

**Union BancShares, Inc.
and its subsidiary**



Annual Report 2017



NEW MEXICO
Your Community Bank

DEAR SHAREHOLDER,

FNB New Mexico is pleased to announce that in 2017 FNB had another outstanding year with record growth in loans, deposits and net income. We are thankful for the hard work of our employees and officers to accomplish these goals and for making FNB New Mexico the leading community bank in Northeast New Mexico.

FNB New Mexico's 2017 loan portfolio increased by \$22.8 million, and total deposits increased by \$6 million when compared to 2016 results. Total loans were \$167,180,384 and deposits were \$210,826,598 at year end 2017. Those increases, along with strategic bank changes produced a net income of \$2,612,998 for 2017.

FNB New Mexico's Net Income per share for the year was \$216.13, and the book value of Union BancShares, Inc.'s stock was \$520.03 at year end. This is after a distribution to shareholders of \$1,243,900.

We are excited to announce our entrance into the community of Dalhart, TX. For many years, we have had a strong banking presence in Dalhart. In 2017, we opened a Loan Production Office to begin building our loan portfolio and we plan to have a full service banking office opened by year end 2018.

FNB New Mexico continues to serve and invest in its communities in many ways.

- FNB New Mexico provided financial support to over 100 local activities in our banking locations.
- Our staff volunteered their time to help cook, organize events, hand out materials, decorate, serve meals, honor military heroes, welcome students back to school, cheer for local teams and so much more.
- We purchased 31 animals at eight county fairs in support of our agriculture-based heritage.
- FNB New Mexico completed the renovation of our headquarters in Clayton creating an attractive, fresh and modern look on the Main Street.

In 2018 we will continue to focus on building lasting banking relationships centered on integrity and trust. We will remain steadfast in our dedication to customers, employees, and shareholders by pursuing excellence and focusing on not only the numbers, but the individuals. We are a premier community bank with a very promising future and thank you for entrusting us with not only your investment, but your good faith.

The Members of the Board of Directors, officers, and staff would like to thank each of our shareholders, for your continued support, commitment, and confidence in FNB New Mexico.

Sincerely,

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

STATEMENT OF CONDITION
December 31, 2017 and 2016

ASSETS	2017		2016	
Cash and Due From Banks	\$	6,360,665	\$	14,094,765
Investment Securities		40,167,538		50,204,751
Federal Funds Sold		0		0
Loans Net of Reserve		167,180,384		144,389,432
Bank Premises, Furniture and Fixtures		10,462,856		10,124,119
Goodwill		300,784		300,784
Other Real Estate Owned		728,496		900,000
Other Assets		8,512,318		4,964,852
TOTAL ASSETS	\$	233,713,041	\$	224,978,703
LIABILITIES AND CAPITAL				
Deposits				
Demand	\$	151,338,294	\$	147,759,386
Savings		19,737,733		18,230,866
Time		39,750,571		38,580,810
TOTAL DEPOSITS	\$	210,826,598	\$	204,571,062
Borrowed Funds		775,691		870,046
Other Liabilities		1,148,280		725,955
TOTAL LIABILITIES	\$	212,750,569	\$	206,167,063
Common Stock				
100,000 shares authorized and outstanding; \$12 par value	\$	1,200,000		1,200,000
Surplus		6,800,000		6,800,000
Undivided Profits		13,613,118		12,647,120
TOTAL CAPITAL	\$	21,613,118	\$	20,647,120
Unrealized Gain(Loss) on AFS Securities		(650,646)		(1,835,480)
TOTAL LIABILITIES AND CAPITAL	\$	233,713,041	\$	224,978,703
Book Value per Share	\$	216.13	\$	206.47

INCOME STATEMENT
December 31, 2017 and 2016

OPERATING INCOME	2017	2016
Interest and Fees on Loans	\$ 8,920,151	\$ 7,901,688
Interest on Federal Funds Sold	59,579	29,246
Interest on Investments	1,085,094	1,113,671
Service Charges on Deposit Accounts	1,322,360	1,221,912
Other Operating Income	360,757	623,024
TOTAL OPERATING INCOME	\$ 11,747,941	\$ 10,889,541

OPERATING EXPENSES		
Interest on Deposits	\$ 714,186	\$ 487,904
Salaries and Employee Benefits	4,394,696	4,191,867
Occupancy Expense	1,097,784	1,030,848
Other Operating Expenses	2,589,003	2,419,273
TOTAL OPERATING EXPENSES	\$ 8,795,669	\$ 8,129,892

