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, Sean Ormand
Name of the Holding Company Director and Official

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

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

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

Sean PRES/CEO
Signature of Holding Company Director and Official

03/02/2021
Date of Signature

Date of Report (top-tier holding company's fiscal year-end):
December 31, 2020
Month / Day / Year

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

Reporter's Name, Street, and Mailing Address

First New Mexico Financial Corporation
Legal Title of Holding Company

300 S Gold Avenue
(Mailing Address of the Holding Company) Street / P.O. Box

City	State	Zip Code
Deming	NM	88030

Physical Location (if different from mailing address)

Person to whom questions about this report should be directed:

Name	Title
Sean Ormand	President / CEO

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

575-388-1224
Area Code / FAX Number

sormand@fnmbsc.com
E-mail Address

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

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

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

For Federal Reserve Bank Use Only

RSSD ID ____
C.I. ____

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."

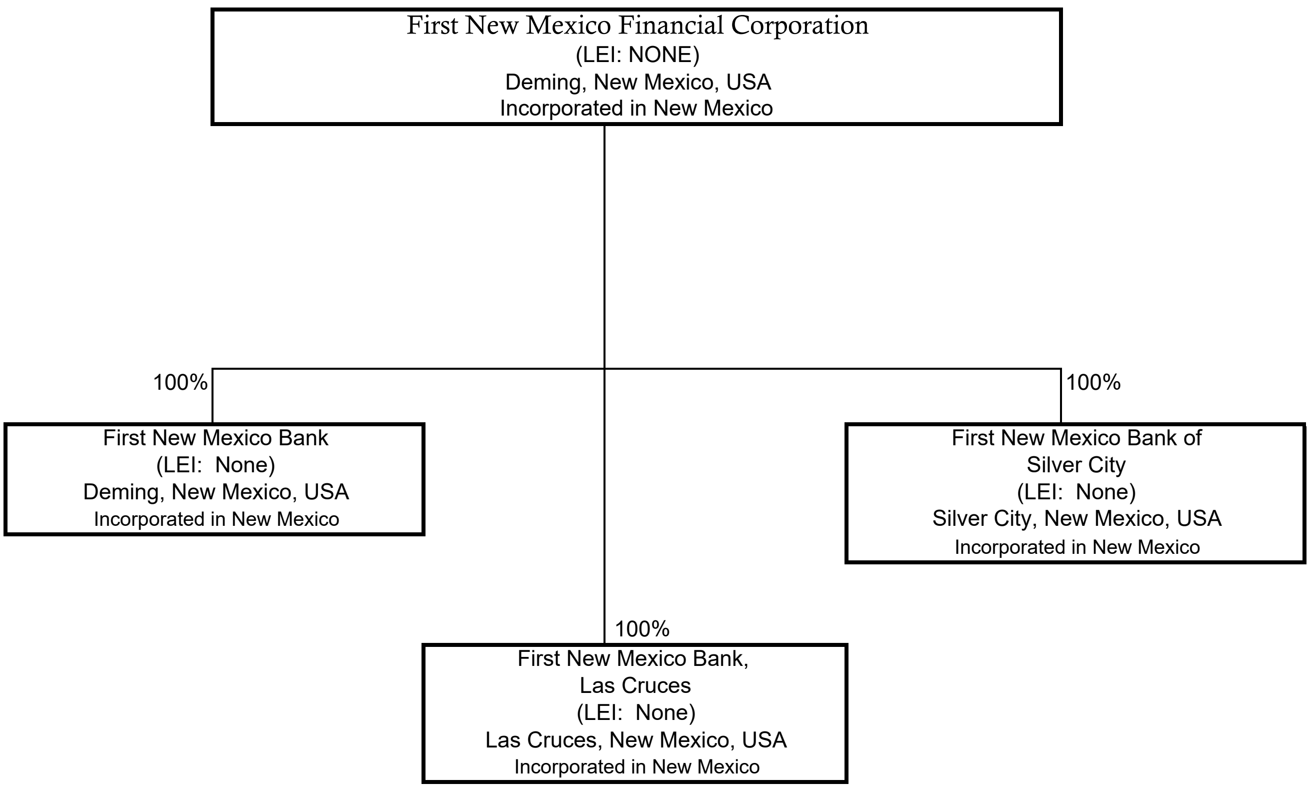
FORM FR Y-6

FIRST NEW MEXICO FINANCIAL CORPORATION
DEMING, NEW MEXICO
Fiscal Year Ending December 31, 2020

Report Item:

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

2a: Organizational Chart



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

Form FR Y-6

FIRST NEW MEXICO FINANCIAL CORPORATION
DEMING, NEW MEXICO
Fiscal Year Ending December 31, 2020

Report Item 3: Securities Holders

Current Securities Holders with ownership, control or holdings of 5% or more with power to vote as of fiscal year ending MM/DD/YYYY			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 MM/DD/YYYY (but not at fiscal year-end)		
(1)(a) Name & Address (City, State, Country)	(1)(b) Country of Citizenship or Incorporation	(1)(c) Number and Percentage of Each Class of Voting Securities	(2)(a) Name & Address (City, State, Country)	(2)(b) Country of Citizenship or Incorporation	(2)(c) Number and Percentage of Each Class of Voting Securities
Gertrude Kretek Deming, NM, USA	USA	1835 - 3.49% Common Stock			
Geraldine Kretek Deming, NM, USA	USA	1284 - 2.44% Common Stock			
The Kretek Corporation Deming, NM, USA	USA	250 - .48% Common Stock			
Charles Kretek Deming, NM, USA	USA	283 - .54% Common Stock			
Kretek Subtotal		**3652 - 6.95% Common Stock**			
Leon J Whitaker Trust Richard L Patterson, Trustee Deming, NM, USA	USA	1300 - 2.47% Common Stock			
Triadic Enterprises Retirement Fund Deming, NM, USA	USA	3121 - 5.94% Common Stock			
Richard L. Patterson Deming, NM, USA	USA	1083 - 5.94% Common Stock			
Patterson Subtotal		**5504 - 10.47% Common Stock**			
Frederick Sherman Deming, NM, USA	USA	3743 - 7.12% Common Stock			
Janie Jontz Sherman Santa Fe, NM, USA	USA	668 - 1.27% Common Stock			
Jan Sherman Bayard, NM, USA	USA	500 - .95% Common Stock			
Benjamin Sherman Silver City, NM, USA	USA	168 - .32% Common Stock			
Jerah Sherman Deming, NM, USA	USA	276 - .53% Common Stock			
Jakub Sherman Deming, NM, USA	USA	272 - .52% Common Stock			
John Sherman Silver City, NM, USA	USA	140 - .27% Common Stock			
F & J S LP Deming, NM, USA Frederick Sherman	USA	2638 - 5.02% Common Stock			
Sherman Family Foundation Deming, NM, USA Jakub Sherman	USA	142 - .27% Common Stock			
Sherman Subtotal		**8547 - 16.26% Common Stock**			

