

Board of Governors of the Federal Reserve System



# Annual Report of Holding Companies—FR Y-6

## 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, RANDY HARRIS  
 Name of the Holding Company Director and Official  
DIRECTOR & PRESIDENT & CEO  
 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.*

*Randy Harris*  
 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:  
 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 \_\_\_\_\_  
 C.I. \_\_\_\_\_

**Date of Report** (top-tier holding company's fiscal year-end):  
**December 31, 2018**  
 Month / Day / Year  
 NONE  
 Reporter's Legal Entity Identifier (LEI) (20-Character LEI Code)  
 Reporter's Name, Street, and Mailing Address

CLOVIS BANCSHARES INC  
 Legal Title of Holding Company  
300 MAIN STREET  
 (Mailing Address of the Holding Company) Street / P.O. Box  
CLOVIS NM 88101  
 City State Zip Code  
N/A  
 Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:  
TAMMI LITTLE CASHIER  
 Name Title  
575-769-9000  
 Area Code / Phone Number / Extension  
575-769-0050  
 Area Code / FAX Number  
tlittle@bankofclovis.com  
 E-mail Address  
www.bankofclovis.com  
 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."

## For Use By Tiered Holding Companies

Top-tiered holding companies must list the names, mailing address, and physical locations of each of their subsidiary holding companies below.

Legal Title of Subsidiary Holding Company

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

City State Zip Code

Physical Location (if different from mailing address)

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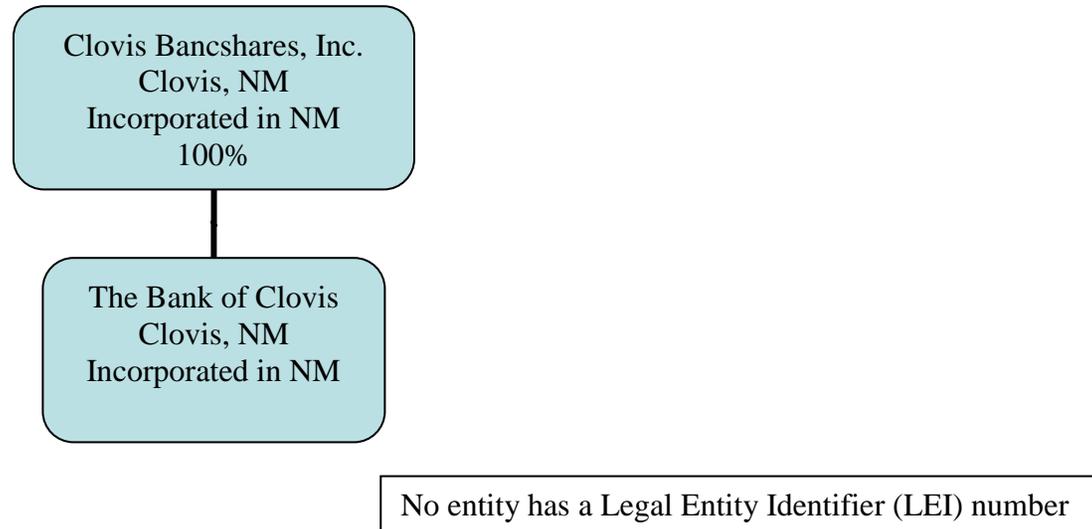
**Form FR Y-6**

**Clovis Bancshares, Inc.  
Clovis, New Mexico  
Fiscal Year Ending December 31, 2018**

Report Item

1. The bank holding company prepares an annual report for its shareholders and is not registered with the SEC. One copy is enclosed.

2a. Organizational Chart



## 2b. Domestic branch listing:

**Results:** A list of branches for your depository institution: **BANK OF CLOVIS, THE (ID\_RSSD: 2948423)**.  
 This depository institution is held by **CLOVIS BANCSHARES, INC. (3324387) of CLOVIS, 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)	2948423	BANK OF CLOVIS, THE	300 N MAIN ST	CLOVIS	NM	88101	CURRY	UNITED STATES	Not Required	Not Required	BANK OF CLOVIS, THE	2948423	
OK		Full Service	3531055	PRINCE STREET BRANCH	2211 NORTH PRINCE STREET	CLOVIS	NM	88101	CURRY	UNITED STATES	Not Required	Not Required	BANK OF CLOVIS, THE	2948423	

### 3. Securities Holders

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

<b>1(a) Name &amp; Address (City, State, Country)</b>	<b>1(b) Country of Citizenship or Incorporation</b>	<b>1(c) Number and Percentage of Each Class of Voting Securities</b>
Stephen H. Haynes Clovis, NM, USA	USA	96,669 –13.51% Common Stock
Alva L. Wilson Clovis, NM, USA	USA	86,238 –12.05% Common Stock
Plateau Telecommunications Inc. Controller: David J. Robinson Clovis, NM, USA	USA	41,212 - 5.76% Common Stock

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.

<b>2(a) Name &amp; Address (City, State)</b>	<b>2(b) Country of Citizenship or Incorporation</b>	<b>2(c) Number and Percentage of Each Class of Voting Securities</b>
None		

#### 4. Insiders

<b>(1) Name City, State, Country</b>	<b>(2) Principal Occupation if other than with Bank Holding Company</b>	<b>(3)(a) Title &amp; Position with Bank Holding Company</b>	<b>(3)(b) Title &amp; Position with Subsidiaries (include names of subsidiaries)</b>	<b>(3)(c) Title &amp; Position with Other Businesses (include names of other businesses)</b>	<b>(4)(a) Percentage of Voting Shares in Bank Holding Company</b>	<b>(4)(b) Percentage of Voting Shares in Subsidiaries (include names of subsidiaries)</b>	<b>(4)(c) List names of other companies (includes partnerships) if 25% or more of voting securities are held</b>
Randy Harris Clovis, NM, USA	N/A	Director, President & CEO	Director, President & CEO (The Bank of Clovis)	N/A	3.46%	None	N/A
Jacob Moberly Clovis, NM, USA	Retired Dentist	Director & Chairman	Director & Chairman (The Bank of Clovis)	N/A	4.41%	None	N/A
Alva L. Wilson Clovis, NM, USA	Commercial Construction Business Owner	Director	Director (The Bank of Clovis)	Sr. Vice President – WWRC Inc.	12.05%	None	WWRC Inc. – 49%
Stephen H. Haynes Clovis, NM, USA	Physician	Director	Director (The Bank of Clovis)	President – Associated Physicians and Practitioners LLC	13.51%	None	Associated Physicians and Practitioners LLC-100%
Ribble Holloman Clovis, NM, USA	Retired Banker	Director	Director, (The Bank of Clovis)	N/A	3.06%	None	N/A

**CLOVIS  
BANCSHARES, INC.**

***CONSOLIDATED FINANCIAL  
STATEMENTS  
AND SUPPLEMENTARY  
INFORMATION***

*December 31, 2018, and 2017*



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ROSTER OF  
OFFICERS AND DIRECTORS

Dr. Jacob Moberly	Chairman
Mr. Randy Harris	President and CEO
Dr. Stephen Haynes	Board Member
Mr. Alva L. Wilson	Board Member
Mr. Ribble Holloman	Board Member

# R. Kelly McFarland

Certified Public Accountant  
A Professional Corporation

Members of  
**AICPA**<sup>®</sup>



314 South 2nd Street • Post Office Box 1044 • Tucumcari, New Mexico 88401  
Voice (575) 461-1195 • Fax (575) 461-1198 • Web: [www.mcfarlandcpa.com](http://www.mcfarlandcpa.com)

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders of  
Clovis Bancshares, Inc.  
Clovis, New Mexico

I have audited the accompanying consolidated statements of financial condition of Clovis Bancshares, Inc. and its bank subsidiary as of December 31, 2018, and 2017, and the related consolidated statements of income, changes in stockholders' equity, comprehensive income, cash flows, related notes to the financial statements, and Schedules I through IV for the years then ended.

### **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 fraud or error.

### **Auditor's Responsibility**

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about 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 consolidated 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, I 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.

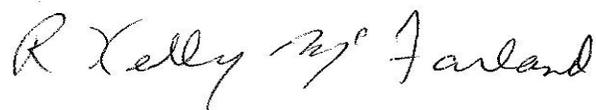
I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

### **Opinion**

In my opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Clovis Bancshares, Inc. and its bank subsidiary as of December 31, 2018, and 2017, and the consolidated results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

My audit was conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The Supplementary Information Schedule of Book Value and Dividends on page 58 is presented for the purposes of additional analysis and is not part of the basic 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 such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.



Certified Public Accountant

March 15, 2019

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Financial Condition**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash and due from banks (Note 1)	\$ 9,611,979	\$ 19,368,247
Fed funds sold	<u>2,300,000</u>	<u>250,000</u>
Total cash and cash equivalents	<u>11,911,979</u>	<u>19,618,247</u>
Held-to-maturity investment securities at amortized cost (fair value for 2018 of \$14,904,029 and for 2017 of \$15,172,124) (Note 1, 4)	15,066,611	15,159,525
Available-for-sale investment securities (amortized cost of \$53,604,596 in 2018 and \$54,064,319 in 2017) (Note 1, 4)	<u>52,146,553</u>	<u>53,407,404</u>
Total investment securities	<u>67,213,164</u>	<u>68,566,929</u>
Loans, net of general loan loss allowance of \$2,058,380 in 2018 and of \$1,772,698 in 2017 (Note 1,3)	106,503,943	99,509,413
Premises and equipment, net (Note 1, 2)	2,063,983	1,854,238
Accrued interest receivable	1,031,513	963,363
Federal Home Loan Stock (Note 1)	296,900	290,000
Prepaid federal and state income tax	226,108	243,409
Deferred tax asset (Note 9)	1,109,299	817,779
Repossessed assets and foreclosed real estate (Note 1, 20)	0	7,300
Cash value of life insurance (Note 19)	5,376,342	5,762,913
Other assets	<u>416,722</u>	<u>431,772</u>
<b>Total Assets</b>	<b><u>\$ 196,149,953</u></b>	<b><u>\$ 198,065,363</u></b>

See Notes 5 and 6 for pledges of assets.

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Financial Condition**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
Deposits (Note 1,5)	\$ 160,463,133	\$ 164,955,541
FHLB advances (Note 6)	5,000,000	5,000,000
Securities sold under agreements to repurchase	4,513,479	3,928,999
Other liabilities	131,625	115,367
Escrow payable	114,212	87,051
Post retirement benefit obligation	1,332,218	1,210,844
<b>Total Liabilities</b>	<u>171,554,667</u>	<u>175,297,802</u>
<b>Stockholders' Equity</b>		
Common stock, \$4.50 par value, 2,000,000 shares authorized and 828,858 shares issued in 2018; 113,121 shares held in treasury in 2018; 715,737 shares outstanding in 2018, 821,896 shares issued in 2017; 116,765 shares held in treasury in 2017; 705,131 shares outstanding in 2017.	3,729,861	3,698,532
Additional paid-in capital	9,189,325	9,023,017
Treasury Stock, at cost	(3,067,505)	(3,044,607)
Retained earnings	15,814,378	13,573,051
Accumulated other comprehensive income	(1,070,773)	(482,432)
<b>Total Stockholders' Equity</b>	<u>24,595,286</u>	<u>22,767,561</u>
<b>Total Liabilities and Stockholders' Equity</b>	<u>\$ 196,149,953</u>	<u>\$ 198,065,363</u>

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Income**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
Interest income *	\$ 8,050,993	\$ 7,499,431
Interest expense *	<u>834,282</u>	<u>633,213</u>
Net interest income	7,216,711	6,866,218
Provision for loan losses	<u>(300,000)</u>	<u>(600,000)</u>
Net interest income, after provision for loan losses	6,916,711	6,266,218
Noninterest income *	1,607,081	1,124,795
Noninterest expense *	<u>5,574,931</u>	<u>5,361,123</u>
Income before income taxes	<u>2,948,861</u>	<u>2,029,890</u>
Current income taxes (Note 9)	(363,494)	(475,414)
Deferred income taxes (Note 9)	<u>78,733</u>	<u>(274,700)</u>
Net current and deferred income taxes	<u>(284,761)</u>	<u>(750,114)</u>
<b>Net income (loss)</b>	<u><b>\$ 2,664,100</b></u>	<u><b>\$ 1,279,776</b></u>
Earnings per share (Note 23)		
Basic	\$ 3.76	\$ 1.79
Diluted	\$ 3.69	\$ 1.77

\* For additional detail see Schedules I, II, III and IV

See accompanying notes to the consolidated financial statements.