Provisions for Loan Losses	339,274	486,646
NET INCOME(LOSS)	\$ 2,612,998	\$ 2,273,003
Net Income(Loss) per Share of Common Stock	\$ 26.13	\$ 22.73

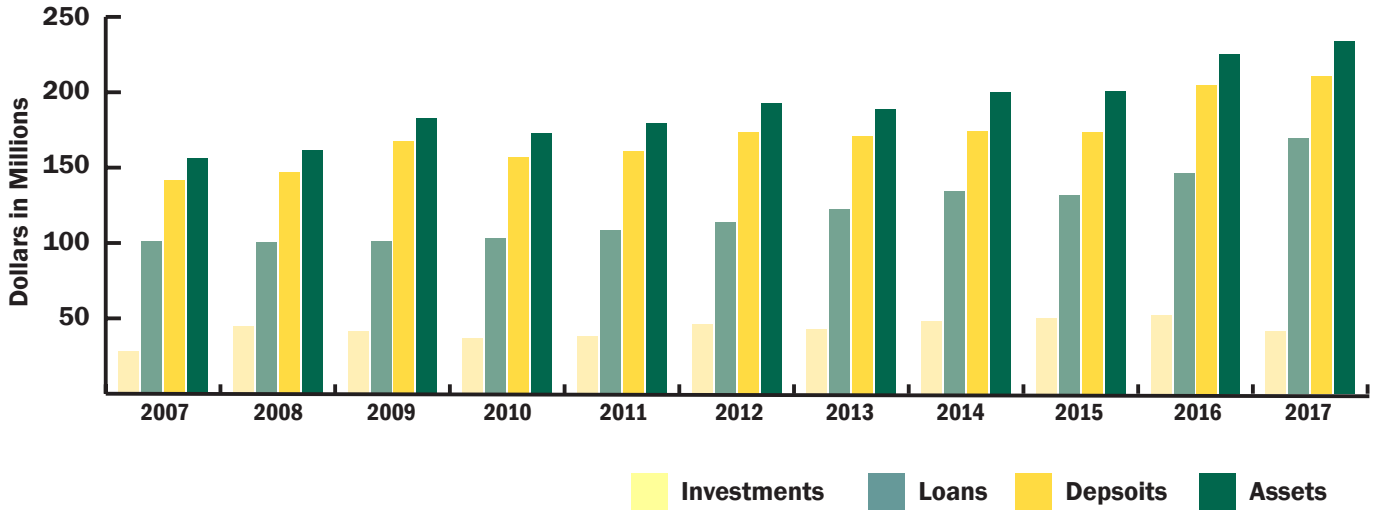
ALLOWANCE FOR POSSIBLE LOAN LOSSES
December 31, 2017 and 2016

	2017	2016
Balance, beginning of year	\$ 1,762,262	\$ 1,625,338
Provision for Loan Losses	339,274	486,646
Recoveries on loans previously charged off	42,911	56,151
Loans Charged Off	(166,531)	(405,873)
BALANCE, END OF YEAR	\$ 1,977,916	\$ 1,762,262

