Board of Governors of the Federal Reserve System

Annual Report of Holding Companies—FR Y-6

RECEIVED
MAR 27 2019
NIC UNIT

Report at the close of business as of the end of fiscal year

This Report is required by law: Section 5(c)(1)(A) of the Bank Holding Company Act (12 U.S.C. § 1844(c)(1)(A)); sections 8(a) and 13(a) of the International Banking Act (12 U.S.C. §§ 3106(a) and 3108(a)); sections 11(a)(1), 25, and 25A of the Federal Reserve Act (12 U.S.C. §§ 248(a)(1), 602, and 611a); and sections 113, 165, 312, 618, and 809 of the Dodd-Frank Act (12 U.S.C. §§ 5361, 5365, 5412, 1850a(c)(1), and 5468(b)(1)). Return to the appropriate Federal Reserve Bank the original and the number of copies specified.

This report form is to be filed by all top-tier bank holding companies, top-tier savings and loan holding companies, and U.S. intermediate holding companies organized under U.S. law, and by any foreign banking organization that does not meet the requirements of and is not treated as a qualifying foreign banking organization under Section 211.23 of Regulation K (12 C.F.R. § 211.23). (See page one of the general instructions for more detail of who must file.) The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, an information collection unless it displays a currently valid OMB control number.

NOTE: The *Annual Report of Holding Companies* must be signed by one director of the top-tier holding company. This individual should also be a senior official of the top-tier holding company. In the event that the top-tier holding company does not have an individual who is a senior official and is also a director, the chairman of the board must sign the report. If the holding company is an ESOP/ESOT formed as a corporation or is an LLC, see the General Instructions for the authorized individual who must sign the report.

I, Sean Ormand
Name of the Holding Company Director and Official

President, CEO, Director
Title of the Holding Company Director and Official

attest that the *Annual Report of Holding Companies* (including the supporting attachments) for this report date has been prepared in conformance with the instructions issued by the Federal Reserve System and are true and correct to the best of my knowledge and belief.

With respect to information regarding individuals contained in this report, the Reporter certifies that it has the authority to provide this information to the Federal Reserve. The Reporter also certifies that it has the authority, on behalf of each individual, to consent or object to public release of information regarding that individual. The Federal Reserve may assume, in the absence of a request for confidential treatment submitted in accordance with the Board's "Rules Regarding Availability of Information," 12 C.F.R. Part 261, that the Reporter and individual consent to public release of all details in the report concerning that individual.

Signature of Holding Company Director and Official

03/26/2019
Date of Signature

For holding companies not registered with the SEC–
Indicate status of Annual Report to Shareholders:

- [x] is included with the FR Y-6 report
- [ ] will be sent under separate cover
- [ ] is not prepared

For Federal Reserve Bank Use Only

RSSD ID 1107830
C.I.

Date of Report (top-tier holding company's fiscal year-end):

December 31, 2018
Month / Day / Year

N/A
Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)

Reporter's Name, Street, and Mailing Address

First New Mexico Financial Corporation
Legal Title of Holding Company

P.O. Box 511
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Deming	NM	88031

300 South Gold Avenue, Deming, NM 88030
Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Sean Ormand	President, CEO, Director

575-388-3121
Area Code / Phone Number / Extension

575-388-1224
Area Code / FAX Number

sormand@fnmbsc.com
E-mail Address

N/A
Address (URL) for the Holding Company's web page

Is confidential treatment requested for any portion of this report submission? ..... 0=No 1=Yes: 0

In accordance with the General Instructions for this report (check only one),

1. a letter justifying this request is being provided along with the report ..... [ ]
2. a letter justifying this request has been provided separately ... [ ]

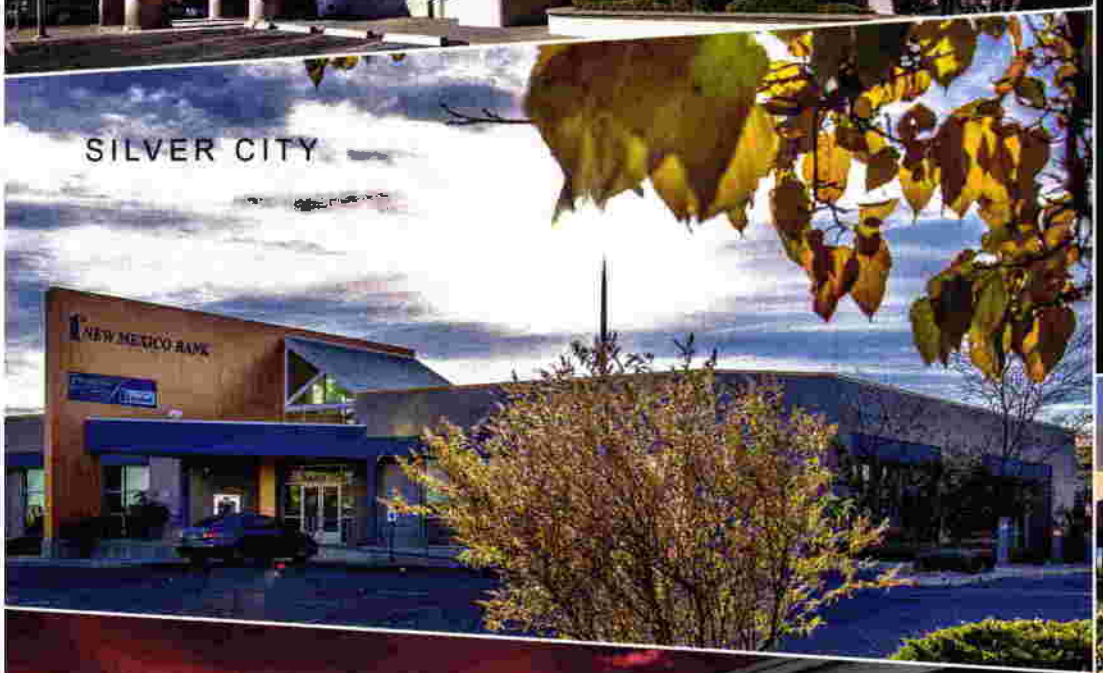
NOTE: Information for which confidential treatment is being requested must be provided separately and labeled as "confidential."

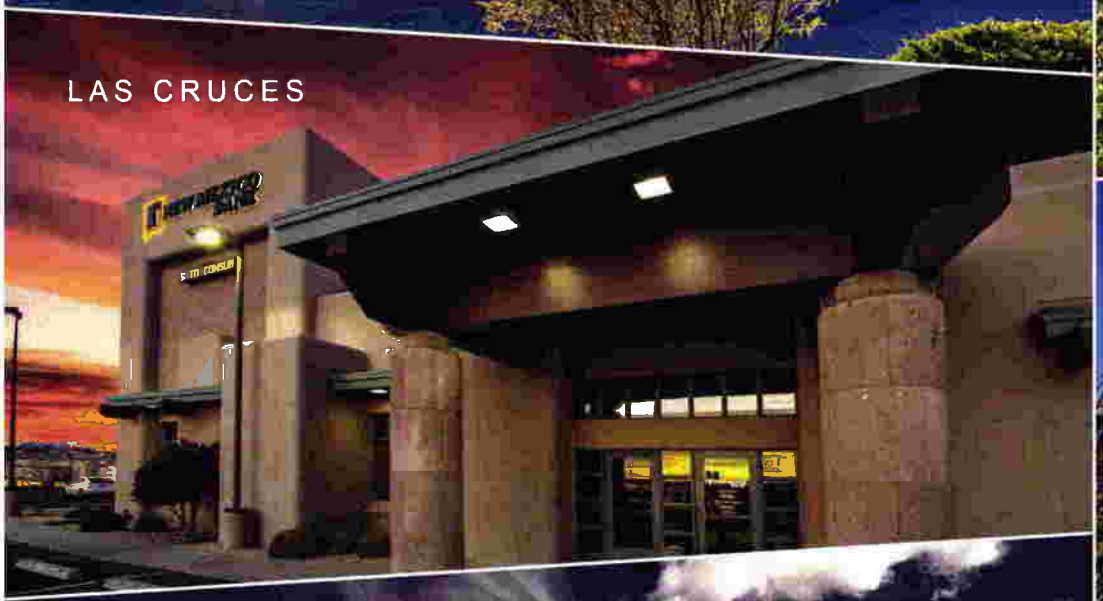
Public reporting burden for this information collection is estimated to vary from 1.3 to 101 hours per response, with an average of 5.50 hours per response, including time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimate or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, NW, Washington, DC 20551, and to the Office of Management and Budget, Paperwork Reduction Project (7100-0297), Washington, DC 20503.

ANNUAL REPORT

2018

FIRST NEW MEXICO FINANCIAL CORPORATION





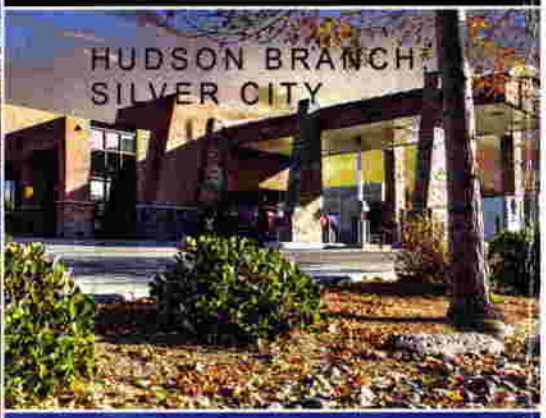
DEMING
(575) 546-2691

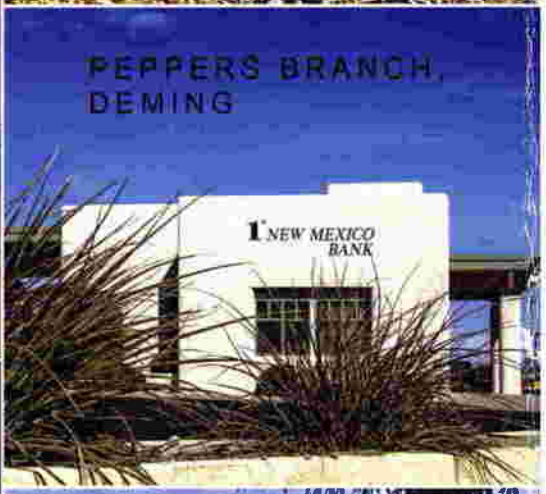
SILVER CITY
(575) 388-3121

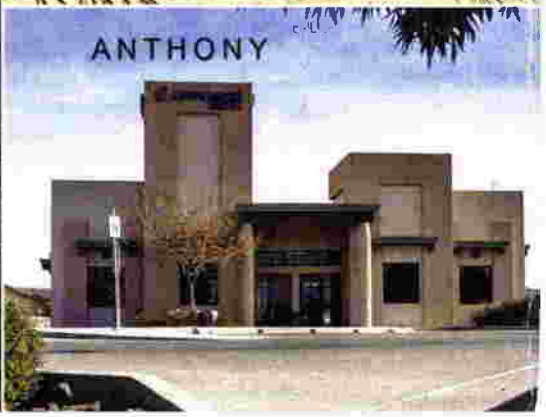
LAS CRUCES
575

ANTHONY
575

COLUMBUS
575







LETTER FROM THE PRESIDENT

TO OUR SHAREHOLDERS

It was another stellar year for the First New Mexico Bank family as the dedication and hard work of our employees, officers and directors resulted in record earnings per share of $112.62, and consequently, an outstanding cash dividend for our shareholders.

All of our First New Mexico banks benefitted from a strong and growing economy throughout 2018, and each bank experienced increased loan demand as well as a reduced tax burden. This resulted in solid gains in profitability. Pursuing safe, sound and profitable loan growth will continue to be one of our primary focuses for maintaining profitability gains.