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Comprehensive Income**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
Net income	\$ 2,664,100	\$ 1,279,776
Net unrealized holding gains (loss) on securities arising during the year	(730,439)	521,793
Reclassification adjustments included in net income, net of tax (Note 17)	<u>(70,691)</u>	<u>(10,764)</u>
Other comprehensive income (loss) before deferred income tax (benefit)	(801,130)	511,029
Deferred income tax benefit (expense)	<u>212,789</u>	<u>(205,127)</u>
Other comprehensive income (loss), net of deferred income tax (benefit)	<u>(588,341)</u>	<u>305,902</u>
<b>Comprehensive income</b>	<u>\$ 2,075,759</u>	<u>\$ 1,585,678</u>



**Clovis Bancshares, Inc.**  
**Consolidated Statement of Changes in Stockholders' Equity**  
**December 31, 2018, and 2017**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income	Total Stockholders' Equity
BALANCES, JANUARY 1, 2017	\$ 3,666,339	\$ 8,900,453	\$ 12,637,510	\$ (2,141,505)	\$ (699,131)	\$ 22,363,666
<b>COMMON STOCK</b>						
Purchase of 15,562 treasury shares at \$26 per share				(404,612)		(404,612)
Purchase of 23,410 treasury shares at \$29 per share				(678,890)		(678,890)
Sale of 8,200 treasury shares at \$15.75 per share (exercise of stock options)		(51,250)		180,400		129,150
Issuance of 7,154 shares as stock dividend at \$26 per share	32,193	153,811	(186,004)			0
<b>CASH DIVIDENDS</b>						
STOCK OPTION COMPENSATION		20,003	(247,434)			(247,434)
FASB ASU 2018-02 remeasurement of net deferred taxes			89,203		(89,203)	0
<b>COMPREHENSIVE INCOME</b>						
Net Income (loss)	0	0	1,279,776			1,279,776
Other comprehensive income (Note 17)	0	0	0	0	305,902	305,902
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>0</b>	<b>0</b>	<b>1,279,776</b>	<b>0</b>	<b>305,902</b>	<b>1,585,678</b>
BALANCES, DECEMBER 31, 2017	3,698,532	9,023,017	13,573,051	(3,044,607)	(482,432)	22,767,561
<b>COMMON STOCK</b>						
Purchase of 9,510 treasury shares at \$29 per share				(275,790)		(275,790)
Purchase of 5,846 treasury shares at \$31 per share				(181,226)		(181,226)
Sale of 6,500 treasury shares at \$18.26 per share (exercise of stock options)		(27,928)		146,618		118,690
Sale of 2,500 treasury shares at \$23.00 per share (exercise of stock options)		0		57,500		57,500
Sale of 6,000 treasury shares at \$25.17 per share (exercise of stock options)		13,020		138,000		151,020
Sale of 3,000 treasury shares at \$27.00 per share (exercise of stock options)		12,000		69,000		81,000
Sale of 1,000 treasury shares at \$21.62 per share (exercise of stock options)		(1,380)		23,000		21,620
Issuance of 6,962 shares as stock dividend at \$29 per share	31,329	170,569	(201,898)			0
<b>CASH DIVIDENDS</b>						
STOCK OPTION COMPENSATION		27	(220,875)			(220,875)
<b>COMPREHENSIVE INCOME</b>						
Net Income (loss)	0	0	2,664,100	0	(588,341)	2,664,100
Other comprehensive income (Note 17)	0	0	2,664,100	0	(588,341)	(588,341)
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>0</b>	<b>0</b>	<b>2,664,100</b>	<b>0</b>	<b>(588,341)</b>	<b>2,075,759</b>
BALANCES, DECEMBER 31, 2018	\$ 3,729,861	\$ 9,189,325	\$ 15,814,378	\$ (3,067,505)	\$ (1,070,773)	\$ 24,595,286

See accompanying notes to the consolidated financial statements.

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Cash Flows**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,664,100	\$ 1,279,776
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation	130,996	123,575
Amortization and accretion of premiums/discounts on securities	460,686	713,956
Increase (decrease) in income taxes currently payable and deferred income taxes	(274,219)	574,772
(Increase) decrease in cash value of life insurance	386,571	(146,715)
Stock option compensation	27	471
Excess tax benefits from share - based payment arrangements	0	(19,532)
Effect of change in tax rates relating to unrealized loss on securities	0	89,203
(Gain) loss on sale of OREO	(15,831)	0
(Gain) loss on sale of securities	96,259	14,657
Net change in:		
(Increase) decrease in prepaid expenses	(34,063)	31,204
Increase (decrease) in accrued interest payable	12,214	223
Increase (decrease) in accounts payable	13,020	(114,421)
Increase in employee supplemental executive retirement plan payable	121,374	302,061
(Increase) decrease in recoverable service provider cost (net)	49,063	47,838
(Increase) decrease in other assets	50	2,549
(Increase) decrease in accrued interest receivable	(68,151)	41,755
Net cash provided (used) by operating activities	3,542,096	2,941,372
<b>Cash flows from investing activities:</b>		
Purchase of Federal Home Loan Bank Stock	(6,900)	(198,500)
Purchase of available-for-sale securities	(9,521,788)	(967,055)
Proceeds from calls and maturities of available-for-sale securities	645,000	1,345,000
Proceeds from repayments of available-for-sale securities	5,807,892	7,164,906
Proceeds from sale of available-for-sale securities	3,277,373	15,835,160
Proceeds from maturities of held-to-maturity securities	0	1,200,000
Loan originations, net of principal collections	(7,601,526)	(6,707,900)
Loan purchases	0	(1,675,000)
Recoveries from SBA loan guarantee	0	40,103
Recoveries of loan losses	253,174	107,177
Proceeds from sale of repossessed assets and OREO	376,954	1,346,175
Purchases of building, premises, equipment and land	(340,741)	(136,766)
Net cash provided (used) by investing activities	(7,110,562)	17,353,300

**Clovis Bancshares, Inc.**  
**Consolidated Statement of Cash Flows**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
<b>Cash flows from financing activities:</b>		
Net increase (decrease) in deposits	\$ (4,492,408)	\$ (15,972,242)
Net increase (decrease) in securities sold under agreement to repurchase	584,481	(530,097)
Net increase (decrease) in FHLB advances	0	5,000,000
Payment of cash dividends	(220,875)	(247,434)
Sale of treasury stock	429,830	129,150
Acquisition of treasury stock	(457,016)	(1,083,502)
Excess tax benefits from share - based payment arrangements	0	19,532
Increase (decrease) in escrow payable	27,161	46,722
Payments on loan on purchase of building	(8,975)	(8,496)
	<hr/>	<hr/>
Net cash provided (used) by financing activities	(4,137,802)	(12,646,367)
Net change in cash and cash equivalents	(7,706,268)	7,648,305
Cash and cash equivalents at beginning of year	<hr/> 19,618,247	<hr/> 11,969,942
<b>Cash and cash equivalents at end of year</b>	<hr/> <b>\$ 11,911,979</b>	<hr/> <b>\$ 19,618,247</b>
<b>Supplementary cash flow information:</b>		
Cash paid for:		
Interest on deposits and borrowed funds	\$ 822,069	\$ 585,573
Income taxes	\$ 589,610	\$ 400,000
Noncash transactions:		
Financed sales of other real estate owned	\$ 0	\$ 175,000
Repossessed assets (net repossessions)	\$ 117,356	\$ 17,388
Stock Dividends issued	\$ 201,898	\$ 186,004

## **Note 1 Summary of Significant Accounting Policies**

**Organization.** Clovis Bancshares, Inc., a one bank holding company, is the sole shareholder of The Bank of Clovis, an independent community bank, which began operations on October 16, 2000. The Company provides a variety of banking services to individuals, small businesses and agricultural enterprises concentrated in the local community through its two locations in Clovis, New Mexico. The Company's deposit products include checking, savings, IRA's and certificates of deposits. Lending products include consumer, business, real estate and agricultural loans. The Company also provides investment services through a separate department.

**Principles of Consolidation.** The consolidated financial statements include the accounts of Clovis Bancshares, Inc. and its wholly owned subsidiary. All significant intercompany balances and transactions have been eliminated in consolidation.

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America and general practices of community banks. The more significant accounting policies are summarized below.

**Use of Estimates.** In preparing the financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for loan losses. Management uses information as it becomes available to assess the likelihood of loan losses. In addition, regulatory agencies periodically review the allowance and may require further additions to the allowance.

**Significant Group Concentrations of Credit Risk.** Most of the Company's activities are with customers located within the Clovis, New Mexico area. The types of securities which the Company invests are reflected in Note 4 and the types of lending which the Company underwrites are reflected in Note 3. The Company policy is to diversify both the types of investments and loans as well as maturities to avoid concentrations in any one type of financial instrument.

**Cash and Cash Equivalents.** For purposes of the Statement of Cash Flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all with original maturities when purchased of three months or less. Deposit accounts in other financial institutions, other than Fed Funds, amounting to \$3,838,029 and \$3,758,231 at December 31, 2018, and 2017, respectively, are held in non-interest bearing accounts that do not require compensating balances. Investments in interest bearing deposits in other banks are separately classified and are carried at cost, of which there were none in 2018 or 2017. The Company had \$4,614,071 and \$14,295,753 of interest bearing deposits in the Federal Reserve Bank of Dallas at December 31, 2018, and 2017, respectively. The Company had \$668,174 and \$767,315 of interest bearing deposits in the Federal Home Loan Bank of Dallas at December 31, 2018, and 2017, respectively. The Bank had invested \$2,300,000 in Fed Funds at December 31, 2018, and \$250,000 at December 31, 2017.

**Note 1 Summary of Significant Accounting Policies (continued)**

**Cash and Cash Equivalents (continued).**

The Federal Reserve Bank is the Central Bank of the United States and provides banking services to banks. Deposits with the Federal Reserve Bank are implicitly guaranteed as are deposits to the Federal Home Loan Bank.

Deposits are maintained with the Federal Home Loan Bank, (FHLB), an entity established by the U.S. Government. Such deposits are not insured; however, the FHLB has authority to borrow directly from the U.S. Treasury.

Noninterest and interest-bearing transaction accounts in other financial institutions of \$250,000 per banking institution are guaranteed by the FDIC. Total deposits in other financial institutions of \$3,188,029 are not insured by the FDIC in 2018 and \$3,108,231 in 2017.

Fed Funds are considered debt and are not covered by FDIC insurance.

**Securities.** The Company classifies as available-for-sale investments in debt securities that it intends to hold for an indefinite period of time, but not necessarily until maturity. These securities are carried at fair value. Unrealized holding gains and losses are reported in an amount, net of tax effects, in other comprehensive income and are excluded from earnings. (See Note 4)

Purchase premiums and discounts are recognized in interest income using the interest method over the maturity or expected maturity for which prepayments are probable and can be reasonably estimated.

The estimated fair value of securities is discussed in Note 15. Declines in value of securities that are considered other than temporary are recorded in noninterest income as a loss on securities, of which there were none in 2018 and 2017. Realized gains and losses, as well as reclassifications out of accumulated other comprehensive income into earnings, are recorded in noninterest income using the specific identification method.

Securities classified as held-to-maturity are debt securities that the Company has the ability and the positive intent to hold until maturity. These securities are recorded at amortized cost. Sales of held-to-maturity securities within three months of maturity are treated as if held-to-maturity.

**Federal Home Loan Bank Stock.** As a member of the FHLB system, the Company maintains a required level of investment in FHLB stock. Because ownership of the stock is restricted to member institutions, it lacks marketability. The stock may only be sold back at par to the FHLB or another institution. The carrying value of the FHLB stock is at cost. Regulations of the FHLB require member institutions to purchase minimum levels of stock. The most recent regulatory computation established the minimum stock level at \$284,200.

**Loans.** (See Note 3) The Company grants real estate, agricultural, business and consumer loans to customers. The ability of the Company's debtors to honor their contracts is dependent, in part, upon the real estate or other collateral, borrower cash flows, and general economic conditions in this area.

**Note 1 Summary of Significant Accounting Policies (continued)**

**Loans (continued).**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses and any deferred fees or costs on originated loans. Interest income is accrued and reported as income on the unpaid principal balance.

A loan is considered past due for all loan classes when contractual payments of principal and/or interest are not timely paid.

Certain loan origination fees, net of underwriting costs, are deferred and amortized to interest income using the interest method over the contractual life of the loan.

*Nonaccrual Loans*

A loan is classified as nonaccrual (for all loan classes) when it becomes 90 days or more past due, unless the loan is both well secured and in the process of collection, or earlier if management determines full payment of principal or interest is not expected. All interest income accrued is reversed by charging interest income and crediting accrued interest receivable. All payments collected while the loan is on nonaccrual status are credited to loan principal. Accrual of interest on such loans is resumed when: 1) principal and interest are no longer due and are fully paid; 2) there is a sustained period of timely payment performance; 3) when reasonable doubt no longer exists as to the borrower's ability to meet future contractual obligations; or 4) the loan becomes both well secured and in the process of collection.

Impaired loans may not be placed on nonaccrual for SBA loans guaranteed as to principal and interest or for loans management has determined the borrower has sufficient cash flows and/or assets available to cure the impairment.

*Troubled Debt Restructuring*

Troubled debt restructuring occurs when the Company elects to modify the contractual terms of a loan to provide for a reduction of either interest or principal as a result of the deterioration of the financial condition of the borrower. Concessions granted by the Company would not otherwise be considered except for the financial difficulties of the borrower. A loan is no longer reported as a troubled debt restructuring when the interest rate is consistent with market rates at the time of restructure, the loan is in compliance with the modified terms for a reasonable period of time, and the loan is on accrual status.

**Allowance for Loan Losses.** (See Note 3) 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 uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Consumer loans are typically charged-off no later than 60 days past due. Other secured loans are charged-off or partially charged-off when the fair value of the loan collateral no longer supports the amount of the loan and, in the judgment of management, cash flows are insufficient to timely pay scheduled loan payments.

**Note 1 Summary of Significant Accounting Policies (continued)**

**Allowance for Loan Losses (continued).**

The allowance for loan losses is evaluated monthly by management and is based on management's periodic review of the collectability of the loans. Management selects certain loans considering the size, internal grade of loan, industry and payment status for a loan-by-loan analysis for possible impairment pursuant to Financial Accounting Standard ASC 310. All other loans, including loans individually evaluated for impairment, determined not to be impaired under Financial Accounting Standard ASC 310, are included in groups of loans with similar risk characteristics and evaluated for loss pursuant to Financial Accounting Standard ASC 450 based on historical losses for the previous 2 years.

Additionally, in developing the appropriate level of the allowance for loan losses, management considers other factors to include: trends in classified loans, past due and nonaccrual loans as well as charged-off loans, local economic conditions to include the moisture conditions and federal crop insurance on the agriculture economy and the impact of economic and local housing market, and, finally the effect of growth in the loan portfolio, as well as, loan administration policies and regulatory examinations.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable 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 all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for all loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or, most typically, the fair value of the collateral, if the loan is collateral dependent.

