



Union BancShares, Inc. and its subsidiary



April 16, 2019

DEAR SHAREHOLDER,

We are pleased to present this report of performance for Union BancShares, Inc. and its subsidiary, FNB New Mexico for 2018. The Bank's financial performance was quite strong during the course of 2018 in addition to the achievement of many other goals and milestones. FNB New Mexico continues to be an integral part of each community that we serve by contributing to the vitality of our local and regional economies by way of providing services and access to capital directly to the individual consumers and businesses where our customers live and work. This is a legacy of which we are proud and committed to continue.

We are excited to announce that during 2018, FNB New Mexico converted the successful and profitable loan production office in Dalhart, TX into a full service branch complete with a beautiful building and an excellent staff that will emanate the preeminence we desire for all branches. In addition, all of the staff bank-wide continues to invest directly in our communities with their time, talents, and financial resources through a wide array of avenues on a daily basis.

The Bank's solid financial performance in 2018 was driven by robust growth of both loans and deposits. Total Assets at the end of 2018 were \$253,948,020 with loans at \$179,549,059 representing an increase in the loan portfolio of over \$12,000,000. Total Deposits grew by almost \$18,000,000 during the year to end at \$228,618,518 while Total Capital increased by \$3,272,735 to close out 2018 at \$24,885,853.

The growth in loans and deposits fueled strong earnings so that 2018 was the most profitable year in the history of operation for FNB New Mexico. Net Income for 2018 was \$2,997,735 marking an increase of almost \$385,000 over the prior year. This was achieved while

simultaneously increasing the Allowance for Possible Loan Losses by just under \$340,000 to end the year at 1.29% of Total Loans. Net Income per share of common stock for FNB New Mexico was \$29.98. Income per share of common stock for UnionBancShares, Inc. was \$77.00, and its book value per share increased by \$42.85 to end 2018 at a value of \$562.88 per share after paying dividends totaling \$1,725,000.

These financial metrics were attainable because of our resolute commitment to our core values of integrity, loyalty, teamwork, caring, and dedication. We are devoted to being the premier source for financial services in the markets we serve by setting the highest standards for excellence and by being responsive to our customers in order to build trust and confidence for generations.

FNB New Mexico is positioned for solid future growth and profitability and will continue to deliver compelling results for you – our shareholders. We look forward to a bright future for 2019 and beyond and we greatly appreciate your support.

Sincerely,

The Board of Directors of Union BancShares, Inc.
and FNB New Mexico



Your Community Bank



"We work hard to meet the banking needs of our customers and we also participate in a lot of community events. We do cookouts, sit on local organizations/boards and we attend and sponsor as many local events as humanly possible."

Garrett Baker

Garrett Baker's family has been ranching in Northeast New Mexico since the early 1900s. While he spends his days behind a desk as the Branch Manager for the Tucumcari and Logan offices and is a Senior Vice President and Loan Officer for the bank, Garrett also balances ranch life in his busy schedule. Garrett says, "I get my exercise chasing kids, working cows, riding horses, and roping in the evenings and on weekends."

After 12 years with FNB, Garrett says he finds that helping people and organizations, meeting new faces, and working with area farmers and ranchers is the most rewarding part of his job. "We work hard to meet the banking needs of our customers and we also participate in a lot of community events. We do cookouts, sit on local organizations/boards and we attend and sponsor as many local events as humanly possible," says Garrett.

Garrett participates heavily in the community along with

his wife, Reisha and their two boys, always willing to pitch in and lend a hand when it comes to school activities, their local church congregation and the Walk to Emmaus. At home, the boys keep Reisha and Garrett on their toes riding, roping and playing in the dirt. They especially find joy in working together on the family ranch, a cow-calf operation located Northeast of Clayton.

Each Fall, you'll find Garrett at the Quay County Fair bidding on animals in the annual sale on behalf of FNB. Typically, FNB is able to purchase about eight animals each year at the Quay County Fair. He also represents The Bank in the Rotary Club and as part of the Economic Development Corporation. "All our officers and most staff are involved in charitable organizations like Rotary, Altrusa, Chamber of Commerce, they sit on City Councils and School Boards, participate in religious organizations, are volunteer fire fighters and much more. I appreciate FNB for encouraging staff to participate in our communities."