All of our First New Mexico banks benefitted from a strong and growing economy throughout 2018, and each bank experienced increased loan demand as well as a reduced tax burden.

The bank's directors and senior management continue to work through a highly complex environment of regulation, technology, competition and demands on human capital. Through it all, we continue to be market leaders in our communities. We celebrate our victories and never underestimate the challenges and difficult paths we choose to take in order to be successful.

We have been richly blessed as community banks throughout the regions we serve in Deming, Las Cruces, Silver City, Anthony, Columbus, and Albuquerque.

Las Cruces continues to be a market leader in performance and has made great strides in loan growth and market presence due to its highly-effective officers and employees. Sharron and her bank team are well respected in their local market, as well as in markets across the state.

Our Deming bank remains one of the most efficient banks in New Mexico. Under the direction of Teresa Molina, she and the dedicated bankers who serve Luna County remain the driving financial force amongst all of their peers.

The bank in Silver City continues to have year-over-year growth in assets and income while continuing to serve markets in Grant County and Albuquerque. Owing much of our success to the dedicated officers, employees and directors of the bank, we look forward to many more rewarding years.

Owing much of our success to the dedicated officers, employees and directors of the bank, we look forward to many more rewarding years.

While 2018 was certainly full of blessings it was also a year of loss as we said our earthly goodbyes to our friend and mentor Earl Spruiell, who is now with the Lord. All of our banks continue to build on the great legacy he left behind.

Sincerely,

Sean Ormand
President/CEO

1st NEW MEXICO FINANCIAL CORPORATION
P.O. BOX 511 • DEMING, NEW MEXICO 88031-0511 (575) 546-2691

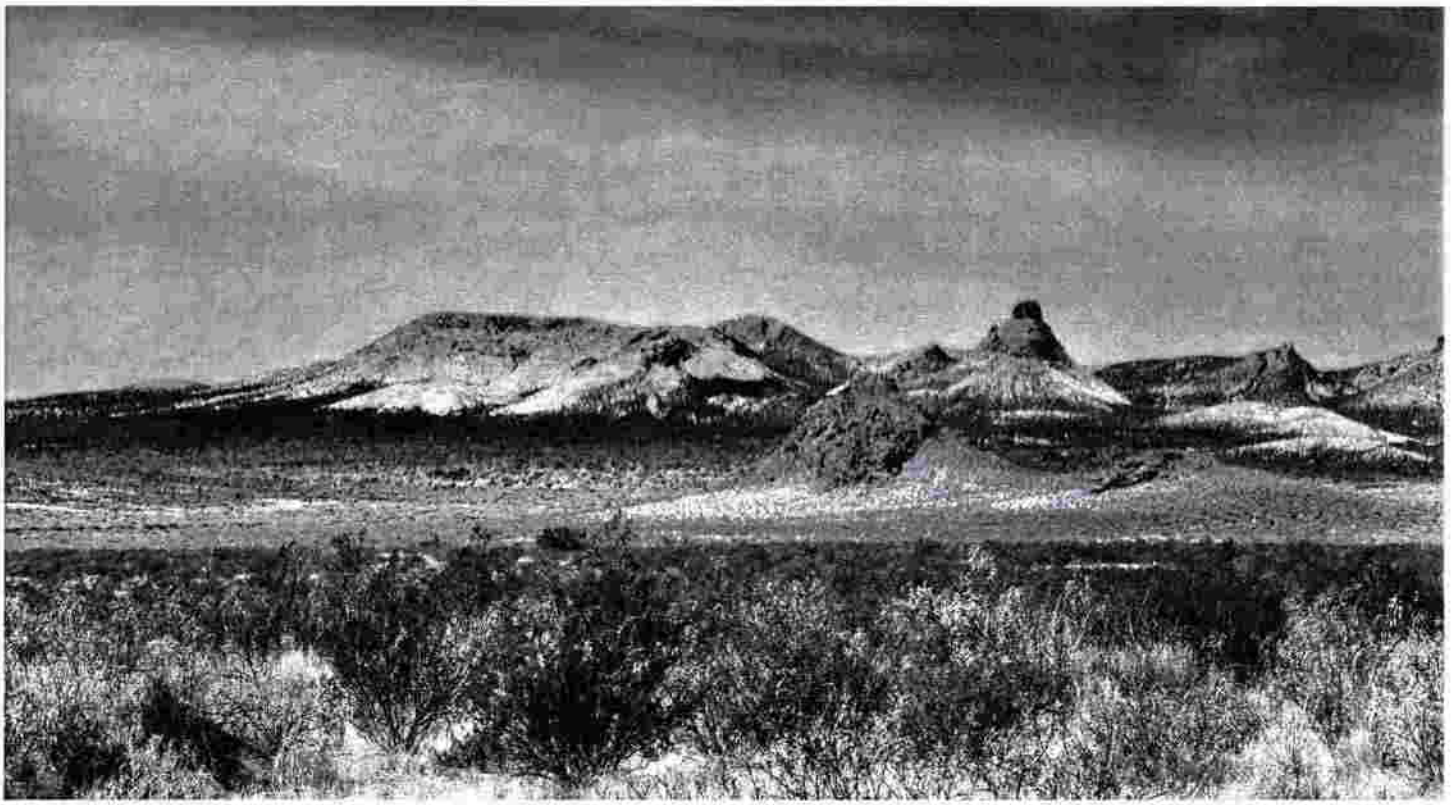
First New Mexico Financial Corporation

DIRECTORS

Sam D. Baca
G.G. Gore
Dr. John Lundy
Teresa O. Molina
Sean Ormand
Richard L. Patterson
Frank Quarrell
Gary Shiflett
Sharron Stuart
Richard Griffin

OFFICERS

Sean Ormand, President & CEO
Teresa O. Molina, Secretary/Treasurer



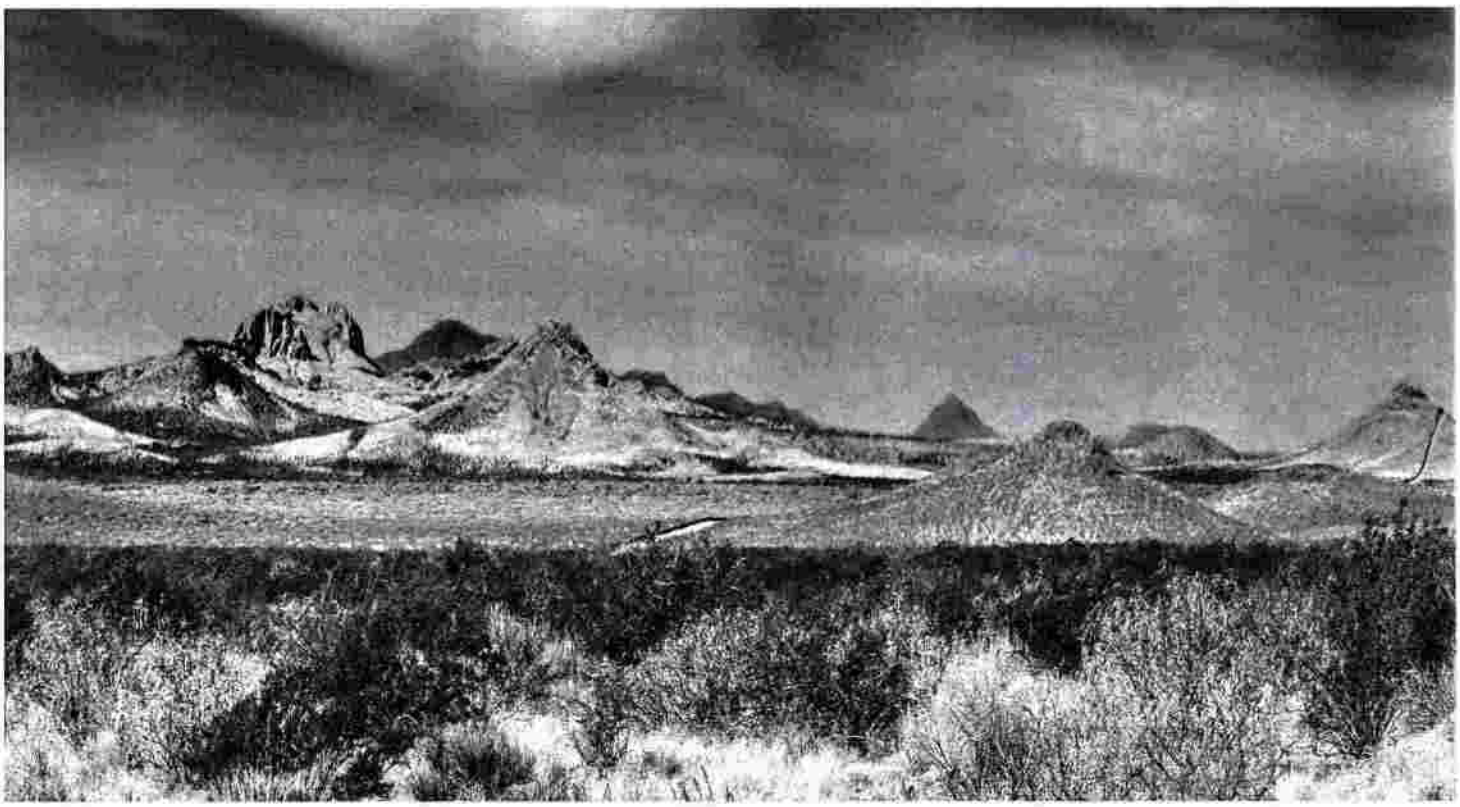
First New Mexico Bank
Deming, New Mexico

OFFICERS

Teresa O. Molina, President
Rosa Perez, Sr. Vice President
Adina Delgado,Vice President
Gloria Herrera, Vice President
Gladys Camacho, Assistant Vice President
Kathleen Keene, Assistant Vice President
Martha Ortiz, Assistant Vice President
Frances Russell, Assistant Vice President
Roxana Rincon, Assistant Vice President
Teresa Sanchez, Assistant Cashier
Denise Ruiz, Assistant Cashier

DIRECTORS

Sam D. Baca
G.G. Gore
Dr. John Lundy
Teresa O. Molina
Richard L. Patterson
Gary Shiflett
Jakub Sherman



First New Mexico Bank
Las Cruces, New Mexico

OFFICERS

Sharron Stuart, President
Julie Koenig, Executive Vice President & CFO
Lisa Key, Senior Vice President
Donna Stryker, Senior Vice President
Chuck Widger, Senior Vice President
Monica McDonald, Vice President
Abraham Camarena, Assistant Vice President
Richard Medina, Assistant Vice President

Directors

Tim Nesbitt
Richard L. Patterson
Anthony Smith
Cristie Stuart
Sharron Stuart
Jose Varela- Advisory Director

First New Mexico Bank
Silver City, New Mexico

OFFICERS

Sean Ormand, President & CEO
Donna Monzingo, Executive Vice President & COO
Leslie Rodriguez, Vice President
Cheryl Legarda,Vice President
Lisa Serna, Vice President
Nancy Archuleta, Vice President
Adriana Lindsey, Assistant Vice President
Antonio Quesada IV, Assistant Vice President
Patrick Cohn, Assistant Vice President

DIRECTORS

Richard Griffin
Charles Hamilton
Brett Kasten
Scott Kennedy
Sean Ormand
Frank Quarrell

