UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 8-K/A
AMENDMENT NO. 1

CURRENT REPORT
PURSUANT TO SECTION 13 OR 15(D)
OF THE SECURITIES EXCHANGE ACT OF 1934

Date of Report (Date of earliest event reported): September 7, 2018

Triumph Bancorp, Inc.
(Exact name of registrant as specified in its charter)

Texas	001-36722	20-0477066
(State or other jurisdiction of incorporation)	(Commission File No.)	(I.R.S. Employer Identification No.)

12700 Park Central Drive, Suite 1700 Dallas, Texas	75251
(Address of principal executive offices)	(Zip Code)

(214) 365-6900
(Registrant's telephone number, including area code)

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2 below):

☐ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

☐ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

☐ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2b)

☐ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4c)

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (17 CFR 230.405) or Rule 12b-2 of the Securities Exchange Act of 1934 (17 CFR 240.12b-2).

Emerging growth company ☒

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☒

As previously disclosed, on September 7, 2018, Triumph Bancorp, Inc. (the "Company") completed its previously announced acquisitions of First Bancorp of Durango, Inc. ("FBD") and Southern Colorado Corp. ("SCC"). This Current Report on Form 8-K/A (Amendment No. 1) (this "Report") amends and supplements the Current Report on Form 8-K filed by the Company with the Securities and Exchange Commission (the "SEC") on September 7, 2018 to include under Item 9.01 the required financial statements of businesses acquired and pro forma financial information relating to the acquisitions.

Item 9.01 Financial Statement and Exhibits.

(a) Financial statements of businesses acquired

(i) The audited consolidated balance sheets of FBD as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes and independent auditor's report thereto, are included as Exhibit 99.1 and incorporated by reference herein.

(ii) The audited consolidated statement of financial condition of SCC as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes and independent auditor's report thereto, are included as Exhibit 99.2 and incorporated by reference herein.

(iii) The unaudited consolidated balance sheets of FBD as of June 30, 2018 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2018 and 2017, and the related notes thereto, are included as Exhibit 99.3 and incorporated by reference herein.

(iv) The unaudited consolidated balance sheets of SCC as of June 30, 2018 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the six months ended June 30, 2018 and 2017, and the related notes thereto, are included as Exhibit 99.4 and incorporated by reference herein.

(b) Pro forma financial information

(i) The unaudited pro forma combined balance sheets as of June 30, 2018 and the unaudited pro forma combined statements of income for the six months ended June 30, 2018 and the year ended December 31, 2017, and the related notes thereto, are included as Exhibit 99.5 and incorporated by reference herein.

Forward-Looking Statements

This Report may contain forward-looking statements within the meaning of the federal securities laws. Investors are cautioned that such statements, including statements with respect to the expected benefits of the transactions, are predictions and that actual events or results may differ materially. These forward-looking statements are not guarantees of future results and are subject to factors that could cause actual results to differ materially from those we may expect, including, but not limited to: economic, political and market conditions and fluctuations; competition; the possibility that the expected benefits related to the transactions may not materialize as expected; and other factors identified in our filings with the SEC. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" and the forward-looking statement disclosure contained in the Company's Annual Report on Form 10-K, filed with the SEC on February 13, 2018. Forward-looking statements speak only as of the date made and the Company undertakes no duty to update such information.

(d) Exhibits

Exhibit No.	Description
23.1	Consent of Fortner, Bayens, Levkulich, & Garrison, P.C.
23.2	Consent of Fortner, Bayens, Levkulich, & Garrison, P.C.
99.1	Audited Consolidated Financial Statements of First Bancorp of Durango, Inc. as of and for the years ended December 31, 2017 and 2016
99.2	Audited Consolidated Financial Statements of Southern Colorado Corp. as of and for the year ended December 31, 2017
99.3	Unaudited Consolidated Financial Statements of First Bancorp of Durango, Inc. as of June 30, 2018 and for the six months ended June 30, 2018 and 2017
99.4	Unaudited Consolidated Financial Statements of Southern Colorado Corp. as of June 30, 2018 and for the six months ended June 30, 2018 and 2017
99.5	Unaudited Pro Forma Combined Financial Statements

EXHIBIT INDEX

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SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

TRIUMPH BANCORP, INC.

By: /s/ Adam D. Nelson

Name: Adam D. Nelson
Title: Executive Vice President and General Counsel

Date: November 5, 2018

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (333-223411) and on Form S-8 (No. 333-200456) of Triumph Bancorp, Inc. of our report dated March 23, 2018, with respect to the consolidated balance sheets of First Bancorp of Durango, Inc. and Subsidiaries as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, which report is included in the Form 8-K/A of Triumph Bancorp, Inc. filed on November 5, 2018.

/s/ Fortner, Bayens, Levkulich, & Garrison, P.C.

Denver, Colorado
November 5, 2018

Exhibit 23.2

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the Registration Statements on Form S-3 (333-223411) and on Form S-8 (No. 333-200456) of Triumph Bancorp, Inc. of our report dated July 10, 2018, with respect to the consolidated statement of financial condition of Southern Colorado Corp. and Subsidiary as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, which report is included in the Form 8-K/A of Triumph Bancorp, Inc. filed on November 5, 2018.

/s/ Fortner, Bayens, Levkulich, & Garrison, P.C.

Denver, Colorado
November 5, 2018

Exhibit 99.1

CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT

First Bancorp of Durango, Inc. and Subsidiaries

December 31, 2017 and 2016

INDEPENDENT AUDITORS' REPORT

Board of Directors
First Bancorp of Durango, Inc.
Inverness, Illinois

We have audited the accompanying consolidated financial statements of First Bancorp of Durango, Inc. and Subsidiaries, which are comprised of the consolidated balance sheets as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First Bancorp of Durango, Inc. and Subsidiaries at December 31, 2017 and 2016 and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audits were conducted for the purpose of forming an opinion on the 2017 and 2016 consolidated financial statements as a whole. The accompanying consolidating schedules on pages 40 through 43 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. The supplemental consolidating schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental consolidating schedules have been subjected to the auditing procedures applied in the audits of the consolidated financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting records used to prepare the consolidated financial statements and to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

/s/ Fortner, Bayens, Levkulich, & Garrison, P.C.

Denver, Colorado
March 23, 2018

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2017	2016
	(in thousands)	
ASSETS		
Cash and due from banks	$ 18,204	$ 15,243
Interest-bearing deposits	38,757	73,391
Cash and cash equivalents	56,961	88,634
Securities available for sale	300,820	324,060
Nonmarketable equity securities	825	807
Loans held for sale	2,949	806
Loans	267,708	232,994
Less allowance for loan losses	(4,120)	(4,193)
Total loans	263,588	228,801
Premises and equipment, net	13,538	13,495
Accrued interest receivable	2,728	2,909
Real estate held for sale	1,882	2,047
Intangible assets	2,154	2,208
Other assets	775	752
	$ 646,220	$ 664,519
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 106,538	$ 105,400
Interest-bearing	467,474	486,740
Total deposits	574,012	592,140
Repurchase agreements	631	4,372
Accrued interest payable	121	109
Federal Home Loan Bank borrowings	655	688
Other liabilities	2,236	2,159
Total liabilities	577,655	599,468
Commitments (notes 5 and 13)		
Stockholders' equity		
Preferred stock - nonvoting cumulative; $100 par value 100,000 shares authorized, none issued and outstanding	—	—
Common stock; no par value, stated value of $16.67 per share; 90,700 shares authorized; 23,066 shares issued and outstanding at December 31, 2017 and 2016	384	384
Additional paid-in capital	14,068	14,068
Retained earnings	53,999	49,506
Note receivable for issuance of common stock	(471)	(475)
Accumulated other comprehensive income	585	1,568
Total stockholders' equity	68,565	65,051
	$ 646,220	$ 664,519

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

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Interest income:		
Loans, including fees	$ 12,704	$ 11,269
Taxable investment securities	2,673	2,359
Tax-exempt investment securities	4,484	4,824
Interest-bearing deposits	532	216
Dividends on nonmarketable equity securities	20	20
Total interest income	20,413	18,688
Interest expense:		
Deposits	920	785
Repurchase agreements and federal funds purchased	2	2
Federal Home Loan Bank borrowings	42	44
Total interest expense	964	831
Net interest income	19,449	17,857
Provision (reverse provision) for loan losses	(17)	(443)
Net interest income after provision for loan losses	19,466	18,300
Noninterest income:		
Service charges on deposit accounts	1,338	1,332
ATM and debit card	2,019	1,861
Mortgage banking	559	477
Investment services	481	423
Net gain (loss) on sale of investment securities	282	(62)
Other	314	306
	4,993	4,337
Noninterest expense:		
Salaries and employee benefits	9,909	9,145
Occupancy and equipment	2,241	2,029
Data processing	1,166	908
ATM and debit card	960	819
Marketing and business development	617	529
Professional and advisory fees	1,247	1,643
Regulatory assessments and deposit insurance	369	457
Foreclosed real estate, net	49	328
Investment services	311	269
Amortization of intangibles	54	58
Other	1,843	1,882
	18,766	18,067
NET INCOME	$ 5,693	$ 4,570

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

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended December 31,	
	2017	2016
	(in thousands)	
Net income	$ 5,693	$ 4,570
Other comprehensive loss		
Net unrealized losses on securities available for sale	(701)	(1,474)
Reclassification adjustment for (gains) losses realized in net income	(282)	62
Total other comprehensive loss	(983)	(1,412)
TOTAL COMPREHENSIVE INCOME	$ 4,710	$ 3,158

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

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

Years Ended December 31, 2017 and 2016

	Common stock		Additional paid-in capital	Retained earnings	Note recievable for issuance of common stock	Accumulated other comprehensive income	Total
	Shares	Amount					
	(dollars in thousands)						
Balance at December 31, 2015	23,066	$ 384	$ 14,068	$ 46,136	$ (479)	$ 2,980	$ 63,089
Loan payments	—	—	—	—	4	—	4
Net income	—	—	—	4,570	—	—	4,570
Other comprehensive loss	—	—	—	—	—	(1,412)	(1,412)
Cash dividends paid ($52.00 per share)	—	—	—	(1,200)	—	—	(1,200)
Balance at December 31, 2016	23,066	384	14,068	49,506	(475)	1,568	65,051
Loan payments	—	—	—	—	4	—	4
Net income	—	—	—	5,693	—	—	5,693
Other comprehensive loss	—	—	—	—	—	(983)	(983)
Cash dividends paid ($52.00 per share)	—	—	—	(1,200)	—	—	(1,200)
Balance at December 31, 2017	23,066	$ 384	$ 14,068	$ 53,999	$ (471)	$ 585	$ 68,565

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

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Cash flows from operating activities		
Net income	$ 5,693	$ 4,570
Adjustments to reconcile net income to net cash provided by operating activities		
Net (gain) loss on sale of investment securities	(282)	62
Net amortization of investment securities	3,100	3,862
Stock dividend on nonmarketable equity securities	(6)	(6)
Reverse provision for loan losses	(17)	(443)
Depreciation and amortization	1,117	943
Net loss on disposition of fixed assets	5	—
Valuation allowances on real estate held for sale	—	257
Net loss on sales of real estate held for sale	35	—
Amortization of intangible assets	54	58
Net change in		
Loans held for sale	(2,143)	(461)
Other assets and liabilities	262	424
Net cash provided by operating activities	7,818	9,266
Cash flows from investing activities		
Purchases of securities available for sale	(63,202)	(41,984)
Proceeds from sales of securities available for sale	4,568	8,619
Maturities, calls and prepayments of securities available for sale	78,073	65,210
Purchase of nonmarketable equity securities	(12)	—
Redemption of nonmarketable equity securities	—	12
Loan originations and principal collections, net	(34,770)	(30,338)
Purchases of premises and equipment	(1,180)	(1,831)
Proceeds from sale of real estate held for sale	130	1,031
Net cash provided by (used by) investing activities	(16,393)	719
Cash flows from financing activities		
Net change in deposits	(18,128)	17,056
Net change in repurchase agreements	(3,741)	734
Payments on Federal Home Loan Bank borrowings	(33)	(33)
Payments on note receivable for issuance of common stock	4	4
Dividends paid	(1,200)	(1,200)
Net cash provided by (used by) financing activities	(23,098)	16,561
Net change in cash and cash equivalents	(31,673)	26,546
Cash and cash equivalents at beginning of year	88,634	62,088
Cash and cash equivalents at end of year	$ 56,961	$ 88,634
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the year for interest expense	$ 952	$ 843

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Bancorp of Durango, Inc. and Subsidiaries conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Principles of Consolidation

First Bancorp of Durango, Inc. ("FBD") is a multi-bank holding company that owns 100% of the common stock of The First National Bank of Durango ("FNB") and 100% of the common stock of Bank of New Mexico ("BNM"). The entities are collectively referred to as "the Company." The accompanying consolidated financial statements include the consolidated totals of the accounts of FBD and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain items in the prior year financial statements were reclassified to conform to the current year presentation.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and business customers, principally in La Plata County, Colorado, and in Cibola, McKinley and Bernalillo Counties, New Mexico. In 2017, the Company also opened a loan production office in Littleton, Colorado, and closed a branch facility in Milan, New Mexico. Loan and deposit relationships at the closed branch were transferred to the nearby branch in Grants, New Mexico. The Company is subject to competition from other financial institutions, and from non-financial institutions that provide financial products and services, for loans and deposit accounts. The Company is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies.

Use of Estimates

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate held for sale and the fair value of investment securities. In connection with the determination of the allowance for loan losses and the valuation of real estate held for sale, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. In connection with the determination of the fair value of investment securities, management obtains valuations from third-party investment accounting service providers except for certain securities internally valued using level 3 inputs (see note 16 on fair value measurement).

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, changes in economic conditions may necessitate revisions in future years. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for loan losses. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Significant Group Concentrations of Credit Risk

A majority of the Company's loans are related to real estate. Borrowers' abilities to honor their loans are dependent upon the continued economic viability of the areas in which the Company lends. Note 4 discusses the types of lending in which the Company engages. Note 2 discusses the types of securities in which the Company invests.

Cash and Cash Equivalents

Cash and cash equivalents include cash, transaction accounts at other financial institutions, interest-bearing balances at the Federal Reserve Bank (including reserve requirements and excess reserves), interest-bearing balances at the Federal Home Loan Bank of Topeka and interest-bearing balances at the Federal Home Loan Bank of Dallas. For the Statement of Cash Flows, net cash flows are reported for customer loan and deposit transactions.

Balances in transaction accounts at other financial institutions and the Federal Home Loan Banks may exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Investment Securities

Debt securities are classified as "available for sale." Available for sale securities are stated at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities or to the call date, if earlier. Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Nonmarketable Equity Securities

The Company, as a member of the Federal Reserve and Federal Home Loan Bank systems, is required to maintain investments in the capital stock of the Federal Reserve, the Federal Home Loan Bank of Topeka and the Federal Home Loan Bank of Dallas. Also, the Company maintains an investment in the capital stock of Bankers' Bank of the West Bancorp, Inc. No ready market exists for these stocks, and they have no quoted market value. For reporting purposes, such stock is considered restricted and is carried at cost under the caption "nonmarketable equity securities."

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance charged to earnings. Income from sales of loans is recognized at the time of sale, and consists of origination fees, service release premiums and documentation fees. All loans are sold with recourse limited to certain events of default occurring within 120 days of the loans' origination dates. The Company does not retain servicing rights on loans sold.

Loans

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and purchase premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized into interest income over the life of related loans using the interest method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time a loan is 90 days past due unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part after they become significantly past due unless the loan is in the process of restructuring. Charge-offs are determined on a loan-by-loan basis and are based upon management's monthly review of the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance consists of specific and general components as follows:

1) The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis for impaired loans in excess of a nominal percentage of each Banks' capital, and calculated on a pool basis for impaired loans below the percentage-of-capital thresholds. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system.

   Included in impaired loans are all nonaccrual loans and all troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For individually evaluated impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other individually evaluated impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. For impaired loans evaluated on a pool basis, impairment is measured based on statistics reflective of the increased risk of the loan pool. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

2) The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged off.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. The most significant overall risk factors for both the Company's commercial and consumer portfolios is the strength of the real estate market in the Company's lending areas.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are broadly grouped into the categories "non-classified" and "classified." Non-classified loans are those loans with minimal identified credit risk, as well as loans with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Classified loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and classified loans for which it is probable that the Company will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Premises and Equipment

Land is carried at cost. Buildings, building improvements, leasehold improvements, furniture and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization is computed using the straight-line method over the estimated useful lives of the assets or the lease term, if shorter. Maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Real Estate Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value when acquired (less an estimate of cost to sell), establishing a new cost basis. Bank premises transferred to real estate held for sale are also initially recorded at fair value. If fair value declines subsequent to acquisition or transfer, a valuation allowance is recorded through earnings. Operating expenses relative to real estate held for sale are expensed as incurred, while certain improvements may be capitalized if the expenditures are likely to be recaptured upon disposition of the real estate. Gain or loss on sale, if any, is recognized at the time of sale.

Intangible Assets

Core Deposit Intangibles

Core deposit intangibles result from business acquisitions and represent the excess of the fair value of deposits acquired over their book value. Core deposit intangibles are amortized over their estimated economic lives which range from periods of seven to twelve years. In addition, core deposit intangibles are assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Goodwill

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment, and any impairment losses are recognized in earnings in the period identified.

Income Taxes

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, subject to certain exceptions, the Company neither pays corporate income taxes on its taxable income nor is allowed to carry back losses to claim refunds for previously paid income taxes. Instead, the stockholders of the Company include their respective shares of consolidated taxable income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

The Company is no longer subject to examination by federal tax authorities for years before 2014.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income for the Company consists of entirely of changes in the unrealized gains and losses on securities available for sale, with no related tax effects.

Note Receivable for Issuance of Common Stock

The Company has extended a loan to an executive officer to facilitate the officer's purchase of Company stock. The loan is secured by the stock purchased, and accordingly the outstanding balance of the loan is offset against the equity issued such that equity balances reflect only amounts for which the Company does not have a collateral interest in its own stock.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the consolidated financial statements when they are funded.

The Company is exposed to credit risk on its off-balance sheet financial instruments. In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Company estimates an allowance for probable incurred credit losses on off-balance sheet credit exposures. Provisions for the allowance are recorded as a component of other noninterest expense, and the allowance is carried as a component of other liabilities.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis . Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.
- *Level 2 Inputs*— Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- *Level 3 Inputs*—Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Significant Applicable Accounting Standards Updates Not Yet Effective

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Under the new standard, the Company will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio, and will consider not only current credit conditions but also reasonably supportable expectations as to future credit conditions. The standard will also require securities held to maturity to be evaluated for impairment under an expected-loss model. The standard is effective for the Company beginning January 1, 2021. Management is in the processing of determining the impact of the standard on the Company's consolidated financial statements.

Accounting Standards Update 2016-02, *Leases (Topic 326).* Under the new standard, the Company will be required to record a right-of-use asset for leased property and also record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term and lease payments will reduce the lease obligation. The standard is effective for the Company beginning January 1, 2020, and is not expected to have a significant impact on the consolidated financial statements.

The Financial Accounting Standards Board recently issued Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Accounting Standards Update 2014-09, *Revenue from Contracts With Customers (Topic 606).* The new standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the consideration the Company expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly will not impact the Company's recognition of interest income on its loans and investment securities, and will not impact the Company's recognition of revenue from sales or transfers of loans and investment securities. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. With respect to the December 31, 2017 financial statements, Management has considered subsequent events through March 23, 2018.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale, with gross unrealized gains and losses, follows:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
U.S. government agency	$ 4,401	$ —	$ (33)	$ 4,368
State and municipal	200,878	1,507	(685)	201,700
Corporate and foreign	89,685	109	(429)	89,365
Pass-through	5,271	132	(16)	5,387
	$ 300,235	$ 1,748	$ (1,163)	$ 300,820

	December 31, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
U.S. government agency	$ 4,401	$ 5	$ (43)	$ 4,363
State and municipal	222,149	2,523	(682)	223,990
Corporate and foreign	88,192	184	(425)	87,951
Pass-through	6,533	149	(54)	6,628
Total debt securities	321,275	2,861	(1,204)	322,932
Equity securities				
Exchange traded gold fund	1,217	—	(89)	1,128
	$ 322,492	$ 2,861	$ (1,293)	$ 324,060

Pass-through securities listed above are comprised of a mix of mortgage-backed securities, SBA loan pools and student loan pools.

The amortized cost and fair value of debt securities available for sale at December 31, 2017, by contractual maturity, follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 85,766	$ 85,810
Due after one through five years	179,636	179,637
Due after five years through ten years	28,822	29,260
Due after ten years	6,011	6,113
	$ 300,235	$ 300,820

Various investments, including pass-though securities, may have actual maturities that differ from contractual maturities due to paydowns on the assets underlying the bonds or early call provisions.

Information pertaining to securities available for sale, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2017			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. government agency	$ 2	$ 1,399	$ 31	$ 2,969
State and municipal	574	94,724	111	16,211
Corporate and foreign	342	49,364	87	9,539
Pass-through	10	1,113	6	751
	$ 928	$ 146,600	$ 235	$ 29,470

	December 31, 2016			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. government agency	$ 43	$ 2,956	$ —	$ —
State and municipal	654	105,592	28	9,309
Corporate and foreign	260	34,328	165	9,868
Pass-through	7	849	47	2,193
Exchange traded gold fund	—	—	89	1,128
	$ 964	$ 143,725	$ 329	$ 22,498

At December 31, 2017, unrealized losses are largely due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows, and does not believe that any securities are impaired due to reasons of credit quality other than securities for which impairment charges have already been recognized through earnings. The Company has the ability and intent to hold investment securities for a period of time sufficient for a recovery of cost, and fair value is expected to recover as bonds approach maturity. Accordingly, as of December 31, 2017, management believes the impairments detailed in the table above are temporary.

Investment securities with carrying values of $70,391,000 and $82,237,000 at December 31, 2017 and 2016, respectively, were pledged as collateral on public deposits and for other purposes.

Gross realized gains and losses on sales of securities available for sale are as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Gross realized gains	$ 309	$ 7
Gross realized losses	(27)	(69)
	$ 282	$ (62)

Gross realized gains for 2017 include $231,000 related to a sale of securities to a shareholder of the Company. The sale was initiated for the purpose of removing from the Company's books non investment-grade municipal securities, and was transacted at estimated fair value.

NOTE 3 – NONMARKETABLE EQUITY SECURITIES

Nonmarketable equity securities are comprised of the following:

	December 31, 2017	December 31, 2016
	(in thousands)	
Federal Reserve Bank - capital stock	$ 233	$ 233
Federal Home Loan Bank of Topeka - common stock	502	484
Federal Home Loan Bank of Dallas - common stock	65	65
Bankers' Bank of the West Bancorp, Inc. - common stock	25	25
	$ 825	$ 807

NOTE 4 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows:

	December 31, 2017	December 31, 2016
	(in thousands)	
Real Estate		
Construction, land and land development	$ 27,536	$ 20,930
Commercial	129,054	105,516
Residential	67,406	58,070
Farmland	5,748	8,680
	229,744	193,196
Commercial	31,191	32,779
Consumer	5,863	2,763
Agricultural production	1,178	1,164
Other	241	3,618
Total loans	268,217	233,520
Less unearned loan fees	(509)	(526)
Net Loans	$ 267,708	$ 232,994

Loans with carrying values of $233,436,000 and $200,094,000 at December 31, 2017 and 2016, respectively, were pledged as collateral for Federal Home Loan Bank and other borrowings.

Transactions in the allowance for loan losses are as follows:

	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
			(in thousands)			
Balance, December 31, 2015	$ 296	$ 1,650	$ 1,528	$ 593	$ 150	$ 4,217
Provision for loan losses	(24)	18	(160)	(388)	111	(443)
(Charge-offs)	(13)	—	—	(234)	(111)	(358)
Recoveries	20	1	5	686	65	777
Net (charge-offs) recoveries	7	1	5	452	(46)	419
Balance, December 31, 2016	279	1,669	1,373	657	215	4,193
Provision for loan losses	(98)	280	115	(325)	11	(17)
(Charge-offs)	—	—	(63)	(126)	(103)	(292)
Recoveries	2	—	45	149	40	236
Net (charge-offs) recoveries	2	—	(18)	23	(63)	(56)
Balance, December 31, 2017	$ 183	$ 1,949	$ 1,470	$ 355	$ 163	$ 4,120

Components of the allowance for loan losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2017					
	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
			(in thousands)			
Allocation of Allowance To:						
Impaired loans - evaluated individually	$ —	$ 74	$ 7	$ 300	$ —	$ 381
Impaired loans - evaluated collectively	8	4	1	—	1	14
Total impaired loans	8	78	8	300	1	395
Unimpaired loans - evaluated collectively	175	1,871	1,462	55	162	3,725
	$ 183	$ 1,949	$ 1,470	$ 355	$ 163	$ 4,120
Recorded Investment In:						
Impaired loans - evaluated individually	$ 143	$ 2,801	$ 962	$ 906	$ —	$ 4,812
Impaired loans - evaluated collectively	77	27	1,785	—	11	1,900
Total impaired loans	220	2,828	2,747	906	11	6,712
Unimpaired loans - evaluated collectively	27,316	126,226	64,659	30,285	13,019	261,505
	$ 27,536	$ 129,054	$ 67,406	$ 31,191	$ 13,030	$ 268,217

	December 31, 2016					
	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
	(in thousands)					
Allocation of Allowance To:						
Impaired loans - evaluated individually	$ —	$ 22	$ —	$ 73	$ —	$ 95
Impaired loans - evaluated collectively	—	3	2	1	2	8
Total impaired loans	—	25	2	74	2	103
Unimpaired loans - evaluated collectively	279	1,644	1,371	583	213	4,090
	$ 279	$ 1,669	$ 1,373	$ 657	$ 215	$ 4,193
Recorded Investment In:						
Impaired loans - evaluated individually	$ —	$ 2,799	$ 1,986	$ 294	$ —	$ 5,079
Impaired loans - evaluated collectively	10	22	22	5	15	74
Total impaired loans	10	2,821	2,008	299	15	5,153
Unimpaired loans - evaluated collectively	20,920	102,695	56,062	32,480	16,210	228,367
	$ 20,930	$ 105,516	$ 58,070	$ 32,779	$ 16,225	$ 233,520

Information relative to impaired loans is as follows:

	December 31, 2017				Year Ended December 31, 2017
	Recorded Investment In:				
	Impaired Loans With No Valuation Allowance	Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Recorded Investment In Impaired Loans
	(in thousands)				
Construction, Land and Land Development					
Residential 1-4 family	$ —	$ —	$ —	$ —	$ —
Other	143	77	220	8	115
Commercial Real Estate	2,676	152	2,828	78	2,825
Residential Real Estate					
Residential 1-4 family	2,631	116	2,747	8	2,378
Multifamily	—	—	—	—	—
Commercial	31	875	906	300	603
Other	—	11	11	1	13
	$ 5,481	$ 1,231	$ 6,712	$ 395	$ 5,934

	December 31, 2016				Year Ended December 31, 2016
	Recorded Investment In:				
	Impaired Loans With No Valuation Allowance	Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Recorded Investment In Impaired Loans
	(in thousands)				
Construction, Land and Land Development					
Residential 1-4 family	$ —	$ —	$ —	$ —	$ —
Other	10	—	10	—	18
Commercial Real Estate	2,676	145	2,821	25	1,411
Residential Real Estate					
Residential 1-4 family	1,986	22	2,008	2	1,266
Multifamily	—	—	—	—	—
Commercial	—	299	299	74	304
Other	—	15	15	2	10
	$ 4,672	$ 481	$ 5,153	$ 103	$ 3,009

Interest income recognized on impaired loans is immaterial to the financial statements for 2017 and 2016. There are no commitments to extend credit on impaired loans at December 31, 2017.