FNB New Mexico

STATEMENT OF CONDITION December 31, 2018 and 2017

ASSETS	2018	2017
Cash and Due From Banks	\$ 12,537,585	\$ 6,360,665
Investment Securities	40,740,217	40,167,538
Federal Funds Sold	0	0
Loans Net of Reserve	179,549,059	167,180,384
Bank Premises, Furniture and Fixtures	11,045,604	10,462,856
Goodwill	300,784	300,784
Other Real Estate Owned	616,219	728,496
Other Assets	9,158,552	8,512,318
TOTAL ASSETS	\$ 253,948,020	\$ 233,713,041

LIABILITIES AND CAPITAL	2018	2017
Deposits		
Demand	\$ 167,590,664	\$ 151,338,294
Savings	23,563,923	19,737,733
Time	37,463,931	39,750,571
TOTAL DEPOSITS	\$ 228,618,518	\$ 210,826,598
Borrowed Funds	\$ 676,528	\$ 775,691
Other Liabilities	1,221,160	1,148,280
Common Stock		
100,000 shares authorized and outstanding; \$12 par value	\$ 1,200,000	\$ 1,200,000
Surplus	8,800,000	6,800,000
Undivided Profits	14,885,853	13,613,118
TOTAL CAPITAL	\$ 24,885,853	\$ 21,613,118
Unrealized Gain(Loss) on AFS Securities	\$ (1,454,039)	\$ (650,646)
TOTAL LIABILITIES AND CAPITAL	\$ 253,948,020	\$ 233,713,041
Book Value per Share	\$ 248.86	\$ 216.13

FNB New Mexico

INCOME STATEMENT December 31, 2018 and 2017

OPERATING INCOME	2018	2017
Interest and Fees on Loans	\$ 10,662,512	\$ 8,920,151
Interest on Federal Funds Sold	100,263	59,579
Interest on Investments	969,622	1,085,094
Service Charges on Deposit Accounts	1,421,912	1,322,360
Other Operating Income	398,599	360,757
TOTAL OPERATING INCOME	\$ 13,552,908	\$ 11,747,941

OPERATING EXPENSES	2018	2017
Interest on Deposits	\$ 1,438,868	\$ 714,186
Salaries and Employee Benefits	4,809,335	4,394,696
Occupancy Expense	1,158,915	1,097,784
Other Operating Expenses	2,746,055	2,589,003
TOTAL OPERATING EXPENSES	\$ 10,153,173	\$ 8,795,669

Provisions for Loan Losses	\$ 402,000	\$ 339,274
NET INCOME(LOSS)	\$ 2,997,735	\$ 2,612,998
Net Income(Loss) per Share of Common Stock	\$ 29.98	\$ 26.13

FNB New Mexico

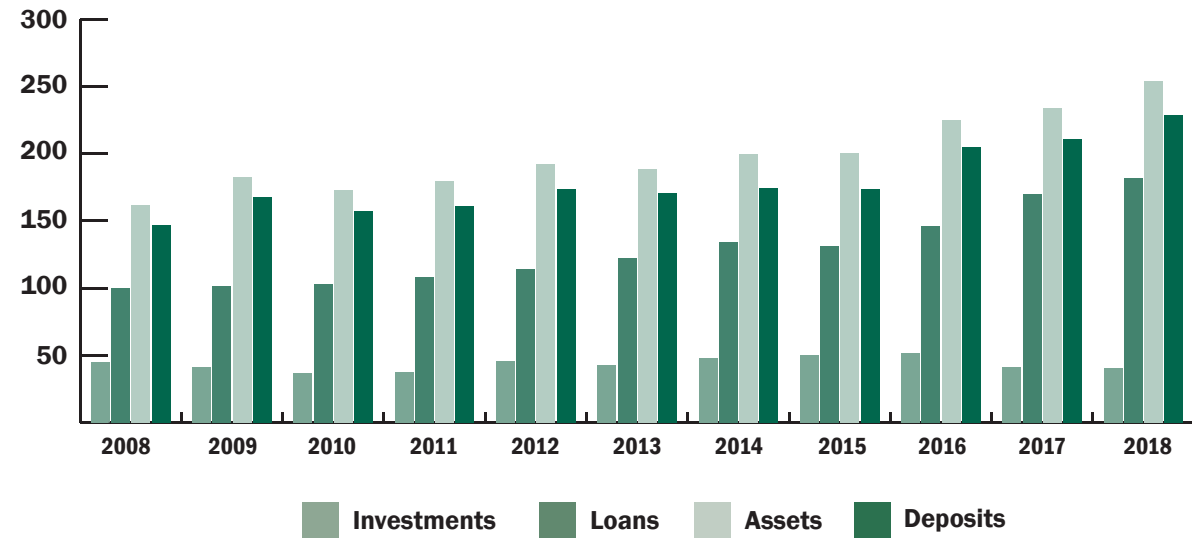
ALLOWANCE FOR POSSIBLE LOAN LOSSES December 31, 2018 and 2017