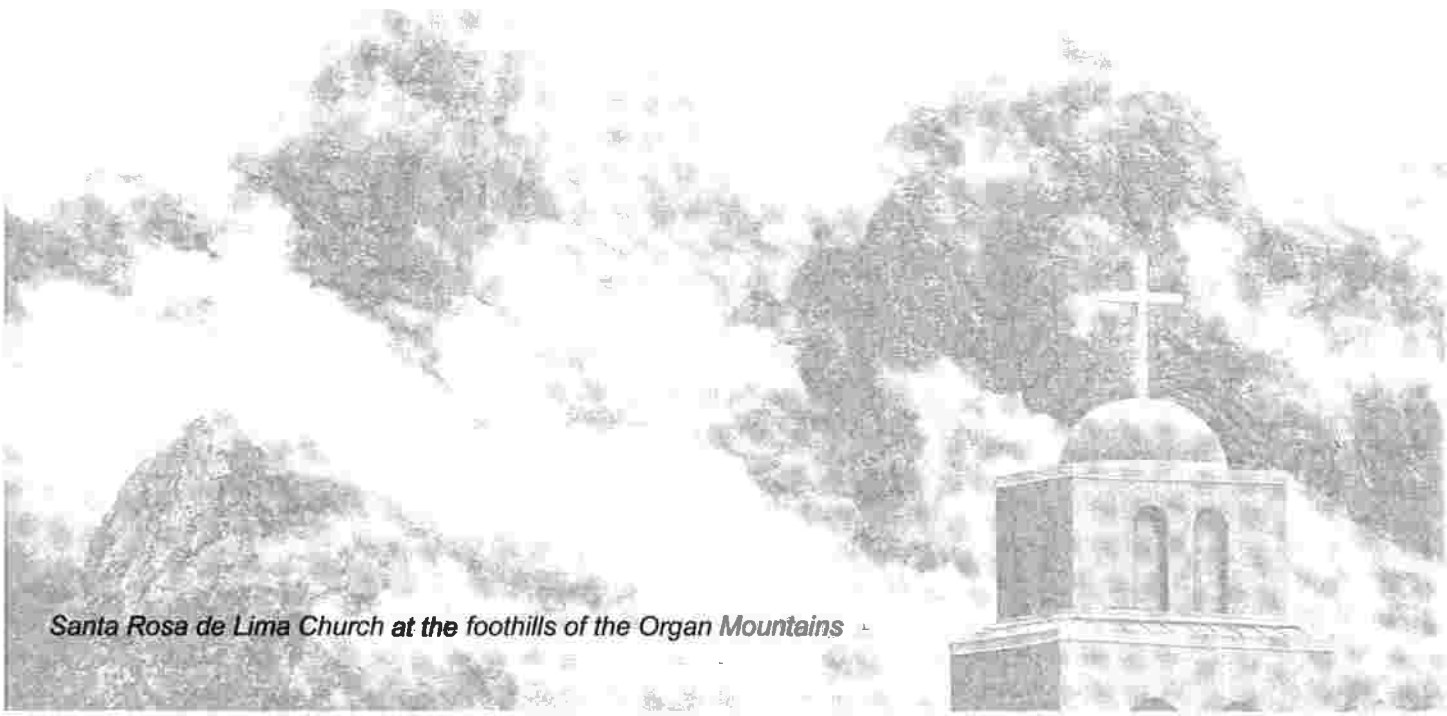
1st NEW MEXICO FINANCIAL CORPORATION
P.O. BOX 511 • DEMING, NEW MEXICO 88031-0511 (575) 546-2691

CONSOLIDATED FINANCIAL STATEMENTS

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT

DECEMBER 31, 2018 and 2017



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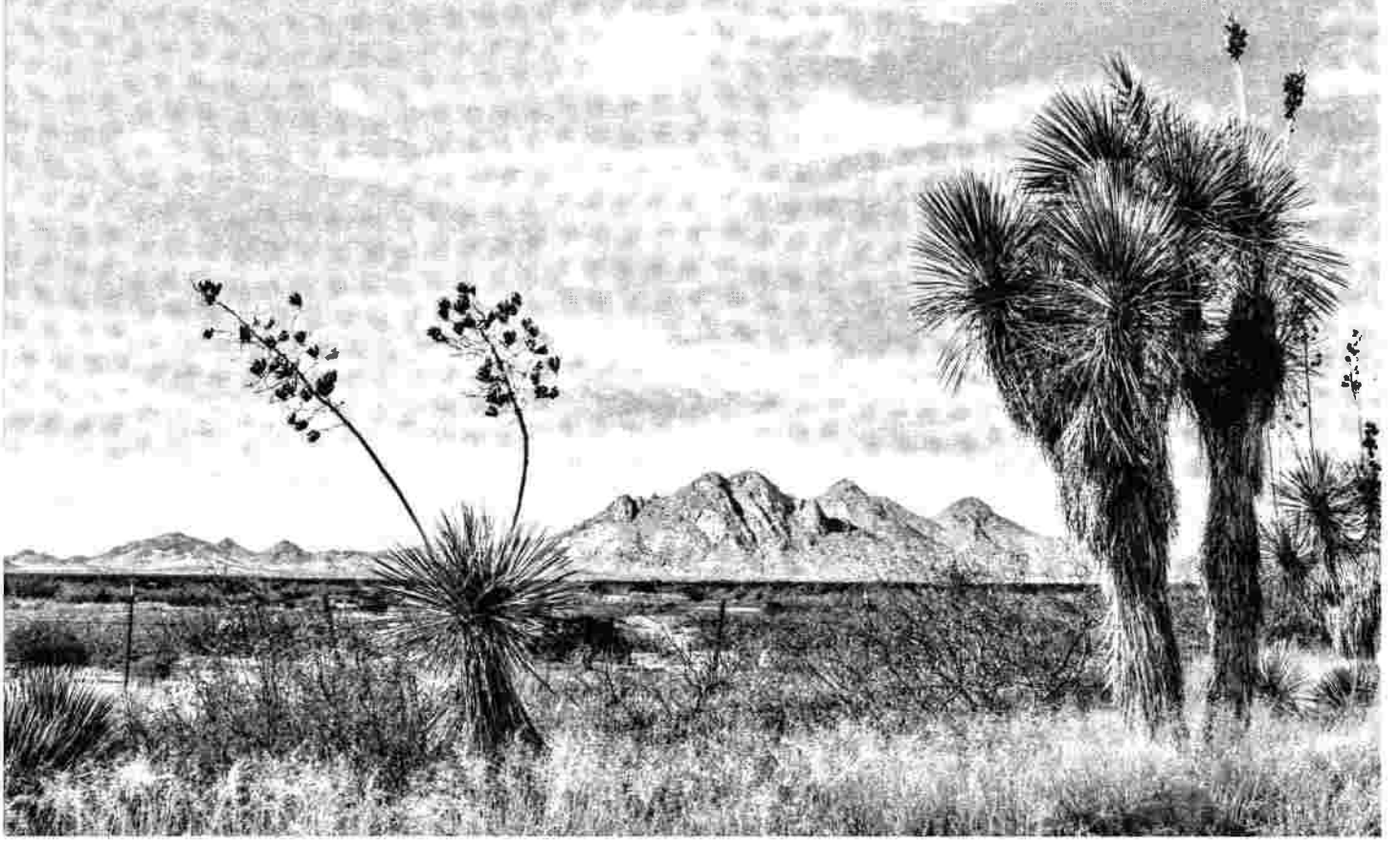


Bock & Associates, LLP
Certified Public Accountants

Anthony E. Bock, CPA
Michael A. Bock, CPA
Adam M. Bock, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of
First New Mexico Financial Corporation:

We have audited the accompanying consolidated financial statements of First New Mexico Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2018 and 2017, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 error or fraud.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated 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 consolidated 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 consolidated financial statements.

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

7320 REMCON CIRCLE / EL PASO, TEXAS 79912 / 915-544-8984 / FAX 915-760-4229

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First New Mexico Financial Corporation as of December 31, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting on Supplemental Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying supplementary information is presented for the purpose of additional analysis of the consolidated financial statements rather than to present the financial position and results of operations of the individual companies and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling sub-information directly to the underlying accounting and other records used to prepare the consolidated financial statements, and other procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as whole.

Bock & Associates, LLP

Bock & Associates, LLP
El Paso, Texas
January 10, 2019

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2018	2017
ASSETS		
Cash and due from banks	$ 82,580,284	$ 115,993,727
Investment securities	140,870,832	144,686,725
Loans and leases, net	189,491,385	174,309,243
Bank premises and equipment, net	9,966,065	10,235,978
Interest receivable	2,860,224	2,729,714
Other real estate owned	556,000	511,068
Bank owned life insurance	5,420,697	5,294,102
Other assets	2,044,460	2,341,107
Total Assets	$ 433,789,947	$ 456,101,664
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 355,571,529	$ 382,320,668
Accrued interest payable	34,103	31,800
Other liabilities	9,337,135	8,197,296
Total Liabilities	364,942,767	390,549,764
Commitments and contingencies	--	--
Common stock, $10 par value		
Authorized – 1,000,000 shares		
Issued – 52,801 shares in 2018 and 53,223 shares 2017	528,010	532,230
Retained earnings	68,319,170	65,019,670
Accumulated other comprehensive income	--	--
Treasury stock at cost, 0 shares in 2018 and 2017	--	--
Total Stockholders' Equity	68,847,180	65,551,900
Total Liabilities and Stockholders' Equity	$ 433,789,947	$ 456,101,664

The accompanying notes are an integral part of the consolidated financial statements

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2018	2017
Interest income:		
Interest and fees on loans	$ 13,744,040	$ 12,572,575
Interest on investment securities	4,054,136	4,319,452
Interest on deposits in banks	1,585,598	1,149,537
	19,383,774	18,041,564
Interest expense:		
Interest on deposits	1,082,881	872,101
Interest on borrowed funds	--	--
	1,082,881	872,101
Net interest income	18,300,893	17,169,463
Provision for loan losses	345,000	740,000
Net interest income after provision for loan losses	17,955,893	16,429,463
Other noninterest income:		
Service fees	1,286,741	1,287,989
Other income	401,655	1,613,205
	1,688,396	2,901,194
Expenses:		
Salaries and employee benefits	6,034,295	5,689,034
Occupancy expenses	985,650	925,333
Other operating expenses	4,424,870	5,184,337
	11,444,815	11,798,704
Net income before income taxes	8,199,474	7,531,953
Federal and state income taxes	2,253,608	1,935,504
Net income	$ 5,945,866	$ 5,596,449
Earnings per share, based on weighted-average number of shares outstanding	$ 112.62	$ 105.03

The accompanying notes are an integral part of the consolidated financial statements

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
December 31, 2016	53,473	$ 534,730	$ 61,551,255	$ --	$ --	$ 62,085,985
Net income (loss)	--	--	5,596,449	--	--	5,596,449
Other comprehensive income – no items	--	--	--	--	--	--
Total comprehensive income (loss)	--	--	--	--	--	5,596,449
Purchase of treasury stock	--	--	--	--	(1,081,325)	(1,081,325)
Sale of treasury stock	--	--	--	--	653,925	653,925
Cancellation of treasury stock	(250)	(2,500)	(424,900)	--	427,400	--
Dividend declared, $32.00 per share	--	--	(1,703,134)	--	--	(1,703,134)
December 31, 2017	53,223	$ 532,230	$ 65,019,670	$ --	$ --	$ 65,551,900
Net income (loss)	--	--	5,945,866	--	--	5,945,866
Other comprehensive income – no items	--	--	--	--	--	--
Total comprehensive income (loss)	--	--	--	--	--	5,945,866
Purchase of treasury stock	--	--	--	--	(1,380,175)	(1,380,175)
Sale of treasury stock	--	--	--	--	630,425	630,425
Cancellation of treasury stock	(422)	(4,220)	(745,530)	--	749,750	--
Dividend declared, $36.00 per share	--	--	(1,900,836)	--	--	(1,900,836)
December 31, 2018	52,801	$ 528,010	$ 68,319,170	$ --	$ --	$ 68,847,180

The accompanying notes are an integral part of the consolidated financial statements