Form FR Y-6

FIRST NEW MEXICO FINANCIAL CORPORATION
DEMING, NEW MEXICO
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company	(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
Sam D. Baca Deming, NM, USA	Mortician	Director	Director First New Mexico Bank of Deming	President	3.69%	N/A	Baca Funeral Homes 100%
G.G. Gore Deming, NM, USA	Business Owner	Director	Director First New Mexico Bank of Deming	N/A	0.99%	N/A	N/A
Dr. John Lundy Deming, NM, USA	Physician	Director	Director First New Mexico Bank of Deming	N/A	0.68%	N/A	N/A
Teresa O. Molina Deming, NM, USA	N/A	Secretary/Treasurer Director	Director First New Mexico Bank of Deming	N/A	1.18%	N/A	N/A
Richard L. Patterson Deming, NM, USA	Certified Public Accountant	Director	Director First New Mexico Bank of Deming & Las Cruces	Partner	10.47%	N/A	Galindo, Patterson & Associates, PA 50%
Sean Ormand Silver City, NM, USA	N/A	President & CEO Director	Director, President & CEO of First New Mexico Bank of Silver City	N/A	0.72%	N/A	N/A
Frank Quarrell Deming, NM, USA	Educational Administrator	Director	Director First New Mexico Bank of Silver City	N/A	0.14%	N/A	N/A
Gary Shiflett Deming, NM USA	Farmer	Director	Director First New Mexico Bank of Deming	Owner	1.83%	N/A	Shiflett Farms 100%
Sharron Stuart Las Cruces, NM, USA	N/A	Director	Director & President First New Mexico Bank, Las Cruces	N/A	1.00%	N/A	N/A

Form FR Y-6

FIRST NEW MEXICO FINANCIAL CORPORATION
DEMING, NEW MEXICO
Fiscal Year Ending December 31, 2020

Report Item 4: Insiders

(1) Name & Address (City, State, Country)	(2) Principal Occupation, if other than with holding company	(3)(a) Title/Position with holding company	(3)(b) Title/Position with Subsidiaries (including subsidiary name)	(3)(c) Title/Position with Other Businesses (including business name)	(4)(a) Percentage of Voting Securities in holding company		(4)(b) Percentage of Voting Securities in Subsidiaries (including subsidiary name)	(4)(c) Percentage of Voting Securities in any other co. (including co. name) if ≥ 25%
Richard Griffin Silver City, NM, USA	Business Owner	Director	Director First New Mexico Bank of Silver City	President	3.36%		N/A	Griffin's Propane, Inc 100%
Frederick Sherman Deming, NM, USA	Attorney	Prinicpal Securities Holder	N/A	N/A	7.12%	**	N/A	Sherman & Sherman Attorney 50%
Janie Jontz Sherman Sante Fe, NM, USA	Homemaker	Prinicpal Securities Holder	N/A	N/A	1.27%	**	N/A	N/A
Jan Sherman Bayard, NM, USA	Homemaker	Prinicpal Securities Holder	N/A	N/A	0.95%	**	N/A	N/A
Benjamin Sherman Deming, NM, USA	Dentist	Prinicpal Securities Holder	N/A	N/A	0.32%	**	N/A	N/A
Jerah Sherman Deming, NM, USA	Social Worker	Prinicpal Securities Holder	N/A	N/A	0.53%	**	N/A	N/A
Jakub Sherman Deming, NM, USA	Attorney	Prinicpal Securities Holder	N/A	N/A	0.52%	**	N/A	Sherman & Sherman Attorney 50%
John Sherman Silver City, NM, USA	Dentist	Prinicpal Securities Holder	N/A	N/A	0.27%	**	N/A	N/A

** - Listed individual is not a director or officer of the holding company, information must be provided because they are considered a "principal secruties holder" of the holding company.

Results: A list of branches for your holding company: FIRST NEW MEXICO FINANCIAL CORPORATION (1107830) of DEMING, NM.
The data are as of 12/31/2020. Data reflects information that was received and processed through 01/05/2021.

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

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

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

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

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

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

Data Action	Effective Date	Branch Service Type	Branch ID_RSSD*	Popular Name	Street Address	City	State	Zip Code	County	Country	FDIC UNINUM*	Office Number*	Head Office	Head Office ID_RSSD*	Comments
OK		Full Service (Head Office)	712956	FIRST NEW MEXICO BANK	300 S. GOLD	DEMING	NM	88030-3731	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Limited Service	642651	COLUMBUS BRANCH	202 SOUTH MAIN	COLUMBUS	NM	88029	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Limited Service	3640984	DEMING BRANCH	1501 SOUTH COLUMBUS HIGHWAY	DEMING	NM	88030	LUNA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Full Service	3542332	LOHMAN BRANCH	3000 EAST LOHMAN AVENUE	LAS CRUCES	NM	88011	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK	712956	
OK		Full Service (Head Office)	495558	FIRST NEW MEXICO BANK OF SILVER CITY	1928 HIGHWAY 180 EAST	SILVER CITY	NM	88061	GRANT	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK OF SILVER CITY	495558	
OK		Full Service	4187301	HUDSON BRANCH	110 NORTH HUDSON	SILVER CITY	NM	88061	GRANT	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK OF SILVER CITY	495558	
OK		Full Service (Head Office)	3623969	FIRST NEW MEXICO BANK, LAS CRUCES	3000 EAST LOHMAN AVENUE	LAS CRUCES	NM	88011-8246	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK, LAS CRUCES	3623969	
OK		Full Service	4187299	ANTHONY BRANCH	455 LANDERS ROAD	ANTHONY	NM	88021	DONA ANA	UNITED STATES	Not Required	Not Required	FIRST NEW MEXICO BANK, LAS CRUCES	3623969	

FIRST NEW MEXICO FINANCIAL CORPORATION ANNUAL REPORT 2020

DEMING

SILVER CITY

LAS CRUCES

COLUMBUS

HUDSON BRANCH, SILVER CITY

PEPPERS BRANCH, DEMING

ANTHONY

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

To the Shareholders,

First New Mexico Financial Corporation continued to prosper and grow throughout the past year. Despite all that the year 2020 had to offer, the good, the bad, and the ugly, our bank family was Blessed. Our earnings per share of $128.01 was an increase over the past year. Additionally, the consolidated assets of First New Mexico Financial Corporation surpassed 500 million dollars, a new milestone.