The carrying amount of loans by performance status and credit quality indicator are as follows:

	December 31, 2017							
	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
	(in thousands)							
Construction, Land and Land Development								
Residential 1-4 family	$ 4,797	$ —	$ —	$ —	$ 4,797	$ 4,797	$ —	$ —
Other	22,419	100	—	220	22,739	22,519	—	220
Commercial Real Estate	128,902	—	—	152	129,054	125,740	486	2,828
Residential Real Estate								
Residential 1-4 family	56,719	224	451	972	58,366	55,588	31	2,747
Multifamily	9,040	—	—	—	9,040	9,040	—	—
Commercial	30,166	119	—	906	31,191	30,166	119	906
Other	12,782	237	—	11	13,030	12,992	27	11
	$ 264,825	$ 680	$ 451	$ 2,261	$ 268,217	$ 260,842	$ 663	$ 6,712

	December 31, 2016							
	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
	(in thousands)							
Construction, Land and Land Development								
Residential 1-4 family	$ 5,239	$ —	$ —	$ —	$ 5,239	$ 5,239	$ —	$ —
Other	15,691	—	—	—	15,691	15,529	152	10
Commercial Real Estate	104,987	384	—	145	105,516	100,402	2,293	2,821
Residential Real Estate								
Residential 1-4 family	49,556	298	—	22	49,876	47,759	109	2,008
Multifamily	7,512	682	—	—	8,194	8,194	—	—
Commercial	32,324	156	—	299	32,779	30,067	2,413	299
Other	16,185	25	—	15	16,225	16,181	29	15
	$ 231,494	$ 1,545	$ —	$ 481	$ 233,520	$ 223,371	$ 4,996	$ 5,153

Information relative to troubled debt restructurings included in impaired loans is as follows:

	December 31, 2017	
	Recorded investment	Valuation allowance
	(in thousands)	
Commercial Real Estate	$ 2,676	$ —
Residential Real Estate		
Residential 1-4 family	1,775	—
Commercial	290	73
Other	5	1
	$ 4,746	$ 74

At December 31, 2017, the $290,000 of commercial loan troubled debt restructurings and $5,000 of other loan troubled debt restructurings are on nonaccrual status.

	December 31, 2016	
	Recorded investment	Valuation allowance
	(in thousands)	
Construction, Land and Land Development		
Other	$ 10	$ —
Commercial Real Estate	2,676	—
Residential Real Estate		
Residential 1-4 family	1,986	—
Commercial	299	74
	$ 4,971	$ 74

At December 31, 2016, the $299,000 of commercial loan troubled debt restructurings are on nonaccrual status.

NOTE 5 - PREMISES AND EQUIPMENT

Premises and equipment are as follows:

	December 31,	
	2017	2016
	(in thousands)	
Land	$ 2,039	$ 2,039
Buildings and leasehold improvements	18,552	18,049
Furniture and equipment	7,065	6,602
Construction in progress	148	170
	27,804	26,860
Less accumulated depreciation and amortization	(14,266)	(13,365)
	$ 13,538	$ 13,495

The Company leases certain premises under various operating lease agreements. Future minimum rent commitments under these leases are immaterial to the financial statements. In 2017 and 2016, rent expense was $181,000 and $133,000 respectively.

NOTE 6 – REAL ESTATE HELD FOR SALE

A summary of activity in real estate held for sale is as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Balance at beginning of year	$ 2,047	$ 2,207
Transfers from premises and equipment	—	1,128
Valuation allowances recorded	—	(257)
Dispositions	(165)	(1,031)
Balance at end of year	$ 1,882	$ 2,047

Net expense from real estate held for sale is as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Net loss on disposition	$ 35	$ —
Valuation allowances recorded	—	257
Net operating expenses	14	71
Net expense	$ 49	$ 328

Changes in the valuation allowance for real estate held for sale are as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Balance at beginning of year	$ 2,920	$ 2,663
Valuation allowances recorded	—	257
Valuation allowances realized	(173)	—
Balance at end of year	$ 2,747	$ 2,920

NOTE 7 – INTANGIBLE ASSETS

Intangible assets consist of the following:

	December 31,	
	2017	2016
	(in thousands)	
Goodwill	$ 2,119	$ 2,119
Core deposit intangible	2,322	2,322
Less accumulated amortization	(2,287)	(2,233)
	35	89
	$ 2,154	$ 2,208

Estimated amortization expense of the core deposit intangible is as follows:

Year Ending December 31,	(in thousands)
2018	$ 28
2019	7
	$ 35

NOTE 8 - DEPOSITS

Interest-bearing deposits are summarized as follows:

	December 31,	
	2017	2016
	(in thousands)	
Money market and NOW accounts	$ 280,067	$ 298,588
Savings accounts	116,100	114,155
Time deposits		
$250,000 and greater	56,893	11,986
Less than $250,000	14,414	62,011
Total time deposits	71,307	73,997
	$ 467,474	$ 486,740

Scheduled maturities of time deposits at December 31, 2017 are as follows:

Year Ending December 31,	(in thousands)
2018	$ 36,847
2019	15,808
2020	5,154
2021	2,650
2022	3,244
Thereafter	7,604
	$ 71,307

NOTE 9 - REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase are classified as secured borrowings and generally mature within one to three days from the transaction date. Securities sold under agreements to repurchase are recorded at the amount of cash received in connection with the transaction. At December 31, 2017 and 2016, the Company had investment securities with a carrying value of $4,639,000 and $4,744,000, respectively, pledged as collateral to secure repurchase agreements. The Company may be required to provide additional collateral based on the fair values of the underlying securities.

NOTE 10 - FEDERAL HOME LOAN BANK BORROWING

At December 31, 2017 and 2016, the Federal Home Loan Bank borrowing consists entirely of a 6.185% fixed rate advance which requires monthly payments of principal and interest. The contractual principal repayments of the Federal Home Loan Bank borrowing at December 31, 2017 are as follows:

Year Ending December 31,	(in thousands)
2018	$ 37
2019	40
2020	43
2021	47
2022	51
Thereafter	437
	$ 655

Borrowings from the Federal Home Loan Bank are secured by various loans and investment securities of the Company. At December 31, 2017, the Company was eligible to borrow a maximum of $120,067,000 from the Federal Home Loan Bank.

NOTE 11 – FEDERAL FUNDS AND DISCOUNT WINDOW

The Company has unsecured federal funds lines at various correspondent banks with an aggregate available credit limit of $53,604,000 at December 31, 2017. No amounts are drawn under these lines as of December 31, 2017 or 2016. Federal funds lines are uncommitted, and funding requests made by the Company are subject to the lending institutions' approval and funding availability at the time of request.

The Company is eligible to borrow from the Federal Reserve discount window based upon the amount of investment securities and loans pledged as collateral. At December 31, 2017, the Company is eligible to borrow $21,232,000.

NOTE 12 - EMPLOYEE BENEFIT PLANS

Defined Contribution and Profit Sharing

The Company has a defined contribution and profit sharing plan in which substantially all full-time employees have elected to participate. Employees may contribute from 1% to 75% of their compensation to the plan, subject to certain limits based on federal tax laws. The Company may make safe harbor contributions to the plan of 3% of participants' compensation and these contributions are immediately vested. Additionally, based on certain performance measures of the Banks, the Company may make profit sharing contributions of up to 12% of participants' compensation. Company profit sharing contributions vest to participant's over six years. Expense attributable to this plan for 2017 and 2016 was $359,000 and $244,000, respectively.

Stock Appreciation Rights

The Company has Stock Appreciation Rights (SAR) plans for key employees. Under the plans, participants are granted a number of SARs at the discretion of the Company's Board of Directors. Each SAR entitles the holder to the book value appreciation of the Company's common stock during the four-year period following the date of grant. The value of the stock appreciation vests in the fifth year, at which time the holder is entitled to receive the value in cash. Expense attributable to the plans in 2017 and 2016 was $46,000 and $60,000, respectively.

Note Receivable for Issuance of Common Stock and Restricted Stock

The Company's Note Receivable for Issuance of Common Stock was issued in 2015 for the purpose of facilitating an executive officer's purchase of 230 shares of common stock that are subject to various restrictions on transfers, forfeiture provisions, and other call and put provisions. Though the transfer restrictions and forfeiture provisions lapse at 20% per year through June, 2020, the stock remains subject to collateral provisions of the loan. The loan requires annual principal payments of at least 10% of the amount borrowed through 2025, along with interest that accrues at 1.53%. The related Stock Purchase and Restriction Agreement (the "Agreement") provides for annual bonus opportunities of 10% of the original amount borrowed based on certain performance metrics of the Company, the proceeds of which could be used to fund annual payments on the note payable. No bonuses have been earned under the plan to date, and the Agreement allows for deferral of each annual loan payment to final maturity in 2025 in the event a bonus is not awarded for the year. In the event of a sale of the Company, a bonus equal to the outstanding balance of the loan, plus a gross-up for related personal taxes thereon, is awarded.

NOTE 13 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2017	2016
	(in thousands)	
Commitmentsto extend credit	63,040	51,182
Letters of credit	1,005	1,425
	$ 64,045	52,607

Commitments to extend credit are agreements to lend to a customer as long as there is no breach of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and real estate. Some unfunded commitments under commercial lines of credit, revolving lines of credit and overdraft protection agreements are uncollateralized.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Company establishes an allowance for losses on unfunded credit commitments as losses are estimated to have occurred. During both 2017 and 2016, the provision for unfunded credit commitments was $-0-. At both December 31, 2017 and 2016, the balance of the allowance for unfunded credit commitments was $120,000.

NOTE 14 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has transactions with principal shareholders, directors, executive officers and parties affiliated with these persons (collectively "insiders"). At December 31, 2017 and 2016, the Company had loans to insiders aggregating $1,884,000 and $1,413,000, respectively. In management's opinion, the terms of these loans, including interest rates and collateral, were comparable to terms afforded non-related borrowers. At December 31, 2017 and 2016, deposits by insiders totaled $12,454,000 and $7,500,000, respectively.

The Company is affiliated with Citizens Bank of Pagosa Springs, Farmers Savings Bank and Chain Bridge Bank through common ownership. The Company had loan participations sold to these affiliates of $-0- and $2,425,000 at December 31, 2017 and 2016, respectively. The Company had loan participations purchased from these affiliates of $6,914,000 and $958,000 at December 31, 2017 and 2016, respectively.

The Company provides item processing and data processing services for Citizens Bank of Pagosa Springs. Fees received by the Company for these services totaled $65,000 and $64,000 in 2017 and 2016, respectively.

The Company is affiliated with BankNote Capital Corp., Otis Management LLC and TF Management LLC through common ownership. These affiliates provide various management services to the Company. The Company paid the affiliates $844,000 and $813,000 during 2017 and 2016, respectively. Included in these payments are reimbursements to BankNote Capital Corp. for expenses incurred on the Company's behalf.

NOTE 15 - REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Banks on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

The Banks' regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock and related paid-in-capital and retained earnings, net of certain intangible asset balances; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowance for loan losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Banks to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7% upon full phase in). The Banks will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four-year period beginning J anuary 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2017 and 2016 for the Banks under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules have been fully phased-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of December 31, 2017								
First National Bank of Durango								
Total capital (to risk weighted assets)	$ 43,308	12.92%	$ 30,995	9.250%	$ 35,184	10.50%	$ 33,509	10.00%
Tier 1 capital (to risk weighted assets)	40,302	12.03%	24,294	7.250%	28,482	8.50%	26,807	8.00%
Common equity Tier 1 capital (to risk weighted assets)	40,302	12.03%	19,267	5.750%	23,456	7.00%	21,781	6.50%
Tier 1 capital (to average assets)	40,302	8.39%	19,207	4.000%	19,207	4.00%	24,009	5.00%
Bank of New Mexico								
Total capital (to risk weighted assets)	$ 14,210	13.90%	$ 8,820	8.625%	$ 10,738	10.50%	$ 10,226	10.00%
Tier 1 capital (to risk weighted assets)	12,976	12.69%	6,775	6.625%	8,692	8.50%	8,181	8.00%
Common equity Tier 1 capital (to risk weighted assets)	12,976	12.69%	5,241	5.125%	7,158	7.00%	6,647	6.50%
Tier 1 capital (to average assets)	12,976	8.66%	5,991	4.00%	5,991	4.00%	7,489	5.00%

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of December 31, 2016								
First National Bank of Durango								
Total capital (to risk weighted assets)	$ 42,131	13.95%	$ 26,053	8.625%	$ 31,717	10.50%	$ 30,207	10.00%
Tier 1 capital (to risk weighted assets)	38,708	12.81%	20,012	6.625%	25,676	8.50%	24,165	8.00%
Common equity Tier 1 capital (to risk weighted assets)	38,708	12.81%	15,481	5.125%	21,145	7.00%	19,634	6.50%
Tier 1 capital (to average assets)	38,708	8.07%	19,181	4.000%	19,181	4.00%	23,976	5.00%
Bank of New Mexico								
Total capital (to risk weighted assets)	$ 13,463	13.00%	$ 8,932	8.625%	$ 10,874	10.50%	$ 10,356	10.00%
Tier 1 capital (to risk weighted assets)	12,573	12.14%	6,861	6.625%	8,803	8.50%	8,285	8.00%
Common equity Tier 1 capital (to risk weighted assets)	12,573	12.14%	5,308	5.125%	7,249	7.00%	6,732	6.50%
Tier 1 capital (to average assets)	12,573	8.19%	6,143	4.00%	6,143	4.00%	7,679	5.00%

Regulatory authorities can initiate certain mandatory actions if the Banks fail to meet the minimum capital requirements, which could have a direct and material effect on the Company’s financial statements. Management believes, as of December 31, 2017 and 2016, that the Banks meet all capital adequacy requirements to which they are subject and that the Banks exceed the minimum levels necessary to be considered “well capitalized.”

The principal source of income and funds of FBD are dividends from the Banks. Dividends declared by the Banks that exceed their retained net income for the most current year plus retained net income for the preceding two years must be approved by their federal regulatory agencies. In addition, dividends paid by the Banks would be prohibited if the effect thereof would cause the Banks' capital to be reduced below the minimum capital requirements.

NOTE 16 – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The following is a description of the Company's valuation methodologies for assets and liabilities recorded at fair value:

Securities Available for Sale – Securities are recorded at fair value on a recurring basis based upon measurements obtained from independent pricing services. For certain corporate securities and exchange traded funds, fair value measurements are based on quoted market prices (level 1). For U.S. Government agency securities, mortgage-backed securities, collateralized mortgage obligations, certain municipal securities and certain corporate securities, fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (level 2). For certain municipal securities and corporate securities, including auction rate municipal securities and securities for which OTTI charges have been recorded through earnings, market activity and observable data is highly limited. Fair value of these securities is based upon management's estimates of the securities' future cash flows and future market conditions (level 3).

Loans Held For Sale - The Company does not record loans held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect declines in value based on commitments in hand from investors or prevailing investor yield requirements (level 2).

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on impaired loans to reflect (1) the current appraised or market-quoted value of the underlying collateral, or (2) the discounted value of expected cash flows. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans evaluated individually are obtained from independent appraisers or other third-party consultants, or are based on discounted cash flow analyses (level 3). Fair value estimates for impaired loans evaluated collectively are based on statistics reflective of the loans' credit risk (level 3).

Real Estate Held For Sale- The Company does not record real estate held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers or other third party consultants (level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

	December 31, 2017			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Securities available for sale				
U.S. government agency	$ —	$ 4,368	$ —	$ 4,368
State and municipal	—	198,900	2,800	201,700
Corporate and foreign	499	88,699	167	89,365
Pass-through	—	4,904	483	5,387
	$ 499	$ 296,871	$ 3,450	$ 300,820

	December 31, 2016			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Securities available for sale				
U.S. government agency	$ —	$ 4,363	$ —	$ 4,363
State and municipal	—	220,136	3,854	223,990
Corporate and foreign	—	87,951	—	87,951
Pass-through	—	6,628	—	6,628
Exchange-traded gold fund	1,128	—	—	1,128
	$ 1,128	$ 319,078	$ 3,854	$ 324,060

Activity for investment securities recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) is immaterial to the financial statements for 2017 and 2016.

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a non-recurring basis:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
		(in thousands)		
December 31, 2017				
Impaired loans	$ —	$ —	$ 836	$ 836
Real estate held for sale	$ —	$ —	$ 1,882	$ 1,882
December 31, 2016				
Impaired loans	$ —	$ —	$ 378	$ 378
Real estate held for sale	$ —	$ —	$ 2,047	$ 2,047

At December 31, 2017, impaired loans with a gross carrying amount of $1,231,000 have a valuation allowance of $395,000. At December 31, 2016, impaired loans with a gross carrying amount of $481,000 have a valuation allowance of $103,000. The valuation allowances have been recorded through the provision for loan losses. Impaired loans of $5,481,000 at December 31, 2017 and $4,672,000 at December 31, 2016 have no valuation allowances.

At December 31, 2017, real estate held for sale with an initial cost basis of $4,629,000 has a $2,747,000 valuation allowance. At December 31, 2016, real estate held for sale with an initial cost basis of $4,967,000 has a $2,920,000 valuation allowance. The valuation allowances were recorded through net expense from real estate held for sale.

There are no fair value adjustments to loans held for sale at December 31, 2017 and 2016.

NOTE 17 - STATEMENTS OF CASH FLOWS

Statements of Cash Flows for FBD (parent company only) are as follows:

	Years Ended December 31,	
	2017	2016
	(in thousands)	
Cash flows from operating activities		
Net income	$ 5,693	$ 4,570
Adjustments to reconcile net income to net cash from operating activities:		
Undistributed earnings of subsidiaries	(1,883)	580
Net change in other assets and liabilities	(43)	60
Net cash provided by operating activities	3,767	5,210
Cash flows from investing activities		
Loan originations and principal collections, net	—	(561)
Net cash used by investing activities	—	(561)
Cash flows from financing activities		
Payments on note receivable for issuance of common stock	4	4
Cash dividends paid	(1,200)	(1,200)
Net cash used by financing activities	(1,196)	(1,196)
Net change in cash	2,571	3,453
Cash at beginning of year	9,639	6,186
Cash at end of year	$ 12,210	$ 9,639
Supplemental disclosure of cash flow information		
Cash paid during the year for interest expense	$ —	$ —

NOTE 18 - PRO FORMA FINANCIAL INFORMATION

C Corporation Income Taxes

As discussed in Note 1, the Company is an S Corporation for income tax purposes and, accordingly, the Consolidated Statements of Income for 2017 and 2016 reflect no corporate income tax expense. Pro forma results of operations, presented on a C Corporation basis, would have been as follows:

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Income before income taxes	5,693	4,570
Income tax expense	(661)	(72)
Net Income	$ 5,032	$ 4,498

Taxable Equivalent Income

A portion of the Company's revenue consists of tax-exempt interest income. Tax-exempt investment and loan income totaled approximately $4,300,000 and $4,800,000 during 2017 and 2016, respectively. The following pro forma presentation of results of operations on a taxable equivalent basis contains increases to revenue on this tax-exempt income to a level comparable to the level at which income is taxable, at an effective tax rate of approximately 37%.

	Year Ended December 31,	
	2017	2016
	(in thousands)	
Net interest income after provision for loan losses	$ 19,466	$ 18,300
Taxable equivalent adjustment	2,520	2,850
Net interest income on a tax equivalent basis	21,986	21,150
Noninterest income	4,993	4,337
Noninterest expense	(18,766)	(18,067)
Net taxable equivalent income	$ 8,213	$ 7,420

NOTE 19 – SUBSEQUENT EVENT

In January, 2018, the Company declared and paid a dividend of $2,007,000.

SUPPLEMENTAL CONSOLIDATING SCHEDULES

SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	December 31, 2017				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
			(in thousands)		
ASSETS					
Cash and due from banks	$ 133	$ 12,591	$ 5,613	$ (133)	$ 18,204
Interest-bearing deposits	12,077	17,679	9,013	(12)	38,757
Cash and cash equivalents	12,210	30,270	14,626	(145)	56,961
Securities available for sale	—	238,268	62,552	—	300,820
Nonmarketable equity securities	—	760	65	—	825
Investment in subsidiaries	56,010	—	—	(56,010)	—
Loans held for sale	—	2,949	—	—	2,949
Loans	585	197,371	69,752	—	267,708
Less allowance for loan losses	—	(2,886)	(1,234)	—	(4,120)
Total loans	585	194,485	68,518	—	263,588
Premises and equipment, net	—	9,297	4,241	—	13,538
Accrued interest receivable	—	2,030	698	—	2,728
Real estate held for sale	—	1,882	—	—	1,882
Intangible assets	—	35	2,119	—	2,154
Other assets	6	576	193	—	775
	$ 68,811	$ 480,552	$ 153,012	$ (56,155)	$ 646,220
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Deposits					
Noninterest-bearing	$ —	$ 76,216	$ 30,455	$ (133)	$ 106,538
Interest-bearing	—	360,827	106,659	(12)	467,474
Total deposits	—	437,043	137,114	(145)	574,012
Repurchase agreements	—	631	—	—	631
Accrued interest payable	—	48	73	—	121
Federal Home Loan Bank borrowings	—	655	—	—	655
Other liabilities	246	1,483	507	—	2,236
Total liabilities	246	439,860	137,694	(145)	577,655
Stockholders' equity					
Common stock	384	450	1,000	(1,450)	384
Additional paid-in capital	14,068	7,300	10,592	(17,892)	14,068
Retained earnings	53,999	32,580	3,503	(36,083)	53,999
Note receivable for issuance of common stock	(471)	—	—	—	(471)
Accumulated other comprehensive income	585	362	223	(585)	585
Total stockholders' equity	68,565	40,692	15,318	(56,010)	68,565
	$ 68,811	$ 480,552	$ 153,012	$ (56,155)	$ 646,220

First Bancorp of Durango, Inc. and Subsidiaries

SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	December 31, 2016				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
			(in thousands)		
ASSETS					
Cash and due from banks	$ 78	$ 11,343	$ 3,900	$ (78)	$ 15,243
Interest-bearing deposits	9,561	52,461	11,379	(10)	73,391
Cash and cash equivalents	9,639	63,804	15,279	(88)	88,634
Securities available for sale	—	252,131	71,929	—	324,060
Nonmarketable equity securities	—	742	65	—	807
Investment in subsidiaries	55,110	—	—	(55,110)	—
Loans held for sale	—	806	—	—	806
Loans	585	169,929	62,480	—	232,994
Less allowance for loan losses	—	(3,303)	(890)	—	(4,193)
Total loans	585	166,626	61,590	—	228,801
Premises and equipment, net	—	9,186	4,309	—	13,495
Accrued interest receivable	—	2,157	752	—	2,909
Real estate held for sale	—	2,047	—	—	2,047
Intangible assets	—	89	2,119	—	2,208
Other assets	7	523	222	—	752
	$ 65,341	$ 498,111	$ 156,265	$ (55,198)	$ 664,519
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Deposits					
Noninterest-bearing	$ —	$ 79,103	$ 26,375	$ (78)	$ 105,400
Interest-bearing	—	372,521	114,229	(10)	486,740
Total deposits	—	451,624	140,604	(88)	592,140
Repurchase agreements	—	4,372	—	—	4,372
Accrued interest payable	—	35	74	—	109
Federal Home Loan Bank borrowings	—	688	—	—	688
Other liabilities	290	1,375	494	—	2,159
Total liabilities	290	458,094	141,172	(88)	599,468
Stockholders' equity					
Common stock	384	450	1,000	(1,450)	384
Additional paid-in capital	14,068	7,300	10,592	(17,892)	14,068
Retained earnings	49,506	31,100	3,100	(34,200)	49,506
Note receivable for issuance of common stock	(475)	—	—	—	(475)
Accumulated other comprehensive income	1,568	1,167	401	(1,568)	1,568
Total stockholders' equity	65,051	40,017	15,093	(55,110)	65,051
	$ 65,341	$ 498,111	$ 156,265	$ (55,198)	$ 664,519