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31,	
	2018	2017
Cash flows from operating activities:		
Net income	$ 5,945,866	$ 5,596,449
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	345,000	740,000
Depreciation expense	497,689	530,068
Deferred income taxes	369,988	(137,320)
Investment security amortization (accretion), net	962,426	684,033
Cash value of life insurance	(126,595)	(136,609)
(Gain) loss on sale of assets	21,998	(65,516)
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(130,510)	83,527
Increase (decrease) in accrued interest payable	2,303	(2,700)
(Increase) decrease in other assets	(88,568)	472,559
Increase (decrease) in other liabilities	932,963	(304,891)
Net cash provided (used) by operating activities	8,732,560	7,459,600
Cash flows from investing activities:		
Purchases of held-to-maturity securities	(7,429,967)	(16,420,644)
Proceeds from maturities held-to-maturity securities	10,283,434	22,108,494
Net increase in loans	(15,726,892)	(9,716,552)
Proceeds from sale of assets	157,220	764,832
Purchase of property and equipment	(227,776)	(330,145)
Net cash provided (used) by investing activities	(12,943,981)	(3,594,015)
Cash flows from financing activities:		
Net change in deposits	(26,749,138)	(4,506,463)
Payments to acquire treasury stock	(1,380,175)	(1,081,325)
Sale of treasury stock	630,425	653,925
Dividends paid	(1,703,134)	(1,497,244)
Net cash provided (used) from financing activities	(29,202,022)	(6,431,107)
Net decrease in cash	(33,413,443)	(2,565,522)
Cash at beginning of year	115,993,727	118,559,249
Cash at end of year	$ 82,580,284	$ 115,993,727

The accompanying notes are an integral part of the consolidated financial statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

First New Mexico Financial Corporation (the Corporation) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries First New Mexico Bank-Deming, First New Mexico Bank-Las Cruces and First New Mexico Bank-Silver City (the Banks). The Banks generate commercial (including agricultural), mortgage and consumer loans and receive deposits from customers located primarily in Deming, Silver City, Las Cruces, New Mexico and the surrounding areas. The Banks operate under a state bank charter and provide full banking services. As state banks, the Banks are subject to regulation by the New Mexico Banking Department and the Federal Deposit Insurance Corporation.

Principles of consolidation

The consolidated financial statements include the accounts of First New Mexico Financial Corporation, and its wholly-owned subsidiaries, First New Mexico Bank, Deming, Las Cruces and Silver City. In consolidation, all significant intercompany balances and transactions have been eliminated.

Use of estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles in the United States (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Comprehensive income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the stockholders' equity section of the statement of financial condition. Such items, along with net income, are components of comprehensive income.

Investment securities

Securities classified as held-to-maturity are those debt securities the Banks have both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs for changes in general economic conditions. These securities are carried at cost, adjusted for amortization of premium and accretion of discount, computed using the interest method, over their contractual lives.

Securities classified as available-for-sale are equity securities with readily determinable fair values and those debt securities that the Banks intend to hold for an indefinite period but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third-party pricing service with unrealized gains or losses excluded from net income in accumulated other comprehensive income (loss), which is reportable as a separate component of shareholders' equity, net of the related deferred tax effect.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

Gains and losses realized on sales of investment securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include a downgrading of the security by a rating agency, a significant deterioration in the financial condition of the issuer, or that management would not have the intent and ability to hold a security for a period sufficient to allow for any anticipated recovery in fair value.

Restricted stock is stock from the Texas Independent Bankers Bank and Bankers Bank of the West, which are restricted as to their marketability. Because no ready market exists for these investments and they have no quoted market value, the Corporation's investment in these stocks are carried at cost. A determination as to whether there has been an impairment of a restricted stock investment is performed on a quarterly basis and includes a review of the current financial condition of the issuer.

Loans held for sale

Loans originated and intended for sale in the secondary market are carried at the lower of original cost or market value in compliance with FASB ASC 948-310. Market value is determined on a loan-by-loan basis. Net unrealized losses are recognized through a valuation allowance by charges to income. All sales are made without recourse.

Loans and allowance for loan and lease losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred, and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Banks have concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement.

Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration the circumstances surrounding the loan and 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowance for loan and lease losses (continued)

The Banks' allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. Because of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Banks calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Banks internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (real estate, agricultural, commercial or consumer). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements). The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Loans are placed into a nonaccruing status and classified as nonperforming when the principal or interest has been in default for a period of 90 days or more unless the obligation is well secured and in the process of collection. A debt is "well secured" if it is secured by (i) pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt, (including accrued interest), in full, or (ii) the guarantee of a financially responsible party. A debt is "in the process of collection" if collection on the debt is proceeding in due course either through legal action, including judgment enforcement procedure, or, in appropriate circumstances, through collection efforts not involving legal action which are reasonably expected to result in repayment of the debt or in its restoration to current status.

Loans classified as substandard or worse are considered for impairment testing. A substandard loan shows signs of continuing negative financial trends and unprofitability and therefore, is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. The borrower on such loans typically exhibits one or more of the following characteristics: financial ratios and profitability margins are well below industry average; a negative cash flow position exists; debt service capacity is insufficient to the service debt and an improvement in the cash flow position is unlikely within the next twelve months; secondary and tertiary means of debt repayment are weak. Loans classified as substandard are characterized by the probability that the Bank will not collect amounts due according to the contractual terms or sustain some loss if the deficiencies are not corrected.

Loss potential, while existing with respect to the aggregate amount of substandard (or worse) loans, does not have to exist in any individual assets classified as substandard. Such credits are also evaluated for nonaccrual status.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowance for loan and lease losses (continued)

Impaired loans include loans that have been classified as substandard or worse. However, certain loans have been paying as agreed and have remained current, with some financial issues related to cash flow that have caused some concern as to the ability of the borrower to perform in accordance with the current loan terms but not to such an extent as to require the loan be put into a nonaccruing status. Cash receipts on impaired loans are recorded as interest income as received, unless the loan is in a nonaccrual status.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan and lease losses. Loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Premises and equipment

Land is carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using the straight-line method based upon the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations. For Federal income tax purposes, depreciation is computed using the accelerated cost recovery system and the modified accelerated cost recovery system.

Foreclosed properties

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for loan and lease losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell.

Bank owned life insurance

The Banks purchased single-premium life insurance on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Appreciation in value of the insurance policies is classified in noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

Accounting guidance requires the recognition of a liability and related compensation expense for split-dollar life insurance policies that provide a benefit to an employee that extends to post-retirement periods. Life insurance policies purchased for providing such benefits do not effectively settle an entity's obligation to the employee. Accordingly, the Banks must recognize a liability and related compensation expense during the employee's active service period based on the future cost of insurance to be incurred during the employee's retirement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Banks recognize interest and penalties related to income tax matters in income tax expense.

The Corporation and its subsidiaries file consolidated federal and state income tax returns. The subsidiaries are charged by First New Mexico Financial Corporation for their share of the consolidated income taxes on a basis that they would have paid if the subsidiaries had filed on a separate entity basis. The Corporation does not have uncertain tax positions that are deemed material and did not recognize any adjustments for unrecognized tax benefits.

The Corporation remains subject to examination for income tax returns for the years ending after December 31, 2015.

Statement of cash flows

First New Mexico Financial Corporation considers all cash and amounts due from depository institutions, interest-bearing deposits and federal funds sold to be cash equivalents for purposes of the statement of cash flows. Interest paid was $1,080,579 and $874,798 in 2018 and 2017 respectively. Income taxes paid were $1,486,976 and $2,017,622 for the years ended December 31, 2018 and 2017, respectively

Valuation of long-lived assets

The Banks account for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less cost to sell.

Transfers of financial assets

The Bank accounts for transfers and servicing of financial assets in accordance with FASB ASC 860. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank (2) 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 (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Segment Reporting

FASB ASC 280, *Segment Reporting*, encourages nonpublic entities to report selected information about operating segments in its financial reports issued to is shareholders. Based on the analysis performed by the Banks, management has determined that the Banks have only one operating segment, which is community banking. The chief operating decision-makers use consolidated results to make operating and strategic decisions, and therefore, are not required to disclose any additional segment information.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Restrictions on dividends

Dividends may be paid so long as the bank maintains at least a 7% capital to asset ratio and do not exceed current year's net earnings.

Reclassifications

Certain reclassifications have been made to the 2017 financial statement presentation to correspond to the current year's format. Total equity and net income are unchanged due to these reclassifications.

Subsequent events

The Corporation has evaluated subsequent events through January 10, 2019, the date which the financial statements were available to be issued. Based on FASB ASC 855, the Corporation has determined that no material subsequent events have occurred that would affect the information presented in the accompanying financial statements or require additional disclosure.

New Authoritative Accounting Guidance

FASB Accounting Standards Update (ASU) No.2014-09, *Revenue from Contracts with Customers (Topic 606)*: ASU 2014-09 is intended to clarify the principles for recognizing revenue, and to develop common revenue standards and disclosure requirements that would: (1) remove inconsistencies and weaknesses in revenue requirements; (2) provide a more robust framework for addressing revenue issues; (3) improve comparability of revenue recognition practices across entities, industries, jurisdictions, and capital markets; (4) provide more useful information to users of financial statements through improved disclosures; and (5) simplify the preparation of financial statements by reducing the number of requirements to which an entity must refer. The guidance affects any entity that either enters into contracts with customers to transfer goods or services or enters into contracts for the transfer of nonfinancial assets. The core principle is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides steps to follow to achieve the core principle. An entity should disclose sufficient information to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Qualitative and quantitative information is required regarding contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2018, including interim periods therein, with early adoption permitted. Since the guidance does not apply to revenue associated with financial instruments such as loans and investments, which are accounted for under other provisions of GAAP, The Corporation and Banks do not expect this accounting standard to impact interest income, their largest component of income.

FASB issued Accounting Standard Update (ASU) No. 2016-02, *Leases (Topic 842)*. ASU 2016-02, among other things, requires lessees to recognize most leases on-balance sheet, increasing reported assets and liabilities. Lessor accounting remains substantially like current U.S. GAAP. ASU 2016-02 will be effective for the Corporation and Banks on January 1, 2020. The Corporation and Banks are currently evaluating the impact of adopting ASU 2016-02 on the consolidated financial statements.

FASB issued ASU 2017-08, *Receivables - Nonrefundable Fees and Other Costs (Topic 310)*. ASU 2017-08 shortens the amortization period for certain callable debt securities held at a premium to require such premiums to be amortized to the earliest call date unless applicable guidance related to certain pools of securities is applied to consider estimated prepayments. Under prior guidance, entities were generally required to amortize premiums on individual, non-pooled callable debt securities as a yield adjustment over the contractual life of the security. ASU 2017-08 does not change the accounting for callable debt securities held at a discount. ASU 2017-08 will be effective for the Corporation and Banks on January 1, 2020, with early adoption permitted. The Corporation and Banks are currently evaluating the impact of adopting ASU 2017-08 on the consolidated financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Authoritative Accounting Guidance (continued)

FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326):* ASU 2016-13 is the final guidance on the new current expected credit loss ("CECL") model. ASU 2016-13, among other things, requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization's reasonable and supportable estimate of expected credit losses extends to be held to maturity ("HTM") debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities ("AFS"), whereby credit losses will be presented as an allowance as opposed to write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since organization, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization's portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of income statement). ASU 2016-13 will be effective for the Corporation and Banks on January 1, 2021, and early adoption is permitted. Management anticipates recognizing a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the financial position, results of operations or cash flows.