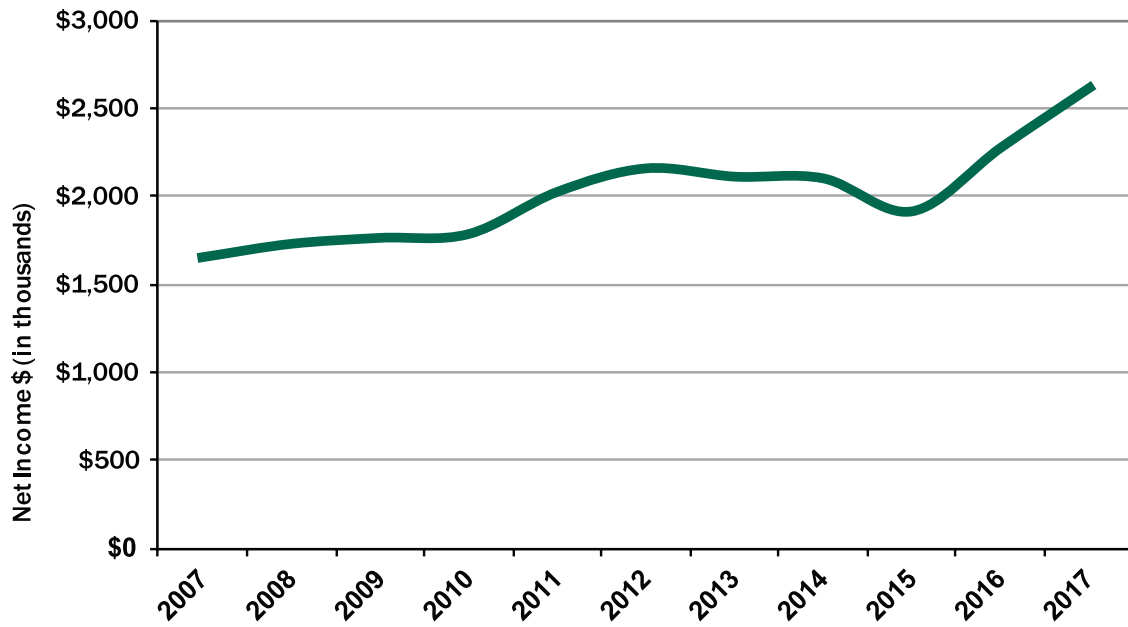
CHANGES IN STOCKHOLDERS' EQUITY EXCLUDING RESERVES

	COMMON STOCK	SURPLUS	UNDIVIDED PROFITS	TOTAL EQUITY
December 31, 2015	\$ 1,200,000	\$ 6,800,000	\$ 11,479,117	\$ 19,497,117
Adjustments				
Net Income			2,273,003	2,273,003
Dividends			(1,105,000)	(1,105,000)
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