	2018	2017
Balance, beginning of year	\$ 1,977,916	\$ 1,762,262
Provision for Loan Losses	402,000	339,274
Recoveries on loans previously charged off	51,227	42,911
Loans Charged Off	(113,268)	(166,531)
BALANCE, END OF YEAR	\$ 2,317,875	\$ 1,977,916

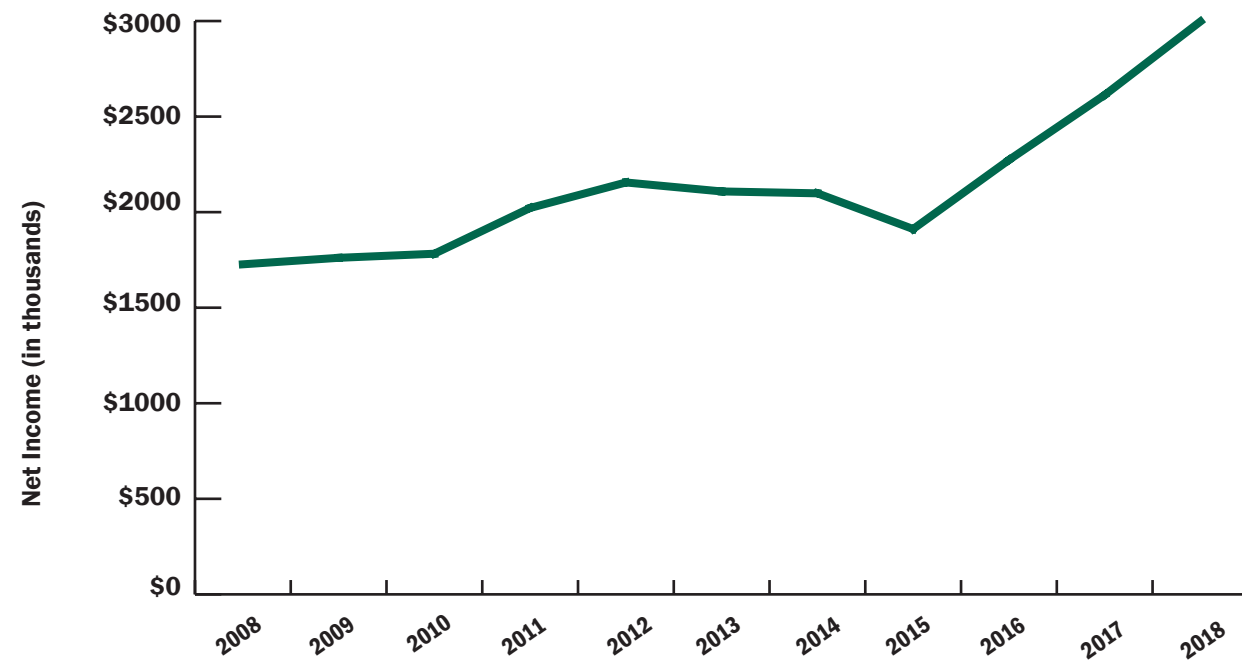
CHANGES IN STOCKHOLDERS' EQUITY EXCLUDING RESERVES

	COMMON STOCK	SURPLUS	UNDIVIDED PROFITS	TOTAL EQUITY
December 31, 2016	\$ 1,200,000	\$ 6,800,000	\$ 12,647,120	\$ 20,647,120
Adjustments				
Capital Contribution				
Net Income			\$ 2,612,998	\$ 2,612,998
Dividends			(1,647,000)	(1,647,000)
December 31, 2017	\$ 1,200,000	\$ 6,800,000	\$ 13,613,118	\$ 21,613,118
Adjustments				
Capital Contribution		\$ 2,000,000		\$ 2,000,000
Net Income			2,997,735	2,997,735
Dividends			(1,725,000)	(1,725,000)
December 31, 2018	\$ 1,200,000	\$ 8,800,000	\$ 14,885,853	\$ 24,885,853

INVESTMENTS, LOANS, DEPOSITS & TOTAL ASSETS



NET INCOME



“We love to promote local businesses and sponsor activities like the county fair and our school teachers, for example. But, I especially love that we are supportive of the Raton Humane Society.”

Candida Griego

Candida Griego loves dogs. She has 5 of them at home, all different sizes and breeds. So, when you ask Candida what she does outside of work hours, you can rest assured that it has something to do with her 4-legged friends:

- Turbo* (Husky mix)
- Daisy* (Shar Pei)
- Princess* (Husky mix)
- Paisley* (Shih Poo)
- Rockstar* (Chihuahua)

These five have her heart. During the day, though, Candida is the lead teller at our Raton Branch. She’s been at FNB for 7 years and says, “I love the operations side of the bank; the reporting, and maintenance on accounts is especially interesting to me.”