First Bancorp of Durango, Inc. and Subsidiaries

SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Year ended December 31, 2017				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
	(in thousands)				
Interest income					
Loans, including fees	$ 37	$ 8,734	$ 3,933	$ —	$ 12,704
Taxable investment securities	—	2,225	448	—	2,673
Tax-exempt investment securities	—	3,314	1,170	—	4,484
Interest-bearing deposits	82	349	101	—	532
Dividends on nonmarketable equity securities	—	20	—	—	20
Total interest income	119	14,642	5,652	—	20,413
Interest expense					
Deposits	—	641	279	—	920
Repurchase agreements and federal funds purchased	—	2	—	—	2
Federal Home Loan Bank borrowings	—	42	—	—	42
Total interest expense	—	685	279	—	964
Net interest income	119	13,957	5,373	—	19,449
Provision (reverse provision) for loan losses	—	(375)	358	—	(17)
Net interest income after provisions for loan losses	119	14,332	5,015	—	19,466
Noninterest income					
Service charges on deposit accounts	—	573	765	—	1,338
ATM and debit card	—	1,557	462	—	2,019
Mortgage banking	—	559	—	—	559
Investment services	—	481	—	—	481
Net gain (loss) on sale of investment securities	—	293	(11)	—	282
Dividends from subsidiaries	4,130	—	—	(4,130)	—
Other	—	365	55	(106)	314
	4,130	3,828	1,271	(4,236)	4,993
Noninterest expense					
Salaries and employee benefits	46	7,274	2,589	—	9,909
Occupancy and equipment	—	1,568	673	—	2,241
Data processing	—	785	455	(74)	1,166
ATM and debit card	—	682	278	—	960
Marketing and business development	—	504	113	—	617
Professional and advisory fees	357	609	281	—	1,247
Regulatory assessments and deposit insurance	—	299	70	—	369
Foreclosed real estate, net	—	49	—	—	49
Investment services	—	311	—	—	311
Amortization of intangibles	—	54	—	—	54
Other	36	1,385	454	(32)	1,843
	439	13,520	4,913	(106)	18,766
Income before equity in income of subsidiaries	3,810	4,640	1,373	(4,130)	5,693
Equity in undistributed earnings of subsidiaries	1,883	—	—	(1,883)	—
NET INCOME	$ 5,693	$ 4,640	$ 1,373	$ (6,013)	$ 5,693

First Bancorp of Durango, Inc. and Subsidiaries

SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Year ended December 31, 2016				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
			(in thousands)		
Interest income					
Loans, including fees	$ 10	$ 7,766	$ 3,493	$ —	$ 11,269
Taxable investment securities	—	1,840	519	—	2,359
Tax-exempt investment securities	—	3,528	1,296	—	4,824
Interest-bearing deposits	35	137	44	—	216
Dividends on nonmarketable equity securities	—	20	—	—	20
Total interest income	45	13,291	5,352	—	18,688
Interest expense					
Deposits	—	510	275	—	785
Repurchase agreements and federal funds purchased	—	2	—	—	2
Federal Home Loan Bank borrowings	—	44	—	—	44
Total interest expense	—	556	275	—	831
Net interest income	45	12,735	5,077	—	17,857
Provision (reverse provision) for loan losses	—	(578)	135	—	(443)
Net interest income after provisions for loan losses	45	13,313	4,942	—	18,300
Noninterest income					
Service charges on deposit accounts	—	569	763	—	1,332
ATM and debit card	—	1,445	416	—	1,861
Mortgage banking	—	477	—	—	477
Investment services	—	423	—	—	423
Net gain (loss) on sale of investment securities	—	(68)	6	—	(62)
Dividends from subsidiaries	5,530	—	—	(5,530)	—
Other	1	313	63	(71)	306
	5,531	3,159	1,248	(5,601)	4,337
Noninterest expense					
Salaries and employee benefits	60	6,398	2,687	—	9,145
Occupancy and equipment	—	1,314	715	—	2,029
Data processing	—	614	365	(71)	908
ATM and debit card	—	579	240	—	819
Marketing and business development	—	412	117	—	529
Professional and advisory fees	354	1,051	238	—	1,643
Regulatory assessments and deposit insurance	—	338	119	—	457
Foreclosed real estate, net	—	328	—	—	328
Investment services	—	269	—	—	269
Amortization of intangibles	—	58	—	—	58
Other	12	1,449	421	—	1,882
	426	12,810	4,902	(71)	18,067
Income before equity in income of subsidiaries	5,150	3,662	1,288	(5,530)	4,570
Equity in undistributed earnings of subsidiaries	(580)	—	—	580	—
NET INCOME	$ 4,570	$ 3,662	$ 1,288	$ (4,950)	$ 4,570

Exhibit 99.2

CONSOLIDATED FINANCIAL STATEMENTS
and INDEPENDENT AUDITORS' REPORT

SOUTHERN COLORADO CORP.
AND SUBSIDIARY

December 31, 2017

INDEPENDENT AUDITORS' REPORT

Board of Directors
Southern Colorado Corp.
Inverness, Illinois

We have audited the accompanying consolidated financial statements of Southern Colorado Corp. and Subsidiary, which are comprised of the consolidated statement of financial condition as of December 31, 2017, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Southern Colorado Corp. and Subsidiary at December 31, 2017 and the results of their operations and their cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Report on Consolidating Information

Our audit was conducted for the purpose of forming an opinion on the 2017 consolidated financial statements as a whole. The accompanying consolidating schedules on pages 35 and 36 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies, and are not a required part of the consolidated financial statements. The supplemental consolidating schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the consolidated financial statements. The supplemental consolidating schedules have been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling the information directly to the underlying accounting records used to prepare the consolidated financial statements and to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplemental consolidating schedules are fairly stated in all material respects in relation to the consolidated financial statements as a whole.

/s/ Fortner, Bayens, Levkulich, & Garrison, P.C.

Denver, Colorado
July 10, 2018

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENT OF FINANCIAL CONDITION

December 31, 2017

(dollars in thousands, except per share amounts)

ASSETS		
Cash and due from banks	$	2,204
Interest-bearing deposits in banks		15,537
Total cash and cash equivalents		17,741
Investment securities available for sale		31,403
Federal Home Loan Bank stock, at cost		127
Loans, net of allowance for loan losses of $1,136		35,461
Accrued interest receivable		302
Premises and equipment, net		1,989
Real estate held for sale		132
Other assets		141
Total assets	$	87,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$	26,737
Interest-bearing		52,515
Total deposits		79,252
Notes payable		500
Accrued expenses and other liabilities		186
Total liabilities		79,938
Commitments and contingencies (Notes 4, 9 and 16)		
Stockholders' equity		
Common stock - $1.00 par value; 200,000 shares authorized; 160,000 shares issued and outstanding		160
Additional paid-in capital		5,370
Retained earnings		1,980
Accumulated other comprehensive loss		(152)
Total stockholders' equity		7,358
Total liabilities and stockholders' equity	$	87,296

The accompanying notes are an integral part of this consolidated statement.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENT OF INCOME

Year Ended December 31, 2017

(dollars in thousands, except per share amounts)

Interest and dividend income		
Loans, including fees	$	1,937
Taxable investment securities		108
Tax-exempt investment securities		511
Federal Home Loan Bank stock		4
Interest-bearing deposits in banks		92
Total interest and dividend income		2,652
Interest expense		
Deposits		233
Notes payable		21
Total interest expense		254
Net interest income		2,398
Credit for loan losses		(200)
Net interest income after credit for loan losses		2,598
Noninterest income		
Service charges on deposit accounts		99
ATM and debit card		184
Mortgage banking		192
Net gain on sale of securities available for sale		16
Other noninterest income		19
Total noninterest income		510
Noninterest expense		
Salaries and employee benefits		1,173
Occupancy and equipment		294
Data processing and software		142
ATM and debit card		134
Management and administration fees		220
Other noninterest expense		480
Total noninterest expense		2,443
NET INCOME	$	665
EARNINGS PER SHARE	$	4.16

The accompanying notes are an integral part of this consolidated statement.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year Ended December 31, 2017

(dollars in thousands)

Net income	$	665
Other comprehensive income		
Change in unrealized gain/loss on securities available for sale		43
Reclassification adjustment for net gain on sale of securities available for sale realized in net income		(16)
Total other comprehensive income		27
TOTAL COMPREHENSIVE INCOME	$	692

The accompanying notes are an integral part of this consolidated statement.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

Year Ended December 31, 2017

(dollars in thousands)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive loss	Total
Balance at December 31, 2016	$ 160	$ 5,370	$ 1,315	$ (179)	$ 6,666
Net income	—	—	665	—	665
Other comprehensive income	—	—	—	27	27
Balance at December 31, 2017	$ 160	$ 5,370	$ 1,980	$ (152)	$ 7,358

The accompanying notes are an integral part of this consolidated statement.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENT OF CASH FLOWS

Year Ended December 31, 2017

(dollars in thousands)

Cash flows from operating activities		
Net income	$	665
Adjustments to reconcile net income to net cash from operating activities		
Credit for loan losses		(200)
Depreciation and software amortization		138
Net amortization on investment securities		261
Gain on sale of securities available for sale		(16)
Federal Home Loan Bank stock dividends		(3)
Net loss on disposition of premises and equipment		15
Net loss on sales and write-downs of real estate held for sale		7
Net change in:		
Accrued interest receivable		(52)
Other asssets		4
Accrued expenses and other liabilities		(10)
Net cash provided by operating activities		809
Cash flows from investing activities		
Purchase of securities available for sale		(8,923)
Maturities, calls and paydowns of securities available for sale		5,959
Sale of securities available for sale		217
Redemption of Federal Home Loan Bank stock		1
Loan originations and principal collections, net		(9)
Acquisition of premises, equipment and software		(72)
Proceeds from sale of real estate held for sale		138
Net cash used in investing activities		(2,689)
Cash flows from financing activities		
Net change in deposits		6,080
Net cash provided by financing activities		6,080
Change in cash and cash equivalents		4,200
Cash and cash equivalents at beginning of year		13,541
Cash and cash equivalents at end of year	$	17,741
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for interest	$	248
Supplemental Disclosures of Non-Cash Transactions		
Net change in unrealized gain/loss on securities available for sale	$	27
Loan balances transferred to foreclosed assets	$	—

The accompanying notes are an integral part of this consolidated statement.

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies of Southern Colorado Corp. and Subsidiary conform to accounting principles generally accepted in the United States of America ("GAAP") and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Principles of Consolidation

Southern Colorado Corp. ("SCC") is a bank holding company that owns 100% of the stock of Citizens Bank of Pagosa Springs ("the Bank"). SCC and the Bank are collectively referred to as "the Company."

The accompanying consolidated financial statements include the consolidated totals of the accounts of SCC and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and business customers through its two branches located in Pagosa Springs, Colorado.

The Company is subject to competition from other financial institutions, and from non-financial institutions that provide financial products and services, for loans and deposit accounts. The Company is also subject to regulation by certain governmental agencies and undergoes periodic examinations by those regulatory agencies. SCCs primary regulator is the Federal Reserve, and the Bank's primary regulators are the state of Colorado Division of Banking and the Federal Deposit Insurance Corporation.

Use of Estimates

In preparing the financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the statement of financial condition and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses and the fair value of financial instruments. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. In connection with the determination of the fair value of financial instruments, management obtains valuations from a third-party investment accounting service provider except for certain securities valued using level 3 inputs (see Note 12 on fair value measurement).

Significant Group Concentrations of Credit Risk

Most of the Company's activities are with customers located within the Company's areas of operations. A majority of the Company's loans are related to real estate. Borrowers' abilities to honor their loans are dependent upon the continued economic viability of the areas in which the Company lends. Note 3 discusses the types of lending in which the Company engages. Note 2 discusses the types of securities in which the Company invests.

Cash and Cash Equivalents

Cash and cash equivalents include cash, transaction accounts at other financial institutions and interest-bearing balances at the Federal Reserve Bank (including reserve requirements and excess reserves) and at the Federal Home Loan Bank of Topeka. For the Statement of Cash Flows, net cash flows are reported for customer loan and deposit transactions.

Balances in transaction accounts at other financial institutions may at times exceed amounts covered by federal deposit insurance. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Investment Securities

Investment securities are classified as "available for sale" and are stated at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For mortgage-backed securities, the term of the security is the expected life of the security given estimated paydowns. For other securities, the term of the security is the earlier of final maturity or the expected call date. The Company believes amortization to the call date rather than the final maturity date is insignificant to the financial statements as a whole. Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income.

The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank system, is required to maintain an investment in the capital stock of the Federal Home Loan of Topeka. No ready market exists for this stock, and it has no quoted market value and may generally only be redeemed by the Federal Home Loan Bank at par. For reporting purposes, such stock is considered restricted and is carried at cost.

Loans

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and purchase premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized into interest income over the life of related loans using the interest method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time the loan is 90 days past due unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company’s nonaccrual criteria.

Generally, loans are charged off in whole or in part after they become significantly past due unless the loan is in the process of restructuring or collection efforts are ongoing and deemed likely to be successful. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components as follows:

1) The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis for impaired loans in excess of a nominal percentage of the Bank's capital, and calculated on a pool basis for impaired loans below the percentage-of-capital threshold. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system.

   Included in impaired loans are all nonaccrual loans and all troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For individually evaluated impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other individually evaluated impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. For impaired loans evaluated on a pool basis, impairment is measured based on statistics reflective of the increased risk of the loan pool. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

2) The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged off.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's commercial and consumer portfolios include the strength of the real estate market and general economic activity in the Company's market area.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses, and are grouped as follows:

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who have the ability to repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial condition of the borrower, and declining or narrow collateral coverage.

Substandard – Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Doubtful – Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined.

Loss – Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be effected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Management believes that the allowance for loan losses is adequate. However, determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or credit conditions change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Premises and Equipment

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed using the straight-line method over the estimated useful lives of the assets - generally 20 to 40 years for buildings and improvements, and 5 to 7 years for furniture and equipment. Maintenance and repairs, which do not extend the useful lives of premises and equipment, are charged to expense as incurred.

Real Estate Held for Sale

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value when acquired (less an estimate of cost to sell), establishing a new cost basis. If fair value declines subsequent to acquisition, a valuation allowance is recorded through earnings. Operating expenses relative to real estate held for sale are expensed as incurred, while certain improvements may be capitalized if the expenditures are likely to be recaptured upon disposition of the real estate. Gain or loss on sale, if any, is recognized at the time of sale.

Income Taxes

The Company has elected taxation under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company neither pays federal corporate income taxes on its taxable income nor is allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholders of the Company include their respective share of the consolidated taxable income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

The Company is no longer subject to examination by federal tax authorities for years before 2014.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income/loss. The only component of other comprehensive income/loss consists of net unrealized holding gains and losses on available for sale securities, with no related tax effects.

Earnings Per Share

Earnings per share is computed by dividing net income by the weighted average number of shares outstanding. The Company has no dilutive instruments and accordingly reports only basic earnings per share.

Off- Balance Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit, unused lines of credit, standby letters of credit and undisbursed loans in process. These financial instruments are recorded in the financial statements when they are funded.

In conjunction with the determination of the allowance for loan losses, and using the same criteria, the Company determines the extent of credit risk on its off-balance sheet financial instruments and whether there are probable incurred credit losses on those instruments for which a loss provision is necessary. The Company has determined that there is minimal credit risk on its off-balance sheet financial instruments, and accordingly has not recorded a loss provision or allowance for those instruments.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been relinquished and, for loan participations sold, incoming cash flows on the base loan are allocated to all participants on a pro-rata basis . Control over transferred assets is deemed to be relinquished when the assets have been isolated from the Company, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Mortgage Banking and Loan Servicing

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance charged to earnings. There are no loans held for sale at December 31, 2017.

Mortgage banking income is comprised of servicing fees on loans sold to other parties that are serviced for those parties, and from the origination fees and sale premiums on the loans sold. Servicing fees are recognized over the servicing period as the fees are collected, and loan origination fees and sale premiums are recognized at the time of sale. Loans sold to other parties that are serviced for those parties are not included in the consolidated statement of financial position as they are not assets of the Company.

The Company has not recorded a mortgage servicing right asset for loans sold with servicing retained as it believes that recording a servicing right asset would be immaterial to the consolidated financial statements as a whole.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs*— Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- *Level 3 Inputs*—Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Significant Applicable Accounting Standards Updates Not Yet Effective

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Under the new standard, the Company will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio, and will consider not only current credit conditions but also reasonably supportable expectations as to future credit conditions. The standard will also require securities held to maturity to be evaluated for impairment under an expected-loss model. The standard is effective for the Company beginning January 1, 2021. Management is in the processing of determining the impact of the standard on the Company's consolidated financial statements.

Accounting Standards Update 2016-02, *Leases (Topic 326).* Under the new standard, the Company will be required to record a right-of-use asset for leased property and also record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term and lease payments will reduce the lease obligation. The standard is effective for the Company beginning January 1, 2020 and is not expected to have a significant impact on the consolidated financial statements.

Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Accounting Standards Update 2014-09, *Revenue from Contracts With Customers (Topic 606).* The new standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the consideration the Company expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly will not impact the Company's recognition of interest income on its loans and investment securities, and will not impact the Company's recognition of revenue from sales or transfers of loans and investment securities. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. With respect to the December 31, 2017 financial statements, Management has considered subsequent events through July 10, 2018. See Note 16 - Subsequent Events and Related Contingencies.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, follows:

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities available for sale				
U.S. Treasury	$ 1,003	—	$ (8)	$ 995
State and municipal	24,816	78	(182)	24,712
Corporate	5,620	4	(48)	5,576
Mortgage-backed	116	4	—	120
	$ 31,555	$ 86	$ (238)	$ 31,403

The amortized cost and fair value of debt securities available for sale at December 31, 2017, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 4,010	$ 4,002
Due after one through five years	22,309	22,219
Due after five years through ten years	3,646	3,575
Due after ten years	1,474	1,487
	31,439	31,283
Mortgage-backed	116	120
	$ 31,555	$ 31,403

Investment securities may have actual maturities that differ from contractual maturities due to paydowns on the assets underlying the bonds or early call provisions.

Information pertaining to securities available-for-sale, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	December 31, 2017			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Treasury	$ —	$ —	$ (8)	$ 995
State and municipal	(172)	14,166	(10)	498
Corporate	(19)	2,753	(29)	1,811
	$ (191)	$ 16,919	$ (47)	$ 3,304

At December 31, 2017, unrealized losses are largely due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows, and does not believe that any securities are impaired due to reasons of credit quality. The Company has the ability and intent to hold investment securities for a period of time sufficient for a recovery of cost, and fair value is expected to recover as bonds approach maturity. Accordingly, as of December 31, 2017, management believes the unrealized losses detailed in the table above are temporary.

The Company realized $16,000 in gains and no losses on the sale of investment securities in 2017. All 2017 sales were to an entity affiliated with the Company's primary shareholder through common ownership. The sale was initiated for the purpose of removing from the Company's books non investment-grade municipal securities, and was transacted at estimated fair value.

Investment securities with a fair value of $4,732,000 at December 31, 2017 were pledged as collateral on public deposits and for other purposes as required or permitted by law.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows at December 31, 2017 (in thousands):

Real Estate	
Commercial	$ 12,467
Residential 1-4 family	12,751
Construction, land and land development	5,432
Multifamily	568
Farmland	725
	31,943
Commercial non real estate	1,863
State and municipal	1,366
Consumer and other	1,498
	36,670
Less unearned loan fees	(73)
Less allowance for loan losses	(1,136)
	$ 35,461

In the ordinary course of business, the Company may grant loans to its executive officers, significant shareholders, directors, and parties affiliated with those persons (collectively, "related parties"). However, the Company had no loans to related parties at December 31, 2017.

At December 31, 2017, residential 1-4 family real estate loans totaling $10,560,000 are pledged to secure credit facilities and credit enhancement arrangements with the Federal Home Loan Bank of Topeka.

Transactions in the allowance for loan losses are as follows:

	Real Estate	Commercial Non Real Estate	State and Municipal	Consumer and Other	Total
			(in thousands)		
Balance at December 31, 2016	$ 1,205	$ 63	$ 22	$ 18	$ 1,308
Credit for loan losses	(191)	(27)	14	4	(200)
(Charge-offs)	—	—	—	(2)	(2)
Recoveries	29	—	—	1	30
Net (charge-offs) recoveries	29	—	—	(1)	28
Balance at December 31, 2017	$ 1,043	$ 36	$ 36	$ 21	$ 1,136

Components of the allowance for loan losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	December 31, 2017				
	Real Estate	Commercial Non Real Estate	State and Municipal	Consumer and Other	Total
			(in thousands)		
Allocation of Allowance to:					
Impaired loans - evaluated individually	$ —	$ —	$ —	$ —	$ —
Impaired loans - evaluated collectively	—	—	—	—	—
Total impaired loans	—	—	—	—	—
Unimpaired loans - evaluated collectively	1,043	36	36	21	1,136
	$ 1,043	$ 36	$ 36	$ 21	$ 1,136
Recorded Investment In:					
Impaired loans - evaluated individually	$ 242	$ —	$ —	$ —	$ 242
Impaired loans - evaluated collectively	—	—	—	—	—
Total impaired loans	242	—	—	—	242
Unimpaired loans - evaluated collectively	31,701	1,863	1,366	1,498	36,428
	$ 31,943	$ 1,863	$ 1,366	$ 1,498	$ 36,670

Information relative to impaired loans is as follows:

	December 31, 2017					Year Ended December 31, 2017
	Recorded Investment in Impaired Loans With No Valuation Allowance	Recorded Investment in Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Commitments to Extend Credit on Impaired Loans	Average Impaired Loans
	(in thousands)					
Real Estate						
Commercial	$ 242	$ —	$ 242	$ —	$ —	$ 250
Residential 1-4 family	—	—	—	—	—	57
	$ 242	$ —	$ 242	$ —	$ —	$ 307

Impaired loans at December 31, 2017 is comprised of a single loan which is considered a troubled debt restructuring and which is performing under the modified terms. There are no nonaccrual loans at December 31, 2017.

Interest income recognized on impaired loans is immaterial for the year ended December 31, 2017.

At December 31, 2017, there are no loans in the process of foreclosure.

At December 31, 2017, there are no loans past due 30 days or greater.

There were no loans modified as a troubled debt restructuring that defaulted in 2017 where the default occurred within 12 months of the restructuring. For the purpose of this disclosure, a default is considered a payment delinquency of 90 days or greater, or foreclosure and repossession of the applicable collateral.

The following summarizes loans by credit rating:

	December 31, 2017				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 11,446	$ 526	$ 495	$ —	$ 12,467
Residential 1-4 family	12,617	—	134	—	12,751
Construction, land and land development	5,275	—	157	—	5,432
Multifamily	568	—	—	—	568
Farmland	725	—	—	—	725
Commercial non real estate	1,863	—	—	—	1,863
State and municipal	986	380	—	—	1,366
Consumer and other	1,484	—	14	—	1,498
	$ 34,964	$ 906	$ 800	$ —	$ 36,670

At December 31, 2017, commercial real estate loans graded "special mention" include a $338,000 loan for which $236,000 is covered by a U.S. Department of Agriculture guaranty.

NOTE 4– SERVICED LOANS AND CREDIT ENHANCEMENTS

At December 31, 2017, the Company has 96 loans, totaling $18,026,000, sold to and serviced for the Federal Home Loan Bank of Topeka under the Federal Home Loan Bank's Mortgage Partnership Finance Program. Servicing income earned by the Company in 2017 was $43,000 and is included as a component of mortgage banking income. As discussed in Note 1, a servicing right asset has not been recorded on the basis of immateriality.

At December 31, 2017, the Company has $666,000 in gross credit enhancement exposure to the Federal Home Loan Bank of Topeka relative to the serviced loan portfolio. In the event that serviced loans default, and borrower equity and private mortgage insurance amounts are depleted and loan losses occur, the credit enhancement exposure is the loss sharing amount to the Federal Home Loan Bank. The Company has not recorded a liability for the credit enhancement exposure as it believes the fair value of the credit enhancement exposure is immaterial to the consolidated financial statements due to strong credit quality and no loss history. The gross credit enhancement exposure amount is collateralized by a pledge of loans.

NOTE 5 – PREMISES, EQUIPMENT AND SOFTWARE

Premises and equipment are as follows at December 31, 2017 (in thousands):

Land and improvements	$	1,135
Buildings and improvements		2,179
Furniture and equipment		491
		3,805
Less accumulated depreciation		(1,816)
	$	1,989

Depreciation expense in 2017 was $107,000.

At December 31, 2017, there is $51,000 of software included as a component of Other Assets ($323,000 cost and $272,000 accumulated amortization). Software amortization expense in 2017 was $31,000.

In 2017, occupancy and equipment expense of $294,000 is net of $67,000 in rental income.

NOTE 6 - DEPOSITS

Deposits are comprised of the following at December 31, 2017 (in thousands):

Noninterest-bearing accounts	$	26,737
Interest-bearing checking and NOW accounts		17,701
Money market accounts		3,491
Savings accounts		23,049
Escrow accounts		96
Individual retirement accounts		3,428
Time certificates of deposit		4,750
	$	79,252

At December 31, 2017, there is $23,458,000 in accounts with a balance of $250,000 or greater, including $871,000 in individual retirement accounts and time certificates of deposit.

Scheduled maturities of individual retirement accounts and time certificates of deposit at December 31, 2017 are as follows (in thousands):

Maturity		
2018	$	3,403
2019		1,467
2020		786
2021		536
2022		1,053
Thereafter		933
	$	8,178

At December 31, 2017, the Company had $854,000 in deposits from its executive officers, significant shareholders, directors, and parties affiliated with those persons.

NOTE 7 –NOTES PAYABLE AND CREDIT FACILITIES

Notes Payable

Notes payable of $500,000 at December 31, 2017 are comprised of unsecured promissory notes payable to certain shareholders of the Company. The notes bear interest at a variable rate equal to the Bank's base rate (4.5% at December 31, 2017), and interest is due quarterly and principal is due upon demand with no specified maturity date. The notes were paid off and retired in February, 2018.

Federal Home Loan Bank

The Company is eligible to borrow from the Federal Home Loan Bank of Topeka on both a short-term and long-term basis. The amount of credit available is based on discounted amounts of any loans and investment securities pledged as collateral, subject to a maximum amount based on the Company's asset size. Any outstanding borrowings are also secured by the Company's Federal Home Loan Bank stock. At December 31, 2017, no borrowings are outstanding and the Company is eligible to borrow up to $7,885,000.

Federal Funds

The Company has an unsecured federal funds line at one of its correspondent banks with a maximum credit limit of $2,260,000 at December 31, 2017. No amounts were outstanding under this line at December 31, 2017. The federal funds line is uncommitted, and funding requests made by the Company are subject to the lending institution's approval and funding availability at the time of request.

Discount Window

The Company is eligible to borrow from the Federal Reserve discount window based upon discounted amounts of investment securities and loans pledged as collateral. At December 31, 2017, the Company has not pledged any collateral to the Federal Reserve and borrowing capacity is $-0-.

