

TRIUMPH BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Company used the following methods and assumptions to estimate fair value of financial instruments that are measured at fair value on a recurring basis:

Securities available for sale – The fair values of debt securities available for sale are determined by third-party matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs).

Equity securities – The fair values of equity securities are determined based on quoted market prices in active markets and are classified in Level 1 of the valuation hierarchy.

Loans held for sale – The fair value of loans held for sale is determined using commitments on hand from investors or prevailing market prices and are classified in Level 2 of the valuation hierarchy.

Derivative Financial Instruments – Currently, the Company uses interest rate swaps as part of its cash flow strategy to manage its interest rate risk. The valuation of these instruments is determined using widely accepted valuation techniques including discounted cash flow analysis on the expected cash flows of each derivative. This analysis reflects the contractual terms of the derivatives, including the period to maturity, and uses observable market-based inputs, including interest rate curves and implied volatilities. The fair values of interest rate swaps are determined using the market standard methodology of netting the discounted future fixed cash receipts (or payments) and the discounted expected variable cash payments (or receipts). The variable cash payments (or receipts) are based on an expectation of future interest rates (forward curves) derived from observable market interest rate curves. The derivative financial instrument fair value is considered a Level 2 classification.

Indemnification Asset

The fair value of the indemnification asset is calculated as the present value of the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio. The cash flows are discounted at a rate to reflect the uncertainty of the timing and receipt of the payments from Covenant. The indemnification asset is reviewed quarterly and changes to the asset are recorded as adjustments to other noninterest income or expense, as appropriate, within the Consolidated Statements of Income. The indemnification asset fair value is considered a Level 3 classification. At December 31, 2021 and 2020, the estimated cash payments expected to be received from Covenant for probable losses on the covered Over-Formula Advance Portfolio were \$5,038,000 and \$39,200,000, respectively, and a discount rate of 5.0% and 8.8%, respectively, was applied to calculate the present value of the indemnification asset.

A reconciliation of the opening balance to the closing balance of the fair value of the indemnification asset is as follows:

<i>(Dollars in thousands)</i>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Beginning balance	\$ 36,225	\$ —	\$—
Indemnification asset recognized in business combination	—	30,959	—
Change in fair value of indemnification asset recognized in earnings	4,194	5,266	—
Indemnification reduction	(35,633)	—	—
Ending balance	<u>\$ 4,786</u>	<u>\$36,225</u>	<u>\$—</u>

There were no transfers between levels for the years ended December 31, 2021 and 2020.