Each of our banks faced the challenges of the pandemic restriction which created the need for greater non-personal interaction. They met the challenge through increased usage of technology and all of our drive through locations were certainly used to their capacity. Despite all of the obstacles faced, our mission of community banking was never lost.

Our Deming bank continues to be the dominate financial force in Luna County. This past year due to the pandemic and restrictions imposed, many of the small businesses in their market suffered greatly and in response the bank participated in the Paycheck Protection Program aiding those who were distressed, demonstrating the true spirit of community banking. The Deming bank will continue to serve the local economy in a safe, sound, and profitable manner.

Las Cruces also participating in the Paycheck Protection Program to provide much needed help to their customers and community, continues to look to the future in their market. Although delayed due to the pandemic, the planning continues for a branch expansion to the west side of the city, bringing their high level of financial expertise and service to a growing customer base in Dona Ana County. They are thankful for a robust housing market this past year which our bank in Las Cruces took full advantage of, creating a strong stream of fee income to the benefit of our Shareholders.

The bank in Silver City has been successful in their ability to attract deposits in Grant County and coupled with a steady loan demand in the Albuquerque/Los Lunas market created a profitable scenario for the bank. The positive impact on copper demand will hopefully aid our bank's future in Grant County, providing the regulatory environment does not hinder the economy.

Anticipating the low rate environment will continue into the future, all of our banks may experience a tightening of the net interest margin, not unlike all of our community bank counterparts. Focusing on overcoming this trend will be a priority throughout the next year.

Our ability to adapt to change has certainly been tested this past year and will no doubt be tested into the future. The resolve of our Employees, Officers, and Directors should be applauded. I am so proud to be part of such a fine group, as I hope you are as well.

Sincerely,

Sean Ormand
President/CEO

FIRST NEW MEXICO FINANCIAL CORPORATION

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

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

FIRST NEW MEXICO BANK
DEMING, NEW MEXICO

OFFICERS

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

DIRECTORS

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

FIRST NEW MEXICO BANK
LAS CRUCES, NEW MEXICO

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

DIRECTORS
Tim Nesbitt
Richard L. Patterson
Anthony Smith
Cristie Stuart
Sharron Stuart
Jose Varela

FIRST NEW MEXICO BANK
SILVER CITY, NEW MEXICO

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

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

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS
and
SUPPLEMENTARY INFORMATION
with
INDEPENDENT AUDITOR'S REPORT
DECEMBER 31, 2020 and 2019

CONTENTS

Bock & Associates, LLP
Certified Public Accountants

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

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated financial statements of First New Mexico Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First New Mexico Financial Corporation as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Reporting on Supplemental Information

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

Bock & Associates, LLP

Bock & Associates, LLP
El Paso, Texas
January 15, 2021

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS

	December 31, 2020	December 31, 2019
ASSETS		
Cash and due from banks	$ 143,842,558	$ 84,604,801
Investment securities	121,258,539	123,351,158
Loans and leases, net	225,805,665	208,442,312
Bank premises and equipment, net	10,383,186	9,717,530
Interest receivable	2,829,343	2,720,950
Other real estate owned	104,118	180,000
Bank owned life insurance	4,756,696	4,652,598
Other assets	2,134,447	2,157,185
Total Assets	$ 511,114,552	$ 435,826,534
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits	$ 423,475,800	$ 352,756,549
Accrued interest payable	27,646	46,211
Other liabilities	10,243,387	9,738,053
Total Liabilities	433,746,833	362,540,813
Commitments and contingencies	--	--
Common stock, $10 par value		
Authorized – 1,000,000 shares		
Issued – 52,558 shares in 2020 and 52,785 shares 2019	525,580	527,850
Retained earnings	76,842,139	72,757,871
Accumulated other comprehensive income	--	--
Treasury stock at cost, 0 shares in 2020 and 2019	--	--
Total Stockholders' Equity	77,367,719	73,285,721
Total Liabilities and Stockholders' Equity	$ 511,114,552	$ 435,826,534

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

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2020	Year Ended December 31, 2019
Interest income:		
Interest and fees on loans	$ 16,828,493	$ 15.077,711
Interest on investment securities	3,244,039	3,737,792
Interest on deposits in banks	583,725	1,710,697
	20,656,257	20,526,200
Interest expense:		
Interest on deposits	795,907	1,310,251
Interest on borrowed funds	--	--
	795,907	1,310,251
Net interest income	19,860,350	19,215,949
Provision for loan losses	734,000	170,000
Net interest income after provision for loan losses	19,126,350	19,045,949
Other noninterest income:		
Service fees	1,151,278	1,248,587
Other income	504,624	471,272
	1,655,902	1,719,859
Noninterest expenses:		
Salaries and employee benefits	6,925,226	6,298,939
Occupancy expenses	1,050,135	1,066,859
Other operating expenses	4,968,861	5,056,087
	12,944,222	12,421,885
Net income before income taxes	7,838,030	8,343,923
Federal and state income taxes	1,099,997	1,762,382
Net income	$ 6,738,033	$ 6,581,541
Earnings per share, based on weighted average number of shares outstanding	$ 128.01	$ 124.70

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

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
December 31, 2018	52,801	$ 528,010	$ 68,319,170	$ --	$ --	$ 68,847,180
Net income (loss)	--	--	6,581,541	--	--	6,581,541
Other comprehensive income – no items	--	--	--	--	--	--
Total comprehensive income (loss)	--	--	--	--	--	6,581,541
Purchase of treasury stock	--	--	--	--	(602,725)	(602,725)
Sale of treasury stock	--	--	--	--	571,125	571,125
Cancellation of treasury stock	(16)	(160)	(31,440)	--	31,600	--
Dividend declared, $40.00 per share	--	--	(2,111,400)	--	--	(2,111,400)
December 31, 2019	52,785	$ 527,850	$ 72,757,871	$ --	$ --	$ 73,285,721
Net income (loss)	--	--	6,738,033	--	--	6,738,033
Other comprehensive income – no items	--	--	--	--	--	--
Total comprehensive income (loss)	--	--	--	--	--	6,738,033
Purchase of treasury stock	--	--	--	--	(780,100)	(780,100)
Sale of treasury stock	--	--	--	--	331,500	331,500
Cancellation of treasury stock	(227)	(2,270)	(446,330)	--	448,600	--
Dividend declared, $42.00 per share	--	--	(2,207,435)	--	--	(2,207,435)
December 31, 2020	52, 558	$ 525,580	$ 76,842,139	$ --	$ --	$ 77,367,719