NOTE 8 – SHAREHOLDER EQUITY

Various restrictions limit the extent to which dividends may be paid by the Bank to SCC. Generally, regulatory approval is required for the Bank to pay dividends in any calendar year that exceed the Bank's net profit for that year combined with its retained profits for the preceding two years. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements. During 2017, the Bank did not pay any dividends to SCC.

NOTE 9 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no breach of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and real estate. Some unfunded commitments under commercial lines of credit, revolving lines of credit and overdraft protection agreements are uncollateralized.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following financial instruments were outstanding at December 31, 2017 whose contract amounts represent risk (in thousands):

Commitments to extend credit	$ 6,051
Standby letters of credit	100
	$ 6,151

NOTE 10 - EMPLOYEE BENEFIT PLAN

The Company has a defined contribution and profit sharing plan in which substantially all full-time employees have elected to participate. Employees may contribute from 1% to 75% of their compensation to the plan, subject to certain limits based on federal tax laws. The Company may make safe harbor contributions to the plan of 3% of participants' compensation and these contributions are immediately vested. Additionally, based on certain performance measures of the Bank, the Company may make profit sharing contributions of up to 12% of participants' compensation. Company profit sharing contributions vest to participant's over six years. Expense attributable to this plan for 2017 was $17,000.

NOTE 11 - REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

At December 31, 2017, the Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, related paid-in-capital and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowance for loan losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income/loss in common equity tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7.0% upon full phase in). The Bank will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four-year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2017 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2017 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules have been fully phased-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in schedule		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of December 31, 2017								
Total capital (to risk weighted assets)	$ 8,472	15.64%	$ 5,010	9.25%	$ 5,687	10.5%	$ 5,417	10.0%
Tier 1 capital (to risk weighted assets)	7,789	14.38%	3,927	7.25%	4,604	8.5%	4,333	8.0%
Common equity tier 1 capital (to risk weighted assets)	7,789	14.38%	3,114	5.75%	3,792	7.0%	3,521	6.5%
Tier 1 capital (to average assets)	7,789	9.21%	3,384	4.00%	3,384	4.0%	4,230	5.0%

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Company's financial statements. Management believes, as of December 31, 2017, that the Bank meets all capital adequacy requirements to which it is subject and that the Bank exceeds the minimum levels necessary to be considered "well capitalized."

NOTE 12 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

The following is a description of the Company's valuation methodologies for assets and liabilities recorded at fair value:

Securities Available for Sale –Debt securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements are determined by quoted market prices, if available (Level 1), or consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (Level 2). For certain municipal securities and corporate securities, including auction rate municipal securities, market activity and observable data is highly limited. Fair value of these securities is considered to be amortized cost (level 3).

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on these loans to reflect (1) the current appraised or market-quoted value of the underlying collateral, less an estimate of cost to sell, or (2) the discounted value of expected cash flows. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans measured for impairment based upon the value of the collateral are obtained from independent appraisers or other third-party consultants, and for other impaired loans are based on discounted cash flow analyses (Level 3).

Real Estate Held For Sale- The Company does not record real estate held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers or other third-party consultants (level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis as of December 31, 2017:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Debt Securities Available for Sale				
U.S. Treasury	$ —	$ 995	$ —	$ 995
State and municipal	—	23,382	1,330	24,712
Corporate	—	5,076	500	5,576
Mortgage-backed	—	120	—	120
	$ —	$ 29,573	$ 1,830	$ 31,403

Activity for debt securities available for sale recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) is immaterial to the financial statements for 2017.

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a non-recurring basis as of December 31, 2017:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Real estate held for sale	$ —	$ —	$ 132	$ 132

At December 31, 2017, real estate held for sale with an initial cost basis of $770,000 has a $638,000 valuation allowance.

At December 31, 2017, there are no impaired loans with a valuation allowance.

NOTE 13– PARENT COMPANY FINANCIAL INFORMATION

Following is financial information on SCC, presented on a parent company only basis:

Southern Colorado Corp.
Balance Sheet - Parent Company Only Basis
December 31, 2017
(dollars in thousands, except per share amounts)

Assets		
Cash in Citizens Bank of Pagosa Springs	$	224
Investment in Citizens Bank of Pagosa Springs		7,637
Other assets		1
Total assets	$	7,862
Liabilities		
Notes payable	$	500
Accrued expenses and other liabilities		4
Total liabilities		504
Stockholders' equity		
Common stock - $1.00 par value; 200,000 shares authorized; 160,000 shares issued and outstanding		160
Additional paid-in capital		5,370
Retained earnings		1,980
Accumulated other comprehensive loss		(152)
Total stockholders' equity		7,358
Total liabilities and stockholders' equity	$	7,862

Southern Colorado Corp.
Statement of Income - Parent Company Only Basis
Year Ended December 31, 2017
(dollars in thousands)

Gain on sale of securities available for sale	$ 7
Interest expense	(21)
Management and administration fees	(106)
Other expense	(6)
Loss before equity in undistributed earnings of subsidiary	(126)
Equity in undistributed earnings of subsidiary	791
Net income	$ 665

Southern Colorado Corp.
Statement of Cash Flows - Parent Company Only Basis
Year Ended December 31, 2017
(dollars in thousands)

Cash flows from operating activities	
Net income	$ 665
Adjustments to reconcile net income to net cash from operating activities:	
Gain on sale of securities available for sale	(7)
Undistributed earnings of subsidiary	(791)
Net cash used by operating activities	(133)
Cash flows from investing activities	
Proceeds from sale of investment securities available for sale	87
Net cash provided by investing activities	87
Net change in cash	(46)
Cash at beginning of year	270
Cash at end of year	$ 224

NOTE 14– PRO FORMA FINANCIAL INFORMATION

As discussed in Note 1, the Company is an S Corporation for income tax purposes and, accordingly, the Consolidated Statement of Income for 2017 reflects no corporate income tax expense. Pro forma results of operations, presented on a C Corporation basis using statutory federal and state rates in effect for 2017, would have been as follows:

Net income as reported	$	665
Pro-forma income tax expense		46
Pro-forma net income	$	619

The pro-forma effective tax rate of 6.9% differs from the 37% blended federal and Colorado statutory rate due primarily to tax-exempt interest on investment securities and loans.

NOTE 15–RELATED PARTY TRANSACTIONS

Related party investment transactions, loans and deposits are described in Notes 2, 3 and 6, respectively. A subsequent event involving a related party is described in Note 16.

The Company is affiliated with First National Bank of Durango, Bank of New Mexico, Farmers Savings Bank and Chain Bridge Bank through common ownership. The Company had loan participations sold to these affiliates of $1,389,000 at December 31, 2017. The Company had loan participations purchased from these affiliates of $2,315,000 at December 31, 2017.

The Company receives item processing and data processing services from First National Bank of Durango. Fees paid by the Company for these services totaled $65,000 in 2017.

The Company is affiliated with BankNote Capital Corp. and Otis Management LLC through common ownership. These affiliates provide various management and administration services to the Company. The Company paid these affiliates $231,000 in 2017, including $220,000 in management and administration fees and $11,000 in reimbursements for expenses incurred on the Company’s behalf.

NOTE 16– SUBSEQUENT EVENTS AND RELATED CONTINGENCIES

Land Sale to Related Party and Remediation Contingency

In 2018, the Company sold land with a carrying amount of $702,000 to an entity affiliated with the Company through common ownership. The land was vacant land held for a future branch location no longer expected to be constructed by the Company, and was sold for its estimated fair value of $700,000.

The land has a drainage issue existing prior to the sale of the land which the Company believes is due to the incorrect installation of a highway drainage system by the Colorado Department of Transportation. The Town of Pagosa Springs has petitioned the Company to remedy the drainage issue, citing a risk of improper drainage during a flood. It is not clear to the Company whether or not it has any responsibility for rectifying potential drainage issues. The Company is currently evaluating its options and has not committed to the Town of Pagosa Springs to take any remediation action.

Notwithstanding the lack of commitment to the Town of Pagosa Springs, the Company has committed to a buyer of the Company (see sale of Company in the next section of this note) that it will use reasonable best efforts to do the following prior to closing of the sale: (1) investigate, evaluate and determine whether Company is legally responsible for the remediation of the drainage issue; (2) if the Company determines it is not legally responsible, seek confirmation of such determination from relevant authorities (if applicable) and/or seek to have the responsible third party remediate the drainage issue; and (3) obtain one or more reports from independent contracting firm(s) estimating the cost of such remediation. The Company has also committed to the buyer that: (1) if, following the investigation, the Company determines it is responsible for remediation of the drainage issue, then prior to closing of the sale the Company will either remediate the drainage issue or a related party of the Company will assume the liability to remediate the drainage issue (which may include a cash payment by Company to the related party) pursuant to an agreement reasonably acceptable to the related party and the buyer of the Company; (2) if responsibility for the drainage issue is not determined prior to the closing of the sale or the Company and buyer cannot in good faith agree on whether the Company is responsible, the related party will assume the liability to remediate the drainage issue (which may include a cash payment by Company to the Related Party) pursuant to an agreement reasonably acceptable to the related party and the buyer of the Company; and (3) if, following the investigation, the Company determines it is not responsible for remediation of the drainage issue and the buyer, acting in good faith, concurs in such determination, then no further action by Company or any related party will be required.

As of December 31, 2017, the Company has not recorded any liability with respect to remediation of the drainage issue as the Company cannot reasonably determine whether it is probable that it is responsible. However, in 2018 and subject to Bank Board review and approval, the Company determined that it is likely to make a payment to the related party for the related party to assume the remediation contingency even though the Company's responsibility for remediation has not been determined. As of July 10, 2018, formal action by the Bank Board is pending along with completion of engineer estimates as to remediation cost and the related determination of the cost to the Company to transfer the continent liability to the related party. If the Company determines to transfer the remediation contingency regardless of whether it is responsible, management believes that the cost will range from $200,000 to $250,000; however, the actual cost could be materially different based upon the results of the engineering assessment.

Sale of Company

In the second quarter of 2018, the Company entered into a definitive agreement to be acquired by, and merged with and into, Triumph Bancorp, Inc. through the Company's shareholders' exchange of all the Company's common stock for cash from Triumph (NASDAQ: TBK). The transaction is subject to regulatory approval, shareholder approval and customary closing conditions, and is expected to close in the third quarter of 2018.

Bank Dividend to SCC

In the first quarter of 2018 the Bank paid dividends of $1,000,000 to SCC which were used to retire SCC's debt and provide liquidity at the holding company level.

Reverse Provision to Allowance for Loan Losses

During the period January 1, 2018 through July 10, 2018, the Company recorded $400,000 in reverse provisions to the allowance for loan losses.

SUPPLEMENTAL CONSOLIDATING SCHEDULES

Southern Colorado Corp. and Subsidiary

SUPPLEMENTAL CONSOLIDATING STATEMENT OF FINANCIAL CONDITION

December 31, 2017

	December 31, 2017			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
ASSETS				
Cash and due from banks	$ 2,204	$ 224	$ (224)	$ 2,204
Interest-bearing deposits in banks	15,537	—	—	15,537
Total cash and cash equivalents	17,741	224	(224)	17,741
Investment securities available for sale	31,403	—	—	31,403
Federal Home Loan Bank stock	127	—	—	127
Loans, net of allowance for loan losses of $1,136	35,461	—	—	35,461
Accrued interest receivable	302	—	—	302
Premises and equipment, net	1,989	—	—	1,989
Real estate held for sale	132	—	—	132
Other assets	140	1	—	141
Investment in Citizens Bank of Pagosa Springs	—	7,637	(7,637)	—
	$ 87,295	$ 7,862	$ (7,861)	$ 87,296
LIABILITIES				
Deposits				
Noninterest-bearing	$ 26,961	$ —	$ (224)	$ 26,737
Interest-bearing	52,515	—	—	52,515
Total deposits	79,476	—	(224)	79,252
Notes payable	—	500	—	500
Accrued expenses and other liabilities	182	4	—	186
Total liabilities	79,658	504	(224)	79,938
STOCKHOLDERS' EQUITY				
Common stock	200	160	(200)	160
Additional paid-in capital	4,700	5,370	(4,700)	5,370
Retained earnings	2,889	1,980	(2,889)	1,980
Accumulated other comprehensive loss	(152)	(152)	152	(152)
Total stockholders' equity	7,637	7,358	(7,637)	7,358
	$ 87,295	$ 7,862	$ (7,861)	$ 87,296

Southern Colorado Corp. and Subsidiary

SUPPLEMENTAL CONSOLIDATING STATEMENT OF INCOME

Year Ended December 31, 2017

	Year Ended December 31, 2016			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
Interest and dividend income				
Loans, including fees	$ 1,937	$ —	$ —	$ 1,937
Taxable investment securities	108	—	—	108
Tax-exempt investment securities	511	—	—	511
Federal Home Loan Bank stock	4	—	—	4
Interest-bearing deposits	92	—	—	92
Total interest and dividend income	2,652	—	—	2,652
Interest expense				
Deposits	233	—	—	233
Notes payable	—	21	—	21
Total interest expense	233	21	—	254
Net interest income	2,419	(21)	—	2,398
Credit for loan losses	(200)	—	—	(200)
Net interest income after provision for loan losses	2,619	(21)	—	2,598
Noninterest income				
Service charges on deposit accounts	99	—	—	99
ATM and debit card	184	—	—	184
Mortgage banking	192	—	—	192
Net gain on sale of securities available for sale	9	7	—	16
Other noninterest income	19	—	—	19
	503	7	—	510
Noninterest expense				
Salaries and employee benefits	1,173	—	—	1,173
Occupancy and equipment	294	—	—	294
Data processing and software	142	—	—	142
ATM and debit card	134	—	—	134
Management and administration fees	120	100	—	220
Other noninterest expense	468	12	—	480
	2,331	112	—	2,443
Income (loss) before equity in income of subsidiary	791	(126)	—	665
Equity in income of subsidiary	—	791	(791)	—
Net income	$ 791	$ 665	$ (791)	$ 665

Exhibit 99.3

CONSOLIDATED FINANCIAL STATEMENTS and
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

First Bancorp of Durango, Inc. and Subsidiaries

As of June 30, 2018 and December 31, 2017

and for the six months ended June 30, 2018 and 2017

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
	(in thousands)	
ASSETS		
Cash and due from banks	$ 14,479	$ 18,204
Interest-bearing deposits	71,253	38,757
Federal funds sold	220	—
Cash and cash equivalents	85,952	56,961
Securities available for sale	256,434	300,820
Nonmarketable equity securities	811	825
Loans held for sale	2,019	2,949
Loans	269,189	267,708
Less allowance for loan losses	(3,859)	(4,120)
Total loans	265,330	263,588
Premises and equipment, net	12,909	13,538
Accrued interest receivable	2,591	2,728
Real estate held for sale	66	1,882
Intangible assets	2,136	2,154
Other assets	577	775
	$ 628,825	$ 646,220
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 105,172	$ 106,538
Interest-bearing	454,344	467,474
Total deposits	559,516	574,012
Repurchase agreements	446	631
Accrued interest payable	125	121
Federal Home Loan Bank borrowings	637	655
Other liabilities	1,777	2,236
Total liabilities	562,501	577,655
Commitments (notes 7 and 11)		
Stockholders' equity		
Preferred stock - nonvoting cumulative; $100 par value 100,000 shares authorized, none issued and outstanding	—	—
Common stock; no par value, stated value of $16.67 per share; 90,700 shares authorized; 23,066 shares issued and outstanding at June 30, 2018 and December 31, 2017	384	384
Additional paid-in capital	14,068	14,068
Retained earnings	53,674	53,999
Note receivable for issuance of common stock	(469)	(471)
Accumulated other comprehensive income (loss)	(1,333)	585
Total stockholders' equity	66,324	68,565
	$ 628,825	$ 646,220

See accompanying condensed notes to consolidated financial statements.

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Interest income:		
Loans, including fees	$ 7,016	$ 6,026
Taxable investment securities	1,311	1,329
Tax-exempt investment securities	1,906	2,307
Interest-bearing deposits and federal funds sold	454	237
Dividends on nonmarketable equity securities	12	10
Total interest income	10,699	9,909
Interest expense:		
Deposits	715	390
Repurchase agreements and federal funds purchased	—	1
Federal Home Loan Bank borrowings	20	21
Total interest expense	735	412
Net interest income	9,964	9,497
Reverse provision for loan losses	(119)	(255)
Net interest income after reverse provision for loan losses	10,083	9,752
Noninterest income:		
Service charges on deposit accounts	683	655
ATM and debit card	1,044	891
Mortgage banking	218	238
Investment services	277	245
Net gain (loss) on sale of investment securities	—	(3)
Other	173	155
	2,395	2,181
Noninterest expense:		
Salaries and employee benefits	4,870	4,849
Occupancy and equipment	1,151	1,117
Data processing	614	551
ATM and debit card	476	425
Marketing and business development	358	283
Professional and advisory fees	919	571
Regulatory assessments and deposit insurance	217	213
Foreclosed real estate, net	854	32
Investment services	167	166
Amortization of intangibles	18	26
Other	852	885
	10,496	9,118
NET INCOME	$ 1,982	$ 2,815

See accompanying condensed notes to consolidated financial statements.

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net income	$ 1,982	$ 2,815
Other comprehensive income (loss)		
Net unrealized gains (losses) on securities available for sale	(1,918)	1,572
Reclassification adjustment for (gains) losses realized in net income	—	3
Total other comprehensive income (loss)	(1,918)	1,575
TOTAL COMPREHENSIVE INCOME	$ 64	$ 4,390

See accompanying condensed notes to consolidated financial statements.

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2018 and 2017

(Unaudited)

	Common stock		Additional paid-in capital	Retained earnings	Note recievable for issuance of common stock	Accumulated other comprehensive income (loss)	Total
	Shares	Amount					
	(dollars in thousands)						
Balance at December 31, 2016	23,066	$ 384	$ 14,068	$ 49,506	$ (475)	$ 1,568	$ 65,051
Loan payments	—	—	—	—	2	—	2
Net income	—	—	—	2,815	—	—	2,815
Other comprehensive income	—	—	—	—	—	1,575	1,575
Cash dividends paid ($26.00 per share)	—	—	—	(600)	—	—	(600)
Balance at June 30, 2017	23,066	$ 384	$ 14,068	$ 51,721	$ (473)	$ 3,143	$ 68,843
Balance at December 31, 2017	23,066	$ 384	$ 14,068	$ 53,999	$ (471)	$ 585	$ 68,565
Loan payments	—	—	—	—	2	—	2
Net income	—	—	—	1,982	—	—	1,982
Other comprehensive loss	—	—	—	—	—	(1,918)	(1,918)
Cash dividends paid ($100.00 per share)	—	—	—	(2,307)	—	—	(2,307)
Balance at June 30, 2018	23,066	$ 384	$ 14,068	$ 53,674	$ (469)	$ (1,333)	$ 66,324

See accompanying condensed notes to consolidated financial statements.

First Bancorp of Durango, Inc. and Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(in thousands)	
Cash flows from operating activities		
Net income	$ 1,982	$ 2,815
Adjustments to reconcile net income to net cash provided by operating activities		
Net loss on sale of investment securities	—	3
Net amortization of investment securities	1,144	1,641
Stock dividend on nonmarketable equity securities	(4)	(3)
Reverse provision for loan losses	(119)	(255)
Depreciation and amortization	600	541
Valuation allowances on real estate held for sale	324	—
Net loss on sales of real estate held for sale	473	35
Amortization of intangible assets	18	26
Net change in		
Loans held for sale	930	(956)
Other assets and liabilities	(76)	(619)
Net cash provided by operating activities	5,272	3,228
Cash flows from investing activities		
Purchases of securities available for sale	(1,996)	(41,258)
Proceeds from sales of securities available for sale	—	2,451
Maturities, calls and prepayments of securities available for sale	43,320	37,157
Purchase of nonmarketable equity securities	—	(12)
Redemption of nonmarketable equity securities	18	—
Loan originations and principal collections, net	(1,914)	(8,055)
Purchases of premises and equipment	(15)	(671)
Proceeds from sale of real estate held for sale	1,310	130
Net cash provided by (used by) investing activities	40,723	(10,258)
Cash flows from financing activities		
Net change in deposits	(14,496)	(10,277)
Net change in repurchase agreements	(185)	(704)
Payments on Federal Home Loan Bank borrowings	(18)	(16)
Payments on note receivable for issuance of common stock	2	2
Dividends paid	(2,307)	(600)
Net cash used by financing activities	(17,004)	(11,595)
Net change in cash and cash equivalents	28,991	(18,625)
Cash and cash equivalents at beginning of period	56,961	88,634
Cash and cash equivalents at end of period	$ 85,952	$ 70,009
Supplemental Disclosures of Cash Flow Information:		
Cash paid for interest expense	$ 731	$ 430
Supplemental Disclosures of Non-Cash Transactions:		
Loans transferred to real estate held for sale	$ 291	$ —

See accompanying condensed notes to consolidated financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2018 and December 31, 2017
and for the six months ended June 30, 2018 and 2017

(Unaudited)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of First Bancorp of Durango, Inc. and Subsidiaries conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Basis of Presentation

First Bancorp of Durango, Inc. ("FBD") is a multi-bank holding company that owns 100% of the common stock of The First National Bank of Durango ("FNB") and 100% of the common stock of Bank of New Mexico ("BNM"). The entities are collectively referred to as "the Company."

The accompanying unaudited consolidated financial statements include the consolidated totals of the accounts of FBD and its subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements and notes herein have been prepared in accordance with U.S. GAAP for interim financial information and do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. However, the unaudited consolidated financial statements and notes herein reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the Company's financial condition, results of operations, changes in comprehensive income and cash flows for the unaudited interim periods.

The results of operations for the six-month period ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or any other period. The unaudited consolidated financial statements and notes herein should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the year ended December 31, 2017.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and business customers, principally in La Plata County, Colorado, and in Cibola, McKinley and Bernalillo Counties, New Mexico. In 2017, the Company also opened a loan production office in Littleton, Colorado.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for loan losses, the valuation of real estate held for sale and the fair value of investment securities. In connection with the determination of the allowance for loan losses and the valuation of real estate held for sale, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. In connection with the determination of the fair value of investment securities, management obtains valuations from third-party investment accounting service providers except for certain securities internally valued using level 3 inputs (see note 10 on fair value measurement).

Investment Securities

Debt securities are classified as "available for sale." Available for sale securities are stated at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities or to the call date, if earlier. Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and purchase premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized into interest income over the life of related loans using the interest method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time a loan is 90 days past due unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part after they become significantly past due unless the loan is in the process of restructuring. Charge-offs are determined on a loan-by-loan basis and are based upon management's monthly review of the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance consists of specific and general components as follows:

1) The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis for impaired loans in excess of a nominal percentage of each Banks' capital, and calculated on a pool basis for impaired loans below the percentage-of-capital thresholds. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system.

Included in impaired loans are all nonaccrual loans and all troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For individually evaluated impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other individually evaluated impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. For impaired loans evaluated on a pool basis, impairment is measured based on statistics reflective of the increased risk of the loan pool. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

2) The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged off.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. The most significant overall risk factors for both the Company's commercial and consumer portfolios is the strength of the real estate market in the Company's lending areas.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are broadly grouped into the categories "non-classified" and "classified." Non-classified loans are those loans with minimal identified credit risk, as well as loans with potential credit weaknesses which deserve management's attention but for which full collection of contractual principal and interest is not significantly at risk. Classified loans are those loans that have well-defined weakness that put full collection of contractual principal or interest at risk, and classified loans for which it is probable that the Company will not collect all contractual principal or interest are also considered impaired. The credit quality ratings are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as new information becomes available. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Income Taxes

The Company is taxed under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, subject to certain exceptions, the Company neither pays corporate income taxes on its taxable income nor is allowed to carry back losses to claim refunds for previously paid income taxes. Instead, the stockholders of the Company include their respective shares of consolidated taxable income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the consolidated financial statements.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs*— Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- *Level 3 Inputs*—Unobservable inputs that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Significant Applicable Accounting Standards Updates Not Yet Effective

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Under the new standard, the Company will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio, and will consider not only current credit conditions but also reasonably supportable expectations as to future credit conditions. The standard will also require securities held to maturity to be evaluated for impairment under an expected-loss model. The standard is effective for the Company beginning January 1, 2022. Management is in the processing of determining the impact of the standard on the Company's consolidated financial statements.

Accounting Standards Update 2016-02, *Leases (Topic 326).* Under the new standard, the Company will be required to record a right-of-use asset for leased property and also record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term and lease payments will reduce the lease obligation. The standard is effective for the Company beginning January 1, 2020, and is not expected to have a significant impact on the consolidated financial statements.

The Financial Accounting Standards Board recently issued Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Accounting Standards Update 2014-09, *Revenue from Contracts With Customers (Topic 606).* The new standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the consideration the Company expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly will not impact the Company's recognition of interest income on its loans and investment securities, and will not impact the Company's recognition of revenue from sales or transfers of loans and investment securities. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. With respect to the June 30, 2018 financial statements, Management has considered subsequent events through August 29, 2018.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale, with gross unrealized gains and losses, follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
U.S. government agency	$ 3,600	$ —	$ (53)	$ 3,547
State and municipal	170,253	931	(906)	170,278
Corporate and foreign	79,257	17	(1,385)	77,889
Pass-through	4,657	102	(39)	4,720
	$ 257,767	$ 1,050	$ (2,383)	$ 256,434

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities				
U.S. government agency	$ 4,401	$ —	$ (33)	$ 4,368
State and municipal	200,878	1,507	(685)	201,700
Corporate and foreign	89,685	109	(429)	89,365
Pass-through	5,271	132	(16)	5,387
	$ 300,235	$ 1,748	$ (1,163)	$ 300,820

Pass-through securities listed above are comprised of a mix of mortgage-backed securities, SBA loan pools and student loan pools.

The amortized cost and fair value of debt securities available for sale at June 30, 2018, by contractual maturity, follows:

	Available-for-Sale	
	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 70,416	$ 70,418
Due after one through five years	159,851	158,349
Due after five years through ten years	24,307	24,416
Due after ten years	3,193	3,251
	$ 257,767	$ 256,434

Various investments, including pass-through securities, may have actual maturities that differ from contractual maturities due to paydowns on the assets underlying the bonds or early call provisions.