Management is of the opinion that the present allowance is sufficient to absorb reasonably foreseeable loan losses. Determination of the allowance is inherently subjective and is susceptible to significant revision as more information becomes available. Additionally, the Company's regulator may require additions to the allowance as a part of the examination process.

**Financial Instruments.** Credit related financial instruments - In the ordinary course of business, the Company has entered into commitments to extend credit including business letters of credit. Such financial instruments are recorded when they are funded.

The Company does not presently invest in derivative financial instruments to include hedges, swaps and option contracts or futures contracts; however, the Company does invest in certain derivative instruments in which the underlying securities are mortgage-backed securities guaranteed by U.S. Government Agencies.

**Note 1 Summary of Significant Accounting Policies (continued)**

**Banking Premises and Equipment.** Land is carried at cost. Buildings and equipment are carried at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Buildings and improvements have a range of estimated useful lives from 15 to 39 years, furniture, fixtures and equipment have a range of estimated useful lives from 5 to 7 years, and software and computer equipment have a range of estimated useful lives from 3 to 5 years.

**Deposits.** Management recommends interest rate changes to the investment committee of the Board of Directors. Management bases the decision of changes on nationally published rates, the local economy and the competitive environment.

**Income Taxes.** Provisions for currently payable income taxes are provided based on taxable income of the current year. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

**Other Taxes.** The Company records the New Mexico Gross Receipts Tax, a revenue-based tax, as an expense, rather than netting against revenue.

**Foreclosed and Repossessed Assets.** Repossessed assets include personal property carried at fair value less costs to sell at the date of repossession. Subsequent to repossession, management periodically evaluates the property and adjusts its' value, if necessary, to reflect declines in value. Repossessed assets are written down to 75% of wholesale value which management has determined approximates fair value less costs to sell. The Company had no repossessed assets at December 31, 2018, and \$7,300 at December 31, 2017. The Company did not have an allowance for repossessed assets for either year.

Real estate acquired in settlement of loans results when property collateralizing a loan is foreclosed upon or received in lieu of foreclosure for satisfaction of debt. Real estate acquired in settlement of loans is recorded at fair value of the assets received at the time of acquisition less estimated costs to sell, establishing a new cost basis, typically based on appraisals. Subsequent to acquisition, management carries the real estate at the lower of cost or fair value less estimated costs to sell. Management provides an allowance for losses by a charge to operations based on the valuation of individual properties. Losses realized on sales are charged against earnings when sold. Gains from sales are recognized only when the criteria of Financial Accounting Standard ASC 360, "Accounting for Sales of Real Estate" is met. The Company's intent is to hold such real estate for sale. The Company had no acquired real estate at December 31, 2018, or at December 31, 2017. The Company did not have an allowance for acquired real estate at December 31, 2018, or at December 31, 2017.

**Comprehensive Income.** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. In addition to net income, other components of comprehensive income, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

**Note 1 Summary of Significant Accounting Policies (continued)**

**Earnings-Per-Share.** The Company has voluntarily elected to report earnings-per-share which is not required for non-public companies. Basic earnings-per-share excludes dilution and is computed by dividing income available to common stockholders by the weighted-average number of common shares outstanding for the period. Diluted earnings-per-share reflects the potential dilution that could occur if employee stock options were exercised. Diluted earnings-per-share is computed by dividing net income by the total weighted-average number of shares outstanding plus the effect of outstanding employee stock options.

**Note 2 Premises and Equipment**

A summary of the cost and accumulated depreciation of premises and equipment is presented below.

Depreciation expense for the year ended December 31, 2018, and 2017, was \$130,996 and \$123,575, respectively.

	<u>2018</u>	<u>2017</u>
Building	\$ 2,417,832	\$ 2,180,159
Furniture and Equipment	930,272	827,203
Land	<u>171,534</u>	<u>171,534</u>
	<b>3,519,638</b>	3,178,896
Less: Accumulated Depreciation	<u>(1,455,654)</u>	<u>(1,324,658)</u>
	<b>\$ 2,063,984</b>	<b>\$ 1,854,238</b>

The Company generally capitalizes expenditures in excess of \$5,000 for premises and equipment.

*Clovis Bancshares, Inc.*  
*Notes To Consolidated Financial Statements*

**Note 3 Loans**

The schedule presented below reflects the type of loans extended to the Company's customers.

	<u>2018</u>	<u>2017</u>
<b>Real Estate Loans</b>		
Real estate – construction residential 1-4	\$ 1,630,029	\$ 2,208,130
Real estate – construction other	1,893,545	1,100,577
Real estate – farm land	5,409,804	5,538,561
Real estate – residential 1-4	23,627,809	19,581,479
Real estate – residential 1-4, lines of credit	2,802,463	2,288,945
Real estate – residential 1-4, 1st lien held for sale	111,308	0
Real estate – residential 1-4, junior lien	271,613	412,842
Real estate – residential, 5 or more	246,253	457,163
Real estate – non-farm, non-residential	5,307,788	5,149,311
Real estate – non-farm, non-residential government guarantee	3,182,649	4,776,013
Real estate – non-farm, non-residential other	3,922,001	4,574,848
Real estate – non-farm, non-residential other government guarantee	15,661,364	13,484,317
Total Real Estate Loans	<u>64,066,626</u>	<u>59,572,186</u>
<b>Agriculture Loans</b>		
Loans to Finance Ag Production	<u>14,346,153</u>	<u>12,261,974</u>
Total Agriculture Loans	<u>14,346,153</u>	<u>12,261,974</u>
<b>Commercial Loans</b>		
Commercial loans	20,809,968	19,366,083
Commercial loans - government guarantee	<u>3,093,713</u>	<u>3,731,635</u>
Total Commercial Loans	<u>23,903,681</u>	<u>23,097,718</u>
<b>Consumer Loans</b>		
Consumer	6,274,311	6,383,498
Consumer, line of credit	0	7,950
Overdraft protection	<u>22,185</u>	<u>22,004</u>
Total Consumer Loans	<u>6,296,496</u>	<u>6,413,452</u>
Total Loans, gross	<b>108,612,956</b>	101,345,330
Overdrafts	34,698	9,090
Deferred loan fees	(85,331)	(72,309)
Unposted items		0
Allowance for loan losses	<u>(2,058,380)</u>	<u>(1,772,698)</u>
Total Loans, net	<u>\$ 106,503,943</u>	<u>\$ 99,509,413</u>

**Note 3 Loans (continued)**

The Company periodically sells loan participations to other financial institutions at par, which is considered fair value at the time. Servicing charges, if any, to the purchaser do not exceed the cost of servicing. Gains or losses on the sale of participations or servicing assets of liabilities are not recorded as such amounts would not be material to the financial statements. The Company did not service any loan participations in 2018 or in 2017.

*Past Due Loans*

The following table presents an age analysis of past due loans.

Age Analysis of past due loans by loan class

<u>Loan class</u>	<u>Current</u>	<u>Past Due</u>		<u>Total</u>
		<u>30-89 days</u>	<u>90 days or more</u>	
<b><u>2018</u></b>				
<b>Real Estate</b>	<b>\$ 63,906,084</b>	<b>\$ 160,542</b>	<b>\$ 0</b>	<b>\$ 64,066,626</b>
<b>Agricultural</b>	<b>14,244,161</b>	<b>101,992</b>	<b>0</b>	<b>14,346,153</b>
<b>Commercial</b>	<b>23,619,421</b>	<b>284,260</b>	<b>0</b>	<b>23,903,681</b>
<b>Consumer</b>	<b>6,199,257</b>	<b>97,239</b>	<b>0</b>	<b>6,296,496</b>
	<b><u>\$ 107,968,923</u></b>	<b><u>\$ 644,033</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 108,612,956</u></b>
<b><u>2017</u></b>				
Real Estate	\$ 59,440,242	\$ 131,944	\$ 0	\$ 59,572,186
Agricultural	12,158,756	103,218	0	12,261,974
Commercial	22,877,786	219,932	0	23,097,718
Consumer	6,190,078	223,374	0	6,413,452
	<u>\$ 100,666,862</u>	<u>\$ 678,468</u>	<u>\$ 0</u>	<u>\$ 101,345,330</u>

A loan is past due if loan payments are not timely paid on the contractual due date. Borrowers are sent a notice after 10 days delinquency and another notice after 20 days delinquency. Telephone contact is made no later than 30 days after a loan becomes past due. Loans 30 days past due are reported to the Board of Directors. For real estate loans, the Board may institute foreclosure proceedings after 90 days past due if determined necessary.

**Note 3 Loans (continued)**

Nonaccrual loans by loan class are as follows:

Loans on non-accrual by loan class

Loan class	Recorded investment in <u>non-accrual</u>	Loans past due <u>90 days or more</u>
<b><u>2018</u></b>		
<b>Real Estate</b>	\$ 0	\$ 0
<b>Agricultural</b>	115,851	0
<b>Commercial</b>	0	0
<b>Consumer</b>	<u>0</u>	<u>0</u>
	<u>\$ 115,851</u>	<u>\$ 0</u>
 <u>2017</u>		
Real Estate	\$ 0	\$ 0
Agricultural	348,744	0
Commercial	149,138	0
Consumer	<u>0</u>	<u>0</u>
	<u>\$ 497,882</u>	<u>\$ 0</u>

Interest not collected on nonaccrual loans was \$181,191 and \$138,277 at December 31, 2018, and 2017, respectively. Interest income has not been recognized on these loans.

*Loan Origination/Risk Management*

Management has adopted lending policies and procedures designed to provide for lending to borrowers within an acceptable level of risk. The Board of Directors approves and reviews policy revisions on a regular basis. The Company maintains a reporting system to provide frequent reports of loan delinquencies, loan quality, concentrations of credit and non-performing loans.

Management regularly reviews and classifies loans by quality. Additionally, the Company periodically engages an independent loan review firm to evaluate management's quality ratings and lending processes which is reported to the Board of Directors. The most recent update of loan quality is as of December 31, 2018.

Management considers the relevant risk characteristics of each segment of the loan portfolio in estimating the adequacy of the allowance for loan losses. The Company's loan underwriting and monitoring policies are designed to mitigate the significant risks. The major risk characteristics of the loan portfolio segments are as follows:

Real Estate – These loans include construction loans, residential mortgages, as well as guaranteed loans and certain other real estate. Management considers the major risks as timely completion of the construction project as budgeted, declines in value of real estate resulting from lack of market demand and continued employment of the residential borrower.

**Note 3 Loans (continued)**

*Loan Origination/Risk Management (continued)*

Agricultural Loans – Major risks include weather related risks to crops and livestock and commodity market volatility.

Commercial Loans – Management considers the ability of the commercial borrower to operate profitably and prudently to generate projected cash flows to repay obligations as agreed. Cash flows of the borrower are the primary source of repayment for commercial loans with secondary collateral, the value of the real estate or other collateral. Major risks are, therefore, the continued cash flows of the borrowers.

Consumer Loans – The Company employs credit scores by national credit rating agencies and other factors (debt to income, loan to collateral value) to evaluate risk in consumer loans. Other major risks evaluated are declines in the value of the security of the loans at a faster rate than the borrower repayments, as well as, continued employment of the borrower.

*Credit Quality Indicators*

The Company follows regulatory guidelines in classifying the quality of the loan portfolio on a monthly basis. Loans classified as “pass” are of satisfactory quality; “special mention” loans have a potential weakness or risk that may result in deterioration of future repayment if left uncorrected; “substandard loans” are inadequately protected by the current sound worth and paying capacity of the borrower or by collateral pledged and have a well-defined weakness that the Company will sustain some loss if uncorrected; “doubtful loans” have all the weaknesses of substandard loans with added characteristics that make collection or liquidation in full highly questionable and improbable. Management evaluates the quality of its loan portfolio on a monthly basis in conjunction with consideration of the adequacy of the allowance for loan losses.

*Clovis Bancshares, Inc.*  
*Notes To Consolidated Financial Statements*

**Note 3 Loans (continued)**

*Credit Quality Indicators (continued)*

The evaluation of the loan portfolio by loan class is as follows (see Note 1 for criteria used by management in measuring loans for possible impairment):

<u>2018</u>	<u>Total</u>	<u>Real Estate</u>	<u>Agricultural</u>	<u>Commercial</u>	<u>Consumer</u>
<b>Loans individually evaluated for impairment</b>	<b>\$ 5,844,849</b>	<b>\$ 1,239,411</b>	<b>\$ 1,147,892</b>	<b>\$ 3,457,546</b>	<b>\$ 0</b>
<b>Allowance for loan losses allocated based on evaluation</b>	<b>\$ 554,238</b>	<b>\$ 94,504</b>	<b>\$ 133,396</b>	<b>\$ 326,338</b>	<b>\$ 0</b>
 <u>2017</u>					
Loans individually evaluated for impairment	\$ 5,701,992	\$ 1,626,844	\$ 1,336,829	\$ 2,685,182	\$ 53,137
Allowance for loan losses allocated based on evaluation	\$ 470,529	\$ 0	\$ 348,744	\$ 120,000	\$ 1,785

The following table presents loan quality by loan class.