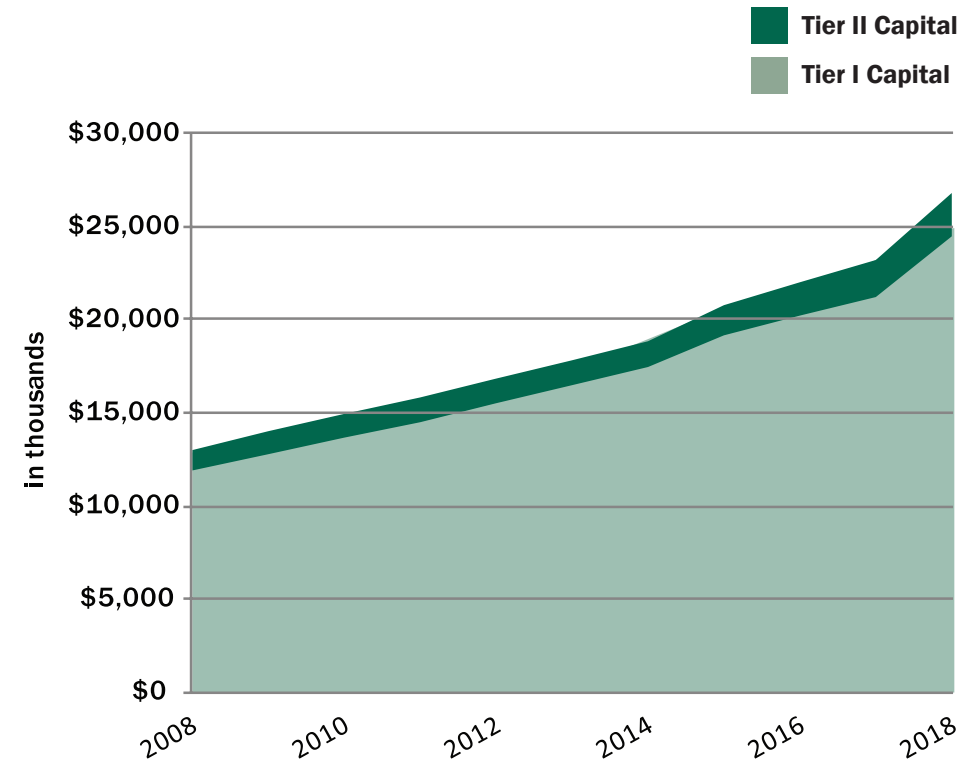
Customers typically find Candida at the drive-up window ready to greet them with a piece of candy or a treat for their

dog. “Our customers are the best. I love that our community is small enough that I recognize most of our customers by name and it’s always nice to visit with them for a minute while they do their bank business.”

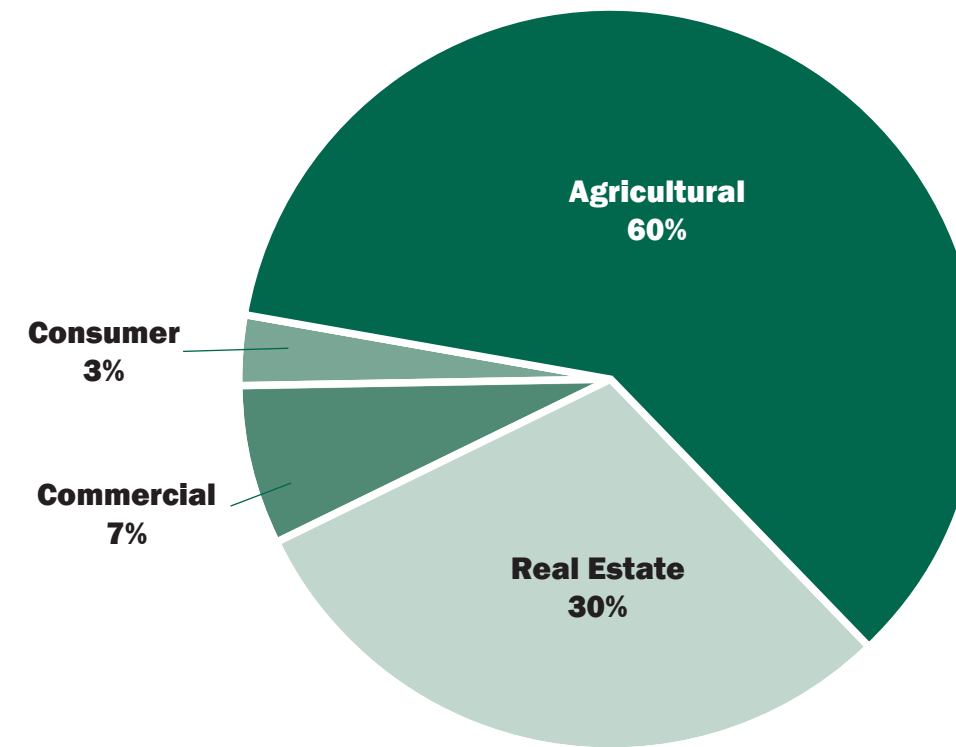
Candida grew up in Raton and she is really proud of FNB’s commitment to the community. “We love to promote local businesses and sponsor activities like the county fair and our school teachers, for example. But, I especially love that we are supportive of the Raton Humane Society,” she says.