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

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

	December 31, 2020	December 31, 2019
Cash flows from operating activities:		
Net income	$ 6,738,033	$ 6,581,541
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	734,000	170,000
Depreciation expense	633,529	570,886
Deferred income taxes	(173,597)	(37,086)
Investment security amortization (accretion), net	998,968	854,129
Cash value of life insurance	(104,098)	(118,563)
(Gain) loss on sale of assets	(27,226)	31,486
Changes in operating assets and liabilities:		
(Increase) decrease in accrued interest receivable	(108,392)	139,273
Increase (decrease) in accrued interest payable	(18,566)	12,110
(Increase) decrease in other assets	(5,478)	113,114
Increase (decrease) in other liabilities	505,334	667,037
Net cash provided (used) by operating activities	9,172,507	8,983,927
Cash flows from investing activities:		
Purchases of held-to-maturity securities	(41,127,434)	(11,780,020)
Proceeds from maturities held-to-maturity securities	42,221,085	28,445,565
Net increase in loans	(17,363,353)	(19,023,675)
Proceeds from sale of assets	217,225	367,531
Proceeds from life insurance policy	--	1,151,860
Purchase of property and equipment	(1,299,181)	(479,519)
Net cash provided (used) by investing activities	(17,351,658)	(1,318,258)
Cash flows from financing activities:		
Net change in deposits	69,976,908	(3,708,716)
Payments to acquire treasury stock	(780,100)	(602,725)
Sale of treasury stock	331,500	571,125
Dividends paid	(2,111,400)	(1,900,836)
Net cash provided (used) from financing activities	67,416,908	(5,641,152)
Net increase (decrease) in cash	59,237,757	2,024,517
Cash at beginning of year	84,604,801	82,580,284
Cash at end of year	$ 143,842,558	$ 84,604,801

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

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

Principles of consolidation

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

Use of estimates

The preparation of consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. The Corporation bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that art not readily apparent from other sources. Actual results could differ from those estimates under different assumptions or conditions.

Comprehensive income

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

Investment securities

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment securities (continued)

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

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

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

Loans held for sale

The Corporation engages in sales of residential mortgage loans that are originated by the Banks. Loans held for sale are carried at the lower of aggregate cost or fair value. Fair Value is derived from secondary market quotations for similar instruments. Gains and losses on sales of these loans are recorded as a component of interest and fees on loans in the consolidated statements of income.

Loans and allowance for loan and lease losses

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

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

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the loan balance is uncollectible. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Banks have concerns about the ability to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration the circumstances surrounding the loan and borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowance for loan and lease losses (continued)

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

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

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

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

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

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

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

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans and allowance for loan and lease losses (continued)

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

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

Premises and equipment

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

Foreclosed properties

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

Bank owned life insurance

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

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

Revenue recognition

In the ordinary course of business, the Banks recognize income from various revenue generating activities. Certain revenues are generated from contracts with customers where such revenues are recognized when, or as, services or products are transferred to customers to which the Banks expect to be entitled.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income taxes

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

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

The Corporation remains subject to examination for income tax returns for the years ending after December 31, 2017.

Statement of cash flows

First New Mexico Financial Corporation considers all cash and amounts due from depository institutions, interest-bearing deposits and federal funds sold to be cash equivalents for purposes of the statement of cash flows. Interest paid was $814,470 and $1,298,143 in 2020 and 2019 respectively. Income taxes paid were $1,708,714 and $1,507,603 for the years ended December 31, 2020 and 2019, respectively

Valuation of long-lived assets

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

Fair Value Measurements

The Corporation and its subsidiaries follow the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of financial assets

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

Segment Reporting

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

Restrictions on dividends

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

Reclassifications

Certain reclassifications have been made to the 2019 financial statement presentation to correspond to the current year's format. Total shareholders' equity and net income are unchanged due to these reclassifications.

Subsequent events

The Corporation has evaluated the accompanying consolidated financial statements for subsequent events and transactions through January 15, 2021, the date these financial statements were available to be issued based on FASB ASC 855, *Subsequent Events* and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

Authoritative Accounting Guidance Adopted in 2020

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Authoritative Accounting Guidance Adopted in 2020 (continued)

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was enacted in response to the Coronavirus Disease 2019 (COVID-19) pandemic. The CARES Act provides optional temporary relief from troubled debt restructuring and impairment accounting requirements for loan modifications related to the COVID-19 pandemic made during the period from March 1, 2020 to the earlier of December 31, 2020 or 60 days after the national emergency concerning COVID-19 declared by the President terminates. Following the passage of the CARES Act legislation, the "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" was issued by federal bank regulators, which similarly offers temporary relief from troubled debt restructuring accounting for loan payment deferrals for certain customers whose businesses are experiencing economic hardship due to Coronavirus. The Interagency Statement requires the modification event to be short-term and COVID-19 related, requiring the borrower be not more than 30 days past due as of the date the modification program was implemented, and allowing Management to apply judgment as when the modification program terminates. The ability to suspend TDR accounting under either program does not apply to any adverse impact on the credit of a borrower that is not related to the COVID-19 pandemic.

New Authoritative Accounting Guidance Pending Adoption

The FASB issued ASU 2016-02, *Leases (Topic 842)*, to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. To meet that objective, the FASB is amending the FASB Accounting Standards Codification and creating Topic 842, *Leases*. Leasing is utilized by many entities. It is a means of gaining access to assets, of obtaining financing, and/or of reducing an entity's exposure to the full risks of asset ownership. The prevalence of leasing, therefore, means that it is important to users of financial statements to have a complete and understandable picture of an entity's leasing activities. Previous lease accounting was criticized for failing to meet the needs of users of financial statements because it did not always provide a faithful representation of leasing transactions. In particular, it did not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. As a result, there had been long-standing requests from many users of financial statements and others to change the accounting requirements so that lessees would be required to recognize the rights and obligations resulting from leases as assets and liabilities. This ASU will be effective for the Corporation as of January 1, 2022. At this time, the Corporation has not determined the impact of this update on its financial statements.

FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326):* ASU 2016-13 is the final guidance on the new current expected credit loss (“CECL”) model. ASU 2016-13, among other things, requires the incurred loss impairment methodology in current GAAP be replaced with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to estimate future credit loss estimates. As CECL encompasses all financial assets carried at amortized cost, the requirement that reserves be established based on an organization’s reasonable and supportable estimate of expected credit losses extends to the held to maturity (“HTM”) debt securities. ASU 2016-13 amends the accounting for credit losses on available-for-sale securities (“AFS”), whereby credit losses will be presented as an allowance as opposed to write-down. In addition, CECL will modify the accounting for purchased loans with credit deterioration since organization, so that reserves are established at the date of acquisition for purchased loans. Lastly, ASU 2016-13 requires enhanced disclosures on the significant estimates and judgments used to estimate credit losses, as well as on the credit quality and underwriting standards of an organization’s portfolio. These disclosures require organizations to present the currently required credit quality disclosures disaggregated by the year of origination or vintage. ASU 2016-13 allows for a modified retrospective approach with a cumulative effect adjustment to the balance sheet upon adoption (charge to retained earnings instead of income statement). ASU 2016-13 will be effective for the Corporation on January 1, 2023, and early adoption is permitted. Management anticipates recognizing a one-time cumulative effect adjustment to the allowance for loan losses as of the first reporting period in which the new standard is effective but cannot yet estimate the magnitude of the one-time adjustment or the overall impact of the new guidance on the financial position, results of operations or cash flows.

NOTE 2 – INVESTMENT SECURITIES

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

Held-to-Maturity

	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
December 31, 2020:				
U.S. agencies	$ 23,744,261	$ 1,028,039	$ --	$ 24,772,300
State municipals	97,514,278	3,200,828	(90,582)	100,624,524
	$ 121,258,539	$ 4,228,867	$ (90,582)	$ 125,396,824
December 31, 2019:				
U.S. agencies	$ 38,398,086	$ 669,016	$ (26,546)	$ 39,040,556
States municipals	84,953,072	1,676,106	(29,867)	86,599,311
	$ 123,351,158	$ 2,345,122	$ (56,413)	$ 125,639,867

Held-to-maturity securities carried at approximately $19,033,319 at December 31, 2020 and $25,062,746 at December 31, 2019, were pledged to secure deposits as required or permitted by law. The market value of the pledged securities was $19,695,070 and $25,527,216 respectively.

The amortized cost and estimated fair value of investment securities at December 31, 2020, by contractual maturity, are as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 2,090,393	$ 2,103,745
Due after one year through five years	25,187,146	26,281,630
Due after five years through ten years	19,051,708	19,481,285
Due after ten years	74,929,292	77,530,164
	$ 121,258,539	$ 125,396,824

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

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

NOTE 2 – INVESTMENT SECURITIES (continued)

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

	Less than 12 months		12 months or more	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
December 31, 2020:				
Held-to-Maturity				
U.S. agencies	$ --	$ --	$ --	$ --
State municipals	5,057,021	(90,582)	--	--
	$ 5,057,021	$ (90,582)	$ --	$ --
December 31, 2019:				
Held-to-Maturity				
U.S. agencies	$ 1,991,974	$ (8,027)	$ 4,271,044	$ (18,519)
State municipals	2,663,715	(20,577)	1,793,035	(9,290)
	$ 4,655,689	$ (28,604)	$ 6,064,079	$ (27,809)

NOTE 3 – RESTRICTED STOCK

The investment in restricted stock is as follows:

	December 31,	
	2020	2019
Texas Independent Bankers Banks	$ 100,000	$ 100,000
Bankers Bank of the West	149,805	149,805
	$ 249,805	$ 249,805

NOTE 4 – LOANS AND ALLOWANCE FOR LOAN AND LEASE LOSSES

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

	December 31, 2020	December 31, 2019
Secured by real estate	$ 170,313,844	$ 167,976,920
Agricultural	9,712,877	5,985,615
Commercial	43,738,318	31,381,133
Consumer	7,356,811	7,647,667
	231,121,850	212,991,335
Less deferred loan fees	(409,523)	(391,081)
Less allowance for loan losses	(4,906,662)	(4,157,942)
	$ 225,805,665	$ 208,442,312

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

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

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

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

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

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

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

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

The Banks' goals are to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include, enforcing loan policies and procedures, evaluating the borrower's business plan through loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

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

	December 31, 2020				
	Real Estate	Agricultural	Commercial	Consumer	Total
Beginning Balance	$ 2,756,288	$ 115,134	$ 626,678	$ 659,842	$ 4,157,942
Charge offs	(8,556)	--	--	(38,756)	(47,312)
Recoveries	35,747	--	12,995	13,290	62,032
Provision	454,690	30,595	197,381	51,334	734,000
Ending Balance	$ 3,238,169	$ 145,729	$ 837,054	$ 685,710	$ 4,906,662
Ending Balance: Individually evaluated for impairment	$ 2,621	$ --	$ --	$ --	$ 2,621
Collectively evaluated for impairment	$ 3,235,548	$ 145,729	$ 837,054	$ 685,710	$ 4,904,041
Ending Balance: total loans Individually evaluated for impairment	$ 1,390,774	$ --	$ --	$ --	$ 1,390,774
Collectively evaluated for impairment	$ 168,923,070	$ 9,712,877	$ 43,738,318	$ 7,356,811	$ 229,731,076

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

	December 31, 2019				
	Real Estate	Agricultural	Commercial	Consumer	Total
Beginning Balance	$ 2,804,087	$ 115,134	$ 634,954	$ 629,879	$ 4,184,054
Charge offs	(135,608)	--	(99,276)	(29,514)	(264,398)
Recoveries	17,809	--	1,000	49,477	68,286
Provision	70,000	--	90,000	10,000	170,000
Ending Balance	$ 2,756,288	$ 115,134	$ 626,678	$ 659,842	$ 4,157,942
Ending Balance: Individually evaluated for impairment	$ 4,895	$ --	$ --	$ --	$ 4,895
Collectively evaluated for impairment	$ 2,751,393	$ 115,134	$ 626,678	$ 659,842	$ 4,153,047
Ending Balance: total loans Individually evaluated for impairment	$ 1,119,953	$ --	$ --	$ 2,348	$ 1,122,301
Collectively evaluated for impairment	$ 166,856,967	$ 5,985,615	$ 31,381,133	$ 7,645,319	$ 211,869,034

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

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

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

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

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

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

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

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

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

	December 31, 2020				
	Real Estate	Agricultural	Commercial	Consumer	Total
Pass / Pass Watch	$ 163,479,885	$ 5,936,111	$ 41,777,180	$ 7,342,851	$ 218,536,027
Special mention	1,595,193	--	1,182,491	10,316	2,788,000
Substandard	5,238,766	3,776,766	778,647	3,644	9,797,823
Total loans	$ 170,313,844	$ 9,712,877	$ 43,738,318	$ 7,356,811	$ 231,121,850