Information pertaining to securities available for sale, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	June 30, 2018			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. government agency	$ 2	$ 599	$ 51	$ 2,948
State and municipal	799	93,649	107	12,590
Corporate and foreign	1,176	60,349	209	11,552
Pass-through	33	1,773	6	395
	$ 2,010	$ 156,370	$ 373	$ 27,485

	December 31, 2017			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. government agency	$ 2	$ 1,399	$ 31	$ 2,969
State and municipal	574	94,724	111	16,211
Corporate and foreign	342	49,364	87	9,539
Pass-through	10	1,113	6	751
	$ 928	$ 146,600	$ 235	$ 29,470

At June 30, 2018, unrealized losses are largely due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows, and does not believe that any securities are impaired due to reasons of credit quality. The Company has the ability and intent to hold investment securities for a period of time sufficient for a recovery of cost, and fair value is expected to recover as bonds approach maturity. Accordingly, as of June 30, 2018, management believes the unrealized losses detailed in the table above are temporary.

Investment securities with carrying values of $60,470,000 and $70,391,000 at June 30, 2018 and December 31, 2017, respectively, were pledged as collateral on public deposits and for other purposes.

Gross realized gains and losses on sales of securities available for sale are as follows:

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Gross realized gains	$ —	$ —
Gross realized losses	—	(3)
	$ —	$ (3)

NOTE 3 - LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Real Estate		
Construction, land and land development	$ 28,403	$ 27,536
Commercial	127,853	129,054
Residential	69,466	67,406
Farmland	5,408	5,748
	231,130	229,744
Commercial	31,499	31,191
Consumer	5,701	5,863
Agricultural production	1,195	1,178
Other	222	241
Total loans	269,747	268,217
Less unearned loan fees	(558)	(509)
Net Loans	$ 269,189	$ 267,708

Loans with carrying values of $233,163,000 and $233,436,000 at June 30, 2018 and December 31, 2017, respectively, were pledged as collateral for Federal Home Loan Bank and other borrowings.

Transactions in the allowance for loan losses are as follows:

	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
			(in thousands)			
Balance, December 31, 2016	$ 279	$ 1,669	$ 1,373	$ 657	$ 215	$ 4,193
Provision for loan losses	(11)	(121)	(91)	(22)	(10)	(255)
(Charge-offs)	—	—	(45)	—	(59)	(104)
Recoveries	1	—	45	10	22	78
Net (charge-offs) recoveries	1	—	—	10	(37)	(26)
Balance, June 30, 2017	$ 269	$ 1,548	$ 1,282	$ 645	$ 168	$ 3,912
Balance, December 31, 2017	$ 183	$ 1,949	$ 1,470	$ 355	$ 163	$ 4,120
Provision for loan losses	(4)	(93)	(277)	205	50	(119)
(Charge-offs)	—	—	—	(232)	(95)	(327)
Recoveries	3	—	—	132	50	185
Net (charge-offs) recoveries	3	—	—	(100)	(45)	(142)
Balance, June 30, 2018	$ 182	$ 1,856	$ 1,193	$ 460	$ 168	$ 3,859

Components of the allowance for loan losses, and the related carrying amount of loans for which the allowance is determined, are as follows:

	June 30, 2018					
	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
	(in thousands)					
Allocation of Allowance To:						
Impaired loans - evaluated individually	$ —	$ —	$ 49	$ 354	$ —	$ 403
Impaired loans - evaluated collectively	8	4	17	—	2	31
Total impaired loans	8	4	66	354	2	434
Unimpaired loans - evaluated collectively	174	1,852	1,127	106	166	3,425
	$ 182	$ 1,856	$ 1,193	$ 460	$ 168	$ 3,859
Recorded Investment In:						
Impaired loans - evaluated individually	$ 143	$ —	$ 943	$ 793	$ —	$ 1,879
Impaired loans - evaluated collectively	77	27	163	—	10	277
Total impaired loans	220	27	1,106	793	10	2,156
Unimpaired loans - evaluated collectively	28,183	127,826	68,360	30,706	12,516	267,591
	$ 28,403	$ 127,853	$ 69,466	$ 31,499	$ 12,526	$ 269,747

	December 31, 2017					
	Construction, Land and Land Development	Commercial Real Estate	Residential Real Estate	Commercial	Other	Total
	(in thousands)					
Allocation of Allowance To:						
Impaired loans - evaluated individually	$ —	$ 74	$ 7	$ 300	$ —	$ 381
Impaired loans - evaluated collectively	8	4	1	—	1	14
Total impaired loans	8	78	8	300	1	395
Unimpaired loans - evaluated collectively	175	1,871	1,462	55	162	3,725
	$ 183	$ 1,949	$ 1,470	$ 355	$ 163	$ 4,120
Recorded Investment In:						
Impaired loans - evaluated individually	$ 143	$ 2,801	$ 962	$ 906	$ —	$ 4,812
Impaired loans - evaluated collectively	77	27	1,785	—	11	1,900
Total impaired loans	220	2,828	2,747	906	11	6,712
Unimpaired loans - evaluated collectively	27,316	126,226	64,659	30,285	13,019	261,505
	$ 27,536	$ 129,054	$ 67,406	$ 31,191	$ 13,030	$ 268,217

Information relative to impaired loans is as follows:

	June 30, 2018				Six Months Ended June 30, 2018
	Recorded Investment In:				
	Impaired Loans With No Valuation Allowance	Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Recorded Investment In Impaired Loans
			(in thousands)		
Construction, Land and Land Development					
Residential 1-4 family	$ —	$ —	$ —	$ —	$ —
Other	143	77	220	8	220
Commercial Real Estate	—	27	27	4	1,428
Residential Real Estate					
Residential 1-4 family	—	1,106	1,106	66	1,927
Multifamily	—	—	—	—	—
Commercial	270	523	793	354	850
Other	—	10	10	2	11
	$ 413	$ 1,743	$ 2,156	$ 434	$ 4,436

	December 31, 2017				Year Ended December 31, 2017
	Recorded Investment In:				
	Impaired Loans With No Valuation Allowance	Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Average Recorded Investment In Impaired Loans
			(in thousands)		
Construction, Land and Land Development					
Residential 1-4 family	$ —	$ —	$ —	$ —	$ —
Other	143	77	220	8	115
Commercial Real Estate	2,676	152	2,828	78	2,825
Residential Real Estate					
Residential 1-4 family	2,631	116	2,747	8	2,378
Multifamily	—	—	—	—	—
Commercial	31	875	906	300	603
Other	—	11	11	1	13
	$ 5,481	$ 1,231	$ 6,712	$ 395	$ 5,934

Interest income recognized on impaired loans is immaterial to the financial statements for the six months ended June 30, 2018 and 2017. There are no commitments to extend credit on impaired loans at June 30, 2018.

The carrying amount of loans by performance status and cr edit quality indicator are as follows:

	June 30, 2018							
	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
	(in thousands)							
Construction, Land and Land Development								
Residential 1-4 family	$ 4,575	$ —	$ —	$ —	$ 4,575	$ 4,575	$ —	$ —
Other	20,228	3,380	—	220	23,828	19,151	4,457	220
Commercial Real Estate	127,346	480	—	27	127,853	127,460	366	27
Residential Real Estate								
Residential 1-4 family	57,576	168	—	1,106	58,850	57,716	28	1,106
Multifamily	10,616	—	—	—	10,616	10,616	—	—
Commercial	29,452	1,254	—	793	31,499	30,706	—	793
Other	12,413	103	—	10	12,526	12,497	19	10
	$ 262,206	$ 5,385	—	$ 2,156	$ 269,747	$ 262,721	$ 4,870	$ 2,156

	December 31, 2017							
	Loans By Past Due and Performance Status					Loans By Credit Quality Indicator		
	Accruing Loans						Classified	
	Current	30-89 Days Past Due	90 Days or More Past Due	Non-accrual Loans	Total Loans	Non-classified	Unimpaired	Impaired
	(in thousands)							
Construction, Land and Land Development								
Residential 1-4 family	$ 4,797	$ —	$ —	$ —	$ 4,797	$ 4,797	$ —	$ —
Other	22,419	100	—	220	22,739	22,519	—	220
Commercial Real Estate	128,902	—	—	152	129,054	125,740	486	2,828
Residential Real Estate								
Residential 1-4 family	56,719	224	451	972	58,366	55,588	31	2,747
Multifamily	9,040	—	—	—	9,040	9,040	—	—
Commercial	30,166	119	—	906	31,191	30,166	119	906
Other	12,782	237	—	11	13,030	12,992	27	11
	$ 264,825	$ 680	$ 451	$ 2,261	$ 268,217	$ 260,842	$ 663	$ 6,712

Information relative to troubled debt restructurings included in impaired loans is as follows:

	June 30, 2018	
	Recorded investment	Valuation allowance
	(in thousands)	
Commercial	$ 238	$ —

	December 31, 2017	
	Recorded investment	Valuation allowance
	(in thousands)	
Commercial Real Estate	$ 2,676	$ —
Residential Real Estate		
Residential 1-4 family	1,775	—
Commercial	290	73
Other	5	1
	$ 4,746	$ 74

At June 30, 2018, all troubled debt restructurings are on nonaccrual status. At December 31, 2017, the $290,000 of commercial loan troubled debt restructurings and $5,000 of other troubled debt restructurings are on nonaccrual status.

NOTE 4 – INTANGIBLE ASSETS

Intangible assets consist of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Goodwill	$ 2,119	$ 2,119
Core deposit intangible	2,322	2,322
Less accumulated amortization	(2,305)	(2,287)
	17	35
	$ 2,136	$ 2,154

The core deposit intangible will be fully amortized within one year.

NOTE 5 - DEPOSITS

Interest-bearing deposits are summarized as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Money market and NOW accounts	$ 270,614	$ 280,067
Savings accounts	116,380	116,100
Time deposits		
$250,000 and greater	14,552	14,414
Less than $250,000	52,798	56,893
Total time deposits	67,350	71,307
	$ 454,344	$ 467,474

Scheduled maturities of time deposits at June 30, 2018 are as follows:

Twelve Months Ending June 30,	(in thousands)
2019	$ 33,572
2020	15,419
2021	4,933
2022	4,133
2023	2,469
Thereafter	6,824
	$ 67,350

NOTE 6 - EMPLOYEE BENEFIT PLANS

Defined Contribution and Profit Sharing

The Company has a defined contribution and profit sharing plan in which substantially all full-time employees have elected to participate. Employees may contribute from 1% to 75% of their compensation to the plan, subject to certain limits based on federal tax laws. The Company may make safe harbor contributions to the plan of 3% of participants' compensation and these contributions are immediately vested. Additionally, based on certain performance measures of the Banks, the Company may make profit sharing contributions of up to 12% of participants' compensation. Company profit sharing contributions vest to participant's over six years. Expense attributable to this plan for the six months ended June 30, 2018 and 2017 ,was $168,000 and $182,000, respectively.

Stock Appreciation Rights

The Company has a Stock Appreciation Right (SAR) plan for key employees. Under the plan, participants are granted a number of SARs at the discretion of the Company's Board of Directors. Each SAR entitles the holder to the book value appreciation of the Company's common stock during the four-year period following the date of grant. The value of the stock appreciation vests in the fifth year, at which time the holder is entitled to receive the value in cash. Expense (benefit) attributable to the plan for the six months ended June 30, 2018 and 2017 was $(5,000) and $31,000, respectively.

Note Receivable for Issuance of Common Stock and Restricted Stock

The Company's Note Receivable for Issuance of Common Stock was issued in 2015 for the purpose of facilitating an executive officer's purchase of 230 shares of common stock that are subject to various restrictions on transfers, forfeiture provisions, and other call and put provisions. Though the transfer restrictions and forfeiture provisions lapse at 20% per year through June, 2020, the stock remains subject to collateral provisions of the loan. The loan requires annual principal payments of at least 10% of the amount borrowed through 2025, along with interest that accrues at 1.53%. The related Stock Purchase and Restriction Agreement (the "Agreement") provides for annual bonus opportunities of 10% of the original amount borrowed based on certain performance metrics of the Company, the proceeds of which could be used to fund annual payments on the note payable.

No bonuses have been earned under the plan to date, and the Agreement allows for deferral of each annual loan payment to final maturity in 2025 in the event a bonus is not awarded for the year. In the event of a sale of the Company, a bonus equal to the outstanding balance of the loan, plus a gross-up for related personal taxes thereon, is awarded.

NOTE 7 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

The following financial instruments were outstanding whose contract amounts represent credit risk:

	June 30, 2018	December 31, 2017
	(in thousands)	
Commitments to extend credit	$ 58,320	$ 63,040
Letters of credit	536	1,005
	$ 58,856	$ 64,045

Commitments to extend credit are agreements to lend to a customer as long as there is no breach of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and real estate. Some unfunded commitments under commercial lines of credit, revolving lines of credit and overdraft protection agreements are uncollateralized.

Letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The Company establishes an allowance for losses on unfunded credit commitments as losses are estimated to have occurred. During each of the six-month periods ended June 30, 2018 and 2017, the provision for unfunded credit commitments was $-0-. At both June 30, 2018 and December 31, 2017, the balance of the allowance for unfunded credit commitments was $120,000.

NOTE 8 - RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company has transactions with principal shareholders, directors, executive officers and parties affiliated with these persons (collectively "insiders"). At June 30, 2018 and December 31, 2017, the Company had loans to insiders aggregating $1,700,000 and $1,884,000, respectively. In management's opinion, the terms of these loans, including interest rates and collateral, were comparable to terms afforded non-related borrowers. At June 30, 2018 and December 31, 2017, deposits by insiders totaled $12,770,000 and $12,454,000 respectively.

The Company is affiliated with other banks through common ownership. The Company had loan participations sold to these affiliates of $2,640,000 and $-0- at June 30, 2018 and December 31, 2017, respectively. The Company had loan participations purchased from these affiliates of $4,695,000 and $6,914,000 at June 30, 2018 and December 31 2017, respectively.

The Company provides item processing and data processing services for Citizens Bank of Pagosa Springs, a bank affiliated through common ownership. Fees received by the Company for these services totaled $32,000 for each of the six months ended June 30, 2018 and 2017.

The Company is affiliated with several non-bank entities through common ownership. These affiliates provide various management services to the Company. The Company paid the affiliates $369,000 during each of the six-month periods ended June 30, 2018 and 2017. Included in these payments are reimbursements for certain expenses incurred on the Company's behalf.

NOTE 9 - REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Banks on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

The Banks' regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock and related paid-in-capital and retained earnings, net of certain intangible asset balances; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowance for loan losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Banks elected to opt-out of the requirement to include most components of accumulated other comprehensive income in common equity tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will requi re the Banks to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7% upon full phase in). The Banks will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four-year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of June 30, 2018 and December 31, 2017 and for the Banks under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules have been fully phased-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of June 30, 2018								
First National Bank of Durango								
Total capital (to risk weighted assets)	$ 43,030	13.95%	$ 30,454	9.875%	$ 32,381	10.50%	$ 30,839	10.00%
Tier 1 capital (to risk weighted assets)	40,240	13.05%	24,286	7.875%	26,213	8.50%	24,671	8.00%
Common equity Tier 1 capital (to risk weighted assets)	40,240	13.05%	19,660	6.375%	21,587	7.00%	20,045	6.50%
Tier 1 capital (to average assets)	40,240	8.74%	18,409	4.000%	18,409	4.00%	23,012	5.00%
Bank of New Mexico								
Total capital (to risk weighted assets)	$ 13,982	13.79%	$ 10,012	9.875%	$ 10,646	10.50%	$ 10,139	10.00%
Tier 1 capital (to risk weighted assets)	12,793	12.62%	7,984	7.875%	8,618	8.50%	8,111	8.00%
Common equity Tier 1 capital (to risk weighted assets)	12,793	12.62%	6,463	6.375%	7,097	7.00%	6,590	6.50%
Tier 1 capital (to average assets)	12,793	8.21%	6,230	4.00%	6,230	4.00%	7,787	5.00%

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of December 31, 2017								
First National Bank of Durango								
Total capital (to risk weighted assets)	$ 43,308	12.92%	$ 30,995	9.250%	$ 35,184	10.50%	$ 33,509	10.00%
Tier 1 capital (to risk weighted assets)	40,302	12.03%	24,294	7.250%	28,482	8.50%	26,807	8.00%
Common equity Tier 1 capital (to risk weighted assets)	40,302	12.03%	19,267	5.750%	23,456	7.00%	21,781	6.50%
Tier 1 capital (to average assets)	40,302	8.39%	19,207	4.000%	19,207	4.00%	24,009	5.00%
Bank of New Mexico								
Total capital (to risk weighted assets)	$ 14,210	13.90%	$ 8,820	8.625%	$ 10,738	10.50%	$ 10,226	10.00%
Tier 1 capital (to risk weighted assets)	12,976	12.69%	6,775	6.625%	8,692	8.50%	8,181	8.00%
Common equity Tier 1 capital (to risk weighted assets)	12,976	12.69%	5,241	5.125%	7,158	7.00%	6,647	6.50%
Tier 1 capital (to average assets)	12,976	8.66%	5,991	4.00%	5,991	4.00%	7,489	5.00%

Regulatory authorities can initiate certain mandatory actions if the Banks fail to meet the minimum capital requirements, which could have a direct and material effect on the Company’s financial statements. Management believes, as of June 30, 2018 and December 31, 2017, that the Banks meet all capital adequacy requirements to which they are subject and that the Banks exceed the minimum levels necessary to be considered “well capitalized.”

The principal source of income and funds of FBD are dividends from the Banks. Dividends declared by the Banks that exceed their retained net income for the most current year plus retained net income for the preceding two years must be approved by their federal regulatory agencies. In addition, dividends paid by the Banks would be prohibited if the effect thereof would cause the Banks' capital to be reduced below the minimum capital requirements.

NOTE 10 – FAIR VALUE MEASUREMENTS AND DISCLOSURES

The following is a description of the Company's valuation methodologies for assets and liabilities recorded at fair value:

Securities Available for Sale – Securities are recorded at fair value on a recurring basis based upon measurements obtained from independent pricing services. For certain corporate securities, fair value measurements are based on quoted market prices (level 1). For U.S. Government agency securities, mortgage-backed securities, collateralized mortgage obligations, certain municipal securities and certain corporate securities, fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (level 2). For certain municipal securities and other securities, market activity and observable data is highly limited. Fair value of these securities is based upon management's estimates of the securities' future cash flows and future market conditions (level 3).

Loans Held For Sale - The Company does not record loans held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these loans to reflect declines in value based on commitments in hand from investors or prevailing investor yield requirements (level 2).

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on impaired loans to reflect (1) the current appraised or market-quoted value of the underlying collateral, or (2) the discounted value of expected cash flows. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans evaluated individually are obtained from independent appraisers or other third-party consultants, or are based on discounted cash flow analyses (level 3). Fair value estimates for impaired loans evaluated collectively are based on statistics reflective of the loans' credit risk (level 3).

Real Estate Held For Sale - The Company does not record real estate held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers or other third-party consultants (level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

	June 30, 2018			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Securities available for sale				
U.S. government agency	$ —	$ 3,547	$ —	$ 3,547
State and municipal	—	170,043	235	170,278
Corporate and foreign	—	77,889	—	77,889
Pass-through	—	4,336	384	4,720
	$ —	$ 255,815	$ 619	$ 256,434

	December 31, 2017			
	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
Securities available for sale				
U.S. government agency	$ —	$ 4,368	$ —	$ 4,368
State and municipal	—	198,900	2,800	201,700
Corporate and foreign	499	88,699	167	89,365
Pass-through	—	4,904	483	5,387
	$ 499	$ 296,871	$ 3,450	$ 300,820

Activity for investment securities recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) is immaterial to the financial statements for the six months ended June 30, 2018 and 2017.

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a non-recurring basis:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
June 30, 2018				
Impaired loans	$ —	$ —	$ 1,309	$ 1,309
Real estate held for sale	$ —	$ —	$ 66	$ 66
December 31, 2017				
Impaired loans	$ —	$ —	$ 836	$ 836
Real estate held for sale	$ —	$ —	$ 1,882	$ 1,882

At June 30, 2018, impaired loans with a gross carrying amount of $1,743,000 have a valuation allowance of $434,000. At December 31, 2017, impaired loans with a gross carrying amount of $1,231,000 have a valuation allowance of $395,000. The valuation allowances have been recorded through the provision for loan losses. Impaired loans of $413,000 at June 30, 2018 and $5,481,000 at December 31, 2017 have no valuation allowances.

At June 30, 2018 there are no valuation allowances on real estate held for sale and the property is carried at its initial fair value cost basis established at acquisition. At December 31, 2017, real estate held for sale with an initial cost basis of $4,629,000 has a $2,747,000 valuation allowance. The valuation allowances were recorded through net expense from real estate held for sale.

There are no fair value adjustments to loans held for sale at June 30, 2018 and December 31, 2017.

NOTE 11 – SALE OF COMPANY AND SUBSEQUENT EVENTS

In the second quarter of 2018, the Company entered into a definitive agreement to be acquired by, and merged with and into, Triumph Bancorp, Inc. through the Company's shareholders' exchange of all the Company's common stock for cash from Triumph (NASDAQ: TBK). The transaction is expected to close in September, 2018.

In July, 2018, the Company declared and paid a dividend of $300,000. In August, 2018, the Company recorded a $403,000 reverse provision to the allowance for loan losses and a $58,000 reverse provision to the allowance for losses on unfunded credit commitments.

SUPPLEMENTAL CONSOLIDATING SCHEDULES

First Bancorp of Durango, Inc. and Subsidiaries

UNAUDITED SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	June 30, 2018				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
			(in thousands)		
ASSETS					
Cash and due from banks	$ 110	$ 10,591	$ 3,888	$ (110)	$ 14,479
Interest-bearing deposits	12,159	41,852	17,254	(12)	71,253
Federal funds sold	—	220	—	—	220
Cash and cash equivalents	12,269	52,663	21,142	(122)	85,952
Securities available for sale	—	200,248	56,186	—	256,434
Nonmarketable equity securities	—	746	65	—	811
Investment in subsidiaries	53,836	—	—	(53,836)	—
Loans held for sale	—	2,019	—	—	2,019
Loans	513	197,026	71,650	—	269,189
Less allowance for loan losses	—	(2,670)	(1,189)	—	(3,859)
Total loans	513	194,356	70,461	—	265,330
Premises and equipment, net	—	8,847	4,062	—	12,909
Accrued interest receivable	—	1,918	673	—	2,591
Real estate held for sale	—	—	66	—	66
Intangible assets	—	17	2,119	—	2,136
Other assets	6	412	159	—	577
	$ 66,624	$ 461,226	$ 154,933	$ (53,958)	$ 628,825
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Deposits					
Noninterest-bearing	$ —	$ 76,085	$ 29,197	$ (110)	$ 105,172
Interest-bearing	—	343,883	110,473	(12)	454,344
Total deposits	—	419,968	139,670	(122)	559,516
Repurchase agreements	—	446	—	—	446
Accrued interest payable	—	54	71	—	125
Federal Home Loan Bank borrowings	—	637	—	—	637
Other liabilities	300	1,024	453	—	1,777
Total liabilities	300	422,129	140,194	(122)	562,501
Stockholders' equity					
Common stock	384	450	1,000	(1,450)	384
Additional paid-in capital	14,068	7,300	10,592	(17,892)	14,068
Retained earnings	53,674	32,507	3,320	(35,827)	53,674
Note receivable for issuance of common stock	(469)	—	—	—	(469)
Accumulated other comprehensive loss	(1,333)	(1,160)	(173)	1,333	(1,333)
Total stockholders' equity	66,324	39,097	14,739	(53,836)	66,324
	$ 66,624	$ 461,226	$ 154,933	$ (53,958)	$ 628,825

First Bancorp of Durango, Inc. and Subsidiaries

UNAUDITED SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	December 31, 2017				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
	(in thousands)				
ASSETS					
Cash and due from banks	$ 133	$ 12,591	$ 5,613	$ (133)	$ 18,204
Interest-bearing deposits	12,077	17,679	9,013	(12)	38,757
Cash and cash equivalents	12,210	30,270	14,626	(145)	56,961
Securities available for sale	—	238,268	62,552	—	300,820
Nonmarketable equity securities	—	760	65	—	825
Investment in subsidiaries	56,010	—	—	(56,010)	—
Loans held for sale	—	2,949	—	—	2,949
Loans	585	197,371	69,752	—	267,708
Less allowance for loan losses	—	(2,886)	(1,234)	—	(4,120)
Total loans	585	194,485	68,518	—	263,588
Premises and equipment, net	—	9,297	4,241	—	13,538
Accrued interest receivable	—	2,030	698	—	2,728
Real estate held for sale	—	1,882	—	—	1,882
Intangible assets	—	35	2,119	—	2,154
Other assets	6	576	193	—	775
	$ 68,811	$ 480,552	$ 153,012	$ (56,155)	$ 646,220
LIABILITIES AND STOCKHOLDERS' EQUITY					
Liabilities					
Deposits					
Noninterest-bearing	$ —	$ 76,216	$ 30,455	$ (133)	$ 106,538
Interest-bearing	—	360,827	106,659	(12)	467,474
Total deposits	—	437,043	137,114	(145)	574,012
Repurchase agreements	—	631	—	—	631
Accrued interest payable	—	48	73	—	121
Federal Home Loan Bank borrowings	—	655	—	—	655
Other liabilities	246	1,483	507	—	2,236
Total liabilities	246	439,860	137,694	(145)	577,655
Stockholders' equity					
Common stock	384	450	1,000	(1,450)	384
Additional paid-in capital	14,068	7,300	10,592	(17,892)	14,068
Retained earnings	53,999	32,580	3,503	(36,083)	53,999
Note receivable for issuance of common stock	(471)	—	—	—	(471)
Accumulated other comprehensive income	585	362	223	(585)	585
Total stockholders' equity	68,565	40,692	15,318	(56,010)	68,565
	$ 68,811	$ 480,552	$ 153,012	$ (56,155)	$ 646,220