When it’s time to go home after work, Candida likes to spend time with her 3-year-old nephew but with five pups at home you will definitely find her chasing them around the house and yard. Candida says, “I don’t have kids, so they’re like my babies. Turbo has his favorite toy. Daisy has anxiety. Princess is blind and deaf since birth, and Rockstar and Paisley are the babies of the family. They are each special to me.”

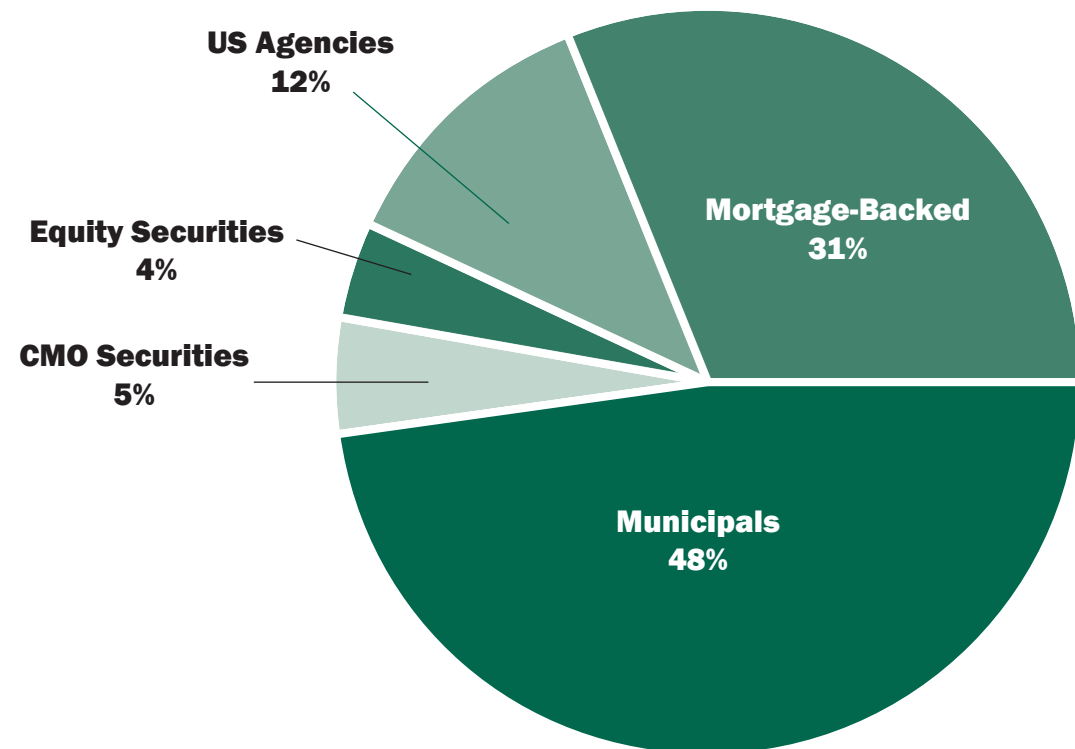
TIER 1 & TIER 2 CAPITAL



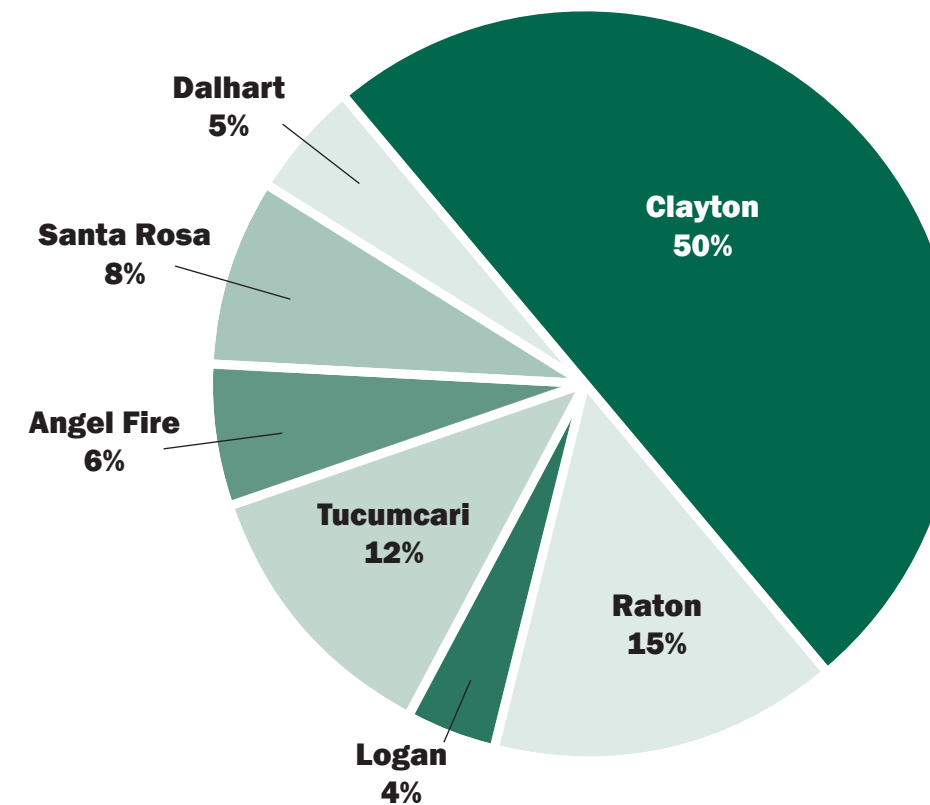
LOAN PORTFOLIO 12/31/2018



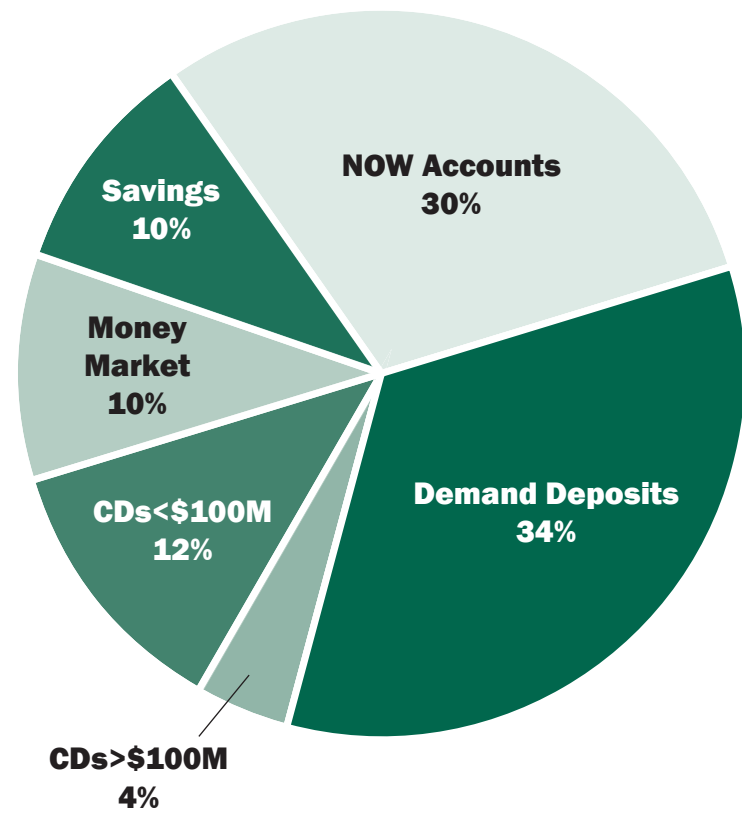
INVESTMENT PORTFOLIO 12/31/2018



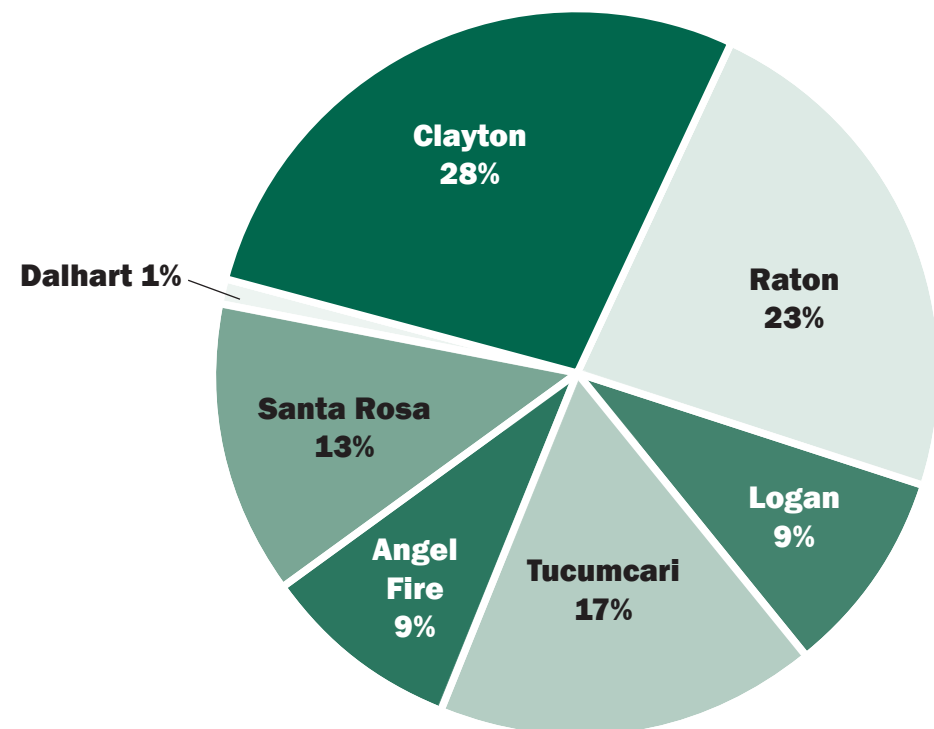
LOANS BY OFFICE 12/31/2018



DEPOSITS BY TYPE
12/31/2018



DEPOSITS BY OFFICE
12/31/2018



Union BancShares, Inc.

STATEMENT OF CONDITION
December 31, 2018 and 2017

ASSETS	2018	2017
Cash	\$ 44,920	\$ 51,612
Investment in Bank	23,431,814	20,962,472
Investment in UBS Statutory Trust I	93,000	93,000
Other Assets	98,889	98,889
TOTAL ASSETS	\$ 23,668,623	\$ 21,205,973

LIABILITIES AND CAPITAL	2018	2017
Notes Payable	\$ 2,229,000	\$ 485,000
Trust Preferred Securities	3,093,000	3,093,000
Accrued Interest Payable	60,229	31,415
Other Liabilities	39,587	45,990