	December 31, 2019				
	Real Estate	Agricultural	Commercial	Consumer	Total
Pass / Pass Watch	$ 159,120,743	$ 5,519,416	$ 30,375,719	$ 7,604,809	$ 202,620,687
Special mention	1,790,322	17,258	56,546	--	1,864,126
Substandard	7,065,855	448,941	948,868	42,858	8,506,522
Total loans	$ 167,976,920	$ 5,985,615	$ 31,381,133	$ 7,647,667	$ 212,991,335

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

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

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

	December 31, 2020				
	Real Estate	Agricultural	Commercial	Consumer	Total
Past due:					
30-59 days	$ 418,040	$ --	$ --	$ 119,039	$ 537,079
60-89 days	50,274	--	--	10,489	60,763
>90 days still accruing	101,342	--	--	--	101,342
Nonaccrual	1,361,903	--	--	--	1,361,903
Total past due	1,931,559	--	--	129,528	2,061,087
Current	168,382,285	9,712,877	43,738,318	7,227,283	229,060,763
Total loans	$ 170,313,844	$ 9,712,877	$ 43,738,318	$ 7,356,811	$ 231,121,850

	December 31, 2019				
	Real Estate	Agricultural	Commercial	Consumer	Total
Past due:					
30-59 days	$ 877,663	$ --	$ 1,275,715	$ 155,147	$ 2,308,525
60-89 days	168,734	--	--	15,971	184,705
>90 days still accruing	--	--	--	--	--
Nonaccrual	1,192,925	--	--	2,348	1,195,273
Total past due	2,239,322	--	1,275,715	173,466	3,688,503
Current	165,737,598	5,985,615	30,105,418	7,474,201	209,302,832
Total loans	$ 167,976,920	$ 5,985,615	$ 31,381,133	$ 7,647,667	$ 212,991,335

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

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

	December 31, 2020				
	Real Estate	Agricultural	Commercial	Consumer	Total
No related allowance:					
Recorded investment	$ 1,546,509	$ --	$ --	$ --	$ 1,546,509
Unpaid principal	1,361,903	--	--	--	1,361,903
Average investment	1,454,206	--	--	--	1,454,206
Interest income recognized	4,202	--	--	--	4,202
Allowance recorded:					
Recorded investment	29,103	--	--	--	29,103
Unpaid principal	28,871	--	--	--	28,871
Related allowance	2,621	--	--	--	2,621
Average investment	27,677	--	--	--	27,677
Interest income recognized	$ 2,634	$ --	$ --	$ --	$ 2,634

	December 31, 2019				
	Real Estate	Agricultural	Commercial	Consumer	Total
No related allowance:					
Recorded investment	$ 1,277,220	$ --	$ --	$ 2,546	$ 1,279,766
Unpaid principal	1,192,925	--	--	2,348	1,195,273
Average investment	1,235,073	--	--	2,447	1,237,520
Interest income recognized	15,710	--	--	189	15,899
Allowance recorded:					
Recorded investment	31,671	--	--	--	31,671
Unpaid principal	31,153	--	--	--	31,153
Related allowance	4,895	--	--	--	4,895
Average investment	28,965	--	--	--	28,965
Interest income recognized	$ --	$ --	$ --	$ --	$ --

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

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

	December 31, 2020				
	Real Estate	Agricultural	Commercial	Consumer	Total
Impaired performing:	$ 28,871	$ --	$ --	$ --	$ 28,871
Impaired nonperforming:					
Nonaccrual	1,361,903	--	--	--	1,361,903
Accruing troubled debt restructurings	--	--	--	--	--
Nonaccrual troubled debt restructurings	$ --	$ --	$ --	$ --	$ --

	December 31, 2019				
	Real Estate	Agricultural	Commercial	Consumer	Total
Impaired performing:	$ 31,153	$ --	$ --	$ --	$ 31,153
Impaired nonperforming:					
Nonaccrual	1,192,925	--	--	2,348	1,195,273
Accruing troubled debt restructurings	--	--	--	--	--
Nonaccrual troubled debt restructurings	$ --	$ --	$ --	$ --	$ --

NOTE 5 – BANK PREMISES AND EQUIPMENT

Following is a summary of bank premises and equipment at:

	December 31,	
	2020	2019
Land	$ 3,896,829	$ 3,174,034
Building and improvements	11,534,662	11,334,699
Furniture and equipment	6,309,665	5,933,235
	21,741,156	20,441,968
Less accumulated depreciation	(11,357,970)	(10,724,438)
	$ 10,383,186	$ 9,717,530

NOTE 6 – OTHER ASSETS

Following is a summary of Other Assets at:

	December 31, 2020	December 31, 2019
Deferred tax assets	$ 1,814,578	$ 1,640,982
Prepaid expenses	262,030	322,931
Repossessions and other assets	57,839	193,272
	$ 2,134,447	$ 2,157,185

NOTE 7 – DEPOSITS

Following is a summary of the bank deposits at:

	December 31, 2020	December 31, 2019
Non-interest bearing	$ 137,470,033	$ 94,250,674
Interest bearing demand	91,893,401	85,450,167
Savings deposits	163,911,639	140,367,720
Certificates of deposit	30,200,727	32,687,988
	$ 423,475,800	$ 352,756,549

At December 31, 2020, the maturity distribution of certificates of deposit is as follows:

2021	$ 23,942,985
2022	3,953,465
2023	1,413,721
2024	413,358
2025 and thereafter	477,198
	$ 30,200,727

NOTE 8 - INCOME TAXES

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

	December 31, 2020	December 31, 2019
Income tax expense:		
Federal	$ 935,872	$ 1,436,764
State	337,722	362,704
	1,273,594	1,799,468
Deferred federal and state	(173,597)	(37,086)
	$ 1,099,997	$ 1,762,382

NOTE 8 - INCOME TAXES (continued)

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

	December 31, 2020	December 31, 2019
Tax based on the statutory rate	$ 1,801,286	$ 1,648,388
Effect of tax-exempt income	(623,151)	(473,444)
Nondeductible expenses and other	(78,138)	587,438
	$ 1,099,997	$ 1,762,382

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

	December 31, 2020	December 31, 2019
Differences for supplemental retirement plans	$ 609,996	$ 575,964
Differences in accounting for loan losses	1,191,009	1,055,682
Other	13,573	9,336
	$ 1,814,578	$ 1,640,982

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

NOTE 9 - RETIREMENT PLANS

The Banks sponsor a 401(K) Plan in which substantially all employees may participate. Participants may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Banks contribute to employees based on a percentage of their annual salary. The Banks expense for the plan was $276,624 for 2020 and $269,985 for 2019.