First Bancorp of Durango, Inc. and Subsidiaries

UNAUDITED SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Six Months Ended June 30, 2018				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
	(in thousands)				
Interest income					
Loans, including fees	$ 20	$ 4,959	$ 2,037	$ —	$ 7,016
Taxable investment securities	—	1,101	210	—	1,311
Tax-exempt investment securities	—	1,379	527	—	1,906
Interest-bearing deposits and federal funds sold	92	240	122	—	454
Dividends on nonmarketable equity securities	—	12	—	—	12
Total interest income	112	7,691	2,896	—	10,699
Interest expense					
Deposits	—	567	148	—	715
Federal Home Loan Bank borrowings	—	20	—	—	20
Total interest expense	—	587	148	—	735
Net interest income	112	7,104	2,748	—	9,964
Provision (reverse provision) for loan losses	—	(199)	80	—	(119)
Net interest income after provision for loan losses	112	7,303	2,668	—	10,083
Noninterest income					
Service charges on deposit accounts	—	297	386	—	683
ATM and debit card	—	790	254	—	1,044
Mortgage banking	—	218	—	—	218
Investment services	—	277	—	—	277
Dividends from subsidiaries	2,652	—	—	(2,652)	—
Other	—	206	27	(60)	173
	2,652	1,788	667	(2,712)	2,395
Noninterest expense					
Salaries and employee benefits	(5)	3,607	1,268	—	4,870
Occupancy and equipment	—	803	348	—	1,151
Data processing	—	410	240	(36)	614
ATM and debit card	—	347	129	—	476
Marketing and business development	—	296	62	—	358
Professional and advisory fees	492	285	142	—	919
Regulatory assessments and deposit insurance	—	165	52	—	217
Foreclosed real estate, net	—	854	—	—	854
Investment services	—	167	—	—	167
Amortization of intangibles	—	18	—	—	18
Other	39	640	197	(24)	852
	526	7,592	2,438	(60)	10,496
Income before equity in income of subsidiaries	2,238	1,499	897	(2,652)	1,982
Equity in undistributed earnings of subsidiaries	(256)	—	—	256	—
NET INCOME	$ 1,982	$ 1,499	$ 897	$ (2,396)	$ 1,982

UNAUDITED SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Six Months Ended June 30, 2017				
	First Bancorp of Durango, Inc.	The First National Bank of Durango	Bank of New Mexico	Consol-idating entries	Consolidated
			(in thousands)		
Interest income					
Loans, including fees	$ 19	$ 4,082	$ 1,925	$ —	$ 6,026
Taxable investment securities	—	1,070	259	—	1,329
Tax-exempt investment securities	—	1,710	597	—	2,307
Interest-bearing deposits and federal funds sold	28	174	35	—	237
Dividends on nonmarketable equity securities	—	10	—	—	10
Total interest income	47	7,046	2,816	—	9,909
Interest expense					
Deposits	—	266	124	—	390
Repurchase agreements and federal funds purchased	—	1	—	—	1
Federal Home Loan Bank borrowings	—	21	—	—	21
Total interest expense	—	288	124	—	412
Net interest income	47	6,758	2,692	—	9,497
Provision (reverse provision) for loan losses	—	(375)	120	—	(255)
Net interest income after provision for loan losses	47	7,133	2,572	—	9,752
Noninterest income					
Service charges on deposit accounts	—	279	376	—	655
ATM and debit card	—	684	207	—	891
Mortgage banking	—	238	—	—	238
Investment services	—	245	—	—	245
Net gain (loss) on sale of investment securities	—	—	(3)	—	(3)
Dividends from subsidiaries	1,200	—	—	(1,200)	—
Other	—	179	29	(53)	155
	1,200	1,625	609	(1,253)	2,181
Noninterest expense					
Salaries and employee benefits	31	3,514	1,304	—	4,849
Occupancy and equipment	—	768	349	—	1,117
Data processing	—	383	205	(37)	551
ATM and debit card	—	300	125	—	425
Marketing and business development	—	220	63	—	283
Professional and advisory fees	130	314	127	—	571
Regulatory assessments and deposit insurance	—	151	62	—	213
Foreclosed real estate, net	—	32	—	—	32
Investment services	—	166	—	—	166
Amortization of intangibles	—	26	—	—	26
Other	6	680	215	(16)	885
	167	6,554	2,450	(53)	9,118
Income before equity in income of subsidiaries	1,080	2,204	731	(1,200)	2,815
Equity in undistributed earnings of subsidiaries	1,735	—	—	(1,735)	—
NET INCOME	$ 2,815	$ 2,204	$ 731	$ (2,935)	$ 2,815

Exhibit 99.4

CONSOLIDATED FINANCIAL STATEMENTS and
CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

SOUTHERN COLORADO CORP. AND SUBSIDIARY

As of June 30, 2018 and December 31, 2017

and for the six months ended June 30, 2018 and 2017

Southern Colorado Corp. and Subsidiary

CONSOLIDATED BALANCE SHEETS

	June 30, 2018 (Unaudited)	December 31, 2017
	(in thousands)	
ASSETS		
Cash and due from banks	$ 4,296	$ 2,204
Interest-bearing deposits in banks	7,078	15,537
Total cash and cash equivalents	11,374	17,741
Investment securities available for sale	34,258	31,403
Federal Home Loan Bank stock, at cost	129	127
Loans, net of allowance for loan losses of $746 at June 30, 2018 and $1,136 at December 31, 2017	34,832	35,461
Accrued interest receivable	345	302
Premises and equipment, net	1,248	1,989
Real estate held for sale	—	132
Other assets	116	141
Total assets	$ 82,302	$ 87,296
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 25,535	$ 26,737
Interest-bearing	48,647	52,515
Total deposits	74,182	79,252
Notes payable	—	500
Accrued expenses and other liabilities	205	186
Total liabilities	74,387	79,938
Commitments and contingencies (Notes 4, 6 and 11)		
Stockholders' equity		
Common stock - $1.00 par value; 200,000 shares authorized; 160,000 shares issued and outstanding	160	160
Additional paid-in capital	5,370	5,370
Retained earnings	2,654	1,980
Accumulated other comprehensive loss	(269)	(152)
Total stockholders' equity	7,915	7,358
Total liabilities and stockholders' equity	$ 82,302	$ 87,296

See accompanying condensed notes to consolidated financial statements.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Interest and dividend income		
Loans, including fees	$ 966	$ 943
Taxable investment securities	100	51
Tax-exempt investment securities	256	247
Federal Home Loan Bank stock	2	2
Interest-bearing deposits in banks	61	38
Total interest and dividend income	1,385	1,281
Interest expense		
Deposits	154	86
Notes payable	3	10
Total interest expense	157	96
Net interest income	1,228	1,185
Credit for loan losses	(400)	—
Net interest income after credit for loan losses	1,628	1,185
Noninterest income		
Service charges on deposit accounts	51	49
ATM and debit card	100	88
Mortgage banking	64	94
Net gain (loss) on sale of securities available for sale	(2)	16
Other noninterest income	107	34
Total noninterest income	320	281
Noninterest expense		
Salaries and employee benefits	625	571
Occupancy and equipment	145	146
Data processing and software	68	72
ATM and debit card	60	70
Management and administration fees	69	60
Other noninterest expense	307	235
Total noninterest expense	1,274	1,154
NET INCOME	$ 674	$ 312

See accompanying condensed notes to consolidated financial statements.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
	(in thousands)	
Net income	$ 674	$ 312
Other comprehensive income (loss)		
Change in unrealized gain/loss on securities available for sale	(119)	412
Reclassification adjustment for net (gain) loss on sale of securities available for sale realized in net income	2	(16)
Total other comprehensive income (loss)	(117)	396
TOTAL COMPREHENSIVE INCOME	$ 557	$ 708

See accompanying condensed notes to consolidated financial statements.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Six Months Ended June 30, 2018 and 2017

(Unaudited)

	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
			(in thousands)		
Balance at December 31, 2016	$ 160	$ 5,370	$ 1,315	$ (179)	$ 6,666
Net income	—	—	312	—	312
Other comprehensive income	—	—	—	396	396
Balance at June 30, 2017	$ 160	$ 5,370	$ 1,627	$ 217	$ 7,374
Balance at December 31, 2017	$ 160	$ 5,370	$ 1,980	$ (152)	$ 7,358
Net income	—	—	674	—	674
Other comprehensive loss	—	—	—	(117)	(117)
Balance at June 30, 2018	$ 160	$ 5,370	$ 2,654	$ (269)	$ 7,915

See accompanying condensed notes to consolidated financial statements.

Southern Colorado Corp. and Subsidiary

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended June 30, 2018	Six Months Ended June 30, 2017
	(in thousands)	
Cash flows from operating activities		
Net income	$ 674	$ 312
Adjustments to reconcile net income to net cash from operating activities		
Credit for loan losses	(400)	—
Depreciation and software amortization	68	68
Net amortization on investment securities	153	261
(Gain) loss on sale of securities available for sale	2	(16)
Federal Home Loan Bank stock dividends	(2)	(2)
Net loss on disposition of premises and equipment	2	—
Net gain on sales and write-downs of real estate held for sale	(92)	(18)
Net change in:		
Accrued interest receivable	(43)	(26)
Other asssets	9	3
Accrued expenses and other liabilities	19	(26)
Net cash provided by operating activities	390	556
Cash flows from investing activities		
Purchase of securities available for sale	(5,748)	(3,312)
Maturities, calls and paydowns of securities available for sale	2,463	1,153
Sale of securities available for sale	158	217
Redemption of Federal Home Loan Bank stock	—	1
Loan originations and principal collections, net	1,029	(1,681)
Acquisition of premises, equipment and software	(13)	(42)
Sale of premises, equipment and software	700	—
Proceeds from sale of real estate held for sale	224	138
Net cash used in investing activities	(1,187)	(3,526)
Cash flows from financing activities		
Net change in deposits	(5,070)	(3,122)
Payments on notes payable	(500)	—
Net cash used in financing activities	(5,570)	(3,122)
Change in cash and cash equivalents	(6,367)	(6,092)
Cash and cash equivalents at beginning of year	17,741	13,541
Cash and cash equivalents at end of year	$ 11,374	$ 7,449
Supplemental Disclosures of Cash Flow Information		
Cash paid during the period for interest	$ 161	$ 93
Supplemental Disclosures of Non-Cash Transactions		
Loan balances transferred to foreclosed assets	$ —	$ —

See accompanying condensed notes to consolidated financial statements.

CONDENSED NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

As of June 30, 2018 and 2017
and for the six months ended June 30, 2018 and 2017

(Unaudited)

NOTE 1 - SUMMARY OF ACCOUNTING POLICIES

The accounting and reporting policies of Southern Colorado Corp. and Subsidiary conform to accounting principles generally accepted in the United States of America ("U.S. GAAP") and to general practice within the banking industry. The following is a summary of the significant accounting and reporting policies:

Organization and Basis of Presentation

Southern Colorado Corp. ("SCC") is a bank holding company that owns 100% of the stock of Citizens Bank of Pagosa Springs ("the Bank"). SCC and the Bank are collectively referred to as "the Company."

The accompanying unaudited consolidated financial statements include the consolidated totals of the accounts of SCC and the Bank. All significant intercompany accounts and transactions have been eliminated in consolidation.

The unaudited consolidated financial statements and notes herein have been prepared in accordance with U.S. GAAP for interim financial information and do not include all of the information and footnotes required by U.S. GAAP for annual financial statements. However, the unaudited consolidated financial statements and notes herein reflect all normal and recurring adjustments which are, in the opinion of management, necessary for a fair presentation of the Company's financial condition, results of operations, changes in comprehensive income and cash flows for the unaudited interim periods.

The results of operations for the six-month period ended June 30, 2018 are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or any other period. The unaudited consolidated financial statements and notes herein should be read in conjunction with the Company's audited consolidated financial statements and related notes thereto for the year ended December 31, 2017.

Nature of Operations

The Company provides a full range of banking and mortgage services to individual and business customers through its two branches located in Pagosa Springs, Colorado.

Use of Estimates

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in th e near-term relate to the determination of the allowance for loan losses and the fair value of financial instruments. In connection with the determination of the allowance for loan losses, management obtains independent appraisals for significant properties and assesses estimated future cash flows from borrowers' operations and the liquidation of loan collateral. In connection with the determination of the fair value of financial instruments, management obtains valuations from a third-party investment accounting service provider except for certain securities valued using level 3 inputs (see Note 9 on fair value measurement).

Investment Securities

Investment securities are classified as "available for sale" and are stated at estimated fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

The amortized cost of debt securities classified as available for sale is adjusted for amortization of purchase premiums and accretion of purchase discounts. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities. For mortgage-backed securities, the term of the security is the expected life of the security given estimated paydowns. For other securities, the term of the security is the earlier of final maturity or the expected call date. The Company believes amortization to the call date rather than the final maturity date is insignificant to the financial statements as a whole. Gains and losses on the sale of securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as an impairment charge to earnings.

For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which is recognized as an impairment charge to earnings, and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings.

Loans

Loans that the Company has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, deferred fees or costs on originated loans and purchase premiums or discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized into interest income over the life of related loans using the interest method.

Past due loans are any loans for which payments of interest, principal or both have not been received within the timeframes designated by the loan agreements. Loans with payments in arrears but for which borrowers have resumed making scheduled payments are considered past due until arrearages are brought current. Loans that experience insignificant payment delays or payment shortfalls generally are not considered past due. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

The accrual of interest on any loan is discontinued at the time the loan is 90 days past due unless the loan is well secured and in process of collection. Additionally, loans are placed on nonaccrual at an earlier date if collection of principal or interest is considered doubtful. When placing a loan on nonaccrual status, interest accrued to date is generally reversed and is charged against the current year's interest income. Payments received on a loan on nonaccrual status are applied against the balance of the loan. A loan is returned to accrual status when principal and interest are no longer past due and collectibility is no longer doubtful.

Troubled debt restructurings are loans for which concessions in terms have been made as a result of the borrower experiencing financial difficulty. Generally, concessions granted to customers include lower interest rates and modification of the payment stream to lower or defer payments. Interest on troubled debt restructurings is accrued under the new terms if the loans are performing and full collection of principal and interest is expected. However, interest accruals are discontinued on troubled debt restructurings that meet the Company's nonaccrual criteria.

Generally, loans are charged off in whole or in part after they become significantly past due unless the loan is in the process of restructuring or collection efforts are ongoing and deemed likely to be successful. Charge off amounts are determined based upon the carrying amount of loans and the amount estimated to be collectible as determined by analyses of expected future cash flows and the liquidation of loan collateral.

Allowance for Loan Losses

The allowance for loan losses is a valuation allowance for probable incurred credit losses, and is established through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance consists of specific and general components as follows:

1) The specific component relates to loans that are considered impaired, and is comprised of valuation allowances calculated on a loan-by-loan basis for impaired loans in excess of a nominal percentage of the Bank's capital, and calculated on a pool basis for impaired loans below the percentage-of-capital threshold. Impaired loans are all specifically identified loans for which it is probable that the Company will not collect all amounts due according to the contractual terms of the loan agreement. Factors considered by management in determining whether a loan is impaired include payment status, collateral value, the borrower's financial condition and overall loan quality as determined by an internal loan grading system.

   Included in impaired loans are all nonaccrual loans and all troubled debt restructurings. Loans that experience insignificant payment delays or payment shortfalls generally are not considered impaired. For individually evaluated impaired loans for which repayment is expected solely from the collateral, impairment is measured based on the fair value of the collateral. For other individually evaluated impaired loans, impairment may be measured based on the fair value of the collateral or on the present value of expected future cash flows discounted at the loan's original effective interest rate. For impaired loans evaluated on a pool basis, impairment is measured based on statistics reflective of the increased risk of the loan pool. When the measure of the impaired loan is less than the recorded investment in the loan, the impairment is recorded through a valuation allowance.

2) The general component relates to non-impaired loans, and is based on historical loss experience adjusted for the effects of qualitative factors that are likely to cause estimated credit losses as of the evaluation date to differ from the portfolio's historical loss experience. Qualitative factors include the following: economic conditions; industry conditions; changes in lending policies and procedures; trends in the volume and terms of loans; the experience, ability and depth of lending staff; levels and trends in delinquencies and impaired loans; levels and trends in charge-off and recovery activity; levels and trends of loan quality as determined by an internal loan grading system; portfolio concentrations.

Although the allowance contains a specific component, the entire allowance is available for any loan that, in management's judgment, should be charged off.

On a quarterly basis, management estimates the allowance balance required using the criteria identified above in relation to the relevant risks for each of the Company's major loan segments. Significant overall risk factors for both the Company's commercial and consumer portfolios include the strength of the real estate market and general economic activity in the Company's market area.

The quality of the Company's loan portfolio is assessed as a function of the levels of past due loans and impaired loans, and internal credit quality ratings which are updated quarterly by management. The ratings on the Company's internal credit scale are an important part of the Company's overall credit risk management process and are considered in the determination of the allowance for loan losses, and are grouped as follows:

Pass - Loans with minimal to average identified credit risk. These loans have borrowers considered creditworthy who have the ability to repay the debt in the normal course of business. Borrowers have a sound primary and secondary repayment source, with sufficient cash generation to meet ongoing debt service requirements. Loans are typically fully secured with marketable, margined collateral.

Special mention - Loans with potential credit weaknesses which deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of repayment prospects or the Company's credit position at some future date. These loans exhibit characteristics such as declining or stressed financial condition of the borrower, and declining or narrow collateral coverage.

Substandard – Loans inadequately protected by the current financial condition and paying capacity of the borrower or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. These loans are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. In some instances, though not all, the weakness or weaknesses in these loans will necessitate nonaccrual treatment.

Doubtful – Loans in this category have all the weaknesses inherent in those classified as Substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. The probability of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the loans, classification as a loss is deferred until more exact status may be determined.

Loss – Loans considered loss are considered uncollectable and of such little value that their continuance as a bankable asset, even with a valuation allowance, is not warranted. This does not mean the loans have no recovery or salvage value, but rather it is not practical or desirable to defer a charge-off even though a partial recovery may be effected in the future. Loans classified as a loss are charged-off in the period they are deemed uncollectible.

Determination of the allowance is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available or credit conditions change. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination.

Income Taxes

The Company has elected taxation under the provisions of Subchapter S of the Internal Revenue Code. Under those provisions, the Company neither pays federal corporate income taxes on its taxable income nor is allowed a net operating loss carryover or carryback as a deduction. Instead, the stockholders of the Company include their respective share of the consolidated taxable income or loss in their individual income tax returns. Accordingly, no income taxes are reflected in the consolidated financial statements.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income/loss. The only component of other comprehensive income/loss consists of net unrealized holding gains and losses on available for sale securities, with no related tax effects.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated.

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, excluding transaction costs. When measuring fair value, entities should maximize the use of observable inputs and minimize the use of unobservable inputs. The following describes the three levels of inputs that may be used to measure fair value:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

- *Level 2 Inputs*— Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

- *Level 3 Inputs*—Unobservable inputs that reflect an entity’s own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Significant Applicable Accounting Standards Updates Not Yet Effective

Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments.* Under the new standard, the Company will be required to convert from the existing incurred-loss model for determining the allowance for loan losses to an expected-loss model. An expected-loss model will determine the allowance for loan losses balance based upon credit losses expected to be incurred over the life of the loan portfolio, and will consider not only current credit conditions but also reasonably supportable expectations as to future credit conditions. The standard will also require securities held to maturity to be evaluated for impairment under an expected-loss model. The standard is effective for the Company beginning January 1, 2022. Management is in the processing of determining the impact of the standard on the Company's consolidated financial statements.

Accounting Standards Update 2016-02, *Leases (Topic 326).* Under the new standard, the Company will be required to record a right-of-use asset for leased property and also record a corresponding lease liability. In general, rather than expense lease payments as they are made as currently done under operating lease guidance, the right-of-use asset will be amortized to expense over the lease term and lease payments will reduce the lease obligation. The standard is effective for the Company beginning January 1, 2020 and is not expected to have a significant impact on the consolidated financial statements.

Accounting Standards Update 2016-01, *Financial Instruments – Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities.* Under the new standard, certain equity investments are required to be carried at fair value, with changes in fair value recognized in net income. This applies to equity investments with readily determinable fair values that are not consolidated or carried on the equity method. Debt securities classified as available-for-sale will continue to be carried at fair value with changes in fair value recorded through other comprehensive income. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Accounting Standards Update 2014-09, *Revenue from Contracts With Customers (Topic 606).* The new standard prescribes a five-step model to determine the amount and timing of revenue recognition related to the consideration the Company expects to receive from the transfer of goods and services. The standard does not apply to financial instruments, and accordingly will not impact the Company's recognition of interest income on its loans and investment securities, and will not impact the Company's recognition of revenue from sales or transfers of loans and investment securities. The standard is effective for the Company beginning January 1, 2019, and is not expected to have a significant impact to the consolidated financial statements.

Subsequent Events

Management evaluates events occurring subsequent to the balance sheet date, through the date the financial statements are eligible to be issued, to determine whether the events require recognition or disclosure in the financial statements. With respect to the June 30, 2018 financial statements, Management has considered subsequent events through August 29, 2018.

NOTE 2 - INVESTMENT SECURITIES

The amortized cost and fair value of investment securities, with gross unrealized gains and losses, follows:

	June 30, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities available for sale				
U.S. Treasury	$ 3,004	—	$ (8)	$ 2,996
State and municipal	24,070	68	(208)	23,930
Corporate	7,392	—	(122)	7,270
Mortgage-backed	61	1	—	62
	$ 34,527	$ 69	$ (338)	$ 34,258

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Debt securities available for sale				
U.S. Treasury	$ 1,003	—	$ (8)	$ 995
State and municipal	24,816	78	(182)	24,712
Corporate	5,620	4	(48)	5,576
Mortgage-backed	116	4	—	120
	$ 31,555	$ 86	$ (238)	$ 31,403

The amortized cost and fair value of debt securities available for sale at June 30, 2018, by contractual maturity, are shown below.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 7,639	$ 7,624
Due after one through five years	22,821	22,622
Due after five years through ten years	3,246	3,160
Due after ten years	760	790
	34,466	34,196
Mortgage-backed	61	62
	$ 34,527	$ 34,258

Investment securities may have actual maturities that differ from contractual maturities due to paydowns on the assets underlying the bonds or early call provisions.

Information pertaining to securities available-for-sale, with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	June 30, 2018			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Treasury	$ (4)	$ 1,999	$ (4)	$ 997
State and municipal	(91)	4,287	(117)	11,343
Corporate	(44)	4,017	(78)	3,253
	$ (139)	$ 10,303	$ (199)	$ 15,593

	December 31, 2017			
	Less than 12 months		Over 12 months	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(in thousands)			
U.S. Treasury	$ —	$ —	$ (8)	$ 995
State and municipal	(172)	14,166	(10)	498
Corporate	(19)	2,753	(29)	1,811
	$ (191)	$ 16,919	$ (47)	$ 3,304

At June 30, 2018, unrealized losses are largely due to differences in market yields as compared to yields available at the time securities were purchased. Management has performed analyses of investment credit quality and cash flows, and does not believe that any securities are impaired due to reasons of credit quality. The Company has the ability and intent to hold investment securities for a period of time sufficient for a recovery of cost, and fair value is expected to recover as bonds approach maturity. Accordingly, as of June 30, 2018, management believes the unrealized losses detailed in the table above are temporary.

The Company realized $2,000 in losses and no gains on the sale of investment securities during the six months ended June 30, 2018. The Company realized $16,000 in gains and no losses on the sale of investment securities during the six months ended June 30, 2017. All 2017 sales were to an entity affiliated with the Company's primary shareholder through common ownership. The sale was initiated for the purpose of removing from the Company's books non investment-grade municipal securities, and was transacted at estimated fair value.

Investment securities with a fair value of $5,137,000 and $4,732,000 at June 30, 2018 and December 31, 2017, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES

Major classifications of loans are as follows:

	June 30, 2018	December 31, 2017
	(in thousands)	
Real Estate		
Commercial	$ 13,063	$ 12,467
Residential 1-4 family	12,587	12,751
Construction, land and land development	4,635	5,432
Multifamily	831	568
Farmland	619	725
	31,735	31,943
Commercial non real estate	1,884	1,863
State and municipal	337	1,366
Consumer and other	1,721	1,498
	35,677	36,670
Less unearned loan fees	(99)	(73)
Less allowance for loan losses	(746)	(1,136)
	$ 34,832	$ 35,461

In the ordinary course of business, the Company may grant loans to its executive officers, significant shareholders, directors, and parties affiliated with those persons (collectively, “related parties”). However, the Company had no loans to related parties at June 30, 2018 and December 31, 2017.

At June 30, 2018 and December 31, 2017, residential 1-4 family real estate loans totaling $9,570,000 and $10,560,000, respectively, are pledged to secure credit facilities and credit enhancement arrangements with the Federal Home Loan Bank of Topeka.

Transactions in the allowance for loan losses are as follows:

	Real Estate	Commercial Non Real Estate	State and Municipal	Consumer and Other	Total
			(in thousands)		
Balance at December 31, 2016	$ 1,205	$ 63	$ 22	$ 18	$ 1,308
Credit for loan losses	—	—	—	—	—
(Charge-offs)	—	—	—	(2)	(2)
Recoveries	16	—	—	1	17
Net (charge-offs) recoveries	16	—	—	(1)	15
Balance at June 30, 2017	$ 1,221	$ 63	$ 22	$ 17	$ 1,323
Balance at December 31, 2017	$ 1,043	$ 36	$ 36	$ 21	$ 1,136
Credit for loan losses	(353)	(16)	(17)	(14)	(400)
(Charge-offs)	—	—	—	—	—
Recoveries	9	—	—	1	10
Net (charge-offs) recoveries	9	—	—	1	10
Balance at June 30, 2018	$ 699	$ 20	$ 19	$ 8	$ 746

Components of the allowance for loan losses, and the related carrying amount of loans for which the allowance is determined, are a s follows:

	June 30, 2018				
	Real Estate	Commercial Non Real Estate	State and Municipal	Consumer and Other	Total
	(in thousands)				
Allocation of Allowance to:					
Impaired loans - evaluated individually	$ —	$ —	$ —	$ —	$ —
Impaired loans - evaluated collectively	—	—	—	—	—
Total impaired loans	—	—	—	—	—
Unimpaired loans - evaluated collectively	699	20	19	8	746
	$ 699	$ 20	$ 19	$ 8	$ 746
Recorded Investment In:					
Impaired loans - evaluated individually	$ 231	$ —	$ —	$ —	$ 231
Impaired loans - evaluated collectively	—	—	—	—	-
Total impaired loans	231	—	—	—	231
Unimpaired loans - evaluated collectively	31,504	1,884	337	1,721	35,446
	$ 31,735	$ 1,884	$ 337	$ 1,721	$ 35,677

	December 31, 2017				
	Real Estate	Commercial Non Real Estate	State and Municipal	Consumer and Other	Total
	(in thousands)				
Allocation of Allowance to:					
Impaired loans - evaluated individually	$ —	$ —	$ —	$ —	$ —
Impaired loans - evaluated collectively	—	—	—	—	—
Total impaired loans	—	—	—	—	—
Unimpaired loans - evaluated collectively	1,043	36	36	21	1,136
	$ 1,043	$ 36	$ 36	$ 21	$ 1,136
Recorded Investment In:					
Impaired loans - evaluated individually	$ 242	$ —	$ —	$ —	$ 242
Impaired loans - evaluated collectively	—	—	—	—	—
Total impaired loans	242	—	—	—	242
Unimpaired loans - evaluated collectively	31,701	1,863	1,366	1,498	36,428
	$ 31,943	$ 1,863	$ 1,366	$ 1,498	$ 36,670

Information relative to impaired loans is as follows:

	June 30, 2018					Six Months Ended June 30, 2018
	Recorded Investment in Impaired Loans With No Valuation Allowance	Recorded Investment in Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Commitments to Extend Credit on Impaired Loans	Average Impaired Loans
	(in thousands)					
Real Estate						
Commercial	$ 231	$ —	$ 231	$ —	$ —	$ 237

	December 31, 2017					Year Ended December 31, 2017
	Recorded Investment in Impaired Loans With No Valuation Allowance	Recorded Investment in Impaired Loans With A Valuation Allowance	Total Impaired Loans	Valuation Allowance on Impaired Loans	Commitments to Extend Credit on Impaired Loans	Average Impaired Loans
	(in thousands)					
Real Estate						
Commercial	$ 242	$ —	$ 242	$ —	$ —	$ 250
Residential 1-4 family	—	—	—	—	—	57
	$ 242	$ —	$ 242	$ —	$ —	$ 307

Impaired loans at June 30, 2018 and December 31, 2017 is comprised of a single loan which is considered a troubled debt restructuring and which is performing under the modified terms. There are no nonaccrual loans at June 30, 2018 and December 31, 2017.