TOTAL LIABILITIES	\$ 5,421,816	\$ 3,655,405

Common Stock, \$1 Par Value 100,000 shares authorized 35,000 shares outstanding	\$ 35,000	\$ 35,000
Surplus	1,075,550	1,075,550
Retained Earnings	18,590,296	17,090,664
TOTAL CAPITAL	19,700,846	\$ 18,201,214
Unrealized Gain(Loss) on AFS Securities	\$ (1,454,039)	\$ (650,646)

TOTAL LIABILITIES AND CAPITAL	\$ 23,668,623	\$ 21,205,973
Book Value Per Share	\$ 562.88	\$ 520.03

Union BancShares, Inc.

INCOME STATEMENT December 31, 2018 and 2017

INCOME	2018	2017
Interest Income	\$ 5,017	\$ 4,096
Dividend Income	1,725,000	1,647,000
Equity in Subsidiary - Undistributed Income	1,272,735	965,998
Other Income	0	0
TOTAL INCOME	\$ 3,002,752	\$ 2,617,094
EXPENSE		
Interest Expense	\$ 263,298	\$ 161,672
Operating Expense	44,572	65
TOTAL EXPENSE	\$ 307,870	\$ 161,737
NET INCOME(LOSS)	\$ 2,694,882	\$ 2,455,357
Income(Loss) per Share of Common Stock	\$ 77.00	\$ 70.15

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
December 31, 2016	\$ 35,000	\$ 1,075,550	\$ 15,879,207	\$ 16,989,757
Adjustment				
Net Earnings (Loss)			2,455,357	2,455,357
Income Distribution			(1,243,900)	(1,243,900)
December 31, 2017	\$ 35,000	\$ 1,075,550	\$ 17,090,664	\$ 18,201,214
Adjustment				
Net Earnings (Loss)			2,694,882	2,694,882
Income Distribution			(1,195,250)	(1,195,250)
December 31, 2018	\$ 35,000	\$ 1,075,550	\$ 18,590,296	\$ 19,700,846



"Our bank is known for great customer service, yes. But there is not one event that FNB does not give time and financial support to in our community. It's something I love about FNB."

Danielle Arellano

In 2000, Danielle Arellano, her husband Deano and their family started up an exciting tradition in Clayton, the Clayton Fishing Derby, also called the Biggest Little Fishing Derby in the State of NM. She says, "We loved seeing all the families getting together." Today, the Clayton Lake Trout Derby is a big draw for visitors from around the country.

Danielle is no stranger to participating in community events whether as a member of the FNB staff or with her family. "I've been married to Deano for 37 year and we have two daughters and a granddaughter. Together we enjoy camping, fishing, hunting, and hanging out together as a family." During the summer time you can find us out at the lake. Throughout the year, you can find Danielle at Saint Francis Xavier Church where she is a member. Additionally, Danielle and her family are actively involved in the annual production of the Viva New Mexico Music Festival.