FASB issued ASU No. 2016-01, *"Recognition and Measurement of Financial Assets and Financial Liabilities."* This ASU addresses certain aspects of recognition, measurement, presentation, and disclosure of financial instruments by making targeted improvements to GAAP as follows: (1) require equity investments (except those accounted for under the equity method of accounting or those that result in consolidation of the investee) to be measured at fair value with changes in fair value recognized in net income. However, an entity may choose to measure equity investments that do not have readily determinable fair values at cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment of the same issuer; (2) simplify the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment. When a qualitative assessment indicates that impairment exists, an entity is required to measure the investment at fair value; (3) eliminate the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; (4) eliminate the requirement for public business entities to disclose the method(s) and significant assumptions used to estimate the fair value that is required to be disclosed for financial instruments measured at amortized cost on the balance sheet; (5) require public business entities to use the exit price notion when measuring the fair value of financial instruments for disclosure purposes; (6) require an entity to present separately in other comprehensive income the portion of the total change in the fair value of a liability resulting from a change in the instrument-specific credit risk when the entity has elected to measure the liability at fair value in accordance with the fair value option for financial instruments; (7) require separate presentation of financial assets and financial liabilities by measurement category and form of financial asset (that is, securities or loans and receivables) on the balance sheet or the accompanying notes to the financial statements; and (8) clarify that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This ASU will be effective for the Bank on January 1, 2019. The adoption of this ASU will not have a material impact on the consolidated financial statements.

NOTE 2 – INVESTMENT SECURITIES

The amortized cost of investment securities as shown in the consolidated statement of financial condition and their approximate market were as follows:

Held-to-Maturity

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2018:				
U.S. agencies	$ 43,231,347	$ 203,593	$ (855,509)	$ 42,579,431
State and municipals	97,639,485	720,684	(845,477)	97,514,692
	$ 140,870,832	$ 924,277	$ (1,700,986)	$ 140,094,123
December 31, 2017:				
U.S. agencies	$ 40,553,523	$ 332,453	$ (198,957)	$ 40,687,019
States and municipals	104,133,202	1,934,496	(171,595)	105,896,103
	$ 144,686,725	$ 2,266,949	$ (370,552)	$ 146,583,122

Held-to-maturity securities carried at approximately $34,820,143 at December 31, 2018 and $33,622,893 at December 31, 2017, were pledged to secure deposits as required or permitted by law. The market value of the pledged securities was $34,602,187 and $34,038,849 respectively.

The amortized cost and estimated fair value of investment securities at December 31, 2018, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 3,330,951	$ 3,354,020
Due after one year through five years	35,008,611	36,087,757
Due after five years through ten years	41,525,947	41,120,461
Due after ten years	61,005,323	59,531,885
	$ 140,870,832	$ 140,094,123

Expected maturities will differ from contractual maturities because issuers have the right to call or prepay obligations with or without call or prepayment penalties.

Management evaluates securities for other-than-temporary impairment at least on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Banks to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. The unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government, its agencies, or other governments, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities for the foreseeable future if classified as available for sale, no declines are deemed to be other-than-temporary.

NOTE 2 – INVESTMENT SECURITIES (continued)

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

	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2018:				
Held-to-Maturity				
U.S. agencies	$ 2,925,109	$ 52,487	$ 23,265,320	$ 803,022
States and municipals	23,184,583	362,615	17,942,834	482,862
	$ 26,109,692	$ 415,102	$ 41,208,154	$ 1,285,884
December 31, 2017:				
Held-to-Maturity				
U.S. agencies	$ 6,523,078	$ 50,344	$ 7,772,065	$ 148,613
States and municipals	3,171,714	15,698	15,890,426	155,897
	$ 9,694,792	$ 66,042	$ 23,662,491	$ 304,510

NOTE 3 – RESTRICTED STOCK

The investment in restricted stock is as follows:

	December 31,	
	2018	2017
Texas Independent Bankers Banks	$ 100,000	$ 100,000
Bankers Bank of the West	149,805	149,805
	$ 249,805	$ 249,805

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

The composition of recorded investment in loans and leases by segment is as follows:

	December 31,	
	2018	2017
Secured by real estate	$ 158,835,798	$ 147,530,907
Agricultural	5,833,902	5,113,454
Commercial	22,656,947	16,669,033
Consumer	6,683,218	9,159,315
	194,009,865	178,472,709
Less deferred loan fees	(334,426)	(284,732)
Less allowance for loan losses	(4,184,054)	(3,878,734)
	$ 189,491,385	$ 174,309,243

Consumer loans, whether unsecured or secured by real estate, automobiles, or other personal property, are primarily susceptible to three primary risks: non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay due to a shortfall in the collateral value. Typically, non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of the two.

Problem consumer loans are generally identified by payment history of the borrower (delinquency). The Bank manages its consumer loan portfolios by monitoring delinquency and contacting borrowers to encourage repayment, suggest modifications if appropriate, and, when continued scheduled payments become unrealistic, initiate repossession or foreclosure through appropriate channels. Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

Agricultural loans are primarily susceptible to credit risk. A borrower's production and ability to service debt can be affected seriously by weather conditions and other natural factors not directly under their control. Aside from weather conditions, the most significant variables affecting agricultural credit risk are market prices and governmental policies. Other important factors include concentrations and limited-purpose collateral.

Commercial real estate loans generally fall into two categories, owner-occupied and non-owner occupied. Loans secured by owner occupied real estate are primarily susceptible to changes in the business conditions of the related business. This may be driven by, among other things, industry changes, geographic business changes, changes in the individual fortunes of the business owner, and general economic conditions and changes in business cycles. These same risks apply to commercial loans whether secured by equipment or other personal property or unsecured. Losses on loans secured by owner occupied real estate, equipment, or other personal property generally are dictated by the value of underlying collateral at the time of default and liquidation of the collateral. When default is driven by issues related specifically to the business owner, collateral values tend to provide better repayment support and may result in little or no loss. Alternatively, when default is driven by more general economic conditions, underlying collateral generally has devalued more and results in larger losses due to default. Loans secured by non-owner occupied real estate are primarily susceptible to risks associated with swings in occupancy or vacancy and related shifts in lease rates, rental rates or room rates. Most often these shifts are a result of changes in general economic or market conditions or overbuilding and resultant over-supply. Losses are dependent on value of underlying collateral at the time of default. Values are generally driven by these same factors and influenced by interest rates and required rates of return as well as changes in occupancy costs.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

Construction loans, whether owner occupied, or non-owner occupied commercial real estate loans or residential development loans, are not only susceptible to the related risks described above but the added risks of construction itself including cost over-runs, mismanagement of the project, or lack of demand or market changes experienced at time of completion. Again, losses are primarily related to underlying collateral value and changes therein as described above.

Problem commercial loans are generally identified by periodic review of financial information which may include financial statements, tax returns, rent rolls and payment history of the borrower (delinquency). Based on this information the Bank may decide to take any of several courses of action including demand for repayment, additional collateral or guarantors, and, when repayment becomes unlikely through borrower's income and cash flow, repossession or foreclosure of the underlying collateral.

Collateral values may be determined by appraisals obtained through Bank approved, licensed appraisers, qualified independent third parties, public value information (blue book values for autos), sales invoices, or other appropriate means. Appropriate valuations are obtained at initiation of the credit and periodically (every 3-12 months depending on collateral type) once repayment is questionable and the loan has been classified.

The following tables summarizes the activity in the allowance for loan and lease losses, and ending balances of loans for the periods indicated:

	December 31, 2018				
	Real Estate	Agricultural	Commercial	Consumer	Total
Beginning Balance	$ 2,737,491	$ 203,643	$ 548,259	$ 389,341	$ 3,878,734
Charge offs	(113,262)	--	--	(98,931)	(212,193)
Recoveries	79,858	1,491	6,695	84,469	172,513
Provision	100,000	(90,000)	80,000	255,000	345,000
Ending Balance	$ 2,804,087	$ 115,134	$ 634,954	$ 629,879	$ 4,184,054
Ending Balance:					
Individually evaluated for impairment	$ 16,500	$ --	$ --	$ --	$ 16,500
Collectively evaluated for impairment	$ 2,787,587	$ 115,134	$ 634,954	$ 629,879	$ 4,167,554
Ending Balance: total loans					
Individually evaluated for impairment	$ 514,907	$ --	$ --	$ --	$ 514,907
Collectively evaluated for impairment	$ 158,320,891	$ 5,833,902	$ 22,656,947	$ 6,683,218	$ 193,494,958

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

	December 31, 2017				
	Real Estate	Agricultural	Commercial	Consumer	Total
Beginning Balance	$ 2,735,353	$ 96,000	$ 258,965	$ 383,077	$ 3,473,395
Charge offs	(297,827)	--	--	(148,103)	(445,930)
Recoveries	45,807	11,086	--	54,376	111,269
Provision	254,158	96,557	289,294	99,991	740,000
Ending Balance	$ 2,737,491	$ 203,643	$ 548,259	$ 389,341	$ 3,878,734
Ending Balance: Individually evaluated for impairment	$ 61,233	$ --	$ --	$ --	$ 61,233
Collectively evaluated for impairment	$ 2,676,258	$ 203,643	$ 548,259	$ 389,341	$ 3,817,501
Ending Balance: total loans Individually evaluated for impairment	$ 1,123,244	$ 688,949	$ --	$ 30,294	$ 1,842,487
Collectively evaluated for impairment	$ 146,407,663	$ 4,424,505	$ 16,669,033	$ 9,129,021	$ 176,630,222

As part of the on-going monitoring of the credit quality of the Banks' loan portfolio, management tracks certain credit quality indicators including, but not limited to, trends relating to (i) the level of criticized and classified loans, (ii) net charge-offs, (iii) non-performing loans, and (iv) delinquency within the portfolio.

The Banks utilized a risk grading system to assign a risk grade to each of its loans. Loans are graded on a scale ranging from Pass to Loss. A description of the general characteristics of the risk grades is as follows:

Pass / Pass Watch - This grade represents loans ranging from acceptable to very little or no credit risk. These loans typically meet most if not all policy standards regarding: loan amount as a percentage of collateral value, debt service coverage, profitability, leverage, and working capital.

Special Mention - This grade represents "Other Assets Especially Mentioned" in accordance with regulatory guidelines and includes loans that display some potential weaknesses, which, if left unaddressed, may result in deterioration of the repayment prospects for the asset or may inadequately protect the Bank's position in the future. These loans warrant more than normal supervision and attention.

Substandard - This grade represents "Substandard" loans in accordance with regulatory guidelines. Loans with this rating typically exhibit weaknesses that are well defined to the point that repayment is jeopardized. Loss potential is however, not necessarily evident. The underlying collateral supporting the credit appears to have sufficient value to protect the Banks from loss of principal and accrued interest, or the loan has been written down to the point where that is true. There is a definite need for a well-defined workout/rehabilitation program.

Doubtful -This grade represents "Doubtful" loans in accordance with regulatory guidelines. An asset classified as Doubtful has all the weaknesses inherent in a loan classified Substandard with the added characteristics that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions and values, highly questionable and improbable. Pending factors include proposed merger, acquisition, or liquidation procedures, capital injection, perfecting liens on additional collateral and financing plans.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

Loss -This grade represents "Loss" loans in accordance with regulatory guidelines. A loan classified as Loss is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan, even though some recovery may be affected in the future. The portion of the loan that is graded loss should be charged off no later than the end of the quarter in which the loss is identified.

The following tables present ending loan balances by loan category and risk grade for the years indicated:

	December 31, 2018				
	Real Estate	Agricultural	Commercial	Consumer	Total
Pass / Pass Watch	$ 148,628,450	$ 3,422,257	$ 21,075,786	$ 6,665,624	$ 179,792,117
Special mention	3,625,745	--	754,225	--	4,379,970
Substandard	6,581,603	2,411,645	826,936	17,594	9,837,778
Total loans	$ 158,835,798	$ 5,833,902	$ 22,656,947	$ 6,683,218	$ 194,009,865

	December 31, 2017				
	Real Estate	Agricultural	Commercial	Consumer	Total
Pass / Pass Watch	$ 138,074,321	$ 3,745,460	$ 14,353,251	$ 9,089,633	$ 165,262,665
Special mention	4,021,485	158,738	1,834,252	2,371	6,016,846
Substandard	5,435,101	1,209,256	481,530	67,311	7,193,198
Total loans	$ 147,530,907	$ 5,113,454	$ 16,669,033	$ 9,159,315	$ 178,472,709

Once a loan becomes delinquent and repayment becomes questionable, a Bank collection officer will address collateral shortfalls with the borrower and attempt to obtain additional collateral. If this is not forthcoming and payment in full is unlikely, the Bank will estimate its probable loss, using a recent valuation as appropriate to the underlying collateral less estimated costs of sale, and charge the loan down to the estimated net realizable amount. Depending on the length of time until ultimate collection, the Bank may revalue the underlying collateral and take additional charge-offs as warranted. Revaluations may occur as often as every 3-12 months depending on the underlying collateral and volatility of values. Final charge-offs or recoveries are taken when collateral is liquidated and actual loss is known. Unpaid balances on loans after or during collection and liquidation may also be pursued through lawsuit and attachment of wages or judgment liens on borrower's other assets.