Interest income recognized on impaired loans is immaterial for the six months ended June 30, 2018 and 2017.

At June 30, 2018, there are no loans in the process of foreclosure.

At June 30, 2018, there are $25,000 in commercial non real-estate loans past due between 30 and 60 days. At December 31, 2017, there are no loans past due 30 days or greater.

There were no loans modified as a troubled debt restructuring that defaulted during the six months ended June 30, 2018 and 2017 where the default occurred within 12 months of the restructuring. For the purpose of this disclosure, a default is considered a payment delinquency of 90 days or greater, or foreclosure and repossession of the applicable collateral.

The following summarizes loans by credit rating:

	June 30, 2018				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 12,086	$ 503	$ 474	$ —	$ 13,063
Residential 1-4 family	12,456	—	131	—	12,587
Construction, land and land development	4,478	—	157	—	4,635
Multifamily	831	—	—	—	831
Farmland	619	—	—	—	619
Commercial non real estate	1,871	—	13	—	1,884
State and municipal	(13)	350	—	—	337
Consumer and other	1,721	—	—	—	1,721
	$ 34,049	$ 853	$ 775	$ —	$ 35,677

	December 31, 2017				
	Credit Rating				
	Pass	Special Mention	Substandard	Doubtful	Total loans
	(in thousands)				
Real Estate					
Commercial	$ 11,446	$ 526	$ 495	$ —	$ 12,467
Residential 1-4 family	12,617	—	134	—	12,751
Construction, land and land development	5,275	—	157	—	5,432
Multifamily	568	—	—	—	568
Farmland	725	—	—	—	725
Commercial non real estate	1,863	—	—	—	1,863
State and municipal	986	380	—	—	1,366
Consumer and other	1,484	—	14	—	1,498
	$ 34,964	$ 906	$ 800	$ —	$ 36,670

NOTE 4– SERVICED LOANS AND CREDIT ENHANCEMENTS

At June 30, 2018 and December 31, 2017, the Company has loans totaling $17,806,000 and $18,026,000, respectively, sold to and serviced for the Federal Home Loan Bank of Topeka under the Federal Home Loan Bank's Mortgage Partnership Finance Program. Servicing income earned by the Company was $22,000 for each of the six-month periods ended June 30, 2018 and 2017, and is included as a component of mortgage banking income. A servicing right asset has not been recorded on the basis of immateriality.

At June 30, 2018, the Company has approximately $650,000 in gross credit enhancement exposure to the Federal Home Loan Bank of Topeka relative to the serviced loan portfolio. In the event that serviced loans default, and borrower equity and private mortgage insurance amounts are depleted and loan losses occur, the credit enhancement exposure is the loss sharing amount to the Federal Home Loan Bank. The Company has not recorded a liability for the credit enhancement exposure as it believes the fair value of the credit enhancement exposure is immaterial to the consolidated financial statements due to strong credit quality and no loss history. The gross credit enhancement exposure amount is collateralized by a pledge of loans.

NOTE 5 - DEPOSITS

Deposits are comprised of the following:

	June 30, 2018	December 31, 2017
	(in thousands)	
Noninterest-bearing accounts	$ 25,535	$ 26,737
Interest-bearing checking and NOW accounts	16,270	17,701
Money market accounts	3,016	3,491
Savings accounts	21,019	23,049
Escrow accounts	25	96
Individual retirement accounts	3,660	3,428
Time certificates of deposit	4,657	4,750
	$ 74,182	$ 79,252

At June 30, 2018, there is $20,741,000 in accounts with a balance of $250,000 or greater, including $1,130,000 in individual retirement accounts and time certificates of deposit. At December 31, 2017, there is $23,458,000 in accounts with a balance of $250,000 or greater, including $871,000 in individual retirement accounts and time certificates of deposit.

Scheduled maturities of individual retirement accounts and time certificates of deposit at June 30, 2018 are as follows (in thousands):

Twelve Months Ending June 30,		
2019	$	3,047
2020		1,583
2021		718
2022		1,069
2023		1,210
Thereafter		690
	$	8,317

At June 30, 2018 and December 31, 2017, the Company had $693,000 and $854,000, respectively, in deposits from its executive officers, significant shareholders, directors, and parties affiliated with those persons.

NOTE 6 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. The instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amounts of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no breach of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's credit-worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary, by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment and real estate. Some unfunded commitments under commercial lines of credit, revolving lines of credit and overdraft protection agreements are uncollateralized.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

The following financial instruments were outstanding whose contract amounts represent risk:

	June 30, 2018	December 31, 2017
	(in thousands)	
Commitments to extend credit	$ 7,224	$ 6,051
Standby letters of credit	144	100
	$ 7,368	$ 6,151

NOTE 7 - EMPLOYEE BENEFIT PLAN

The Company has a defined contribution and profit sharing plan in which substantially all full-time employees have elected to participate. Employees may contribute from 1% to 75% of their compensation to the plan, subject to certain limits based on federal tax laws. The Company may make safe harbor contributions to the plan of 3% of participants' compensation and these contributions are immediately vested. Additionally, based on certain performance measures of the Bank, the Company may make profit sharing contributions of up to 12% of participants' compensation. Company profit sharing contributions vest to participant's over six years. Expense attributable to this plan for was $23,000 and $9,000 for the six months ended June 30, 2018 and 2017, respectively.

NOTE 8 - REGULATORY MATTERS

Banks and bank holding companies are subject to various regulatory capital requirements administered by state and federal banking agencies. Capital adequacy guidelines, and additionally for banks prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weighting and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015, subject to a phase-in for certain provisions. Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of common equity tier 1 capital, tier 1 capital and total capital (as defined in the regulations) to risk-weighted assets (as defined), and of tier 1 capital to quarterly average assets (as defined).

The Bank's regulatory capital is comprised of the following: 1) Common equity tier 1 capital – consisting of common stock, related paid-in-capital and retained earnings; 2) Additional tier 1 capital – there are no components of tier 1 capital beyond common equity tier 1 capital; 3) Tier 2 capital - consisting of a permissible portion of the allowance for loan losses; and 4) total capital - the aggregate of all tier 1 and tier 2 capital. In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include most components of accumulated other comprehensive income/loss in common equity tier 1 capital.

When fully phased in on January 1, 2019, the Basel III capital rules will require the Bank to maintain a minimum ratio of common equity tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity tier 1 capital ratio as the buffer is phased in, effectively resulting in a minimum ratio of common equity tier 1 capital to risk-weighted assets of 7.0% upon full phase in). The Bank will also be required to maintain a tier 1 capital to risk-weighted assets ratio of 6.0% (8.5% including the capital conservation buffer), a total capital to risk-weighted assets ratio of 8.0% (10.5% including the capital conservation buffer), and a tier 1 capital to quarterly average assets ratio of 4.0%.

The aforementioned capital conservation buffer phases in at 0.625% annually over a four-year period beginning January 1, 2016, and is designed to absorb losses during periods of economic stress. Banking institutions with capital ratios above the base minimums but below the effective minimums (which include the buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of June 30, 2018 and December 31, 2017 for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of June 30, 2018 and December 31, 2017 based on the phase-in provisions of the Basel III Capital Rules and the minimum required capital levels as of January 1, 2019 when the Basel III Capital rules have been fully phased-in, and include the capital conservation buffer. Capital levels required to be considered well capitalized are based on prompt corrective action regulations, as amended to reflect changes under the Basel III Capital Rules.

Regulatory authorities can initiate certain mandatory actions if the Bank fails to meet the minimum capital requirements, which could have a direct and material effect on the Company's financial statements. Management believes, as of June 30, 2018, that the Bank meets all capital adequacy requirements to which it is subject and that the Bank exceeds the minimum levels necessary to be considered "well capitalized."

	Actual		Minimum required for capital adequacy purposes - Basel III phase-in schedule		Minimum required for capital adequacy purposes - Basel III fully phased-in		Required to be considered well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(dollars in thousands)							
As of June 30, 2018								
Total capital (to risk weighted assets)	$ 8,218	15.09%	$ 5,379	9.875%	$ 5,720	10.5%	$ 5,447	10.0%
Tier 1 capital (to risk weighted assets)	7,536	13.83%	4,290	7.875%	4,630	8.5%	4,358	8.0%
Common equity tier 1 capital (to risk weighted assets)	7,536	13.83%	3,473	6.375%	3,813	7.0%	3,541	6.5%
Tier 1 capital (to average assets)	7,536	9.12%	3,305	4.00%	3,305	4.0%	4,132	5.0%
As of December 31, 2017								
Total capital (to risk weighted assets)	$ 8,472	15.64%	$ 5,010	9.25%	$ 5,687	10.5%	$ 5,417	10.0%
Tier 1 capital (to risk weighted assets)	7,789	14.38%	3,927	7.25%	4,604	8.5%	4,333	8.0%
Common equity tier 1 capital (to risk weighted assets)	7,789	14.38%	3,114	5.75%	3,792	7.0%	3,521	6.5%
Tier 1 capital (to average assets)	7,789	9.21%	3,384	4.00%	3,384	4.0%	4,230	5.0%

NOTE 9 - FAIR VALUE MEASUREMENTS AND DISCLOSURES

The following is a description of the Company's valuation methodologies for assets and liabilities recorded at fair value:

Securities Available for Sale –Debt securities are reported at fair value based upon measurements obtained from an independent pricing service. The fair value measurements are determined by quoted market prices, if available (Level 1), or consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, market consensus prepayment speeds, credit information and the bonds' terms and conditions, among other things (Level 2). For certain municipal securities and corporate securities, including auction rate municipal securities, market activity and observable data is highly limited. Fair value of these securities is considered to be amortized cost (level 3).

Impaired Loans - The Company does not record loans at fair value on a recurring basis. However, from time to time, valuation allowances are recorded on these loans to reflect (1) the current appraised or market-quoted value of the underlying collateral, less an estimate of cost to sell, or (2) the discounted value of expected cash flows. In some cases, the properties for which market quotes or appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for impaired loans measured for impairment based upon the value of the collateral are obtained from independent appraisers or other third-party consultants, and for other impaired loans are based on discounted cash flow analyses (Level 3).

Real Estate Held For Sale- The Company does not record real estate held for sale at fair value on a recurring basis. However, from time to time, fair value adjustments are recorded on these properties to reflect the current appraised value (less an estimate of cost to sell). In some cases, the properties for which appraised values have been obtained are located in areas where comparable sales data is limited, outdated, or unavailable. Fair value estimates for real estate held for sale are obtained from independent appraisers or other third-party consultants (level 3).

The following table provides the hierarchy and fair value for each major category of assets and liabilities recorded at fair value on a recurring basis:

	Quoted prices in active markets for identical assets (Level 1)	Other observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Carrying amount
	(in thousands)			
June 30, 2018				
Debt Securities Available for Sale				
U.S. Treasury	$ —	$ 2,996	$ —	$ 2,996
State and municipal	—	23,490	440	23,930
Corporate	—	7,270	—	7,270
Mortgage-backed	—	62	—	62
	$ —	$ 33,818	$ 440	$ 34,258
December 31, 2017				
Securities Available for Sale				
U.S. Treasury	$ —	$ 995	$ —	$ 995
State and municipal	—	23,382	1,330	24,712
Corporate	—	5,076	500	5,576
Mortgage-backed	—	120	—	120
	$ —	$ 29,573	$ 1,830	$ 31,403

Activity for debt securities available for sale recorded at fair value on a recurring basis using significant unobservable inputs (Level 3) is immaterial to the financial statements for each of the six-month periods ended June 30, 2018 and 2017.

Assets and liabilities recorded at fair value on a non-recurring basis are comprised of impaired loans and real estate held for sale which are all valued using level 3 measurements. At June 30, 2018 and December 31, 2017, there are no impaired loans with valuation allowances. At June 30, 2018, there is no real estate held for sale. At December 31, 2017, real estate held for sale with an initial cost basis of $770,000 has a $638,000 valuation allowance, resulting in a net carrying amount of $132,000.

NOTE 10–RELATED PARTY TRANSACTIONS

Related party investment transactions, loans and deposits are described in Notes 2, 3 and 5, respectively. A subsequent event involving a related party is described in Note 11.

The Company is affiliated with other banks through common ownership. The Company had loan participations sold to these affiliates of $696,000 and $1,389,000 at June 30, 2018 and December 31, 2017, respectively. The Company had loan participations purchased from these affiliates of $835,000 and $2,315,000 at June 30, 2018 and December 31, 2017, respectively.

The Company receives item processing and data processing services from First National Bank of Durango, one of the affiliated banks. Fees paid by the Company for these services totaled $32,000 in each of the six-month periods ended June 30, 2018 and 2017.

The Company is affiliated with several non-bank entities through common ownership. These affiliates provide various management and administration services to the Company. The Company paid these affiliates $69,000 and $60,000 during the six months ended June 30, 2018 and 2017, respectively.

Notes payable of $500,000 at December 31, 2017 are comprised of unsecured promissory notes payable to certain shareholders of the Company. The notes were paid off and retired in February, 2018.

NOTE 11– SALE OF COMPANY, SUBSEQUENT EVENTS AND RELATED CONTINGENCIES

Sale of Company

In the second quarter of 2018, the Company entered into a definitive agreement to be acquired by, and merged with and into, Triumph Bancorp, Inc. through the Company's shareholders' exchange of all the Company's common stock for cash from Triumph (NASDAQ: TBK). The transaction is expected to close in September, 2018.

Land Sale to Related Party and Remediation Contingency

In March, 2018, the Company sold land with a carrying amount of $702,000 to a non-bank entity affiliated with the Company through common ownership. The land was vacant land held for a future branch location no longer expected to be constructed by the Company, and was sold for its estimated fair value of $700,000. The land has a drainage issue existing prior to the sale of the land which the Company believes is due to the incorrect installation of a highway drainage system by the Colorado Department of Transportation. The Town of Pagosa Springs petitioned the Company to remedy the drainage issue, citing a risk of improper drainage during a flood. It was not clear to the Company whether or not it had any responsibility for rectifying potential drainage issues; however, subsequent to June 30, 2018, the Company paid an additional $289,000 to the related party for the related party to assume the remediation contingency. The payment amount was based on an engineering estimate of remediation cost.

As of June 30, 2018, the Company had not recorded any liability with respect to the remediation contingency as the Company could not reasonably determine whether it is probable that it is responsible for remediation, and the decision to convey the contingency to the related party even though responsibility for remediation has not been established was a determination made by the Company subsequent to June 30, 2018.

SUPPLEMENTAL CONSOLIDATING SCHEDULES

Southern Colorado Corp. and Subsidiary

UNAUDITED SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	June 30, 2018			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
ASSETS				
Cash and due from banks	$ 4,296	$ 714	$ (714)	$ 4,296
Interest-bearing deposits in banks	7,078	—	—	7,078
Total cash and cash equivalents	11,374	714	(714)	11,374
Investment securities available for sale	34,258	—	—	34,258
Federal Home Loan Bank stock	129	—	—	129
Loans, net of allowance for loan losses of $746	34,832	—	—	34,832
Accrued interest receivable	345	—	—	345
Premises and equipment, net	1,248	—	—	1,248
Other assets	116	—	—	116
Investment in Citizens Bank of Pagosa Springs	—	7,267	(7,267)	—
	$ 82,302	$ 7,981	$ (7,981)	$ 82,302
LIABILITIES				
Deposits				
Noninterest-bearing	$ 26,249	—	$ (714)	$ 25,535
Interest-bearing	48,647	—	—	48,647
Total deposits	74,896	—	(714)	74,182
Accrued expenses and other liabilities	139	66	—	205
Total liabilities	75,035	66	(714)	74,387
STOCKHOLDERS' EQUITY				
Common stock	200	160	(200)	160
Additional paid-in capital	4,700	5,370	(4,700)	5,370
Retained earnings	2,636	2,654	(2,636)	2,654
Accumulated other comprehensive loss	(269)	(269)	269	(269)
Total stockholders' equity	7,267	7,915	(7,267)	7,915
	$ 82,302	$ 7,981	$ (7,981)	$ 82,302

Southern Colorado Corp. and Subsidiary

UNAUDITED SUPPLEMENTAL CONSOLIDATING BALANCE SHEETS

	December 31, 2017			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
ASSETS				
Cash and due from banks	$ 2,204	$ 224	$ (224)	$ 2,204
Interest-bearing deposits in banks	15,537	—	—	15,537
Total cash and cash equivalents	17,741	224	(224)	17,741
Investment securities available for sale	31,403	—	—	31,403
Federal Home Loan Bank stock	127	—	—	127
Loans, net of allowance for loan losses of $1,136	35,461	—	—	35,461
Accrued interest receivable	302	—	—	302
Premises and equipment, net	1,989	—	—	1,989
Real estate held for sale	132	—	—	132
Other assets	140	1	—	141
Investment in Citizens Bank of Pagosa Springs	—	7,637	(7,637)	—
	$ 87,295	$ 7,862	$ (7,861)	$ 87,296
LIABILITIES				
Deposits				
Noninterest-bearing	$ 26,961	$ —	$ (224)	$ 26,737
Interest-bearing	52,515	—	—	52,515
Total deposits	79,476	—	(224)	79,252
Notes payable	—	500	—	500
Accrued expenses and other liabilities	182	4	—	186
Total liabilities	79,658	504	(224)	79,938
STOCKHOLDERS' EQUITY				
Common stock	200	160	(200)	160
Additional paid-in capital	4,700	5,370	(4,700)	5,370
Retained earnings	2,889	1,980	(2,889)	1,980
Accumulated other comprehensive loss	(152)	(152)	152	(152)
Total stockholders' equity	7,637	7,358	(7,637)	7,358
	$ 87,295	$ 7,862	$ (7,861)	$ 87,296

Southern Colorado Corp. and Subsidiary

UNAUDITED SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Six Months Ended June 30, 2018			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
Interest and dividend income				
Loans, including fees	$ 966	$ —	$ —	$ 966
Taxable investment securities	100	—	—	100
Tax-exempt investment securities	256	—	—	256
Federal Home Loan Bank stock	2	—	—	2
Interest-bearing deposits	61	—	—	61
Total interest and dividend income	1,385	—	—	1,385
Interest expense				
Deposits	154	—	—	154
Notes payable	—	3	—	3
Total interest expense	154	3	—	157
Net interest income	1,231	(3)	—	1,228
Credit for loan losses	(400)	—	—	(400)
Net interest income after provision for loan losses	1,631	(3)	—	1,628
Noninterest income				
Service charges on deposit accounts	51	—	—	51
ATM and debit card	100	—	—	100
Mortgage banking	64	—	—	64
Net loss on sale of securities available for sale	(2)	—	—	(2)
Other noninterest income	99	8	—	107
	312	8	—	320
Noninterest expense				
Salaries and employee benefits	625	—	—	625
Occupancy and equipment	145	—	—	145
Data processing and software	68	—	—	68
ATM and debit card	60	—	—	60
Management and administration fees	69	—	—	69
Other noninterest expense	230	77	—	307
	1,197	77	—	1,274
Income (loss) before equity in income of subsidiary	746	(72)	—	674
Equity in income of subsidiary	—	746	(746)	—
Net income	$ 746	$ 674	$ (746)	$ 674

Southern Colorado Corp. and Subsidiary

UNAUDITED SUPPLEMENTAL CONSOLIDATING STATEMENTS OF INCOME

	Six Months Ended June 30, 2017			
	Citizens Bank of Pagosa Springs	Southern Colorado Corp.	Consolidating Entries	Consolidated
	(dollars in thousands)			
Interest and dividend income				
Loans, including fees	$ 943	$ —	$ —	$ 943
Taxable investment securities	51	—	—	51
Tax-exempt investment securities	247	—	—	247
Federal Home Loan Bank stock	2	—	—	2
Interest-bearing deposits	38	—	—	38
Total interest and dividend income	1,281	—	—	1,281
Interest expense				
Deposits	86	—	—	86
Notes payable	—	10	—	10
Total interest expense	86	10	—	96
Net interest income	1,195	(10)	—	1,185
Credit for loan losses	—	—	—	—
Net interest income after provision for loan losses	1,195	(10)	—	1,185
Noninterest income				
Service charges on deposit accounts	49	—	—	49
ATM and debit card	88	—	—	88
Mortgage banking	94	—	—	94
Net gain on sale of securities available for sale	9	7	—	16
Other noninterest income	34	—	—	34
	274	7	—	281
Noninterest expense				
Salaries and employee benefits	571	—	—	571
Occupancy and equipment	146	—	—	146
Data processing and software	72	—	—	72
ATM and debit card	70	—	—	70
Management and administration fees	60	—	—	60
Other noninterest expense	229	6	—	235
	1,148	6	—	1,154
Income (loss) before equity in income of subsidiary	321	(9)	—	312
Equity in income of subsidiary	—	321	(321)	—
Net income	$ 321	$ 312	$ (321)	$ 312

Exhibit 99.5

UNAUDITED PRO FORMA CONDENSED COMBINED FINANCIAL STATEMENTS

The following unaudited pro forma condensed combined financial data for Triumph Bancorp, Inc. ("Triumph" or the "Company"), First Bancorp of Durango, Inc. ("FBD") and Southern Colorado Corp. ("SCC"), have been prepared to reflect the acquisitions of FBD and SCC by the Company, which were effective on September 8, 2018. The unaudited pro forma combined balance sheets as of June 30, 2018 give effect to the acquisitions as if they occurred on that date. The unaudited pro forma combined statements of income for the six months ended June 30, 2018 and the year ended December 31, 2017 give effect to the acquisitions as if they occurred on January 1, 2017.

The unaudited pro forma combined financial statements have been prepared using the acquisition method of accounting for business combinations under U.S. GAAP. The Company is the acquirer for accounting purposes. Under this method of accounting, the assets and liabilities of FBD and SCC were recorded by the Company at their estimated fair values, with the excess cost over the fair value of FBD's and SCC's net assets recorded as goodwill. The Company is currently in the process of obtaining fair values for certain assets and assumed liabilities; therefore, the following estimates are preliminary. Certain reclassifications have been made to the historical financial statements of FBD and SCC to conform to the presentation in the Company's financial statements.

The following unaudited pro forma combined statements of income do not include the effects of any non-recurring costs associated with any restructuring or integration activities resulting from the acquisitions that had not yet been recorded at June 30, 2018, as they are non-recurring in nature and not factually supportable at this time.

The unaudited pro forma combined financial statements are provided for informational purposes only and are not necessarily, and should not be assumed to be, an indication of the results that would have been achieved had the transaction been completed as of the dates indicated or that may be achieved in the future. The preparation of the unaudited pro forma combined financial statements and related adjustments required management to make certain assumptions and estimates. The unaudited pro forma combined financial information is based on, and should be read together with:

- The accompanying notes to the unaudited pro forma combined financial statements;
- The Company's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017;
- FBD's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017, included as Exhibit 99.1 in this Current Report on Form 8-K/A;
- SCC's audited consolidated financial statements and accompanying notes as of and for the year ended December 31, 2017, included as Exhibit 99.2 in this Current Report on Form 8-K/A;
- The Company's unaudited consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2018, included in the Company's Quarterly Report on Form 10-Q for the six months ended June 30, 2018;
- FBD's unaudited consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2018, included as Exhibit 99.3 in this Current Report on Form 8-K/A; and
- SCC's unaudited consolidated financial statements and accompanying notes as of and for the six months ended June 30, 2018, included as Exhibit 99.4 in this Current Report on Form 8-K/A.