"Our Bank is known for great customer service, yes. But there is not one event that FNB does not give time and financial support to in our community. It's something I love about FNB." As part of FNB's commitment to the community, Danielle points out the many events she participates in as part of the FNB and Clayton community: homecoming

parades, Cowbelles annual luncheon, teacher appreciation, 4th of July parade, rodeo and Lil Ears Jr. Rodeo for kids, the Union County Fair Pet Parade and Show, and send-offs for the schools participating in state tournaments. She says, "FNB gives goodie baskets for all the athletes and participating students of any activity. And, we all step outside to watch for the state-bound bus to drive by. It makes us so happy to see the smiles on the kids faces."

Danielle is FNB's Vice President of the Item Processing Department. She works with two other FNB staff members to process wire transfers, mobile banking deposits, rejects, exceptions, remote deposits, ACH, cash management, and balancing. "I have been in the banking business for 30 years, 27 of those with FNB New Mexico. I started as a drive up teller, working in all positions in bookkeeping and proof. I loved seeing all the customers," says Danielle.

She remembers fondly the days before high-tech banking when she used to hand-sort checks, "When I started we used to sort checks on the proof machine, count checks in the statements, we did everything in-house and by hand. Thank goodness for new technology! It has helped our Bank become highly advanced in the banking industry."

Union BancShares, Inc.

BOARD OF DIRECTORS

J. David Williams
Chairman of the Board

Stanley E. Manske
Craig L. Reeves

Brian Pohlmeier
Viola C. Reeves



NEW MEXICO
Your Community Bank

BOARD OF DIRECTORS

Viola C. Reeves
Chairman of the Board

James Burns
Brian Moore
Craig L. Reeves

Stanley E. Manske
Brian Pohlmeier
J. David Williams



The First National Bank in Clayton was founded in 1964. In 1996 The Bank was renamed The First National Bank of New Mexico in preparation for expansion to other New Mexico locations. In 2015, The First National Bank of New Mexico became FNB New Mexico. Although we have a new name, we're still the same great bank.

A single office operated in Clayton until 1998 when the Raton office was opened. In 1999, offices in Logan and Tucumcari were purchased, and in the Spring of 2003 the Angel Fire office was opened. The Santa Rosa office soon followed in October 2008. In 2018, FNB opened our first branch in Texas, FNB Dalhart.



In 2018, we celebrated 20 years of service in Raton, 10 years of service in Santa Rosa, and our first year at our new location in Dalhart.



NEW MEXICO
Your Community Bank

Viola C. Reeves, Chairman of the Board
Craig L. Reeves, President & Chief Executive Office
Gina R. Windle, Chief Financial Officer & Cashier
David Prather, Executive Vice President
Dawson Higgins, Senior Vice President & Chief Credit Officer
John Duff, Executive Vice President & Chief Investment Officer

ANGEL FIRE OFFICE

Susan Peterson, Vice President
Cindy Ward, Assistant Cashier

CLAYTON OFFICE

Jeannie Montoya, Vice President
Debbie Reeves, Vice President
Karena Stewart, Vice President
Jojo Rael, Assistant Cashier
Katherine Barnes, Assistant Cashier

DALHART

Tim Hatch, Vice President
Rebecca Hatch, Assistant Vice President

LOGAN OFFICE

Leslie Osborn, Vice President

RATON OFFICE

Donna Klassen, Senior Vice President
Tarin Giacomo, Vice President
Phalysha Kennedy, Vice President

SANTA ROSA OFFICE

Mary Ann Romero, Senior Vice President
Lisa Sena, Assistant Vice President & BSA Officer
Zach Pearson, Assistant Cashier

TUCUMCARI OFFICE

Garrett Baker, Senior Vice President
Kenton Perkins, Vice President
Amy Gutierrez, Assistant Cashier

ALBUQUERQUE LPO

John Heckendorn, Vice President

OPERATIONS DEPARTMENT

April Geary, Senior Vice President
Danielle Arellano, Vice President
Marty Stuart, Vice President & Network Administrator
Virginia-Rose McClure, Assistant Vice President
Annie Mitchell, Assistant Vice President & Security Officer



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Clayton, NM 88415
(575) 374-8315

DALHART

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LOGAN

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Logan, NM 88426
(575) 487-5000

RATON

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Raton, NM 87740
(575) 445-1400

TUCUMCARI

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Tucumcari, NM 88401
(575) 461-1100

SANTA ROSA

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Loan Production Office

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Albuquerque, NM 87120
(505) 869-6239

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MEMBER FDIC