Loan quality by loan class					
<u>Loan class</u>	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
<u>2018</u>					
<b>Real Estate</b>	<b>\$ 62,827,215</b>	<b>\$ 738,144</b>	<b>\$ 501,267</b>	<b>\$ 0</b>	<b>\$ 64,066,626</b>
<b>Agricultural</b>	<b>13,198,261</b>	<b>0</b>	<b>1,147,892</b>	<b>0</b>	<b>14,346,153</b>
<b>Commercial</b>	<b>20,446,135</b>	<b>1,503,529</b>	<b>1,954,017</b>	<b>0</b>	<b>23,903,681</b>
<b>Consumer</b>	<b>6,296,496</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>6,296,496</b>
	<b>\$ 102,768,107</b>	<b>\$ 2,241,673</b>	<b>\$ 3,603,176</b>	<b>\$ 0</b>	<b>\$ 108,612,956</b>
 <u>2017</u>					
Real Estate	\$ 57,945,342	\$ 539,498	\$ 1,087,346	\$ 0	\$ 59,572,186
Agricultural	9,540,425	0	2,721,549	0	12,261,974
Commercial	20,412,536	835,426	1,849,756	0	23,097,718
Consumer	6,360,315	3,852	49,285	0	6,413,452
	<b>\$ 94,258,618</b>	<b>\$ 1,378,776</b>	<b>\$ 5,707,936</b>	<b>\$ 0</b>	<b>\$ 101,345,330</b>

**3 Loans (continued)**

*Credit Quality Indicators (continued)*

Impaired loans by loan class are as follows:

Impaired loans by loan class

<u>Loan class</u>	<u>Recorded investment in impaired loans</u>	<u>Contractual Balance</u>	<u>Charge-offs</u>	<u>ALLL Allocation</u>
<b><u>2018</u></b>				
<b>Real Estate</b>	<b>\$ 304,504</b>	<b>\$ 304,504</b>	<b>\$ 0</b>	<b>\$ 94,504</b>
<b>Agricultural</b>	<b>148,396</b>	<b>848,396</b>	<b>700,000</b>	<b>133,396</b>
<b>Commercial</b>	<b>2,265,073</b>	<b>2,265,073</b>	<b>0</b>	<b>326,337</b>
<b>Consumer</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b><u>\$ 2,717,973</u></b>	<b><u>\$ 3,417,973</u></b>	<b><u>\$ 700,000</u></b>	<b><u>\$ 554,237</u></b>
<b><u>2017</u></b>				
Real Estate	\$ 0	\$ 0	\$ 0	\$ 0
Agricultural	348,744	1,048,744	700,000	348,744
Commercial	120,000	120,000	0	120,000
Consumer	49,285	49,285	0	1,785
	<u>\$ 518,029</u>	<u>\$ 1,218,029</u>	<u>\$ 700,000</u>	<u>\$ 470,529</u>

Interest on impaired loans collected was \$177,295 and \$9,732 for the year ending December 31, 2018, and 2017, respectively. Average investment in impaired loans was \$1,618,001 and \$1,851,365 at December 31, 2018, and 2017, respectively. Interest income is not recognized for impaired loans that are also on nonaccrual. (See Note 1 for management's assessment policy for impairment.)

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**Note 3 Loans (continued)**

*Allowance for Loan Losses*

The following table presents an analysis of the allowance for loan losses and off-balance sheet loan loss with the loans' charge-offs and recoveries by loan class.

	Allowance for Loan Loss					
	<u>Total</u>	<u>Real Estate</u>	<u>Agricultural</u>	<u>Commercial</u>	<u>Consumer</u>	<u>Unallocated</u>
<b><u>2018</u></b>						
Beginning balance, December 31, 2017	\$ 1,772,698	\$ 359,650	\$ 179,825	\$ 359,650	\$ 359,650	\$ 513,923
Loans charged-off	(267,491)	0	(10,133)	(177,411)	(79,947)	0
Recoveries	253,174	0		183,940	69,234	0
Provision for loan losses and allocation adjustment	<u>299,999</u>	<u>57,026</u>	<u>38,646</u>	<u>50,497</u>	<u>67,739</u>	<u>86,091</u>
<b>Balance, December 31, 2018</b>	<b><u>\$ 2,058,380</u></b>	<b><u>\$ 416,676</u></b>	<b><u>\$ 208,338</u></b>	<b><u>\$ 416,676</u></b>	<b><u>\$ 416,676</u></b>	<b><u>\$ 600,014</u></b>
<b><u>2017</u></b>						
Beginning balance, December 31, 2016	\$ 1,631,916	\$ 177,494	\$ 732,996	\$ 456,599	\$ 105,931	\$ 158,896
Loans charged-off	(566,395)	(10,329)	(35,971)	(384,801)	(135,294)	0
Recoveries	107,177	0	1,660	28,012	77,505	0
Provision for loan losses and allocation adjustment	<u>600,000</u>	<u>192,485</u>	<u>(518,860)</u>	<u>259,840</u>	<u>311,508</u>	<u>355,027</u>
<b>Balance, December 31, 2017</b>	<b><u>\$ 1,772,698</u></b>	<b><u>\$ 359,650</u></b>	<b><u>\$ 179,825</u></b>	<b><u>\$ 359,650</u></b>	<b><u>\$ 359,650</u></b>	<b><u>\$ 513,923</u></b>

*Loans Acquired in 2017*

In 2017, the Company acquired the following loans from another bank at par:

<u>Loan Class</u>	<u>Balance and Fair Value, at acquisition</u>	<u>Balance, December 31, 2017</u>	<u>Expected Annual Cash flows</u>	<u>ALLL Allocation</u>
Agricultural	<u>\$ 1,675,000</u>	<u>\$ 1,675,000</u>	<u>\$ 190,852</u>	<u>\$ 0</u>

**Note 4 Investments**

The carrying amount and fair values of the Company's investments in securities at December 31, 2018, and 2017, are summarized as follows:

**Debt Securities available-for-sale**

<u>December 31, 2018</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized (losses)</u>	<u>Fair value</u>
US Government Agency	\$ 0	\$ 0	\$ 0	\$ 0
Municipals	28,281,959	41,126	(764,089)	27,558,996
Residential Mortgage-Backed Securities	12,003,259	12,738	(375,743)	11,640,254
Collateralized Residential Mortgage Obligations	<u>13,319,378</u>	<u>11,956</u>	<u>(384,031)</u>	<u>12,947,303</u>
	<u>\$ 53,604,596</u>	<u>\$ 65,820</u>	<u>\$ (1,523,863)</u>	<u>\$ 52,146,553</u>

At December 31, 2018, the effective yield of Collateralized Mortgage Obligations was 2.753 %.

Net unrealized gains and losses of (\$1,458,043) were included in other comprehensive income.

<u>December 31, 2017</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized (losses)</u>	<u>Fair value</u>
US Government Agency	\$ 0	\$ 0	\$ 0	\$ 0
Municipals	26,035,347	185,210	(314,221)	25,906,336
Residential Mortgage-Backed Securities	13,570,763	27,030	(226,981)	13,370,812
Collateralized Residential Mortgage Obligations	<u>14,458,209</u>	<u>1,961</u>	<u>(329,914)</u>	<u>14,130,256</u>
	<u>\$ 54,064,319</u>	<u>\$ 214,201</u>	<u>\$ (871,116)</u>	<u>\$ 53,407,404</u>

At December 31, 2017, the effective yield of Collateralized Mortgage Obligations was 1.904%.

Net unrealized gains and losses of (\$656,915) were included in other comprehensive income.

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**Note 4 Investments (continued)**

Debt Securities held-to-maturity:

<u>December 31, 2018</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized (losses)</u>	<u>Fair value</u>
US Government Agency	\$ 0	\$ 0	\$ 0	\$ 0
Municipals	15,066,611	25,848	(188,430)	14,904,029
Residential Mortgage- backed Securities	0	0	0	0
Collateralized Residential Mortgage Obligations	0	0	0	0
	<u>\$ 15,066,611</u>	<u>\$ 25,848</u>	<u>\$ (188,430)</u>	<u>\$ 14,904,029</u>

<u>December 31, 2017</u>	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized (losses)</u>	<u>Fair value</u>
US Government Agency	\$ 0	\$ 0	\$ 0	\$ 0
Municipals	15,159,525	97,896	(85,297)	15,172,124
Residential Mortgage- backed Securities	0	0	0	0
Collateralized Residential Mortgage Obligations	0	0	0	0
	<u>\$ 15,159,525</u>	<u>\$ 97,896</u>	<u>\$ (85,297)</u>	<u>\$ 15,172,124</u>

No sales or transfers of held-to-maturity securities to available-to-sale securities were made in 2018 or 2017. There were no maturities of held-to-maturity securities in 2018 and in 2017 maturities were \$1,200,000.

**Note 4 Investments (continued)**

The scheduled maturities of US Government Agency, Mortgaged-Backed, Collateralized Residential Mortgage Obligations, and Municipals securities at December 31, 2018, were as follows:

	<u>Available-for-sale Amortized Cost</u>	<u>Available-for-sale Fair Market Value</u>
Due in one year or less	\$ 383,730	\$ 384,683
Due from one to five years	28,582,075	27,837,914
Due from five to ten years	12,163,376	11,751,385
Due after ten years	<u>12,475,415</u>	<u>12,172,571</u>
	<u>\$ 53,604,596</u>	<u>\$ 52,146,553</u>
	<u>Held-to-maturity Amortized Cost</u>	<u>Held-to-maturity Fair Market Value</u>
Due in one year or less	\$ 1,360,698	\$ 1,373,618
Due from one to five years	4,026,840	3,984,838
Due from five to ten years	7,421,162	7,324,662
Due after ten years	<u>2,257,911</u>	<u>2,220,912</u>
	<u>\$ 15,066,611</u>	<u>\$ 14,904,030</u>

Securities may be subject to earlier call and, therefore, experience prepayment prior to maturity.

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**Note 4 Investments (continued)**

The following table reflects those available-for-sale investments in a continuous unrealized loss position for less than 12 months and for 12 months or longer at December 31, 2018.

Description of Securities	<u>Less than 12 Months</u>		<u>12 Months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>
Collateralized Residential Mortgage Obligations (2 positions)	\$ 1,770,062	\$ (6,687)	\$ 0	\$ 0	\$ 1,770,062	\$ (6,687)
Municipals (19 positions)	10,910,430	(142,893)	0	0	10,910,430	(142,893)
Residential Mortgage-Backed Securities (6 positions)	1,216,230	(21,770)	0	0	1,216,230	(21,770)
Collateralized Residential Mortgage Obligations (21 positions)	0	0	9,921,027	(377,344)	9,921,027	(377,344)
Municipals (21 positions)	0	0	10,504,210	(621,196)	10,504,210	(621,196)
Residential Mortgage-Backed Securities (15 positions)	0	0	8,206,323	(353,973)	8,206,323	(353,973)
<b>Total</b>	<b>\$ 13,896,722</b>	<b>\$ (171,350)</b>	<b>\$ 28,631,560</b>	<b>\$ (1,352,513)</b>	<b>\$ 42,528,282</b>	<b>\$ (1,523,863)</b>

The following table reflects those available-for-sale investments in a continuous unrealized loss position for less than 12 months and for 12 months or longer at December 31, 2017.

Description of Securities	<u>Less than 12 Months</u>		<u>12 Months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>
Collateralized Residential Mortgage Obligations (5 positions)	\$ 1,927,913	\$ (20,795)	\$ 0	\$ 0	\$ 1,927,913	\$ (20,795)
Municipals (10 positions)	5,131,012	(40,939)	0	0	5,131,012	(40,939)
Residential Mortgage-Backed Securities (7 positions)	2,967,197	(10,809)	0	0	2,967,197	(10,809)
Collateralized Residential Mortgage Obligations (19 positions)	0	0	11,896,116	(309,120)	11,896,116	(309,120)
Municipals (15 positions)	0	0	6,614,280	(273,282)	6,614,280	(273,282)
Residential Mortgage-Backed Securities (11 positions)	0	0	8,261,142	(216,173)	8,261,142	(216,173)
<b>Total</b>	<b>\$ 10,026,122</b>	<b>\$ (72,543)</b>	<b>\$ 26,771,538</b>	<b>\$ (798,575)</b>	<b>\$ 36,797,660</b>	<b>\$ (871,118)</b>

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**Note 4 Investments (continued)**

The following table reflects those held-to-maturity investments in a continuous unrealized loss position for less than 12 months and for 12 months or longer at December 31, 2018.

<u>December 31, 2018</u>	<u>Less than 12 Months</u>		<u>12 Months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>
Description of Securities						
Municipals (7 positions)	\$ 3,029,482	\$ (27,696)	\$ 0	\$ 0	\$ 3,029,482	\$ (27,696)
Municipals (16 positions)	<u>0</u>	<u>0</u>	<u>7,729,141</u>	<u>(160,734)</u>	<u>7,729,141</u>	<u>(160,734)</u>
Total	<u>\$ 3,029,482</u>	<u>\$ (27,696)</u>	<u>\$ 7,729,141</u>	<u>\$ (160,734)</u>	<u>\$ 10,758,623</u>	<u>\$ (188,430)</u>

The following table reflects those held-to-maturity investments in a continuous unrealized loss position for less than 12 months and for 12 months or longer at December 31, 2017.

<u>December 31, 2017</u>	<u>Less than 12 Months</u>		<u>12 Months or longer</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>	<u>Fair Value</u>	<u>Unrealized (Loss)</u>
Description of Securities						
Municipals (11 positions)	\$ 5,248,575	\$ (33,437)	\$ 0	\$ 0	\$ 5,248,575	\$ (33,437)
Municipals (5 positions)	<u>0</u>	<u>0</u>	<u>2,611,809</u>	<u>(51,861)</u>	<u>2,611,809</u>	<u>(51,861)</u>
Total	<u>\$ 5,248,575</u>	<u>\$ (33,437)</u>	<u>\$ 2,611,809</u>	<u>\$ (51,861)</u>	<u>\$ 7,860,384</u>	<u>\$ (85,298)</u>

In estimating other-than-temporary losses, management considers (1) the length of time and the extent to which fair value has been less than cost, (2) the financial condition and near-term prospect of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow anticipated recovery in fair value.

Management does not believe any of the individual unrealized losses as of December 31, 2018, represents an other-than-temporary impairment. The Company has the intent and ability to hold these securities until such time as the value recovers or the securities mature. Management further believes the value is attributable to changes in market interest rates and not the credit quality of the issuer.