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

The following table shows the ending balance of current, past due and nonaccrual loans by category for the periods indicated:

	December 31, 2018				
	Real Estate	Agricultural	Commercial	Consumer	Total
Past due:					
30-59 days	$ 1,590,039	$ 13,000	$ --	$ 162,850	$ 1,765,889
60-89 days	89,138	--	--	22,705	111,843
>90 days still accruing	94,101	--	--	--	94,101
Nonaccrual	446,557	--	--	--	446,557
Total past due	2,219,835	13,000	--	185,555	2,418,390
Current	156,615,963	5,820,902	22,656,947	6,497,663	191,591,475
Total loans	$ 158,835,798	$ 5,833,902	$ 22,656,947	$ 6,683,218	$ 194,009,865

	December 31, 2017				
	Real Estate	Agricultural	Commercial	Consumer	Total
Past due:					
30-59 days	$ 679,743	$ --	$ --	$ 222,737	$ 902,480
60-89 days	5,970	--	--	31,346	37,316
>90 days still accruing	62	--	--	--	62
Nonaccrual	676,274	688,949	--	30,294	1,395,517
Total past due	1,362,049	688,949	--	284,377	2,335,375
Current	146,168,858	4,424,505	16,669,033	8,874,938	176,137,334
Total loans	$ 147,530,907	$ 5,113,454	$ 16,669,033	$ 9,159,315	$ 178,472,709

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

Impaired loans are those where management has concluded that it is probable that the borrower will be unable to pay all amounts due under the contractual terms. The following tables show the recorded investment (financial statement balance), unpaid principal balance, average recorded investment, and interest income recognized for impaired loans, segregated by those with no related allowance recorded and those with an allowance record for the periods indicated:

	December 31, 2018				
	Real Estate	Agricultural	Commercial	Consumer	Total
No related allowance:					
Recorded investment	$ 466,671	$ --	$ --	$ --	$ 466,671
Unpaid principal	446,557	--	--	--	446,557
Average investment	456,614	--	--	--	456,614
Interest income recognized	17,350	--	--	--	17,350
Allowance recorded:					
Recorded investment	68,428	--	--	--	68,428
Unpaid principal	68,350	--	--	--	68,350
Related allowance	16,500	--	--	--	16,500
Average investment	40,093	--	--	--	40,093
Interest income recognized	$ 6,529	$ --	$ --	$ --	$ 6,529

	December 31, 2017				
	Real Estate	Agricultural	Commercial	Consumer	Total
No related allowance:					
Recorded investment	$ 699,353	$ 736,470	$ --	$ 31,282	$ 1,467,105
Unpaid principal	676,274	688,949	--	30,294	1,395,517
Average investment	687,814	712,710	--	30,788	1,431,312
Interest income recognized	32,097	--	--	2,450	34,547
Allowance recorded:					
Recorded investment	448,530	--	--	--	448,530
Unpaid principal	446,970	--	--	--	446,970
Related allowance	61,233	--	--	--	61,233
Average investment	278,089	--	--	--	278,089
Interest income recognized	$ 26,026	$ --	$ --	$ --	$ 26,026

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES (continued)

Information on performing and nonaccrual impaired loans as the date noted is as follows:

	December 31, 2018				
	Real Estate	Agricultural	Commercial	Consumer	Total
Impaired performing:	$ 68,350	$ --	$ --	$ --	$ 68,350
Impaired nonperforming:					
Nonaccrual	446,557	--	--	--	446,557
Accruing troubled debt restructurings	--	--	--	--	--
Nonaccrual troubled debt restructurings	$ --	$ --	$ --	$ --	$ --

	December 31, 2017				
	Real Estate	Agricultural	Commercial	Consumer	Total
Impaired performing:	$ 446,970	$ --	$ --	$ --	$ 446,970
Impaired nonperforming:					
Nonaccrual	676,274	688,949	--	30,294	1,395,517
Accruing troubled debt restructurings	--	--	--	--	--
Nonaccrual troubled debt restructurings	$ --	$ --	$ --	$ --	$ --

NOTE 5 – BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at:

	December 31,	
	2018	2017
Land	$ 3,344,306	$ 3,344,306
Building and improvements	11,227,065	11,139,781
Furniture and equipment	5,573,663	5,433,174
	20,145,034	19,971,261
Less accumulated depreciation	(10,178,969)	(9,681,283)
	$ 9,966,065	$ 10,235,978

NOTE 6 – OTHER ASSETS

Following is a summary of Other Assets at:

	December 31,	
	2018	2017
Deferred tax assets	$ 1,603,896	$ 1,977,601
Prepaid expenses	160,421	59,044
Repossessions and other assets	280,143	304,462
	$ 2,044,460	$ 2,341,107

NOTE 7 – DEPOSITS

Following is a summary of the bank deposits at:

	December 31,	
	2018	2017
Non-interest bearing	$ 84,684,696	$ 88,554,324
Interest bearing demand	88,947,218	101,487,302
Savings deposits	149,392,439	149,864,730
Certificates of deposit	32,547,176	42,414,312
	$ 355,571,529	$ 382,320,668

At December 31, 2018, the maturity distribution of certificates of deposit is as follows:

2019	$ 23,006,301
2020	6,672,744
2021	2,009,129
2022	472,665
2023 and thereafter	386,337
	$ 32,547,176

NOTE 8 - INCOME TAXES

The consolidated provision for income taxes consisted of the following at:

	December 31,	
	2018	2017
Income tax expense:		
Federal	$ 1,498,748	$ 1,666,115
State	381,155	406,709
	1,879,903	2,072,824
Deferred federal and state	373,705	(137,320)
	$ 2,253,608	$ 1,935,504

NOTE 8 - INCOME TAXES (continued)

The provision for federal and state income taxes differs from that computed by applying federal and state statutory rates to income before income tax expense, as indicated in the following analysis:

	December 31,	
	2018	2017
Tax based on the statutory rate	$ 2,205,659	$ 2,922,398
Effect of tax-exempt income	(745,248)	(1,191,640)
Nondeductible expenses and other	793,197	204,746
	$ 2,253,608	$ 1,935,504

A cumulative net deferred tax asset is included in other assets. The components of the assets are as follows:

	December 31,	
	2018	2017
Differences for supplemental retirement plans	$ 534,175	$ 737,308
Differences in accounting for loan losses	1,064,048	1,214,345
Other	5,673	25,948
	$ 1,603,896	$ 1,977,601

The Banks believe that a valuation allowance is not needed to reduce the deferred tax assets as it is more likely than not that the results of future operations will generate sufficient taxable income to realize the deferred tax assets.

NOTE 9 - RETIREMENT PLANS

The Banks sponsor a 401(K) Plan in which substantially all employees may participate. Participants may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Banks contribute to employees based on a percentage of their annual salary. The Banks expense for the plan was $262,275 for 2018 and $259,249 for 2017.

The Banks have supplemental retirement plans for key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Banks have purchased insurance on the lives of the participants and intend to hold these policies until death as a cost recovery of the Banks retirement obligations. The cash values of the insurance policies purchased to fund the deferred compensation obligations and the retirement obligations were $5,420,697 and $5,294,102 at December 31, 2018 and 2017, respectively.

NOTE 10 – SHAREHOLDERS' EQUITY

Dividends:

The amount of dividends the Banks pay up to the Holding Corporation is set at 65% of net profits.

Capital:

The Corporation and the Banks are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Corporation, Banks and the consolidated financial statements. Under the regulatory capital adequacy guidelines and the regulatory frame work for prompt corrective action, the Banks must meet specific capital guidelines involving quantitative measures of the Corporation's and the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and the Banks' capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Banks to maintain minimum amounts and ratios of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to average assets. Management believes, as of December 31, 2018, that the Corporation and the Banks meet all the capital adequacy requirements to which they are subject.

The following table presents actual and required capital ratios as of December 31, 2018 and 2017 for the Corporation and the Banks under Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital as of December 31, 2018 based on the phased in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Based III Capital Rules.

The Corporation's and the Bank's actual and required amounts and ratios are as follows (dollar amounts in thousands):

	Actual		Minimum Capital Required – Basel III Phase in Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2018:						
Total capital (to risk-weighted assets)						
Consolidated	$ 71,753	29.45%	$ 24,057	9.875%	N/A	N/A
Bank subsidiaries	$ 61,388	26.56%	$ 22,828	9.875%	$ 23,117	10.00%
Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 68,847	28.26%	$ 19,185	7.875%	N/A	N/A
Bank subsidiaries	$ 58,482	25.30%	$ 18,205	7.875%	$ 18,494	8.00%
Common Equity Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 68,847	28.26%	$ 15,531	6.375%	N/A	N/A
Bank subsidiaries	$ 58,482	25.30%	$ 14,375	6.375%	$ 15,027	6.50%
Tier 1 capital (to average assets)						
Consolidated	$ 68,847	15.24%	$ 18,073	4.00%	N/A	N/A
Bank subsidiaries	$ 58,482	13.29%	$ 17,596	4.00%	$ 21,996	5.00%

NOTE 10 – SHAREHOLDERS' EQUITY (continued)

	Actual		Minimum Capital Required – Basel III Phase in Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2017:						
Total capital (to risk-weighted assets)						
Consolidated	$ 68,373	28.79%	$ 21,229	9.25%	N/A	N/A
Bank subsidiaries	$ 58,840	26.25%	$ 20,736	9.25%	$ 22,417	10.00%
Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 65,552	28.16%	$ 16,639	7.25%	N/A	N/A
Bank subsidiaries	$ 56,019	24.99%	$ 16,253	7.25%	$ 17,934	8.00%
Common Equity Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 65,552	28.16%	$ 13,196	5.75%	N/A	N/A
Bank subsidiaries	$ 56,019	24.99%	$ 12,889	5.75%	$ 14,571	6.50%
Tier 1 capital (to average assets)						
Consolidated	$ 65,552	14.35%	$ 18,271	4.00%	N/A	N/A
Bank subsidiaries	$ 56,019	12.33%	$ 18,171	4.00%	$ 22,714	5.00%

NOTE 11 – COMMITMENTS AND CONTINGENCIES

The Corporation and the Banks are subject to claims and lawsuits arising in the normal course of business. Management, after consultation with legal counsel, believes the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position.

The Banks are selling mortgage loans to the secondary market, which they are contingently liable for repurchase for a period of up to six months from the date of sale. The contingency covers certain documentary and performance requirements. As of December 31, 2018 and 2017, loans subject to this contingent liability totaled $6,669,586 and $10,058,888 respectively.

In the normal course of business, the Banks have outstanding commitments and contingent liabilities, such as commitments to extend credit and letters of credit, which are not included in the accompanying consolidated financial statements. The Banks exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and letters of credit is represented by the contractual or notional amount of those instruments. The Banks use the same credit policies in making such commitments as it does for instruments that are included in the consolidated statement of financial condition.