UNAUDITED PRO FORMA COMBINED BALANCE SHEETS
June 30, 2018
(Dollar amounts in thousands)

	Triumph	FBD	FBD Pro forma Adjustments(1)		FBD Pro forma Combined	SCC	SCC Pro forma Adjustments(1)		SCC Pro forma Combined	Total Pro forma Combined
ASSETS										
Cash and cash equivalents	$ 133,365	$ 85,952	$ (134,667)	A	$ 84,650	$ 11,374	$ (13,294)	A	$ 131,445	$ 82,730
Securities - available for sale	183,184	256,434	—		439,618	34,258	—		217,442	473,876
Securities - equity investments	5,025	—	—		5,025	—	—		5,025	5,025
Securities - held to maturity	8,673	—	—		8,673	—	—		8,673	8,673
Loans held for sale, at fair value	—	2,019	—		2,019	—	—		—	2,019
Loans	3,196,462	269,189	(7,119)	B	3,458,532	35,578	(490)	B	3,231,550	3,493,620
Allowance for loan and lease losses	(24,547)	(3,859)	3,859	C	(24,547)	(746)	746	C	(24,547)	(24,547)
Loans, net of allowance for loan and lease losses	3,171,915	265,330	(3,260)		3,433,985	34,832	256		3,207,003	3,469,073
Federal Home Loan Bank and Federal Reserve Bank stock, at cost	19,223	811	—		20,034	129	—		19,352	20,163
Premises and equipment, net	68,313	12,909	(5,128)	D	76,094	1,248	(391)	D	69,170	76,951
Other real estate owned, net	2,528	66	147	E	2,741	—	—		2,528	2,741
Goodwill	86,668	2,119	65,155	F	153,942	—	3,390	F	90,058	157,332
Intangible assets, net	31,109	17	11,898	G	43,024	—	2,154	G	33,263	45,178
Bank-owned life insurance	40,168	—	—		40,168	—	—		40,168	40,168
Deferred tax assets, net	8,810	—	—		8,810	—	—		8,810	8,810
Other assets	35,650	3,168	(185)	H	38,633	461	(30)	H	36,081	39,064
Total assets	$ 3,794,631	$ 628,825	$ (66,040)		$ 4,357,416	$ 82,302	$ (7,915)		$ 3,869,018	$ 4,431,803
LIABILITIES AND STOCKHOLDERS' EQUITY										
Liabilities										
Deposits										
Noninterest bearing	$ 561,033	$ 105,172	$ —		$ 666,205	$ 25,535	$ —		$ 586,568	$ 691,740
Interest bearing	2,063,909	454,344	—		2,518,253	48,647	—		2,112,556	2,566,900
Total deposits	2,624,942	559,516	—		3,184,458	74,182	—		2,699,124	3,258,640
Customer repurchase agreements	10,509	446	—		10,955	—	—		10,509	10,955
Federal Home Loan Bank advances	420,000	637	—		420,637	—	—		420,000	420,637
Subordinated notes	48,878	—	—		48,878	—	—		48,878	48,878
Junior subordinated debentures	38,849	—	—		38,849	—	—		38,849	38,849
Other liabilities	44,228	1,902	284	I	46,414	205	—		44,433	46,619
Total liabilities	3,187,406	562,501	284		3,750,191	74,387	—		3,261,793	3,824,578
Commitments and contingencies										
Stockholders' equity										
Preferred Stock	9,658	—	—		9,658	—	—		9,658	9,658
Common stock	264	384	(384)	J	264	160	(160)	J	264	264
Additional paid-in-capital	457,980	14,068	(14,068)	J	457,980	5,370	(5,370)	J	457,980	457,980
Treasury stock, at cost	(2,254)	—	—		(2,254)	—	—		(2,254)	(2,254)
Retained earnings	143,426	53,674	(53,674)	J	143,426	2,654	(2,654)	J	143,426	143,426
Note receivable for issuance of common stock	—	(469)	469	J	—	—	—		—	—
Accumulated other comprehensive income	(1,849)	(1,333)	1,333	J	(1,849)	(269)	269	J	(1,849)	(1,849)
Total stockholders' equity	607,225	66,324	(66,324)		607,225	7,915	(7,915)		607,225	607,225
Total liabilities and stockholders' equity	$ 3,794,631	$ 628,825	$ (66,040)		$ 4,357,416	$ 82,302	$ (7,915)		$ 3,869,018	$ 4,431,803

(1) See Note 3 of the Notes to the Unaudited Pro Forma Combined Financial Statements

UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME
For the Six Months Ended June 30, 2018
(Dollar amounts in thousands, except per share amounts)

	Triumph	FBD	FBD Pro forma Adjustments(1)		FBD Pro forma Combined	SCC	SCC Pro forma Adjustments(1)		SCC Pro forma Combined	Total Pro forma Combined
Interest and dividend income:										
Loans, including fees	$ 75,031	$ 7,046	$ 396	K	$ 82,473	$ 966	$ 31	K	$ 76,028	$ 83,470
Factored receivables, including fees	36,094	—	—		36,094	—	—		36,094	36,094
Securities	2,489	3,189	—		5,678	356	—		2,845	6,034
Federal Home Loan Bank and Federal Reserve Bank stock	206	12	—		218	2	—		208	220
Cash deposits	1,547	454	—		2,001	61	—		1,608	2,062
Total interest income	115,367	10,701	396		126,464	1,385	31		116,783	127,880
Interest expense:										
Deposits	8,908	715	—		9,623	154	—		9,062	9,777
Subordinated notes	1,675	—	—		1,675	—	—		1,675	1,675
Junior subordinated debentures	1,310	—	—		1,310	—	—		1,310	1,310
Other borrowings	3,087	20	—		3,107	3	—		3,090	3,110
Total interest expense	14,980	735	—		15,715	157	—		15,137	15,872
Net interest income	100,387	9,966	396		110,749	1,228	31		101,646	112,008
Provision for loan losses	7,454	(119)	—		7,335	(400)	—		7,054	6,935
Net interest income after provision for loan losses	92,933	10,085	396		103,414	1,628	31		94,592	105,073
Noninterest income:										
Service charges on deposits	2,355	687	—		3,042	51	—		2,406	3,093
Card income	2,638	1,002	—		3,640	100	—		2,738	3,740
Net OREO gains (losses) and valuation adjustments	(616)	(797)	—		(1,413)	92	—		(524)	(1,321)
Net gains (losses) on sale of securities	(272)	(3)	—		(275)	(2)	—		(274)	(277)
Net gains on sale of loans	—	206	—		206	64	—		64	270
Fee income	1,921	166	—		2,087	—	—		1,921	2,087
Insurance commissions	1,533	—	—		1,533	—	—		1,533	1,533
Gain on sale of subsidiary or division	1,071	—	—		1,071	—	—		1,071	1,071
Other	1,487	327	—		1,814	15	—		1,502	1,829
Total noninterest income	10,117	1,588	—		11,705	320	—		10,437	12,025
Noninterest expense:										
Salaries and employee benefits	39,931	4,895	—		44,826	625	—		40,556	45,451
Occupancy, furniture and equipment	6,068	1,233	(416)	L	6,885	145	(36)	L	6,177	6,994
FDIC insurance and other regulatory assessments	582	126	—		708	13	—		595	721
Professional fees	3,718	963	—		4,681	218	—		3,936	4,899
Amortization of intangible assets	2,478	18	957	M	3,453	—	176	M	2,654	3,629
Advertising and promotion	2,329	312	—		2,641	48	—		2,377	2,689
Communications and technology	6,630	699	—		7,329	68	—		6,698	7,397
Other	9,709	1,445	—		11,154	157	—		9,866	11,311
Total noninterest expense	71,445	9,691	541		81,677	1,274	140		72,859	83,091
Net income before income tax	31,605	1,982	(145)		33,442	674	(109)		32,170	34,007
Income tax expense (benefit)	7,152	—	416	N	7,568	—	128	N	7,280	7,696
Net income	24,453	1,982	(561)		25,874	674	(237)		24,890	26,311
Dividends on preferred stock	(383)	—	—		(383)	—	—		(383)	(383)
Net income available to common stockholders	$ 24,070	$ 1,982	$ (561)		$ 25,491	$ 674	$ (237)		$ 24,507	$ 25,928
Earnings per common share										
Basic	$ 1.04				$ 1.01				$ 1.05	$ 1.02
Diluted	$ 1.02				$ 0.99				$ 1.03	$ 1.00

(1) See Note 3 of the Notes to the Unaudited Pro Forma Combined Financial Statements

UNAUDITED PRO FORMA COMBINED STATEMENTS OF INCOME
For the Year Ended December 31, 2017
(Dollar amounts in thousands, except per share amounts)

	Triumph	FBD	FBD Pro forma Adjustments(1)		FBD Pro forma Combined	SCC	SCC Pro forma Adjustments(1)		SCC Pro forma Combined	Total Pro forma Combined
Interest and dividend income:										
Loans, including fees	$ 121,567	$ 12,780	$ 995	K	$ 135,342	$ 1,937	$ 84	K	$ 123,588	$ 137,363
Factored receivables, including fees	47,177	—	—		47,177	—	—		47,177	47,177
Securities	6,823	7,106	—		13,929	619	—		7,442	14,548
Federal Home Loan Bank and Federal Reserve Bank stock	207	20	—		227	4	—		211	231
Cash deposits	1,450	532	—		1,982	92	—		1,542	2,074
Total interest income	177,224	20,438	995		198,657	2,652	84		179,960	201,393
Interest expense:										
Deposits	13,082	920	—		14,002	233	—		13,315	14,235
Subordinated notes	3,344	—	—		3,344	—	—		3,344	3,344
Junior subordinated debentures	1,955	—	—		1,955	—	—		1,955	1,955
Other borrowings	3,159	43	—		3,202	21	—		3,180	3,223
Total interest expense	21,540	963	—		22,503	254	—		21,794	22,757
Net interest income	155,684	19,475	995		176,154	2,398	84		158,166	178,636
Provision for loan losses	11,628	(17)	—		11,611	(200)	—		11,428	11,411
Net interest income after provision for loan losses	144,056	19,492	995		164,543	2,598	84		146,738	167,225
Noninterest income:										
Service charges on deposits	4,181	1,347	—		5,528	99	—		4,280	5,627
Card income	3,822	1,927	—		5,749	184	—		4,006	5,933
Net OREO gains (losses) and valuation adjustments	(850)	(32)	—		(882)	(7)	—		(857)	(889)
Net gains (losses) on sale of securities	35	267	—		302	16	—		51	318
Net gains on sale of loans	—	512	—		512	192	—		192	704
Fee income	2,503	331	—		2,834	—	—		2,503	2,834
Insurance commissions	2,981	—	—		2,981	—	—		2,981	2,981
Gain on sale of subsidiary	20,860	—	—		20,860	—	—		20,860	20,860
Asset management fees	1,717	—	—		1,717	—	—		1,717	1,717
Other	5,407	562	—		5,969	26	—		5,433	5,995
Total noninterest income	40,656	4,914	—		45,570	510	—		41,166	46,080
Noninterest expense:										
Salaries and employee benefits	72,696	9,963	—		82,659	1,173	—		73,869	83,832
Occupancy, furniture and equipment	9,833	2,417	(470)	L	11,780	294	(73)	L	10,054	12,001
FDIC insurance and other regulatory assessments	1,201	228	—		1,429	20	—		1,221	1,449
Professional fees	7,192	1,319	—		8,511	290	—		7,482	8,801
Amortization of intangible assets	5,201	54	2,112	M	7,367	—	392	M	5,593	7,759
Advertising and promotion	3,226	536	—		3,762	82	—		3,308	3,844
Communications and technology	8,843	1,303	—		10,146	142	—		8,985	10,288
Other	15,422	2,893	—		18,315	442	—		15,864	18,757
Total noninterest expense	123,614	18,713	1,642		143,969	2,443	319		126,376	146,731
Net income before income tax	61,098	5,693	(647)		66,144	665	(235)		61,528	66,574
Income tax expense	24,878	—	2,055	N	26,933	—	175	N	25,053	27,108
Net income	36,220	5,693	(2,702)		39,211	665	(410)		36,475	39,466
Dividends on preferred stock	(774)	—	—		(774)	—	—		(774)	(774)
Net income available to common stockholders	$ 35,446	$ 5,693	$ (2,702)		$ 38,437	$ 665	$ (410)		$ 35,701	$ 38,692
Earnings per common share										
Basic	$ 1.85				$ 1.68				$ 1.83	$ 1.66
Diluted	$ 1.81				$ 1.65				$ 1.79	$ 1.63

(1) See Note 3 of the Notes to the Unaudited Pro Forma Combined Financial Statements

NOTE 1 – BASIS OF PRO FORMA PRESENTATION

The unaudited pro forma combined balance sheets as of June 30, 2018 and the unaudited pro forma combined statements of income for the six months ended June 30, 2018 and the year ended December 31, 2017 are based on the historical financial statements of the Company, FBD, and SCC after giving effect to the completion of the acquisitions and the assumptions and adjustments described in the accompanying notes. The unaudited pro forma combined balance sheets as of June 30, 2018 give effect to the acquisitions and other adjustments as if they occurred on that date. The unaudited pro forma combined statements of income for the six months ended June 30, 2018 and the year ended December 31, 2017 give effect to the acquisitions as if they occurred on January 1, 2017. Such financial statements do not reflect cost savings or operating synergies expected to result from the acquisition, or the cost to achieve these cost savings or operating synergies, or any anticipated disposition of assets or liquidation of liabilities that may result from the integration of the operations of the three companies.

The transaction was accounted for under the acquisition method of accounting in accordance with Accounting Standards Codification ("ASC") Topic 805, Business Combinations ("ASC 805"). Under ASC 805, all of the assets acquired and liabilities assumed in a business combination are recognized at their acquisition-date fair values, while transaction and restructuring costs associated with the business combination are expensed as incurred. The excess of the purchase price over the fair value of assets acquired and liabilities assumed is allocated to goodwill, which resulted from the combination of expected operational synergies and expanded market share.

The unaudited pro forma information is presented solely for informational purposes and is not necessarily indicative of the combined results of operation or financial position that might have been achieved for the periods or dates indicated, nor is it necessarily indicative of the future results of the combined company.

NOTE 2 – PRO FORMA UNAUDITED PURCHASE PRICE AND PURCHASE PRICE ALLOCATION

Pursuant to the acquisition agreements between the Company and FBD as well as the Company and SCC, the Company paid $147,961,000 in cash for the outstanding common stock of FBD and SCC. The following table presents the preliminary purchase accounting allocations used in the pro forma financial statements as of June 30, 2018:

(Dollars in thousands)	FBD	SCC	Total
Fair value of assets acquired:			
Cash and cash equivalents	$ 85,952	$ 11,374	$ 97,326
Securities	256,434	34,258	290,692
Loans held for sale	2,019	—	2,019
Loans	262,070	35,088	297,158
FHLB stock	811	129	940
Premises and equipment	7,781	857	8,638
Other real estate owned	213	—	213
Intangible assets	11,915	2,154	14,069
Other assets	2,983	431	3,414
	630,178	84,291	714,469
Fair value of liabilities assumed:			
Deposits	559,516	74,182	633,698
Customer repurchase agreements	446	—	446
Federal Home Loan Bank advances	637	—	637
Other liabilities	2,186	205	2,391
	562,785	74,387	637,172
Fair value of net assets acquired	67,393	9,904	77,297
Cash consideration transferred	134,667	13,294	147,961
Goodwill	$ 67,274	$ 3,390	$ 70,664

Under the acquisition method of accounting, the total purchase price is allocated to the acquired tangible and intangible assets and assumed liabilities of FBD and SCC based on their estimated fair values as of the closing of the acquisitions. The excess of the purchase price over the fair value of assets acquired and liabilities assumed, if any, is allocated to goodwill.

The preliminary allocation is based on estimates, assumptions, valuations, and other studies which have not progressed to a stage where there is sufficient information to make a definitive allocation. Accordingly, the pro forma purchase price allocation and unaudited pro forma adjustments will remain preliminary until the Company's management determines the final fair value of assets acquired and liabilities assumed. The final determination of the purchase price allocation is anticipated to be completed at the earlier of (i) twelve months from the date of the acquisitions or (ii) as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or learns that more information is not obtainable. The final amounts allocated to assets acquired and liabilities assumed could differ significantly from the amounts presented in the unaudited pro forma combined financial statements.

Identifiable intangible assets. The preliminary fair values of intangible assets were determined based on the provisions of ASC 805, which defines fair value in accordance with ASC Topic 820, Fair Value Measurements and Disclosures ("ASC 820"). ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Intangible assets were identified that met either the separability criterion or the contractual-legal criterion described in ASC 805.

The Company has preliminarily allocated $14,069,000 to amortizable core deposit intangible assets acquired. The amortization related to the preliminary fair value of net amortizable intangible assets is reflected as a pro forma adjustment to the unaudited pro forma combined financial statements. The core deposit intangibles will be amortized over a ten year period on an accelerated basis which is expected to produce the following amortization expense for the combined operations:

(Dollars in thousands)	FBD	SCC	Total
Year 1	$ 2,166	$ 392	$ 2,558
Year 2	1,950	352	2,302
Year 3	1,733	313	2,046
Year 4	1,516	274	1,790
Year 5	1,300	235	1,535
Thereafter	3,250	588	3,838
	$ 11,915	$ 2,154	$ 14,069

Goodwill. Goodwill represents the excess of the purchase price over the fair value of the underlying net assets acquired. In accordance with ASC Topic 350, Intangibles – Goodwill and Other, goodwill will not be amortized, but instead will be tested for impairment at least annually and whenever events or circumstances have occurred that may indicate a possible impairment. In the event management determines that the value of goodwill has become impaired, the combined company will incur an accounting charge for the amount of the impairment during the period in which the determination is made.

NOTE 3 – PRELIMINARY UNAUDITED PRO FORMA ADJUSTMENTS

The unaudited pro forma financial information is not necessarily indicative of what the financial position actually would have been had the acquisitions been completed at the date indicated, and includes adjustments which are preliminary and may be revised. Such revisions may result in material changes. The financial position shown herein is not necessarily indicative of what the past financial position of the combined companies would have been, nor necessarily indicative of the financial position of the post-acquisition periods. The unaudited pro forma financial information does not give consideration to the impact of possible expense efficiencies, synergies, or other actions that may result from the acquisition.

The following unaudited pro forma adjustments result from accounting for the acquisitions, including the determination of fair value of the assets, liabilities and commitments which the Company, as the acquirer for accounting purposes, acquired from FBD and SCC. Additionally, because FBD and SCC were Subchapter S corporations before the acquisitions and did not incur any federal income tax liabilities, adjustments have been included to estimate the impact of federal income taxes on FBD and SCC's net income for the periods presented. The descriptions related to these preliminary adjustments are as follows (in thousands):

Balance Sheets

	June 30, 2018		
	FBD	SCC	Total
A Adjustments to cash			
To reflect cash consideration for outstanding FBD and SCC common stock	$ (134,667)	$ (13,294)	$ (147,961)
B Adjustments to loans			
To reflect estimated fair value at acquisition date. The estimated fair value includes an analysis of expected cash flows, which considers credit losses expected over the assumed life of the portfolio as a result of future events and other factors. The expected cash flows were present valued using current market discount rates for similar lending arrangements to arrive at the estimated fair value	$ (7,119)	$ (490)	$ (7,609)
C Adjustments to allowance for loan and lease losses			
To eliminate FBD and SCC historical allowance for loan and lease losses, as credit risk is contemplated in the fair value adjustments to loans	$ 3,859	$ 746	$ 4,605
D Adjustments to premises and equipment, net			
To reflect estimated fair value at acquisition date. The adjustment to premises and equipment was based on independent third party appraisals obtained on acquired land and buildings	$ (5,128)	$ (391)	$ (5,519)
E Adjustments to other real estate owned, net			
To reflect estimated fair value at acquisition date. The estimated fair value of other real estate owned was based on independent third party appraisals, less estimated costs to sell	$ 147	$ —	$ 147
F Adjustments to goodwill			
To reflect the goodwill associated with the FBD and SCC acquisitions	$ 67,274	$ 3,390	$ 70,664
To eliminate FBD historical acquired goodwill	(2,119)	—	(2,119)
	$ 65,155	$ 3,390	$ 68,545
G Adjustments to intangible assets, net			
To reflect the estimated core deposit intangible assests associated with the acquisitions. The core deposit intangible assets were estimated by comparing the cost of alternative funding sources to the cost of the deposit base of FBD and SCC. Time deposits are generally not included in the analysis, which uses a discounted cash flow approach	$ 11,915	$ 2,154	$ 14,069
To eliminate FBD historical acquired intangible asset	(17)	—	(17)
	$ 11,898	$ 2,154	$ 14,052
H Adjustments to other assets			
To reflect estimated fair value at acquisition date	$ (185)	$ (30)	$ (215)
I Adjustments to other liabilities			
To reflect estimated fair value at acquisition date	$ 284	$ —	$ 284
J Adjustments to stockholders' equity			
To eliminate FBD and SCC historical common stock	$ (384)	$ (160)	$ (544)
To eliminate FBD and SCC historical additional paid-in-capital	(14,068)	$ (5,370)	(19,438)
To eliminate FBD and SCC historical retained earnings	(53,674)	(2,654)	(56,328)
To eliminate FBD historical note receivable for issuance of common stock	469	—	469
To eliminate FBD and SCC historical accumulated other comprehensive income	1,333	269	1,602
	$ (66,324)	$ (7,915)	$ (74,239)

Statements of Income

	Six Months Ended June 30, 2018			Year Ended December 31, 2017		
	FBD	SCC	Total	FBD	SCC	Total
K Adjustments to loan interest income						
To reflect accretion of loan discounts resulting from the loan fair value adjustments. The discounts will be accreted under the effective interest method as an increase to interest income on a pro rata basis based on the contractual maturities of the underlying loans	$ 396	$ 31	$ 427	$ 995	$ 84	$ 1,079
L Adjustments to occupancy, furniture and equipment expense						
To reflect depreciation resulting from premises and equipment fair value adjustments. The fair value of premises and equipment will be depreciated over the remaining estimated useful lives on a straight-line basis	$ 132	$ 17	$ 149	$ 518	$ 33	$ 551
To eliminate FBD and SCC historical depreciation expense associated with premises and equipment that have been adjusted to fair value	(548)	(53)	(601)	(988)	(106)	(1,094)
	$ (416)	$ (36)	$ (452)	$ (470)	$ (73)	$ (543)
M Adjustments to amortization of intangible assets expense						
To reflect amortization of acquired intangible assets. The core deposit intangibles will be amortized over a ten year period on an accelerated basis	$ 975	$ 176	$ 1,151	$ 2,166	$ 392	$ 2,558
To eliminate FBD historical amortization of intangible assets	(18)	—	(18)	(54)	—	(54)
	$ 957	$ 176	$ 1,133	$ 2,112	$ 392	$ 2,504
N Adjustments to income tax expense (benefit)						
To reflect the income tax expense of the pro forma combined entity using the Company’s historical effective tax rate. The pro forma adjustment for income tax expense considers the pretax income of FBD and SCC as well as the income statement pro forma adjustments for the periods	$ 416	$ 128	$ 544	$ 2,055	$ 175	$ 2,230

NOTE 4 – UNAUDITED EARNINGS PER COMMON SHARE

Unaudited pro forma earnings per common share for the six months ended June 30, 2018 and the year ended December 31, 2017 have been calculated using the Company's weighted average common shares outstanding for the respective periods increased by the portion of the common shares sold in the Company's April 12, 2018 underwritten public offering for which the proceeds were assumed to be used for the purpose of funding the acquisitions of FBD and SCC. The weighted average impact of the common shares assumed to have been issued to fund the acquisitions was calculated as if the shares were issued on January 1, 2017.

The following table sets forth the calculation of basic and diluted unaudited pro forma earnings per common share for the six months ended June 30, 2018:

	Six Months Ended June 30, 2018		
(Dollars in thousands)	FBD	SCC	Total
Basic			
Net income to common stockholders	$ 25,491	$ 24,507	$ 25,928
Weighted average common shares outstanding	23,133,489	23,133,489	23,133,489
Pro forma adjustment for assumed stock issuance	2,135,792	210,838	2,346,630
Pro forma weighted average common shares outstanding	25,269,281	23,344,327	25,480,119
Basic earnings per common share	$ 1.01	$ 1.05	$ 1.02
Diluted			
Net income to common stockholders	$ 25,491	$ 24,507	$ 25,928
Dilutive effect of preferred stock	383	383	383
Net income to common stockholders - diluted	$ 25,874	$ 24,890	$ 26,311
Pro forma weighted average common shares outstanding	25,269,281	23,344,327	25,480,119
Dilutive effects of:			
Assumed conversion of Preferred A	315,773	315,773	315,773
Assumed conversion of Preferred B	354,471	354,471	354,471
Assumed exercises of stock warrants	—	—	—
Assumed exercises of stock options	85,123	85,123	85,123
Restricted stock awards	60,425	60,425	60,425
Restricted stock units	862	862	862
Average shares and dilutive potential common shares	26,085,935	24,160,981	26,296,773
Dilutive earnings per common share	$ 0.99	$ 1.03	$ 1.00

Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

	Six Months Ended June 30, 2018		
	FBD	SCC	Total
Shares assumed to be converted from Preferred Stock Series A	—	—	—
Shares assumed to be converted from Preferred Stock Series B	—	—	—
Stock options	51,952	51,952	51,952
Restricted stock awards	—	—	—
Restricted stock units	—	—	—
Performance stock units	59,658	59,658	59,658

The following table sets forth the calculation of basic and diluted unaudited pro forma earnings per common share for the year ended December 31, 2017:

(Dollars in thousands)	Year Ended December 31, 2017 FBD	SCC	Total
Basic			
Net income to common stockholders	$ 38,437	$ 35,701	$ 38,692
Weighted average common shares outstanding	19,133,745	19,133,745	19,133,745
Pro forma adjustment for assumed stock issuance	3,789,984	374,134	4,164,118
Pro forma weighted average common shares outstanding	22,923,729	19,507,879	23,297,863
Basic earnings per common share	$ 1.68	$ 1.83	$ 1.66
Diluted			
Net income to common stockholders	$ 38,437	$ 35,701	$ 38,692
Dilutive effect of preferred stock	774	774	774
Net income to common stockholders - diluted	$ 39,211	$ 36,475	$ 39,466
Pro forma weighted average common shares outstanding	22,923,729	19,507,879	23,297,863
Dilutive effects of:			
Assumed conversion of Preferred A	315,773	315,773	315,773
Assumed conversion of Preferred B	354,471	354,471	354,471
Assumed exercises of stock warrants	82,567	82,567	82,567
Assumed exercises of stock options	45,653	45,653	45,653
Restricted stock awards	68,079	68,079	68,079
Restricted stock units	—	—	—
Average shares and dilutive potential common shares	23,790,272	20,374,422	24,164,406
Dilutive earnings per common share	$ 1.65	$ 1.79	$ 1.63

Shares that were not considered in computing diluted earnings per common share because they were antidilutive are as follows:

	Year Ended December 31, 2017 FBD	SCC	Total
Shares assumed to be converted from Preferred Stock Series A	—	—	—
Shares assumed to be converted from Preferred Stock Series B	—	—	—
Stock options	57,926	57,926	57,926
Restricted stock awards	—	—	—
Restricted stock units	—	—	—
Performance stock units	—	—	—