The Company uses the specific identification method for determining amortized cost. Gross proceeds from the disposition of available-for-sale securities from sales, maturities and calls during 2018 and 2017 amounted to \$3,922,373 (sales of \$3,277,373, prerefunded of \$500,000 and maturities of \$145,000) and \$17,180,160 (sales of \$15,835,160 and no calls and maturities of \$1,345,000), respectively, not including repayments of mortgage-backed securities.

The Company had realized gains (losses) on available-for-sale securities during 2018 of (\$96,259) and (\$14,657) during 2017 which was reclassified out of other comprehensive income.

**Note 5 Deposits and Securities Sold under Agreement to Repurchase**

**Deposits**

A schedule of the types and amounts of deposits held by the Company is shown below.

	<u>2018</u>	<u>2017</u>
<b>Non-interest bearing checking</b>	\$ 23,728,395	\$ 27,924,256
<b>Interest bearing checking</b>	12,566,546	17,504,938
<b>State and public funds</b>	20,807,912	19,613,839
<b>Time Deposits State and public funds</b>	6,095,328	5,990,938
<b>Money market</b>	52,763,735	48,499,061
<b>Savings</b>	8,361,370	6,817,662
<b>CD's over \$250,000</b>	8,214,135	17,053,665
<b>CD's over \$100,000 and less than \$250,000</b>	9,375,000	7,321,410
<b>CD's less than \$100,000</b>	9,801,341	3,677,440
<b>IRA's</b>	7,017,285	8,327,955
<b>Sweep accounts</b>	<u>1,732,086</u>	<u>2,224,378</u>
	<u>\$ 160,463,133</u>	<u>\$ 164,955,541</u>

Maturities of the time deposit types include the following:

	<u>2018</u>
<b>3 months or less</b>	\$ 3,982,528
<b>3 months to 12 months</b>	7,544,476
<b>One year through three years</b>	18,351,559
<b>Three years through five years</b>	<u>10,624,527</u>
	<u>\$ 40,503,090</u>
	<u>2017</u>
3 months or less	\$ 5,012,170
3 months to 12 months	12,236,586
One year through three years	15,140,274
Three years through five years	<u>9,982,378</u>
	<u>\$ 42,371,408</u>

Information for the time deposit maturities by individual years for five-year increments is not available. The above information is substituted. The weighted-average rate by time is not available. The cost/yield percentage rate at December 31, 2018, for CD's and IRA's was 0.724% - 2.614% and 0.673% - 1.575%, respectively. The cost/yield percentage rate at December 31, 2017, for CD's and IRA's was 0.378% - 1.643% and 0.59% - 1.849%, respectively.

**Note 5 Deposits and Securities Sold under Agreement to Repurchase (continued)**

**Deposits (continued)**

At December 31, 2018, and 2017, the Company held deposits in accounts with balances over \$100,000 of \$111,904,309 and \$116,468,562 respectively. At December 31, 2018 and 2017, the Company held deposits in accounts with balances over \$250,000 of \$79,965,562 and \$84,424,738, respectively.

**Securities Sold under Agreement to Repurchase.** The Company has entered into contractual agreements with certain depositors in which customer deposits in excess of target amounts at the end of each banking day are invested in an interest in securities sold to the customer by the Company. The securities are repurchased by the Company at the opening of the following banking day. The repurchase price is equal to the selling price. The agreements are generally for one year. Securities sold under agreements to repurchase are classified as secured borrowings.

**Pledged Securities.** At December 31, 2018, the Company had available securities with a fair value \$67,050,582 of which \$6,618,351 secures repurchase agreements and \$26,323,272 secures municipal deposits, leaving \$34,108,959 available for other purposes. At December 31, 2017, the Company had available securities with a fair value of \$68,579,528 of which \$7,713,306 secures repurchase agreements and \$26,304,842 secures municipal deposits, leaving \$34,561,380 available for other purposes. The agreements appoint The Bank of Clovis Safekeeping Department or its designee as the customers' custodian of the underlying securities as they pertain to the agreements. All securities are held in the name of the Company by a third-party custodian. The Company provides each customer with a report of securities pledged.

The Company has pledged both available-for-sale and held-to-maturity securities at December 31, 2018 and 2017. The allocation between available-for-sale and held-to-maturity securities is not available.

**Note 6 Short-term Borrowings and other Debt**

The Company has adopted a resolution to borrow funds from the Federal Reserve upon the pledging of securities. The amount of any such borrowing and pledging of collateral will be determined at such time as the Company may desire to borrow funds from the Federal Reserve. The Company also has an unsecured Federal Funds Line of \$5,000,000 from a correspondent bank. The correspondent bank may, in its sole and absolute discretion, require security, upon terms satisfactory to the correspondent bank, prior to selling Fed Funds to the Company. At December 31, 2018 and 2017, the Company does not have any securities pledged to the correspondent bank. At December 31, 2018, and 2017, the Company had not drawn on the lines of credit.

The Company has established credit lines with the Federal Home Loan Bank (FHLB). Advances are secured by granting to the FHLB a security interest in first mortgage loans, other qualified loans, deposit accounts, other real estate related collateral, securities and FHLB stock. Under FHLB guidelines, the Company's total available credit line at December 31, 2018, was \$28,866,228 of which \$5,000,000 advanced with \$23,866,228 available at December 31, 2018.

**Note 6 Short-term Borrowings and other Debt (continued)**

The Federal Home Loan Bank (FHLB) holds a blanket lien that does not require segregating or delivery of collateral, so long as the Company complies with the statutory and regulatory capital standards and all underwriting standards as determined by the FHLB. Sale or encumbrance of pledged assets in the ordinary course of business are automatically released, so long as the Company maintains the required level of collateral. Pledged collateral has not been separately identified on the Consolidated Statement of Financial Condition.

Advances from the Federal Home Loan Bank at December 31, 2018, is as follows:

<u>Date of Advance</u>	<u>Maturity Date</u>	<u>Unpaid Principal</u>	<u>Fixed Interest Rate</u>	<u>Accrued Interest Payable</u>
July 6, 2017	July 6, 2022	\$ 5,000,000	2.2290%	\$ 0

The Company is obligated for a mortgage secured by real estate contiguous to its main banking facility. Mortgage payable at December 31, 2018, at an interest rate of 5.5% is as follows:

	<u>Principal</u>	<u>Interest</u>
2019	\$ 9,481	\$ 1,318
2020	10,016	784
2021	<u>8,778</u>	<u>222</u>
	<u>\$ 28,275</u>	<u>\$ 2,324</u>

**Note 7 Restrictions on Dividends, Loans and Advances**

The Company's primary source of cash is dividends from the Bank. Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The payment of dividends is limited by the requirement to maintain adequate capital pursuant to the capital adequacy guidelines.

The Company paid cash dividends of \$220,875 to its shareholders in 2018 and \$247,434 in 2017. The Company issued stock dividends of 6,962 shares at \$29 per share for a total of \$201,898 to its shareholders in 2018 and \$186,004 in 2017.

Loans or advances to one borrower are generally limited to 35 percent of the Bank's capital stock and surplus on a secured basis.

**Note 8 Commitments and Legal Contingencies**

In the ordinary course of business, the Company has various outstanding commitments that are not reflected in the accompanying financial statements. Among these commitments are certain restrictions agreed to by the Company with the FDIC to secure insurance of deposit accounts to include: maintenance of certain capital ratios, an adequate allowance for loan losses, maintenance of adequate fidelity coverage, and to notify the FDIC of any material changes in the operation of the Company.

In the normal course of business, the Company is at all times subject to various pending and threatened litigation. Management presently believes the ultimate resolution of such issues that might arise will not have an adverse effect on the financial condition or the results of operations.

**Note 9 Income Taxes**

Income taxes at December 31, 2018, and 2017, are as follows:

		<u>2018</u>	<u>2017</u>
<b>Current Provision</b>	Federal income taxes	\$ 259,635	\$ 388,409
	State income taxes	<u>103,859</u>	<u>87,005</u>
		<u>363,494</u>	<u>475,414</u>
<b>Deferred Income Taxes</b>	Federal	(62,249)	217,195
	State	<u>(16,484)</u>	<u>57,505</u>
		<u>(78,733)</u>	<u>274,700</u>
	<b>Total</b>	<u>\$ 284,761</u>	<u>\$ 750,114</u>

The Company files a consolidated income tax return. Current and deferred income taxes are allocated to members of the group based on the income tax liability or benefit as if each company filed a tax return on its separate income. Intercompany transaction amounts of \$52,794 for income taxes are reflected as a receivable by the parent company, from the Bank subsidiary, are eliminated for purposes of consolidated financial statements in 2018.

**Income Tax Positions.** The Company adopted Financial Accounting Standards Board ASC 740-10 *Accounting for Uncertainty in Income Taxes*. The Company believes that it has appropriate support for the income tax positions to be taken on its tax returns and that its accrual for tax liabilities are adequate for open years based on an assessment of many factors, including past experience and interpretation of the tax law.

The Company's federal and state of New Mexico income tax returns for the most recent 3 years are routinely subject to examination by the tax authorities. The Company has not been notified of any pending examination.

**Note 9 Income Taxes (continued)**

**Deferred Income Taxes.** Deferred income tax assets and liabilities at December 31, 2018, and 2017, reflect the temporary differences between the amount of assets and liabilities for financial reporting purposes and the basis of such assets and liabilities measured by current enacted tax laws.

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

	<u>2018</u>	<u>2017</u>
<b>Deferred Tax Assets:</b>		
Bad debt deduction	\$ 479,056	\$ 386,595
Non-qualified stock option plan	6,470	9,308
Unrealized loss on AFS securities	387,271	174,483
SERP retirement plan	<u>353,850</u>	<u>321,612</u>
Total Deferred Tax Assets	<u>1,226,647</u>	<u>891,998</u>
<b>Deferred Tax Liabilities:</b>		
Depreciation differences	115,064	73,768
FHLB Stock Dividends	<u>2,284</u>	<u>452</u>
Total Deferred Tax Liabilities	<u>117,348</u>	<u>74,220</u>
Net Deferred Tax Asset (Liabilities)	<u>\$ 1,109,299</u>	<u>\$ 817,778</u>
Federal Deferred Income Taxes	\$ 877,081	\$ 646,587
State Deferred Income Taxes	<u>232,218</u>	<u>171,191</u>
Net Deferred Tax Asset (Liabilities)	<u>\$ 1,109,299</u>	<u>\$ 817,778</u>

**Note 9 Income Taxes (continued)**

**Deferred Income Taxes (continued).**

**Differences in Effective Tax Rates.** The total income tax expense for 2018 and 2017 were different than the amounts computed by applying the statutory federal income tax rates as follows:

	<u>2018</u>	<u>2017</u>
Income taxes (refundable) at statutory rate	\$ 635,793	\$ 596,765
Increases and (decreases) resulting from:		
Effect of New Mexico income taxes	(21,810)	(29,582)
Permanent differences:		
Municipal bond interest	(198,477)	(329,860)
Other differences	1,315	2,558
Life insurance	(130,118)	(49,443)
20% Disallowed Municipal Interest	7,359	9,367
Timing differences:		
Depreciation differences	(25,468)	(10,966)
Bad debt deduction	63,000	36,329
Post retirement benefit plan	25,489	102,700
AMT Credit	(59,070)	(11,080)
Stock options	(21,844)	(21,776)
Deferred income tax	<u>(16,534)</u>	<u>93,398</u>
Federal income taxes	259,635	388,410
New Mexico income taxes	<u>103,859</u>	<u>87,004</u>
Total current income taxes	<u>\$ 363,494</u>	<u>\$ 475,414</u>

**Note 10 Related Party Transactions**

In the ordinary course of business, the Company has granted loans to current Officers and Directors and their affiliates with the same terms as other borrowers. Loans to current Officers and Directors and their affiliates are as follows:

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	\$ 2,029,527	\$ 2,252,181
New loans or advances	100,000	103,973
Change in related parties	(42,856)	0
Repayments	<u>(94,644)</u>	<u>(326,627)</u>
Balance, end of year	<u>\$ 1,992,027</u>	<u>\$ 2,029,527</u>

Deposits from current Officers and Directors and their affiliates held by the Company are as follows:

	<u>2018</u>	<u>2017</u>
Balance	\$ 5,107,435	\$ 3,975,960
Change in related parties	<u>(417,880)</u>	<u>0</u>
Balance, end of year	<u>\$ 4,689,555</u>	<u>\$ 3,975,960</u>

One director had deposits in excess of 5% of capital totaling \$3,457,470 on December 31, 2018.

One director had loans in excess of 5% of capital totaling \$1,569,300 on December 31, 2018.

The main branch of the Company was remodel during the year and payments to one director for this was \$64,695.

**Note 11 Treasury Stock**

The Company's stock is subject to a restrictive stock agreement which requires shareholders desiring to sell their shares to first offer the shares to the Company. The Board of Directors establishes a market in the Company's shares through a standing offer to redeem shares. The Board reviews the offering price, based on a ratio of the book value, each quarter and determines the number of shares that may be redeemed. The offering price was \$31 per share at December 31, 2018, and \$29 per share at December 31, 2017. Treasury shares are accounted for on the first-in, first-out basis at cost. The Company is not obligated to repurchase shares.

**Note 12 Stock Option Plans**

The Company provides an incentive and non-qualified stock option plan for certain key employees which was approved by the stockholders in 2000 and amended in 2011.

The incentive stock option plan limits the total options which may be granted to a total of 80,915 shares. The exercise price is determined by a committee of outside Directors, but may not be less than the fair market value of the shares on the date of the grant (110% in the case of grants to a 10% shareholder). Incentive stock options are exercisable no more rapidly than in consecutive annual installments of 20% of the total number of shares originally covered by the grant.

The option price of non-qualified stock options is similarly determined by a Committee of the Board of Directors and may not be less than the fair market value of the shares on the date of the grant.