The Banks have supplemental retirement plans for key executives. These plans are non-qualified defined benefit plans and are unsecured and unfunded. The Banks have purchased insurance on the lives of the participants and intend to hold these policies until death as a cost recovery of the Banks retirement obligations. The cash values of the insurance policies purchased to fund the deferred compensation obligations and the retirement obligations were $4,756,696 and $4,652,598 at December 31, 2020 and 2019, respectively.

NOTE 10 – NON-INTEREST EXPENSE

Non-interest expense consisted of the following at:

	December 31, 2020	December 31, 2019
Salaries and wages	$ 5,349,265	$ 4,703,450
Repairs and maintenance	221,898	314,558
Rents	61,499	52,891
Payroll taxes	310,577	304,745
Property taxes	153,888	133,500
Advertising	375,750	330,320
Pension and profit sharing	883,983	838,619
Other employee benefits	380,024	456,880
Audit and examination	507,622	568,232
Branch expenses	55,817	130,859
Professional and legal services	1,384,083	1,387,314
Dues and subscriptions	314,156	251,349
Education	96,333	96,074
Bank equipment	182,938	179,280
Depreciation	633,529	570,886
Insurance	115,826	141,893
Other real estate owned and repossessions	7,047	70,121
Postage	166,383	182,671
Data processing	1,069,667	1,114,121
Office	164,462	241,002
Utilities	222,459	140,611
Other	287,016	212,509
	$ 12,944,222	$ 12,421,885

NOTE 11 – SHAREHOLDERS' EQUITY

Dividends:

The amount of dividends the Banks pay up to the Holding Corporation is set at 80% of net profits.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Corporation may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Restrictions on lending from subsidiary to parent:

Federal law imposes certain restrictions limiting the ability of the Banks to transfer funds to the Corporation in the forms of loans or advances. Section 23A of the Federal Reserve Act prohibits the Banks from making loans or advances to the Corporation in excess of 10 percent of its capital stock and surplus, as defined therein. There were no loans or advances outstanding at December 31, 2020 and 2019.

NOTE 11 – SHAREHOLDERS' EQUITY (continued)

Capital:

The Corporation and the Banks are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators, which if undertaken, could have a direct material effect on the Corporation, Banks and the consolidated financial statements.

On January 1, 2020, the Corporation and the Banks elected to opt into the Community Bank Leverage Ratio (CBLR) framework. The framework is a product of Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The CBLR framework is an optional framework that is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations.

A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. It also cannot be an advanced approaches institution.

Qualifying community banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9 percent are considered to have satisfied the risk-based and leverage capital requirements in the agencies' generally applicable capital rule. Additionally, such insured depository institutions are considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act.

The final rule adopts Tier 1 capital and the existing leverage ratio into the community bank leverage ratio framework. The tier 1 numerator takes into account the modifications made in relation to the capital simplifications and current expected credit losses methodology (CECL) transition rules as of the compliance dates of those rules.

A CBLR bank that ceases to meet any qualifying criteria in a future period that has a leverage ratio greater than 8% will be allowed a grace period of two reporting periods to satisfy the CBLR qualifying criteria or comply with the generally applicable capital requirements. A CBLR bank may opt out of the framework at any time, without restriction, by reverting to the generally applicable risk-based capital rule.

The Corporation's and the Banks' Community Bank Leverage Ratio are as follows for December 31, 2020:

Consolidated	16.07%
Bank subsidiaries	13.26%

Under previous regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Banks must meet specific capital guidelines involving quantitative measures of the Corporation's and the Banks' assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Corporation's and the Banks' capital amounts and classification under the prompt corrective action guidelines are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Corporation and the Banks to maintain minimum amounts and ratios of total, Tier 1, and common equity Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to average assets. Management believes, as of December 31, 2019, that the Corporation and the Banks meet all the capital adequacy requirements to which they are subject.

The following table presents actual and required capital ratios as of December 31, 2019 for the Corporation and the Banks under Basel III Capital Rules. The minimum capital amounts presented include the minimum required capital as of December 31, 2019 based on the phased in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

NOTE 11 – SHAREHOLDERS' EQUITY (continued)

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

	Actual		Minimum Capital Required – Basel III Phase in Schedule		Required To Be Considered Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2019:						
Total capital (to risk-weighted assets)						
Consolidated	$ 76,565	29.48%	$ 27,270	10.50%	N/A	N/A
Bank subsidiaries	$ 65,011	25.44%	$ 26,835	10.50%	$ 25,560	10.00%
Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 73,286	28.22%	$ 22,075	8.50%	N/A	N/A
Bank subsidiaries	$ 61,732	24.15%	$ 21,725	8.50%	$ 20,450	8.00%
Common Equity Tier 1 Capital (to risk weighted assets)						
Consolidated	$ 73,286	28.22%	$ 18,180	7.00%	N/A	N/A
Bank subsidiaries	$ 61,732	24.15%	$ 17,890	7.00%	$ 16,615	6.50%
Tier 1 capital (to average assets)						
Consolidated	$ 73,286	16.85%	$ 17,400	4.00%	N/A	N/A
Bank subsidiaries	$ 61,732	14.33%	$ 17,235	4.00%	$ 21,550	5.00%

NOTE 12 – COMMITMENTS AND CONTINGENCIES

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

The Banks are selling mortgage loans to the secondary market, which they are contingently liable for repurchase for a period of up to six months from the date of sale. The contingency covers certain documentary and performance requirements. As of December 31, 2020, and 2019, loans subject to this contingent liability totaled $15,572,947 and $7,299,612 respectively.

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

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

	December 31,	
	2020	2019
Commitments to extend credit	$ 31,254,183	$ 26,037,374
Letters of credit	$ 433,000	$ 261,000

NOTE 12 – COMMITMENTS AND CONTINGENCIES (continued)

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

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

The Banks have not been required to perform on any financial guarantees during the past two years. The Banks have not incurred any losses on its commitments in either 2020 or 2019.

The Corporation has a $5,000,000 line of credit, of which $5,000,000 was unused at December 31, 2020. Advances on the credit line are payable at maturity, December 1, 2021, and carry an interest rate of 1% over the national prime rate. The credit line is secured by a stock pledge of the subsidiaries.

NOTE 13 - SIGNIFICANT CONCENTRATION OF CREDIT RISK

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

At December 31, 2020 and 2019, the Banks maintained a diversified loan portfolio. The Banks, as a matter of policy, generally do not extend credit to any single borrower or group of related borrowers more than 20% of the subsidiaries capital. State charted banks in New Mexico are limited to loaning up to 35% of capital to one borrower.