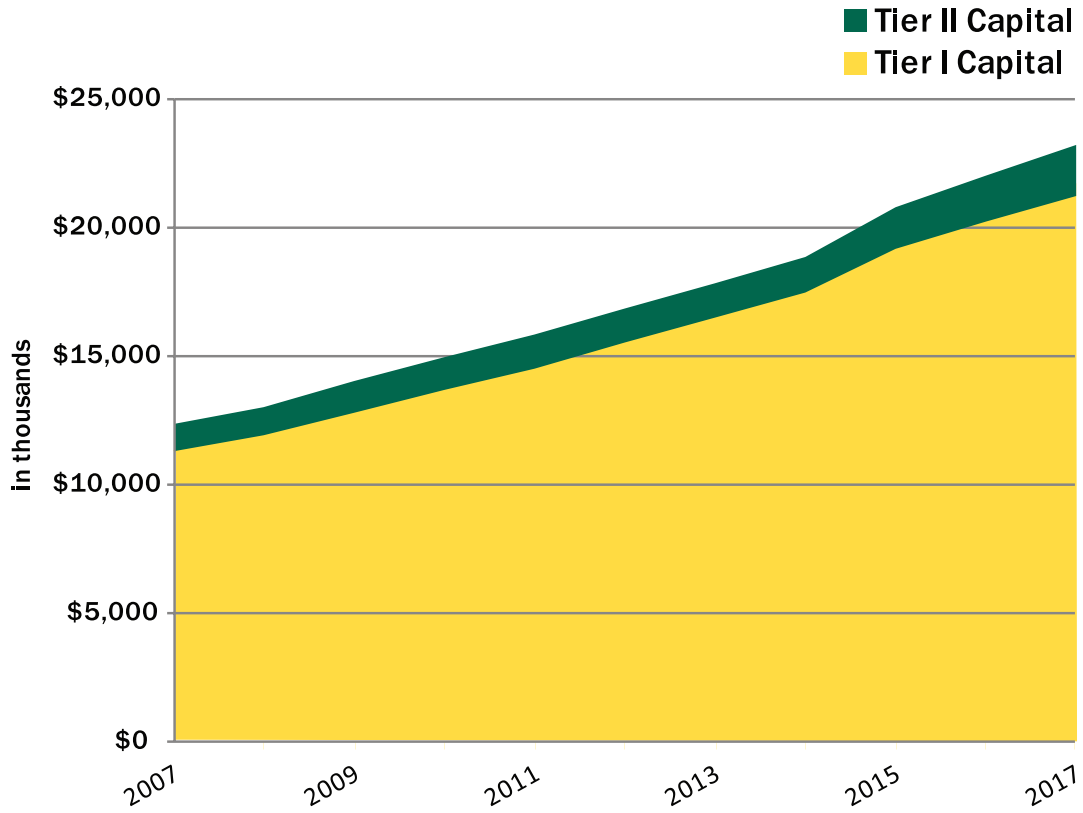
INVESTMENTS, LOANS, DEPOSITS & TOTAL ASSETS



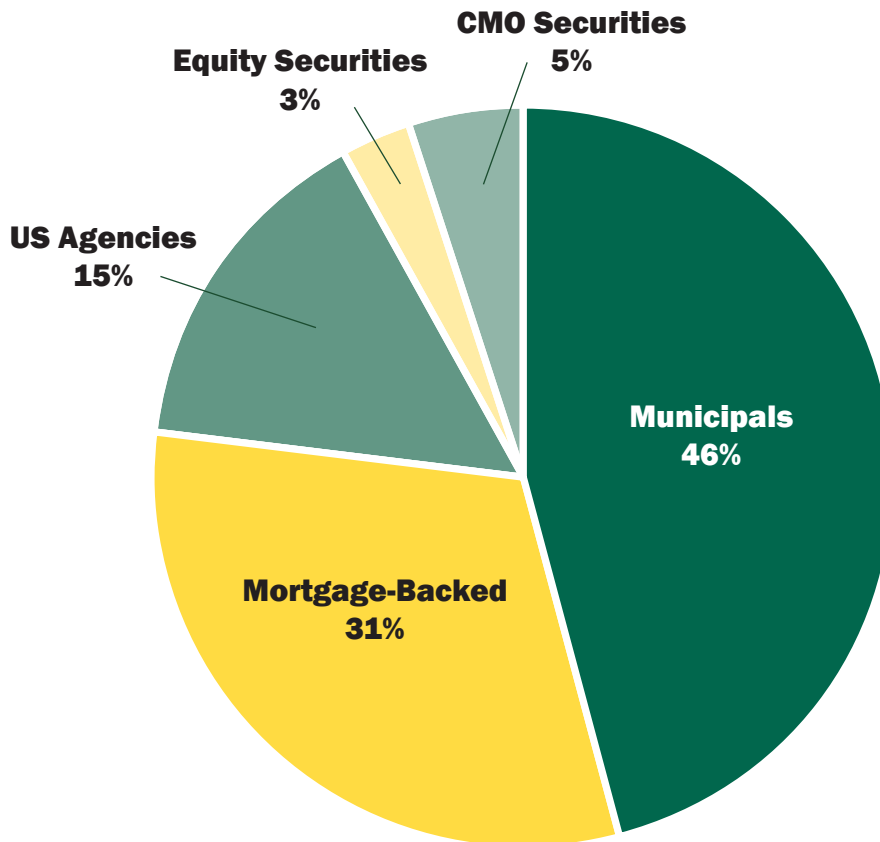
NET INCOME



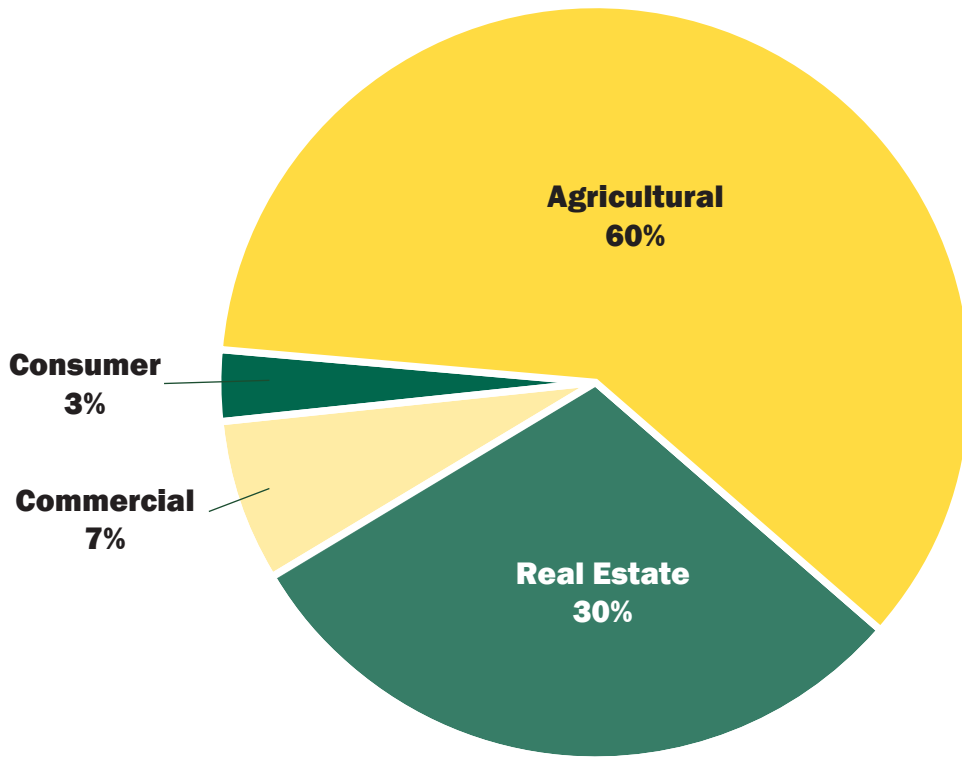