All options are granted for a maximum period of 10 years. The options are nontransferable, except by laws of descent and subject to other restrictions.

No options were granted in 2018 or 2017. The fair value of options granted is estimated on the date of the grant using the Black-Scholes option pricing model and the following assumptions: the expected term to exercise is 10 years; the expected volatility has been estimated at 4%; and the risk-free rate of return based on US Treasury's zero-coupon rate. Because these derived values cannot be substantiated by independent markets, values may vary.

The Company recognizes stock-based compensation pursuant to Accounting Standards Codification (ASC) topic 718-10, *Compensation - Stock Compensation*.

A summary of the option activity as of December 31, 2018, is as follows:

Options	Incentive Options Shares	Non- Qualified Option Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)
Outstanding, December 31, 2017	39,000	22,500		
Granted	0	0		
Forfeited	0	0		
Exercised	<u>(9,000)</u>	<u>(10,000)</u>		
Outstanding, December 31, 2018, Incentive	<u>30,000</u>		\$ 25.78	4.33
Outstanding, December 31, 2018, Nonqualified		<u>12,500</u>	\$ 22.56	1.68

The aggregate intrinsic value of 42,500 shares exercisable at December 31, 2018, is \$262,120 and the weighted-average exercise price is \$24.83.

**Note 12 Stock Option Plans (continued)**

A summary of the status of the Company's nonvested shares as of December 31, 2018, is as follows:

Nonvested Options	<u>Option Shares</u>
Nonvested, January 1, 2018	2,600
Granted	0
Vested	2,600
Forfeited or expired	<u>0</u>
Nonvested, December 31, 2018	<u>0</u>

Compensation was recognized from vesting shares in 2018 and 2017 of \$26 and \$471, respectively. All compensation related to issued and outstanding stock options has been recognized as of December 31, 2018. The Company does not recognize a tax benefit from incentive stock options except for premature dispositions of exercised options by employees and exercise of nonqualified stock options. In 2018, exercise of nonqualified and premature disposition of incentive stock options resulted in a benefit, net of tax, of \$76,392. In 2017, exercise of nonqualified stock options and premature dispositions resulted in a benefit, net of tax, of \$53,312. The total cash received from employees for exercise of stock options was \$429,830 and \$129,150 for 2018 and 2017, respectively. The Company settles stock options from shares held in the Treasury.

At December 31, 2018, all stock options have been recognized as compensation cost related to share-based compensation plans as stock options are fully vested. The fair value of shares vested during the years ended 2018 and 2017 was \$86,000 and \$226,200, respectively. The total fair value of all vested shares for years ending December 31, 2018, and 2017, was \$1,317,500 and \$1,708,100, respectively.

**Note 13 Minimum Regulatory Capital Requirements**

The Company is subject to various regulatory capital requirements administered by the federal agencies (banking regulations require the determination of regulatory capital for the bank subsidiary, rather than the holding company until assets exceed \$500 million). Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

To ensure the adequacy of the Company's capital, minimum amounts and ratios, as reflected in the accompanying schedule, are defined in the regulations. Failure to meet the minimum capital requirements can initiate actions by the regulators that could have a material effect on the financial statements. Management believes that the Company meets all capital adequacy requirements at December 31, 2018.

**Note 13 Minimum Regulatory Capital Requirements (continued)**

The most recent notification from the FDIC categorized The Bank of Clovis as well capitalized under the regulatory requirements for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Effective January 1, 2015, the FDIC adopted changes to its existing risk-based and leverage capital rules and the measurement of risk-weighted assets. Key changes in the capital requirements are as follows:

- Revision of regulatory capital definitions and minimum ratios
- Changes in the definition of Tier 1 capital to include two components:  
     Common equity Tier 1 capital  
     Additional Tier 1 capital
- Adds a new common equity Tier 1 capital ratio
- Implements a capital conservation buffer
- Revises the Prompt Correction Action (PCA) amounts and adds the new ratio to the PCA framework
- Changes the risk weighting for certain assets and off-balance sheet items

The Company's actual capital amounts and ratios are presented in the accompanying table along with the requirements for adequate capital.

(in thousands)	Actual		Capital Requirements			
			Adequately Capitalized		Well Capitalized	
	Capital Amount	Ratio	Capital Amount	Ratio	Capital Amount	Ratio
<b><u>December 31, 2018</u></b>						
Total capital (to risk-weighted assets)	\$ 26,470	27.2%	\$ 7,781	≥ 8%	\$ 9,727	≥ 10%
Tier 1 capital (to risk-weighted assets)	\$ 25,243	26.0%	\$ 5,836	≥ 6%	\$ 7,781	≥ 8%
Tier 1 leverage ratio capital (to average assets)	\$ 25,243	12.9%	\$ 7,806	≥ 4%	\$ 9,757	≥ 5%
Common Equity Tier 1 risk-based capital (to risk-weighted assets)	\$ 25,243	26.0%	\$ 4,377	≥ 4.5%	\$ 6,322	≥ 6.5%

**Note 13 Minimum Regulatory Capital Requirements (continued)**

(in thousands)	Actual		Capital Requirements			
			Adequately Capitalized		Well Capitalized	
<u>December 31, 2017</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>	<u>Capital Amount</u>	<u>Ratio</u>
Total capital (to risk-weighted assets)	\$ 24,164	26.7%	\$ 7,249	≥ 8%	\$ 9,061	≥ 10%
Tier 1 capital (to risk-weighted assets)	\$ 23,023	25.4%	\$ 5,437	≥ 6%	\$ 7,249	≥ 8%
Tier 1 leverage ratio capital (to average assets)	\$ 23,023	11.7%	\$ 7,901	≥ 4%	\$ 9,877	≥ 5%
Common Equity Tier 1 risk-based capital (to risk-weighted assets)	\$ 23,027	25.4%	\$ 4,078	≥ 4.5%	\$ 5,890	≥ 6.5%

*Capital Ratio Phase-in*

The following table reflects the phase-in of capital requirements for three years:

<u>Year, as of January 1,</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
Common Equity Tier 1 capital conservation buffer	1.250%	1.875%	2.500%
Minimum Common Equity Tier 1 capital ratio	<u>4.500%</u>	<u>4.500%</u>	<u>4.500%</u>
<b>Minimum Common Equity Tier 1 capital ratio plus capital conservation buffer</b>	<b><u>5.750%</u></b>	<b><u>6.375%</u></b>	<b><u>7.000%</u></b>
Minimum Tier 1 capital ratio	<u>6.000%</u>	<u>6.000%</u>	<u>6.000%</u>
<b>Minimum Tier 1 capital ratio plus capital conservation buffer</b>	<b><u>7.250%</u></b>	<b><u>7.875%</u></b>	<b><u>8.500%</u></b>
Minimum total capital ratio	<u>8.000%</u>	<u>8.000%</u>	<u>8.000%</u>
<b>Minimum total capital ratio plus capital conservation buffer</b>	<b><u>9.250%</u></b>	<b><u>9.875%</u></b>	<b><u>10.500%</u></b>

**Note 13 Minimum Regulatory Capital Requirements (continued)**

Capital Conservation Buffer

In addition to the minimum risk-based capital requirements, a new capital conservation buffer of least 2.5 percent of total risk-weighted assets is included in the regulatory capital requirements beginning in 2016. The capital conservation buffer of Common Equity Tier 1 capital in an amount greater than 2.5 percent of total risk-weighted assets is required to avoid limits on dividends and discretionary bonus payments to executive officers.

Capital conservation buffer ratio is the lowest of the following ratios:

Minimum Common Equity Tier 1 capital ratio plus capital conservation buffer	<u>21.45%</u>
Minimum Tier 1 capital ratio plus capital conservation buffer	<u>19.95%</u>
<b>Minimum total capital ratio plus capital conservation buffer</b>	<b><u>19.21%</u></b>

For the year ended December 31, 2018, the capital conservation buffer ratio was 19.21% (minimum required 9.875%). For the year ended December 31, 2017, the capital conservation buffer ratio was 18.67% (minimum required 9.25%).

**Note 14 Off-Balance Sheet Activities, Commitments and Contingencies**

**Credit-Related Financial Instruments.** The Company is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Statement of Financial Condition.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments. Because commitments to extend credit are generally subject to expiration within one year, management believes any market risk is minimal. Management provides an allowance for off-balance sheet risk using similar methods as discussed in Note 1 to the financial statements for the allowance for loan losses.

At December 31, 2018, the following financial instruments were outstanding whose contract amounts represent credit risk:

Unfunded commitments under lines of credit	\$ 10,324,821
Commercial letters of credit	0
Allowance for off-balance sheet loss allocation	<u>(25,000)</u>
	<b><u>\$ 10,299,821</u></b>

**Note 14 Off-Balance Sheet Activities, Commitments and Contingencies (continued)**

**Credit-Related Financial Instruments (continued).**

Off-balance sheet loan loss allocation is as follows:

	<u>2018</u>	<u>2017</u>
Balance, at beginning of year	\$ 25,000	\$ 25,000
Additions (reclassification)	0	0
Deductions	<u>0</u>	<u>0</u>
<b>Balance, at end of year</b>	<b><u>\$ 25,000</u></b>	<b><u>\$ 25,000</u></b>

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. Commitments may be negotiated at fixed or variable rates. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Commercial letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. The Company generally holds collateral supporting those commitments if deemed necessary.

**Concentrations of Credit Risk.** The majority of the Company's loans, commitments to extend credit and standby letters of credit are within the lending area of Clovis, New Mexico and surrounding communities. A major economic driver of the lending area is Cannon Air Force Base. The ability of borrowers, directly or indirectly, associated with contracts from the Base to satisfy their obligations may be dependent upon continued funding of the Base. The Company maintains a diverse loan portfolio as reflected in Note 3 to the financial statements.

**Other Concentrations.** At December 31, 2018, and 2017, the Company held withdrawable deposits of a local government in the amount of \$24,872,351 and \$23,278,861, respectively.

**Note 15 Fair Value of Assets and Liabilities**

Statement of Financial Accounting Standards Codification ASC 820, *Disclosures about Fair Value Measurements and Disclosures*, defines fair value, sets out a framework for measuring fair value and requires certain disclosures about fair value measurements, even when those fair values are not recognized in the financial statements.

**Fair Value Measurement.** Fair value measurement is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 provides for a hierarchy of grouping assets and liabilities based on the best information available for discovery of the price or

**Note 15 Fair Value of Assets and Liabilities (continued)**

**Fair Value Measurement (continued)**

measurement in the market. The hierarchy groups assets and liabilities into three levels based on the markets in which assets and liabilities are exchanged and the reliability of the assumptions used to determine fair value. Greater reliance is placed on observable inputs than on other methods of price discovery. The fair value hierarchy is defined as follows:

Level 1 - Valuation is based on quoted prices for identical instruments traded in active markets as of the measurement date.

Level 2 - Valuation is based on quoted market prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from significant assumptions not observable in the market. Unobserved assumptions reflect management's judgment of estimates of assumptions that market participants would use in pricing the assets or liability. Valuation techniques include primarily assumptions about market values of similar properties or securities, typically based on prior appraisals, particularly as related to foreclosed real estate held for sale. Discounted cash flow models and similar methods may also be used.

Management's policy is to use observable market prices whenever possible; however, unobservable methods are necessary when market prices are not available. The present value techniques used when market prices are not available are significantly affected by assumptions of the discount rate and estimates of future cash flows. Independent sources for market valuations are used whenever possible. While management believes the Company's valuation methods are appropriate, derived values which may be necessary for unobservable methods cannot be substantiated by independent markets and may not be realized in immediate settlement of the instruments.

**Financial Assets Recorded at Fair Value on a Recurring and Nonrecurring Basis.** The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value in the books of account on both a recurring and nonrecurring basis. There were no transfers between measurement levels during the year.

Securities available-for-sale

Securities available-for-sale are carried at fair value using the Level 2 methodology on a recurring basis. The valuation methodology did not change in 2018 from the prior year. Fair value is determined by the valuation services of Interactive Data Pricing and Reference Data, LLC, Standard and Poor's, Bloomberg's and seven other specialized independent valuations firms nationally recognized by the financial services industry, whose methods and assumptions are reasonable in the judgment of management. In the event a security is not priced by one of the valuation services, the security is priced internally by the trading desk of a brokerage firm by comparison to securities with similar attributes for which pricing data is available.

Impaired Loans

When management determines a loan is impaired, an allowance for loan losses is provided, typically based on the appraisal of collateral when the loan was originated or a current appraisal, if available. Management may obtain a new appraisal or estimate the

**Note 15 Fair Value of Assets and Liabilities (continued)**

**Financial Assets Recorded at Fair Value on a Recurring and Nonrecurring Basis (continued).**

Impaired Loans (continued)

collateral value using available market information and observations of the condition of collateral, as well as other factors. For the current year, all impaired loans were classified as Level 3, as current appraisals were not readily available and, therefore, fair value was based on management's best judgment using available information. Management continually monitors the collateral values and adjusts the allowance for loan losses to reflect deterioration in collateral values. The valuation methodology is unchanged from the prior year.

Foreclosed Assets and Repossessed Assets

Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets and are, subsequently, carried at the lower of carrying value or fair value requiring adjustments on a nonrecurring basis.

Foreclosed commercial properties and business loans often present unique valuation situations even when appraisals are available. While the Company generally has appraisals of the properties, management also uses their best judgment from all available information, including the condition of the property, the estimated market opportunities for sale of the property within management's time frame, as well as the appraisal in determining fair value. Management generally intends to sell foreclosed properties within one year. The methodology for valuation is consistent with the prior year.

Fair value of repossessed property is based on independent market appraisals or referral to market pricing services for tangible personal property, if available. Repossessed personal property is, therefore, classified as Level 2. The valuation method has not changed from the prior year.