Financial instruments whose contract amounts represent credit risk were as follows:

	December 31,	
	2018	2017
Commitments to extend credit	$ 23,349,541	$ 25,000,963
Letters of credit	$ 279,000	$ 267,000

NOTE 11 – COMMITMENTS AND CONTINGENCIES (continued)

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

Letters of credit are conditional commitments issued by the Banks to guarantee the performance of a customer to a third party. Letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Banks have not been required to perform on any financial guarantees during the past two years. The Banks have not incurred any losses on its commitments in either 2018 or 2017.

The Corporation has a $5,000,000 line of credit, of which $5,000,000 was unused at December 31, 2018. Advances on the credit line are payable at maturity, December 1, 2019, and carry an interest rate of 1% over the national prime rate. The credit line is secured by a stock pledge of the subsidiaries.

NOTE 12 - SIGNIFICANT CONCENTRATION OF CREDIT RISK

The Banks recognize their primary market area to be within Luna, Dona Ana and Grant Counties of New Mexico. The economic climate of this market area is dependent, to a large degree, upon the success of its agricultural and real estate industry base.

At December 31, 2018 and 2017, the Banks maintained a diversified loan portfolio. The Banks, as a matter of policy, generally do not extend credit to any single borrower or group of related borrowers more than 20% of the subsidiaries capital. State charted banks in New Mexico are limited to loaning up to 35% of capital to one borrower.

NOTE 13 – TRANSACTIONS WITH RELATED PARTIES

In the normal course of banking business, loans are made to executive officers and directors of the Banks, as well as their affiliates. Such loans are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features.

The following is a summary of related party loan activity for the year noted:

	December 31,	
	2018	2017
Beginning Balance	$ 4,350,872	$ 4,266,861
New Loans	1,363,917	995,846
Repayments	(1,397,270)	(911,835)
Ending Balance	$ 4,317,519	$ 4,350,872

The deposits from executive officers and directors totaled $10,776,505 at December 31, 2018 and $11,590,367 at December 31, 2017.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurements and Disclosures*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

- Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level with the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified with Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Banks do not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or market value. Market Value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Banks. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the client and client's business. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified previously. Foreclosed real estate assets have been valued using a market approach. The values were determined using market prices of similar real estate assets. Goodwill was valued using the income approach.

There were no fair values of assets and liabilities measured on a recurring basis.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following table displays the Corporation and the Bank's assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis as follows:

	Fair Value	Fair Value Measurements		
		Level 1	Level 2	Level 3
December 31, 2018				
Foreclosed real estate, net	$ 556,000	$ --	$ --	$ 556,000
Goodwill	23,106	--	--	23,106
Impaired loans	$ 498,407	$ --	$ --	$ 498,407
December 31, 2017				
Foreclosed real estate, net	$ 511,068	$ --	$ --	$ 511,068
Goodwill	23,106	--	--	23,106
Impaired loans	$ 1,781,254	$ --	$ --	$ 1,781,254

In accordance with the disclosure requirements of FASB ASC 825, Financial Instruments, the estimated fair values of the Corporation's financial instruments are as follows:

	Carrying Value	Fair Value	Fair Value Measurements		
			Level 1	Level 2	Level 3
December 31, 2018:					
Financial assets					
Cash and equivalents	$ 82,580,284	$ 82,580,284	$ 82,580,284	$ --	$ --
Investment securities	140,870,832	140,094,123	--	140,094,123	--
Restricted stock	249,805	249,805	--	--	249,805
Loans	189,491,385	184,519,963	--	--	184,519,963
Interest receivable	2,860,224	2,860,224	2,860,224	--	--
Financial liabilities					
Deposits	355,571,529	355,116,033	--	--	355,116,033
Interest payable	34,103	34,103	34,103		
Credit commitments	$ 236,285	$ 222,912	$ --	$ --	$ 222,912
December 31, 2017:					
Financial assets					
Cash and equivalents	$ 115,993,727	$ 115,993,727	$ 115,993,727	$ --	$ --
Investment securities	144,686,725	146,583,122	--	146,583,122	--
Restricted stock	249,805	249,805	--	--	249,805
Loans	174,309,243	167,661,682	--	--	167,661,682
Interest receivable	2,729,714	2,729,714	2,729,714	--	--
Financial liabilities					
Deposits	382,320,668	381,728,166	--	--	381,728,166
Interest payable	31,800	31,800	31,800	--	--
Credit commitments	$ 252,680	$ 238,378	$ --	$ --	$ 238,378

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The carrying amounts in the preceding table are included in the balance sheets under the applicable captions. The contract or notional amounts of the Bank's financial instruments with off-balance-sheet risk are disclosed in the notes to the financial statements.

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

Cash and cash equivalents: The carrying amounts reported in the statements of financial condition for cash and cash equivalents approximate those assets' fair values.

Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair value of fixed-rate loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair values for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable.

Accrued interest: The carrying amount of accrued interest approximate the fair values.

Deposits: The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed term money market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Short-term borrowings: The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings maturing within 90 days approximate fair values. Fair values of other short-term borrowings are estimated using discounted cash flow analyses based on the Bank's current incremental borrowing rates for similar types of borrowing arrangements.

Long-term borrowings: The fair value of long-term debt (Federal Home Loan Bank advances and other borrowings) are estimated using discounted cash flow analyses based on the Bank's incremental borrowing rates for similar types of borrowing arrangements.

Off-balance sheet credit-related financial instruments: Fair values for off-balance-sheet, credit-related financial instruments are based on fees currently charged to enter into similar agreements, considering the remaining terms of the agreements and the counter parties' credit standing.

SUPPLEMENTARY INFORMATION

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2018

	First New Mexico Financial Corporation	First New Mexico Bank			
		Deming	Las Cruces	Silver City	Consolidated*
ASSETS					
Cash and due from banks	$ 6,588,633	$ 42,166,113	$ 23,695,782	$ 19,010,389	$ 82,580,284
Investment securities	--	75,305,768	24,020,611	41,544,453	140,870,832
Investment in subsidiaries	58,482,950	--	--	--	--
Loans and leases, net	3,979,298	80,131,136	58,915,974	46,464,977	189,491,385
Bank premises and equipment, net	1,048,191	3,399,970	4,024,884	1,493,020	9,966,065
Interest receivable	--	1,719,388	516,841	623,995	2,860,224
Other real estate owned	--	308,000	--	248,000	556,000
Bank owned life insurance	--	3,469,420	644,735	1,306,542	5,420,697
Other assets	832,918	689,955	623,348	452,030	2,044,460
Total Assets	$ 70,931,990	$207,189,750	$112,442,175	$111,143,406	$433,789,947
LIABILITIES AND STOCKHOLERS' EQUITY					
Deposits	$ --	$176,512,029	$ 92,580,202	$ 95,359,931	$355,571,529
Accrued interest payable	--	12,248	15,406	6,449	34,103
Other liabilities	2,084,810	2,230,072	3,160,332	2,415,712	9,337,135
Total Liabilities	2,084,810	178,754,349	95,755,940	97,782,092	364,942,767
Common stock, $10 par value Authorized – 1,000,000 shares Issued – 52,801 shares	528,010	1,200,000	4,000,000	500,000	528,010
Capital surplus	--	2,800,000	3,000,000	1,800,000	
Retained earnings	68,319,170	24,435,401	9,686,235	11,061,314	68,319,170
Accumulated other comprehensive income	--	--	--	--	--
Treasury stock – 0 shares	--	--	--	--	--
Total Stockholders' Equity	68,847,180	28,435,401	16,686,235	13,361,314	68,847,180
Total Liabilities and Stockholders' Equity	$ 70,931,990	$207,189,750	$112,442,175	$111,143,406	$433,789,947

*-contains eliminating entries

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATING STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2018

	First New Mexico Financial Corporation	First New Mexico Bank			
		Deming	Las Cruces	Silver City	Consolidated*
Interest income:					
Interest and fees on loans	$ 95,789	$ 5,052,505	$ 4,705,714	$ 3,890,032	$ 13,744,040
Interest on investment securities	--	2,134,710	770,110	1,149,316	4,054,136
Interest on deposits in banks	12,751	881,979	454,084	236,784	1,585,598
	108,540	8,069,194	5,929,908	5,276,132	19,383,774
Interest expense:					
Interest on deposits	--	466,235	332,748	283,898	1,082,881
Interest on borrowed funds	--	--	--	--	--
	--	466,235	332,748	283,898	1,082,881
Net interest income	108,540	7,602,959	5,597,160	4,992,234	18,300,893
Provision for loan losses	--	120,000	25,000	200,000	345,000
Net interest income after provision for loan losses	108,540	7,482,959	5,572,160	4,792,234	17,955,893
Other noninterest income:					
Service fees	--	643,309	401,514	241,918	1,286,741
Other income	--	206,588	60,108	164,959	401,655
	--	849,897	461,622	406,877	1,688,396
Expenses:					
Salaries and employee benefits	--	2,150,962	2,218,508	1,664,825	6,034,295
Occupancy expenses	--	401,186	369,692	214,772	985,650
Other operating expenses	370,000	1,826,552	1,085,646	1,172,672	4,424,870
	370,000	4,378,700	3,673,846	3,052,269	11,444,815
Net income before income taxes	(261,460)	3,954,156	2,359,936	2,146,842	8,199,474
Federal and state income taxes	(42,544)	956,594	659,916	679,642	2,253,608
Net income (loss)	$ (218,916)	$ 2,997,562	$ 1,700,020	$ 1,467,200	$ 5,945,866

