than any other bank in northern New Mexico. In 1998, when rates were at a low point, we refinanced 17% of all homes in Los Alamos county. Counting purchases, refinance and home-improvement loans, we



wrote a loan on 27% of all homes in Los Alamos county in 1998. In 1999, we originated 811 Fannie Mae loans for a total of \$116 million.

7.5 Organizational Effectiveness Results

7.5.a(1) Our commitment to organizational and personal learning, individual initiative and leadership have helped us create an efficient, streamlined organization. Banks benchmark operating efficiency using the percentage of income taken up by administrative expenses. The efficiency ratio (Figure 7.5-1) provides a glimpse of how hard and effectively each of our employees works for every dollar the bank earns. LANB's ratio is an industry best practice based on our key business factors, and imparts added value to our customers. Projections for efficiency are shown in Figure 2.2-5.

Banks also benchmark organizational performance by dividing the bank's total assets by the number of employees, i.e.. "How many employees does it take to manage \$500,000,000 worth of assets?" Our employees are able to service far more assets than comparable institutions (Figure 7.5-2). This is why our efficiency ratio is exceptional, and a best practice for community banks of similar nature.

Our high level of efficiency drives our ability to deliver services that are more attractive to customers. Our efficiency allows us to keep income at acceptable levels for regular banking services without charging customers irritating or unexpected fees every time they turn around (see Figure 7.1-8). We charge exceptionally low service charges to our customers, we require no minimum balance to open a deposit account, and we are the only bank in the state with no surcharge on our ATMs (ATM surcharges have recently become the subject of much negative publicity).

The American Banker's Association's most recent survey (2nd/3rd quarter 1998) revealed that only 5% of community banks and only slightly more than 11% of large banks offer internet banking. LANB began beta testing Access Banking in 1998 and opened it to customers in March, 1999. Our dramatic growth in this product is shown in Figure 7.5-3.

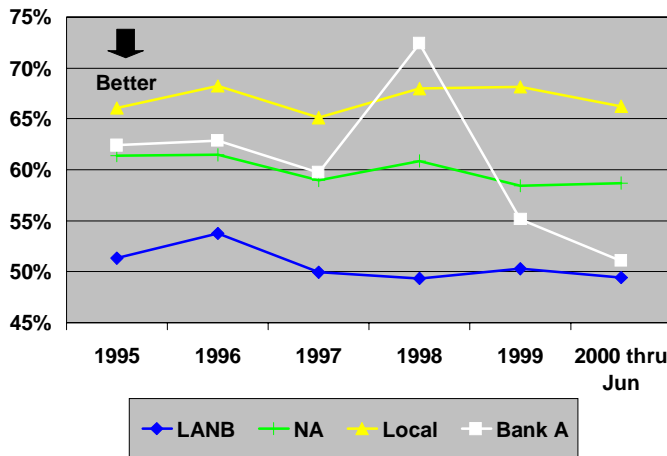


Figure 7.5-1 Efficiency Ratio (Source: Internet)

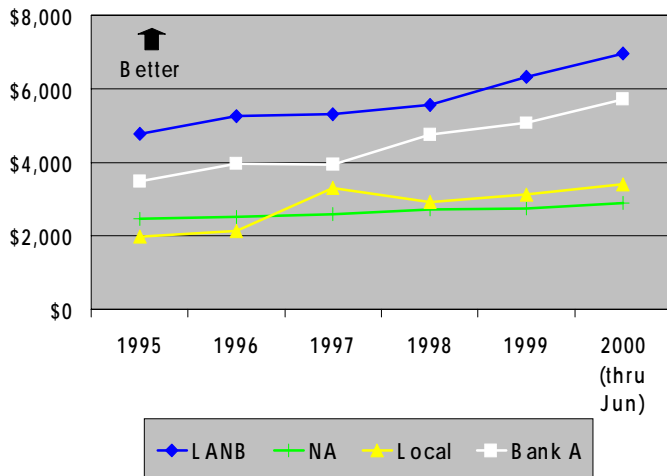


Figure 7.5-2 Assets Serviced Per Employee (in millions) (Source: Internet)