**Note 15 Fair Value of Assets and Liabilities (continued)**

**Financial Assets Recorded at Fair Value on a Recurring and Nonrecurring Basis (continued).**

Assets measured at fair value on a recurring basis at December 31, 2018, and 2017, are as follows:

<u>December 31, 2018</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Financial Assets:</b>			
<b>Securities available-for-sale</b>			
US Government Agency	\$ 0	\$ 0	\$ 0
Municipals	27,558,996	0	27,558,996
Residential Mortgage-Backed			
Securities	11,640,254	0	11,640,254
Collateralized Residential			
Mortgage Obligations	<u>12,947,303</u>	<u>0</u>	<u>12,947,303</u>
<b>Total Financial Assets</b>	<b>\$ <u>52,146,553</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>52,146,553</u></b>
<u>December 31, 2017</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>
<b>Financial Assets:</b>			
<b>Securities available-for-sale</b>			
US Government Agency	\$ 0	\$ 0	\$ 0
Municipals	25,906,336	0	25,906,336
Residential Mortgage-Backed			
Securities	13,370,812	0	13,370,812
Collateralized Residential			
Mortgage Obligations	<u>14,130,256</u>	<u>0</u>	<u>14,130,256</u>
<b>Total Financial Assets</b>	<b>\$ <u>53,407,404</u></b>	<b>\$ <u>0</u></b>	<b>\$ <u>53,407,404</u></b>

**Note 15 Fair Value of Assets and Liabilities (continued)**

**Financial Assets Recorded at Fair Value on a Nonrecurring Basis.**

Assets measured at fair value on a nonrecurring basis at December 31, 2018, and 2017, are as follows:

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2018</u>				
Financial Assets:				
Impaired loans	\$ 2,717,973	\$ 0	\$ 0	\$ 2,717,973
Less: Allowance for loan loss	<u>(554,237)</u>	<u>0</u>	<u>0</u>	<u>(554,237)</u>
Net impaired loans	2,163,736	0	0	2,163,736
Foreclosed properties	0	0	0	0
Reposessed properties	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
<b>Total Financial Assets</b>	<b><u>\$ 2,163,736</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 2,163,736</u></b>
<u>December 31, 2017</u>				
Financial Assets:				
Impaired loans	\$ 518,029	\$ 0	\$ 0	\$ 518,029
Less: Allowance for loan loss	<u>(470,529)</u>	<u>0</u>	<u>0</u>	<u>(470,529)</u>
Net impaired loans	47,500	0	0	47,500
Foreclosed properties	0	0	0	0
Reposessed properties	<u>7,300</u>	<u>0</u>	<u>7,300</u>	<u>0</u>
<b>Total Financial Assets</b>	<b><u>\$ 54,800</u></b>	<b><u>\$ 0</u></b>	<b><u>\$ 7,300</u></b>	<b><u>\$ 47,500</u></b>

There were no gains or loss recognized during the year related to impaired assets.

There were no gains or losses recognized in comprehensive income for impaired loans.

Activity in acquisitions and dispositions of OREO and reposessed assets is reflected in Note 20.

There were no sales of impaired loans.

Transfers of impaired loans out of Level 3 were the result of settlement of loans.

Transfers of impaired loans into Level 3 results from identification of loans by management as impaired.

The Company had no securities classified as Level 3.

**Note 16 Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales 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 Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

**Note 17 Other Comprehensive Income**

The components and changes to other comprehensive income at December 31, 2018, and 2017, are as follows:

<b>Unrealized Gains on Securities:</b>	<b>2018</b>		
	<u>Before tax</u>	<u>Tax effect (benefit)</u>	<u>Net of tax</u>
<b>Securities Available-for-Sale:</b>			
<i>Unrealized gains (loss) Agencies</i>	\$ 0	\$ 0	\$ 0
<i>Unrealized gains (loss) Municipals</i>	(593,952)	157,760	(436,192)
<i>Unrealized gains (loss) Mortgage-Backed Securities</i>	(163,054)	43,309	(119,745)
<i>Unrealized gains (loss) Collateralized Mortgage Obligations</i>	<u>(44,122)</u>	<u>11,720</u>	<u>(32,402)</u>
<b>Net unrealized gains (loss) on Securities</b>	<u>\$ (801,128)</u>	<u>\$ 212,789</u>	<u>\$ (588,339)</u>
	<b>2017</b>		
	<u>Before tax</u>	<u>Tax effect (benefit)</u>	<u>Net of tax</u>
Securities Available-for-Sale:			
Unrealized gains (loss) Agencies	\$ 0	\$ 0	\$ 0
Unrealized gains (loss) Municipals	487,398	(195,641)	291,757
Unrealized gains (loss) Mortgage-Backed Securities	216,250	(86,803)	129,447
Unrealized gains (loss) Collateralized Mortgage Obligations	<u>(192,619)</u>	<u>77,317</u>	<u>(115,302)</u>
Net change in unrealized gains (loss) on Securities before tax change for year	<u>511,029</u>	<u>(205,127)</u>	<u>305,902</u>
Transfer to Retained Earnings FASB ASU 2018-02 (Note 24)	<u>0</u>	<u>(89,203)</u>	<u>(89,203)</u>
Net change in unrealized gains (loss) on Securities after transfer to Retained Earnings	<u>\$ 511,029</u>	<u>\$ (294,330)</u>	<u>\$ 216,699</u>



#### **Note 18 Employee Benefits**

The Company has established a 401(K)-plan covering substantially all employees who meet minimum age and service requirements. Contributions to the plan were \$103,377 in 2018, and \$93,398 in 2017.

The Company also provides substantially all of its full-time employees a "flexible spending account". The Company contributes \$100 per month per employee into an account which may be accumulated and used by the employee for reimbursement of qualified health expenses, not otherwise covered by health insurance. The cost to the Company for 2018, and 2017, respectively, was \$31,348 and \$31,920.

In 2013, the Company adopted nonqualified defined contribution and defined benefit plans to attract and retain key officers. The nonqualified defined contribution plan provides post-retirement benefits at normal retirement age of 65. Benefits vest at 10% per year which may be payable upon separation of service before age 65. Company contributions to the defined contribution plan for 2018 and 2017, net of the deferred taxes, was \$200,132 and \$176,799, respectively. Contributions to the plan are based on annual financial performance criteria established by the Board of Directors. Participants do not make contributions.

The defined benefit plan provides a fixed benefit of \$640,000, at normal retirement age of 65, payable over 20 years. Benefits vest based on an accrued benefit formula. Contributions to the plan for 2018 and 2017, net of deferred income taxes, were \$55,136 and \$45,034, respectively. The discount rate used to estimate the present value of future pension obligations is 3.95%, based on the Citi Pension Discount Curve as of December 1, 2018.

Benefits of \$226,212 were paid and benefits forfeited of \$40,358 in 2018. No benefits were paid or forfeited in 2017. The Company does not anticipate paying any further benefits over the next 5 years. Benefits payable beyond 5 years have not been determined.

The nonqualified plans are unfunded and are reflected as a liability of the Company in the financial statements. The plan anticipates eventual funding through life insurance policies on the Supplemental Executive Retirement Plan participants' lives. As a plan participant will typically begin drawing benefits from the plan prior to the collection of life insurance proceeds by the Company, funding of the plan may necessarily come from current resources. The Company accrues the liability for the plan which was \$1,332,218 at December 31, 2018, and \$1,210,844 at December 31, 2017.

#### **Note 19 Bank Owned Life Insurance**

The Company has invested in key man life insurance policies on the lives of certain officers and key bank employees to recognize the contributions of the key employees to the Company and to retain their services. The life insurance policies are also investments which provide a tax deferred return to the Company. In the event of the death of an insured employee, the employee's beneficiaries receive the proceeds of the policy, less the cash surrender value of the policy which is paid to the Company. The Company has the right at any time to surrender the policy for its cash value. The annual cost of the insurance is shared by the Company and the employee which management anticipates will be paid from the investment earnings. Earnings from the policies recognized in other income for 2018 and 2017 amounted to \$130,805 and \$146,715, respectively.

In 2018, the Company received life insurance benefits from the death of an officer of \$490,100.

**Note 20 Foreclosed and Repossessed Assets**

Change in foreclosed and repossessed assets:

<u>December 31, 2018</u>	<u>Total</u>	<u>Repossessed Assets</u>	<u>Commercial Foreclosed Assets</u>
Balance at December 31, 2017	\$ 7,300	\$ 7,300	\$ 0
Sale of assets	(370,386)	(121,782)	(248,604)
Write-down of assets	(2,873)	(2,873)	0
Additions	<u>365,959</u>	<u>117,355</u>	<u>248,604</u>
Balance at December 31, 2018	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
<u>December 31, 2017</u>			
Balance at December 31, 2016	\$ 1,521,044	\$ 46,044	\$ 1,475,000
Sale of assets	(1,531,132)	(56,132)	(1,475,000)
Additions	<u>17,388</u>	<u>17,388</u>	<u>0</u>
Balance at December 31, 2017	<u>\$ 7,300</u>	<u>\$ 7,300</u>	<u>\$ 0</u>

The Company has obtained physical possession of all foreclosed and repossessed assets. There is no allowance for loss on repossessed assets and other real estate owned.

**Note 21 SBA Guaranteed Loans**

Certain of the Company's loans are guaranteed by the Small Business Administration (SBA). At December 31, 2018, the Company had guaranteed loans of \$21,937,726 and at December 31, 2017, the Company had guaranteed loans of \$21,991,965. The loan guarantee is typically 75-90%. When a guaranteed loan goes into default, the Company must liquidate the loan collateral prior to submitting a claim under the guarantee.

The Company collected \$426,640 in claims submitted to SBA in loan losses in 2017.

*Clovis Bancshares, Inc.*  
*Notes To Consolidated Financial Statements*

**Note 22 Parent Company Financial Information**

Condensed financial information related to Clovis Bancshares, Inc. as of December 31, 2018, and 2017, and for the year ended December 31, 2018, and 2017, is as follows:

**Condensed Balance Sheet**

	<u>2018</u>	<u>2017</u>
<b>ASSETS</b>		
Cash	\$ 306,300	\$ 116,822
Investment in subsidiary	24,171,990	22,541,032
Due from subsidiary	52,794	52,323
Land	21,600	21,600
Building, net	<u>70,850</u>	<u>73,036</u>
 Total Assets	 <u>\$ 24,623,534</u>	 <u>\$ 22,804,813</u>
<b>LIABILITIES</b>		
Accounts payable	\$ 0	\$ 0
Note payable	<u>28,275</u>	<u>37,250</u>
Total Liabilities	<u>28,275</u>	<u>37,250</u>
<b>STOCKHOLDERS' EQUITY</b>		
Common stock and additional paid-in capital	14,383,316	14,185,706
Retained earnings	14,350,221	12,108,894
Treasury stock	(3,067,505)	(3,044,607)
Accumulated other comprehensive income	<u>(1,070,773)</u>	<u>(482,432)</u>
Total Stockholders' Equity	<u>24,595,259</u>	<u>22,767,561</u>
 Total Liabilities and Stockholders' Equity	 <u>\$ 24,623,534</u>	 <u>\$ 22,804,811</u>

**Note 22 Parent Company Financial Information (continued)**

**Condensed Statement of Income**

	<u>2018</u>	<u>2017</u>
Cash dividends received from subsidiary bank	\$ 600,000	\$ 1,350,000
Rental income	5,950	6,800
Interest expense	(1,825)	(2,304)
Operating expense	<u>(212,118)</u>	<u>(236,349)</u>
Net income before provision of income tax	392,007	1,118,147
Income tax benefit	52,794	52,323
Equity in undistributed earnings of subsidiary	<u>2,219,299</u>	<u>109,306</u>
Net income, before dividends paid	<u>2,664,100</u>	<u>1,279,776</u>
Retained earnings, beginning of the year	12,108,894	11,173,353
FASB ASU 2018-02 adjustment	0	89,203
Dividends	<u>(422,773)</u>	<u>(433,438)</u>
Retained earnings, end of the year	<u>\$ 14,350,221</u>	<u>\$ 12,108,894</u>

**Statement of Comprehensive Income**

	<u>2018</u>	<u>2017</u>
<b>Net income</b>	<u>\$ 2,664,100</u>	<u>\$ 1,279,776</u>
Net unrealized holding gains (loss) on securities arising during the year	(730,439)	521,793
Reclassification adjustments included in net income	<u>(70,691)</u>	<u>(10,764)</u>
Other comprehensive income (loss) before deferred income tax (benefit)	(801,130)	511,029
Deferred income tax (benefit)	<u>212,789</u>	<u>(205,127)</u>
Other comprehensive income (loss), net of deferred income tax (benefit)	<u>(588,341)</u>	<u>305,902</u>
<b>Comprehensive income</b>	<u>\$ 2,075,759</u>	<u>\$ 1,585,678</u>

*Clovis Bancshares, Inc.*  
*Notes To Consolidated Financial Statements*

**Note 22 Parent Company Financial Information (continued)**

<b>Condensed Statement of Cash Flow</b>	<b><u>2018</u></b>	<b><u>2017</u></b>
Cash flows from operating activities:		
Net Income	\$ 2,664,100	\$ 1,279,776
Adjustments to reconcile net income to net cash provided by operating activities:		
(Increase) decrease in undistributed earnings of subsidiary	(1,720,161)	(326,476)
Stock option compensation	27	471
(Increase) decrease in income taxes currently payable and deferred income taxes	88,706	46,013
Depreciation	2,187	2,187
Increase (decrease) in other comprehensive income	(588,341)	216,699
Excess tax benefits from share - based payment arrangements	0	(19,532)
Net cash provided by operating activities	<u>446,518</u>	<u>1,199,138</u>
Cash flows from financing activities:		
Payment of dividends	(220,875)	(247,434)
Principal payments on loan to purchase building	(8,975)	(8,495)
Excess tax benefits from share - based payment arrangements	0	19,532
Sale of treasury stock	(457,016)	(1,083,502)
Acquisition of treasury stock	<u>429,830</u>	<u>129,150</u>
Net cash (used) in financing activities	<u>(257,036)</u>	<u>(1,190,749)</u>
Net increase (decrease) in cash and cash equivalents	189,482	8,389
Cash and cash equivalents at beginning of year	<u>116,822</u>	<u>108,433</u>
Cash and cash equivalents at end of year	<u>\$ 306,304</u>	<u>\$ 116,822</u>
<b>Supplementary cash flow information:</b>		
Non cash transactions:		
Stock dividends issued	<u>\$ 201,898</u>	<u>\$ 186,004</u>

**Note 23 Earnings Per Share**

The computation of basic and diluted earnings per share is as follows:

	<u>2018</u>	<u>2017</u>
Net income	\$ <u>2,664,100</u>	\$ <u>1,279,776</u>
Weighted-average shares outstanding	<u>709,289</u>	<u>716,880</u>
Weighted-average effect of dilutive stock options	<u>716,610</u>	<u>722,929</u>
Basic earnings per share	\$ <u>3.76</u>	\$ <u>1.79</u>
(Basic earnings per share before remeasurement of net deferred tax asset) *		\$ <u>2.37</u>
Diluted earnings per share	\$ <u>3.72</u>	\$ <u>1.77</u>
(Diluted earnings per share before remeasurement of net deferred tax asset) **		\$ <u>2.35</u>

**Note 24 Remeasurement Of Net Deferred Tax Assets**

On December 22, 2017, the President signed into law the *Tax Cuts and Jobs Act*, which among other provisions reduced the US corporate tax rate for the Company from 34% to 21%.