*-contains eliminating entries

DEMING

SILVER CITY

LAS CRUCES

COLUMBUS

ANTHONY, TX

1st FIRST NEW MEXICO FINANCIAL CORPORATION

P.O. BOX 511 DEMING, NEW MEXICO 88031-0511 (575) 546-2691

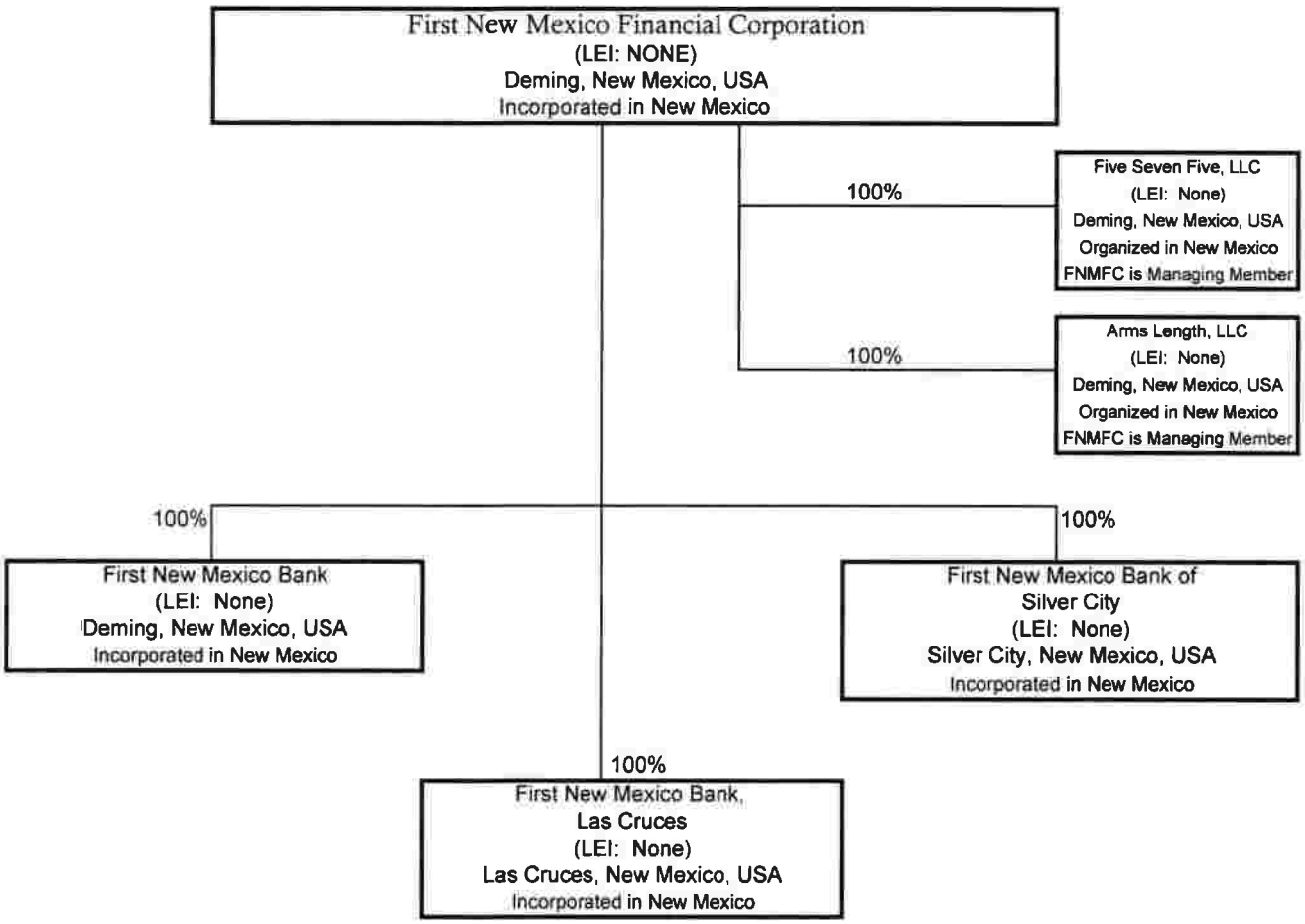
FORM FR Y-6

FIRST NEW MEXICO FINANCIAL CORPORATION
DEMING, NEW MEXICO, USA
Fiscal Year Ending December 31, 2018

Report Item:

1: The bank holding company prepares an annual report for its securities holders and is not registered with the SEC. As specified by the appropriate Reserve Bank, 2 copies are enclosed.

2a: Organizational Chart



2b: Domestic branch listing provided to the Federal Reserve Bank

Results: A list of branches for your holding company: FIRST NEW MEXICO FINANCIAL CORPORATION (1107830) of DEMING, NM.
The data are as of 12/31/2018. Data reflects information that was received and processed through 01/06/2019.

Reconciliation and Verification Steps

1. In the **Data Action** column of each branch row, enter one or more of the actions specified below
2. If required, enter the date in the **Effective Date** column

Actions

OK: If the branch information is correct, enter "OK" in the **Data Action** column
Change: If the branch information is incorrect or incomplete, revise the data, enter "Change" in the **Data Action** column and the date when this information first became valid in the **Effective Date** column.
Close: If a branch listed was sold or closed, enter "Close" in the **Data Action** column and the sale or closure date in the **Effective Date** column.
Delete: If a branch listed was never owned by this depository institution, enter "Delete" in the **Data Action** column
Add: If a reportable branch is missing, insert a row, add the branch data, and enter "Add" in the **Data Action** column and the opening or acquisition date in the **Effective Date** column

If printing this list, you may need to adjust your page setup in MS Excel. Try using landscape orientation, page scaling, and/or legal sized paper.

Submission Procedure

When you are finished, send a saved copy to your FRB contact. See the detailed instructions on this site for more information.
If you are e-mailing this to your FRB contact, put your institution name, city and state in the subject line of the e-mail.

Note:
To satisfy the **FR Y-10 reporting requirements**, you must also submit FR Y-10 Domestic Branch Schedules for each branch with a **Data Action of** Change, Close, Delete, or Add
The FR Y-10 report may be submitted in a hardcopy format or via the FR Y-10 Online application - https://y10online.federalreserve.gov.

* FDIC UNINUM, Office Number, and ID_RSSD columns are for reference only. Verification of these values is not required

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	712956	FIRST NEW MEXICO BANK	300 S. GOLD	DEMING	NM	88030-3731	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Limited Service	642651	COLUMBUS BRANCH	202 SOUTH MAIN	COLUMBUS	NM	88029	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Limited Service	3640984	DEMING BRANCH	1501 SOUTH COLUMBUS HIGHWAY	DEMING	NM	88030	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Full Service	3542132	LOHMAN BRANCH	3000 EAST LOHMAN AVENUE	LAS CRUCES	NM	88011	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Full Service (Head Office)	495558	FIRST NEW MEXICO BANK OF SILVER CITY	1928 HIGHWAY 180 EAST	SILVER CITY	NM	88061	GRANT	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK OF SILVER CITY	495558	
OK		Full Service	4187301	HUDSON BRANCH	110 NORTH HUDSON	SILVER CITY	NM	88061	GRANT	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK OF SILVER CITY	495558	
OK		Full Service (Head Office)	3623969	FIRST NEW MEXICO BANK, LAS CRUCES	3000 EAST LOHMAN AVENUE	LAS CRUCES	NM	88011-8246	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK, LAS CRUCES	3623969	
OK		Full Service	4187299	ANTHONY BRANCH	455 LANDERS ROAD	ANTHONY	NM	88021	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK, LAS CRUCES	3623969	

FORM FR Y-6
FIRST NEW MEXICO FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2018

Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018.

(1)(a) Name City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities		
Gertrude Kretek Deming, NM 88030, USA	USA	1835	3.48%	Common Stock
Geraldine Kretek Deming, NM 88030, USA	USA	1284	2.43%	Common Stock
Frank Kretek El Paso, TX 79912, USA	USA	527	1.00%	Common Stock
The Kretek Corporation Deming, NM 88030, USA	USA	250	0.47%	Common Stock
Charles Kretek Deming, NM 88030, USA	USA	20	0.04%	Common Stock
		3916	7.42%	
Leon J. Whitaker Revocable Trust Richard Patterson Trustee Deming, NM 88031, USA	USA	1300	2.46%	Common Stock
Triadic Enterprises Retirement Fund Richard Patterson, Trustee Deming, NM 88031, USA	USA	3051	5.78%	Common Stock
Richard Patterson Deming, NM 88031, USA	USA	1075	2.04%	Common Stock
		5426	10.28%	

FORM FR Y-6
FIRST NEW MEXICO FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2018

Report Item 3: Securities Holders
(1)(a)(b)(c) and (2)(a)(b)(c)

Current securities holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending 12-31-2018.

(1)(a) Name, City, State, Country	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities		
Frederick Sherman Deming, NM 88030, USA	USA	3743	7.09%	Common Stock
Janie Jontz Sherman Sante Fe, NM 87501, USA	USA	623	1.18%	Common Stock
Jan Sherman Bayard, NM 88023, USA	USA	500	0.95%	Common Stock
Benjamin Sherman Silver City, NM 88062, USA	USA	168	0.32%	Common Stock
Jerah Sherman Deming, NM 88030, USA	USA	276	0.52%	Common Stock
Jakub Sherman Deming, NM 88030, USA	USA	272	0.52%	Common Stock
John Sherman Silver City, NM 88061, USA	USA	140	0.27%	Common Stock
F & J S Limited Partnership Deming, NM 88030, USA	USA	2616	4.95%	Common Stock
Sherman Family Foundation Deming, NM 88030, USA	USA	142	0.27%	Common Stock
		8480	16.06%	

FORM FR Y-6
FIRST NEW MEXICO FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2018

Securities holders not listed in (3)(1)(a) through 3 (1)(c) that had ownership, control or holdings of 5% or more with power to vote during the fiscal year ending 12-31-2018.

(2)(a) Name City, State, Country	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Not Applicable		

FORM FR Y-6
FIRST NEW MEXICO FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2018

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c.)

(1) Names City, State, Country	(2) Principal Occupation if other than w/ Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiary Bank	(3)(c.) Title & Position with other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c.) List names of other Companies if 25% or more of voting shares
Sam D. Baca Deming, New Mexico, USA	Mortician	Director	Director First New Mexico Bank of Deming	President	3.54%	N/A	Baca Funeral Homes 100%
G.G.Gore Deming, New Mexico, USA	Business Owner retired	Director	Director First New Mexico Bank of Deming	N/A	0.81%	N/A	N/A
Dr. John Lundy Deming, New Mexico, USA	Physician, retired	Director	Director First New Mexico Bank of Deming	N/A	0.63%	N/A	N/A
Teresa O. Molina Deming, New Mexico, USA	N/A	Secretary/Treasurer Director	Director & President of First New Mexico Bank of Deming	N/A	1.12%	N/A	N/A
Sean Ormand Silver City, New Mexico, USA	N/A	President & CEO Director	Director, President & CEO of First New Mexico Bank of Silver City	N/A	1.42%	N/A	N/A
Richard L. Patterson Deming, New Mexico, USA	Certified Public Accountant	Director	Director First New Mexico Bank of Deming & Las Cruces	Partner	10.28% ^	N/A	Galindo, Patterson & Associates, PA 50%
Frank Quarrell Deming, New Mexico, USA	Educational Administrator	Director	Director First New Mexico Bank of Silver City	N/A	0.13%	N/A	N/A
Gary Shiflett Deming, New Mexico,USA	Farmer	Director	Director First New Mexico Bank of Deming	Owner	1.80%	N/A	Shiflett Farms 100%
Sharron Stuart Las Cruces, New Mexico, USA	N/A	Director	Director & President of First New Mexico Bank, Las Cruces	N/A	0.99%	N/A	N/A
Richard Griffin Silver City, New Mexico, USA	Business Owner	Director	Director First New Mexico Bank of Silver City	President	3.30%	N/A	Griffin's Propane, Inc 100%

^ - Ownership percentage represents control of Leon J. Whitaker Revovable Trust owing 2.46% and Triadic Enterprises Retirement fund owning 5.78%

FORM FR Y-6
FIRST NEW MEXICO FINANCIAL CORPORATION
Fiscal Year Ending December 31, 2018

Report Item 4: Insiders
(1) (2) (3)(a)(b)(c) and (4)(a)(b)(c.)

(1) Names City, State, Country	(2) Principal Occupation if other than w/ Bank Holding Company	(3)(a) Title & Position with Bank Holding Company	(3)(b) Title & Position with Subsidiary Bank	(3)(c.) Title & Position with other Businesses	(4)(a) Percentage of Voting Shares in Bank Holding Company	(4)(b) Percentage of Voting Shares in Subsidiaries	(4)(c.) List names of other Companies if 25% or more of voting shares
Frederick Sherman Deming, New Mexico, USA	Attorney	Principal Securities Holder	N/A	N/A	7.09% **	N/A	Sherman & Sherman Attorneys 50%
Janie Jontz Sherman Sante Fe, New Mexico, USA	Teacher, retired	Principal Securities Holder	N/A	N/A	1.18% **	N/A	N/A
Jan Sherman Bayard, New Mexico, USA	Teacher, retired	Principal Securities Holder	N/A	N/A	0.95% **	N/A	N/A
Benjamin Sherman Deming, New Mexico, USA	Dentist, retired	Principal Securities Holder	N/A	N/A	0.32% **	N/A	N/A
Jerah Sherman Deming, New Mexico, USA	Social Worker	Principal Securities Holder	N/A	N/A	0.52% **	N/A	N/A
Jakub Sherman Deming, New Mexico, USA	Attorney	Principal Securities Holder	N/A	N/A	0.52% **	N/A	Sherman & Sherman Attorneys 50%
John Sherman Silver City, New Mexico, USA	Dentist	Principal Securities Holder	N/A	N/A	0.27% **	N/A	N/A
F & J S Limited Partnership Deming, New Mexico, USA	Consultant	Principal Securities Holder	N/A	N/A	4.95% **	N/A	N/A
Sherman Family Foundation Deming, New Mexico, USA	Charitable Organization	Principal Securities Holder	N/A	N/A	0.27% **	N/A	N/A