NOTE 14 – TRANSACTIONS WITH RELATED PARTIES

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

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

	December 31, 2020	December 31, 2019
Beginning Balance	$ 4,967,097	$ 4,317,519
New Loans	16,185	2,346,035
Repayments	(670,334)	(1,696,457)
Ending Balance	$ 4,312,948	$ 4,967,097

The deposits from executive officers and directors totaled $16,576,369 at December 31, 2020 and $13,129,820 at December 31, 2019.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

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

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

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

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

There were no assets or liabilities that were accounted for or disclosed at fair value on a recurring basis.

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

		Fair Value Measurements		
	Fair Value	Level 1	Level 2	Level 3
December 31, 2020				
Foreclosed real estate	$ 104,118	$ --	$ --	$ 104,118
Impaired loans	$ 1,388,153	$ --	$ --	$ 1,388,153
December 31, 2019				
Foreclosed real estate	$ 180,000	$ --	$ --	$ 180,000
Impaired loans	$ 1,219,183	$ --	$ --	$ 1,219,183

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

			Fair Value Measurements		
	Carrying Value	Fair Value	Level 1	Level 2	Level 3
December 31, 2020:					
Financial assets					
Cash and equivalents	$ 143,842,558	$ 143,842,558	$ 143,842,558	$ --	$ --
Investment securities	121,258,539	125,396,824	--	125,396,824	--
Restricted stock	249,805	249,805	--	--	249,805
Loans	231,121,850	228,810,632	--	--	228,810,632
Interest receivable	2,829,343	2,829,343	2,829,343	--	--
Financial liabilities					
Deposits	423,475,800	423,080,016	--	--	423,080,016
Interest payable	27,646	27,646	27,646		
Credit commitments	$ 316,872	$ 298,937	$ --	$ --	$ 298,937
December 31, 2019:					
Financial assets					
Cash and equivalents	$ 84,604,801	$ 84,604,801	$ 84,604,801	$ --	$ --
Investment securities	123,351,158	125,639,867	--	125,639,867	--
Restricted stock	249,805	249,805	--	--	249,805
Loans	212,991,335	200,279,482	--	--	200,279,482
Interest receivable	2,720,950	2,720,950	2,720,950	--	--
Financial liabilities					
Deposits	352,756,549	352,327,856	--	--	352,327,856
Interest payable	46,211	46,211	46,211	--	--
Credit commitments	$ 262,984	$ 248,099	$ --	$ --	$ 248,099

NOTE 15 - FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

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

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

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

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

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

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

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

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

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

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

SUPPLEMENTARY INFORMATION

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATING BALANCE SHEET

DECEMBER 31, 2020

	First New Mexico Financial Corporation	First New Mexico Bank			
		Deming	Las Cruces	Silver City	Consolidated*
ASSETS					
Cash and due from banks	$ 11,846,720	$ 58,631,609	$ 42,330,340	$ 43,714,034	$143,842,558
Investment securities	--	64,236,768	20,082,631	36,939,140	121,258,539
Investment in subsidiaries	62,865,200	--	--	--	--
Loans and leases, net	2,824,072	107,129,669	68,045,414	47,806,510	225,805,665
Bank premises and equipment, net	849,690	3,384,043	4,707,758	1,441,695	10,383,186
Interest receivable	--	1,654,621	565,953	608,769	2,829,343
Other real estate owned	--	--	104,118	--	104,118
Bank owned life insurance	--	2,714,428	666,054	1,376,214	4,756,696
Other assets	1,418,378	827,539	699,574	555,649	2,134,447
Total Assets	$ 79,804,060	$238,578,677	$137,201,842	$132,442,011	$511,114,552
LIABILITIES AND STOCKHOLERS' EQUITY					
Deposits	$ --	$205,544,810	$116,061,415	$114,549,720	$423,475,800
Accrued interest payable	--	6,903	15,543	5,200	27,646
Other liabilities	2,436,341	2,619,835	3,392,999	3,160,905	10,243,387
Total Liabilities	2,436,341	208,171,548	119,469,957	117,715,825	433,746,833
Common stock, $10 par value Authorized – 1,000,000 shares Issued – 52,558 shares	525,580	1,200,000	4,000,000	500,000	525,580
Capital surplus	--	2,800,000	3,000,000	1,800,000	--
Retained earnings	76,842,139	26,407,129	10,731,885	12,426,186	76,842,139
Accumulated other comprehensive income	--	--	--	--	--
Treasury stock – 0 shares	--	--	--	--	--
Total Stockholders' Equity	77,367,719	30,407,129	17,731,885	14,726,186	77,367,719
Total Liabilities and Stockholders' Equity	$ 79,804,060	$238,578,677	$137,201,842	$132,442,011	$511,114,552

*-contains eliminating entries

FIRST NEW MEXICO FINANCIAL CORPORATION

CONSOLIDATING STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 2020

	First New Mexico Financial Corporation	First New Mexico Bank			
		Deming	Las Cruces	Silver City	Consolidated*
Interest income:					
Interest and fees on loans	$ 145,479	$ 6,649,010	$ 5,261,991	$ 4,772,013	$ 16,828,493
Interest on investment securities	--	1,683,211	557,262	1,003,566	3,244,039
Interest on deposits in banks	20,060	351,216	120,531	91,918	583,725
	165,539	8,683,437	5,939,784	5,867,497	20,656,257
Interest expense:					
Interest on deposits	--	295,371	320,316	180,220	795,907
Interest on borrowed funds	--	--	--	--	--
	--	295,371	320,316	180,220	795,907
Net interest income	165,539	8,388,066	5,619,468	5,687,277	19,860,350
Provision for loan losses	--	514,000	100,000	120,000	734,000
Net interest income after provision for loan losses	165,539	7,874,066	5,519,468	5,567,277	19,126,350
Other noninterest income:					
Service fees	--	613,344	354,506	183,428	1,151,278
Other income	--	307,053	62,173	167,937	504,624
	--	920,397	416,679	351,365	1,655,902
Noninterest expenses:					
Salaries and employee benefits	239,495	2,216,156	2,301,463	2,168,112	6,925,226
Occupancy expenses	--	450,789	371,379	227,967	1,050,135
Other operating expenses	278,000	2,221,483	1,148,809	1,353,108	4,968,861
	517,495	4,888,428	3,821,651	3,749,187	12,944,222
Net income before income taxes	(351,956)	3,906,035	2,114,496	2,169,455	7,838,030
Federal and state income taxes	(78,000)	656,846	233,716	287,435	1,099,997
Net income (loss)	$ (273,956)	$ 3,249,189	$ 1,880,780	$ 1,882,020	$ 6,738,033

*-contains eliminating entries

DEMING

SILVER CITY

LAS CRUCES

COLUMBUS

ANTHONY

LOS LUNAS

ALBUQUERQUE

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