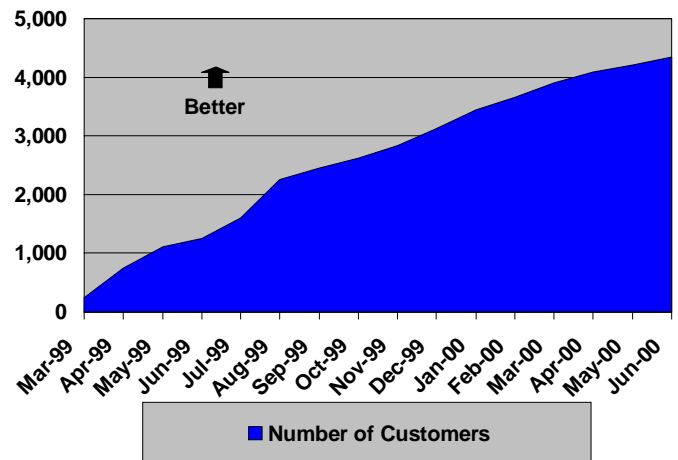


Figure 7.5-3 Number of Access Banking Customers (Source: ITC Committee Reports)

We believe that our internet banking product, Access Banking, is the fulfillment of the Baldrige core values that drive our bank. We offer this service at absolutely no charge to customers, and even pay the postage on checks sent out as part of our on-line Bill Pay service. Our high level of organizational efficiency and rapid response allowed us to enter the internet market with a competitive advantage, and has put us in a position which we believe readies us for the banking landscape of the future.



Competitors in Los Alamos or Santa Fe	Web Site	Online Banking
LANB		
Bank B		
Bank A		
Bank F		
Bank D		
Bank J		
Bank M		
Bank C		
Bank G		
Bank H		
Bank I		
Bank B		

7.5-4 A focus on results in technology development is part of the reason for our present effectiveness and future competitiveness.

	Consumer Loans	Commercial Loans	Real Estate Loans
Bank Loan Committee	\$6,962,289	\$6,962,289	\$6,962,289
Internal Loan Committee	\$150,000	\$200,000	\$350,000
Average Loan Officer	\$50,000	\$25,000-\$75,000	\$240,000

Figure 7.5-5 High lending limits are a key to the Bank's fast response and organizational effectiveness.

Our consistent, rapid growth along with the banking "merger mania" have brought LANB to the forefront as the largest home-owned bank in New Mexico. This position enhances our ability to make high-dollar loan decisions. Smaller community banks are unable to achieve *agility* to larger credit needs because they have insufficient capital to fund large loans. Large, publicly traded banks must typically follow centralized and sometimes complex, time-consuming procedures before they decide to provide money to a customer. Comparative information on individual loan-officer approval limits at other banks is currently unavailable to LANB. However, our established limits (Figure 7.5-5) make our loan officers very powerful employees—and competitive decision-makers.

LANB takes great pride in its ability to provide fast responses on home loans, in contrast to the extensive turnaround times demonstrated by other financial institutions (Figure 7.5-6).

Banks & Credit Unions Surveyed	Home purchase loan turnaround time	Home equity loan turnaround time
LANB	2 weeks	Same day to 2 Days
Bank B	4-6 weeks	4-6 Weeks
Bank J	1 month	3 weeks
Bank D	2.5 – 3 weeks	1 week
Bank F	2 weeks	3-4 weeks
Bank B	They do not do long term mortgages	1-2 weeks

Figure 7.5-6 Our streamlined processes lead to fast responses: LANB quickly provides customers with their home loan dollars.

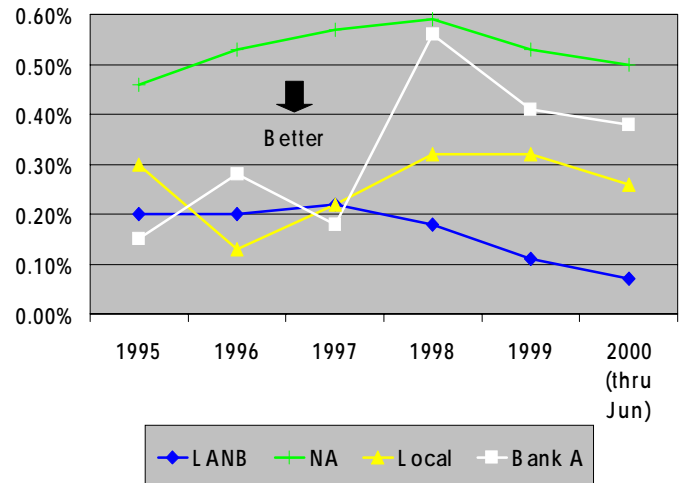


Figure 7.5-7 Net Charge-Offs to Loans (Source: Internet)

Like all banks, LANB must plan for loans that are never repaid. Figure 7.5-7 illustrates the typical banking benchmark for loan losses. The table reflects the amount of these bad loans as a percentage of our average assets.