In prior years, the Company has reflected the tax effect of differences in financial reporting and tax reporting as a net deferred tax asset in its financial statements as required by generally accepted accounting principles. These differences occur because financial accounting and reporting in accordance with generally accepted accounting principles, promulgated by the Financial Accounting Standards Board, differs from tax accounting and reporting promulgated by the US Congress.

Amounts accumulated in deferred tax assets reflect temporary differences between financial accounting and tax accounting for income taxes that will be deducted on the Company's financial statements in the future. The amounts included in deferred tax assets are based on the enacted tax rate which for the Company was 34%. As a result of the reduction in the tax rates to 21%, the amount reflected in net deferred tax assets is overstated as of the date of enactment.

**Generally accepted accounting principles in the United States of America (FASB ASC 740-10-45-15) require that accounting for changes in tax rates be recorded in the year of enactment or for the year 2017, even though the tax rate change is not effective until 2018.** Therefore, the deferred tax asset is remeasured in 2017, upon enactment of the change in tax rates, to reflect the reduction in net deferred tax asset to the newly enacted 21% tax rate. The effect of the adjustment is reflected as a charge to income for the year ended December 31, 2017, for the entire amount of the change.

**Note 24 Remeasurement Of Net Deferred Tax Assets (continued)**

Because the entire adjustment of the reduction in net deferred tax assets must be charged to earnings of the current year, deferred income taxes recorded at the 34% rate effecting market valuation changes in available-for-sale securities, which are recorded as a component of other comprehensive income, remain in other comprehensive income after the remeasurement of net deferred tax assets. To address the disproportionate effect of the deferred taxes lodged in other comprehensive income after the remeasurement, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2018-02, *Income Statement – Reporting Comprehensive Income*.

Management has elected the early adoption of ASU 2018-02 as permitted by the FASB and banking regulators to reclassify the income tax effects of the Tax Cuts and Jobs Act from accumulated other comprehensive income to retained earnings in 2017. Management believes the change in accounting principle is necessary to properly reflect other comprehensive income in the financial statements and to adjust the Company's retained earnings for the effects of the remeasurement of net deferred tax assets.

The remeasurement of the net deferred tax asset and the early adoption of ASU 2018-02 has the following effect on the 2017 financial statements:

<u>Description</u>	<u>Net Deferred Tax Asset</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Net Income</u>	<u>Retained Earnings</u>	<u>Basic Earnings per Share</u>	<u>Diluted Earnings per Share</u>
Balance, December 31, 2017, before remeasurement	\$ 1,235,858	\$ (393,230)	\$ 1,697,857	\$ 22,678,358	\$ 2.37*	\$ 2.35**
Remeasurement of Net Deferred Tax Assets	(418,081)	0	(418,081)	0	(0.58)	(0.58)
Early adoption of ASU 2018-02	<u>0</u>	<u>(89,203)</u>	<u>0</u>	<u>89,203</u>	<u>0</u>	<u>0</u>
Balances, as adjusted and restated, at December 31, 2017	<u>\$ 817,777</u>	<u>\$ (482,433)</u>	<u>\$ 1,279,776</u>	<u>\$ 22,767,561</u>	<u>\$ 1.79</u>	<u>\$ 1.77</u>

**Note 25 New Accounting Pronouncements**

**FASB ASU 2016-13** Financial Instruments – Credit Loss (Topic 326) Measurement of Credit Losses of Financial Instruments was issued June 16, 2016. The Company presently provides for the allowance for loan losses on the “incurred loss model” in which credit loss recognition in the financial statements is delayed until it is probable a loss has been incurred. The new accounting model, is a predictive, forward looking model in which the company must recognize “anticipated” loan losses in the financial statements and requires more detailed data and analysis. In other words, the present incurred loss model only recognizes current losses in the loan portfolio, while the new “current expected credit loss model” recognizes both the current risk and future risk in the loan portfolio.

Note 25 New Accounting Pronouncements (continued)

While FASB ASU 2016-13 is not effective until January 1, 2021, and therefore has not been implemented, the Company has already begun modeling the new current expected loss model. To transition to the new method, the Company has acquired software that meets all the accounting and regulatory standards. The modeling software considers historical data and the Company's various loan types to perform predictive analysis as well as a national data base, to evaluate risk in determining the required allowance for loan losses. The Company will continue to monitor and refine the new method until implementation date. While the new method employs complex algorithms in utilizing the data to make the computations, management's judgement will still be required in evaluating risk in the loan portfolio for the appropriate allowance for loan losses.

**FASB ASU 2016-09** Compensation – Stock Compensation (Topic 718). The pronouncement changes the recognition of excess tax benefits from exercise of stock options in the financial statements as additional-paid-in-capital to recognition as in income tax benefit. The Company adopted this pronouncement in 2018.

**FASB ASU 2016-01** Financial Instruments – Overall (Subtopic 825-10). This pronouncement eliminates the requirement for nonpublic entities to disclose the fair value of financial instruments measured at amortized cost. The Company elected early adoption of the pronouncement effective for 2018.

**Note 26 Subsequent Events**

Subsequent events have been evaluated through March 15, 2019, which is the date financial statements were available to be issued.

**Clovis Bancshares, Inc.**  
**Schedules I, II and III**  
**December 31, 2018, and 2017**

	<u>2018</u>	<u>2017</u>
<b>Schedule I</b>		
<b>Interest income</b>		
Interest:		
Real estate loans	\$ 3,365,057	\$ 3,102,318
Commercial loans	1,555,624	1,379,743
Municipal securities	945,131	970,176
Agriculture loans	757,388	630,985
Consumer loans	662,783	675,044
Mortgage-backed securities	574,912	642,662
Other interest	175,160	91,990
Federal funds sold	<u>14,938</u>	<u>6,513</u>
<b>Total Interest income</b>	<b>\$ 8,050,993</b>	<b>\$ 7,499,431</b>
<b>Schedule II</b>		
<b>Interest expense</b>		
CD's over \$100,000 - \$250,000	\$ 316,637	\$ 290,284
Money market	169,407	85,202
FHLB borrowing	112,950	44,890
CD's under \$100,000	101,449	93,358
IRA's	85,378	94,616
Checking	22,261	10,721
Repurchase agreement	12,830	6,343
Savings	11,545	5,495
Other interest	<u>1,825</u>	<u>2,304</u>
<b>Total Interest expense</b>	<b>\$ 834,282</b>	<b>\$ 633,213</b>
<b>Schedule III</b>		
<b>Noninterest income</b>		
Service Charges:		
Checking	\$ 171,480	\$ 153,655
Non-sufficient check charges	112,245	94,389
Return check charges	53,445	52,010
Investment services income	11,211	17,108
Savings	7,887	7,534
Money market	<u>2,909</u>	<u>2,990</u>
	\$ 359,177	\$ 327,686
Fees:		
Loan	332,540	310,282
ATM	313,064	283,301
Wire transfer	7,485	11,653
Cashier checks	3,893	3,415
Check cashing	<u>180</u>	<u>260</u>
	657,162	608,911
Life insurance	490,100	0
Life insurance - cash value increase	130,805	146,715
Miscellaneous income	29,862	27,899
Realized gain (loss) on sale of other real estate owned	15,831	0
Secondary market real estate income	14,453	21,441
Rent income	5,950	6,800
Realized gain (loss) on sale of available-for-sale securities (Note 17)	<u>(96,259)</u>	<u>(14,657)</u>
<b>Total Noninterest income</b>	<b>\$ 1,607,081</b>	<b>\$ 1,124,795</b>

See accompanying notes to the consolidated financial statements.

**Clovis Bancshares, Inc.**  
**Schedule IV**  
**December 31, 2018, and 2017**

<b>Schedule IV</b>	<u>2018</u>	<u>2017</u>
<b>Noninterest expense</b>		
Director, Officer and employee benefits and compensation	\$ 3,555,072	\$ 3,477,629
Data support, ATM, deposits and check processing	619,044	585,701
Depreciation	130,996	123,575
Advertising and promotion:		
Advertising	\$ 73,992	\$ 85,578
Public relations	62,848	62,485
Contributions	29,860	20,861
Promotional items	22,647	14,759
CHS student program	4,650	4,650
Total Advertising and promotion	<u>193,997</u>	<u>188,333</u>
Occupancy expenses:		
Building repair and maintenance	63,760	55,547
Telephone	28,100	30,215
Furniture and fixture	12,053	7,445
Utilities	17,628	18,449
Property tax	12,849	12,357
Total Occupancy expense	<u>134,390</u>	<u>124,013</u>
FDIC and exam fees	113,710	126,004
Other general and administrative expenses:		
Equipment and maintenance agreements	125,416	46,402
Consulting	83,593	124,531
Software	77,901	78,049
Accounting	71,841	63,896
Gross receipts tax	69,627	55,724
Insurance	56,865	55,518
Training and seminars	54,491	50,421
Employee expenses	54,517	63,942
Loan expense	30,828	38,328
Meals and entertainment	30,631	23,814
Travel	29,043	32,369
Courier	25,728	20,581
Postage	22,701	25,933
Office supplies	17,421	14,972
Legal fees	17,040	7,956
Printing stationery	16,228	8,746
Uninsured losses	15,688	7,502
Dues	14,666	9,650
Miscellaneous expense	10,695	18,527
Leases	4,763	1,315
Shareholder expense	150	514
Stock option compensation	26	471
Foreclosure expense	(2,137)	(13,293)
	<u>827,722</u>	<u>735,868</u>
<b>Total Noninterest expense</b>	<b>\$ 5,574,931</b>	<b>\$ 5,361,123</b>

**Clovis Bancshares, Inc.**  
**Historical Schedule of Book Value and Dividends**  
**December 31, 2018 through 2000**

	Total Stockholders' Equity	Common Shares Outstanding as of December 31	Book Value per Common Share	Cash Dividends Paid	Cash Dividends Paid Per Share as of June 30	Stock Dividends per Share	Basic Earnings Per Share (Note 24)
<b>2018</b>	<b>\$ 24,595,286</b>	<b>715,737</b>	<b>\$ 34.36</b>	<b>\$ 220,875</b>	<b>\$ 0.31</b>	<b>\$ 0.29</b>	<b>\$ 3.76</b>
***							
2017	22,767,561	705,131	32.29	247,434	0.35	0.26	1.79
***							
2016	22,363,666	728,749	30.69	242,539	0.33	0.27	2.17
***							
2015	22,346,082	731,841	30.53	445,844	0.60	0.00	1.83
2014	22,342,635	757,277	29.50	418,822	0.55	0.00	2.18
2013	21,040,394	758,494	27.74	0	0.00	0.00	2.02
2012	20,650,405	773,299	26.70	778,252	1.00	0.00	1.67
2011	20,455,714	783,204	26.12	253,390	0.50	0.00	1.45
2010	12,247,518	507,784	24.12	260,124	0.50	0.00	1.77
2009	12,329,353	522,454	23.60	209,301	0.40	0.00	2.81
2008	10,593,521	499,188	21.22	150,154	0.30	0.00	2.20
2007	9,335,134	506,162	18.44	101,377	0.20	0.00	2.12
2006	8,032,166	508,274	15.80	25,519	0.05	0.00	1.85
2005	7,055,295	516,549	13.66	0	0.00	0.00	1.42
2004	6,692,059	521,064	12.84	0	0.00	0.00	1.25
2003	6,223,155	521,064	11.94	0	0.00	0.00	0.89
2002	5,635,788	510,824	11.03	0	0.00	0.00	*
2001	3,925,929	409,150	9.60	0	0.00	0.00	*
2000	3,945,999	409,150	9.64	0	0.00	0.00	*

\* Not available

Note: Dividends are declared for shareholders of record as of a date determined by the Board of Directors that is typically other than December 31. Special dividends and dividends paid other than annually have been declared in 2006, 2007, and 2012. No dividend was paid in 2013 due to the special dividend paid in 2012.

\*\*\* Actual Dividends paid per shareholders of record on dividend payment date.

*Clovis Bancshares, Inc.*  
*FDIC Disclosure Statement*

December 31, 2018

This statement has not been reviewed, or confirmed for accuracy or relevance, by the Federal Deposit Insurance Corporation.



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The Bank of Clovis  
Randy Harris, President

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