LANB currently has more than \$400 million in loans that have gone out to the communities we serve. We demonstrate our corporate citizenship everyday in the types of loans we provide to our communities (see 7.5.a(2) for outside recognition). Our commitment to corporate citizenship finds expression in the contributions we make to the wide variety of community needs our customers and employees find. In Los Alamos, it is easy to find LANB's presence as a sponsor of events that make our town unique and attractive. Figure 7.5-8 puts a dollar amount on our community involvement; Figure 7.5-9 portrays a sample of community perception of our involvement.

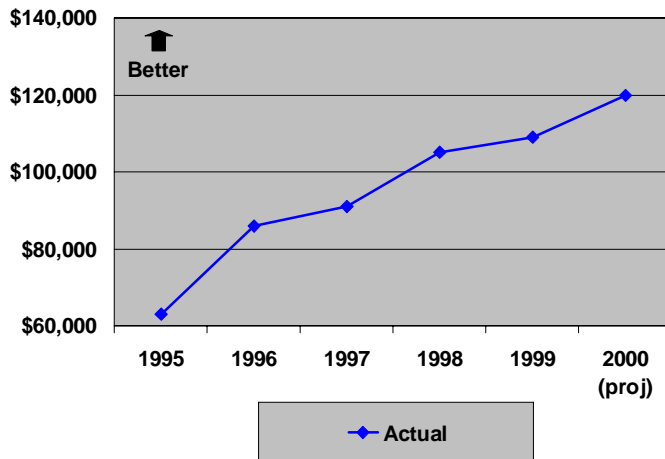


Figure 7.5-8 Donations (Source: General Ledger)

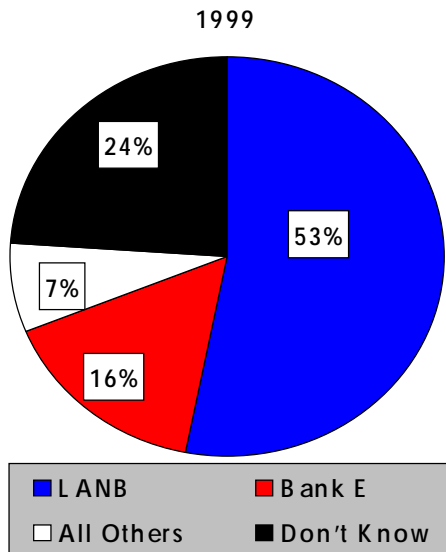


Figure 7.5-9 Over 53% of the residents feel LANB is most involved in the community.

7.5.a(2) The OCC, the primary government regulatory agency for national banks, prohibits banks from disclosing precise results of their regulatory exams. To a large extent, however, this application discusses the major financial areas of concern to the OCC (see discussion of regulatory exams in Item 1.2). A major concern for regulators over the past year was preparation for Y2K. Although we cannot disclose the rating OCC gave us on Y2K readiness, we can say that we met all of their deadlines in a timely manner.

In a county that has experienced zero population growth over the last 10 years, the steady but rapid growth of our assets proves the success of our organizational strategy

and our visionary leadership. Our asset growth is strongly and steadily approaching our goal of becoming a \$750 Million bank by the beginning of 2002.

As of July 31, 1999, we are growing at an annual rate of 17%—a healthy margin above the 15% needed to reach our Vision 2002 goal (Figure 0-7). Much of this growth is a result of our ability to maintain high profitability while offering the most competitive rates to our customers – a reflection of our organizational effectiveness and efficiency.

In furtherance of Vision 2002, LANB Senior Management and internal auditing continually evaluate potential risks to continued growth. The approach to our risk assessment is described in 1.2a(1). This evaluation is reviewed and evaluated by regulatory banking authorities.

We're proud when the successes of our organizational strategies are recognized by others:

- *Money Magazine* in its June, 1995 issue rated the best banks in every state, basing its selection on ratings from Veribank, a Massachusetts firm that analyses financial institutions. LANB earned Veribank's Blue Ribbon designation for banks that rated high on profitability, loan quality, capital and 10 other factors. Money named LANB the "Best Bank in New Mexico."
- In March of 1996, *Inc. Magazine*, a publication marketed to small businesses, carried a series on "Banks We Love." They selected LANB as one of the 26 banks in the nation they consider to be the best banks for small business. They chose banks that "will stand by you during adversity, find time-saving shortcuts and generally become a partner in your growth."
- In February, 1999, we became one of only three recipients of the State of New Mexico's highest quality award, the Zia. Organizations must show outstanding approaches in all categories to achieve this recognition. As demonstrated by the recent Cerro Grande fire, we continue to build upon our legacy.