TIER 1 & TIER 2 CAPITAL



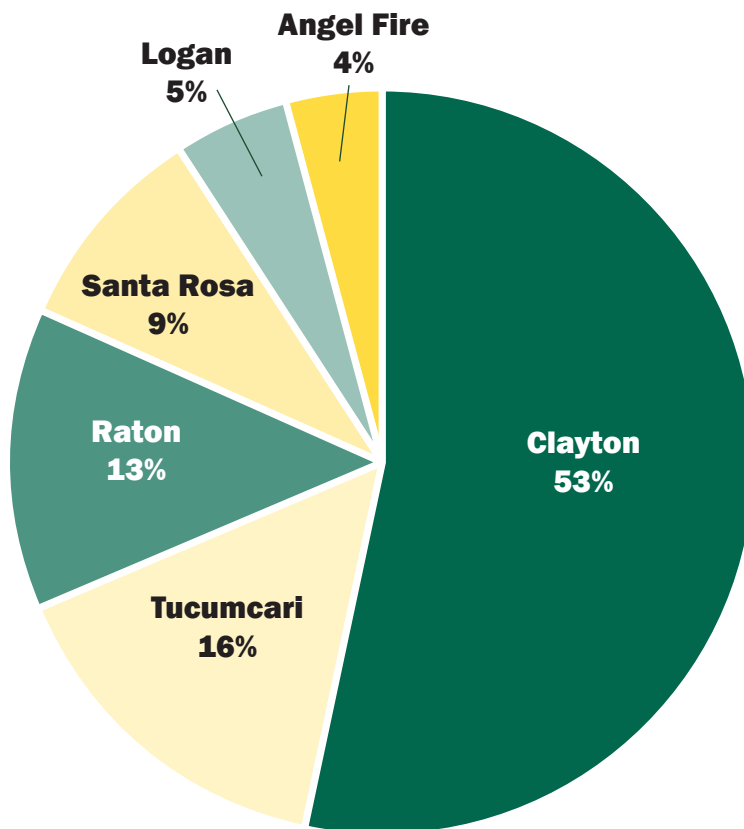
INVESTMENT PORTFOLIO 12/31/2017



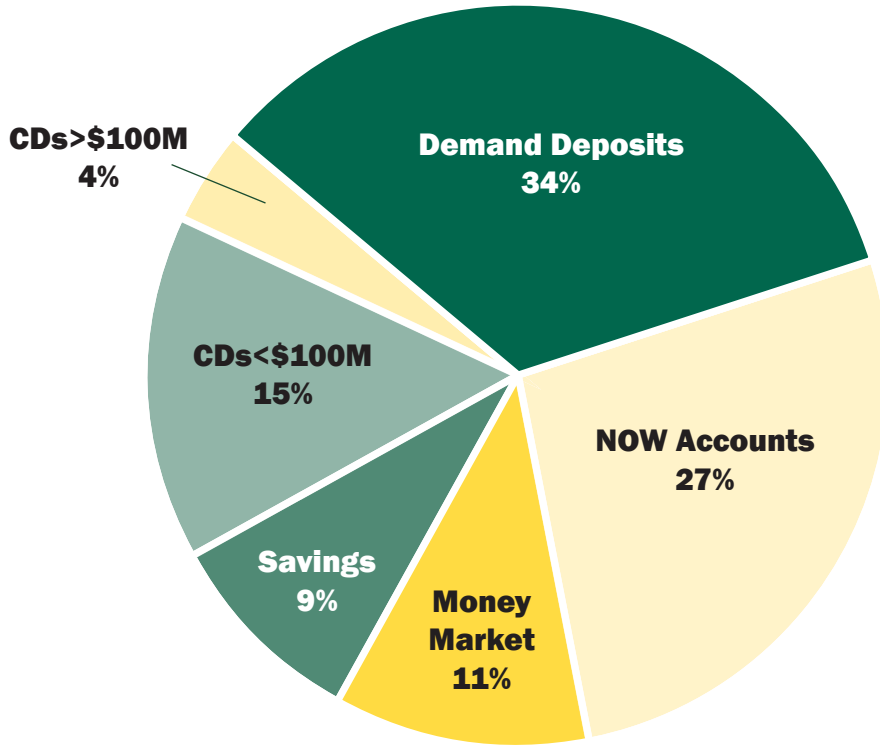
LOAN PORTFOLIO
12/31/2017



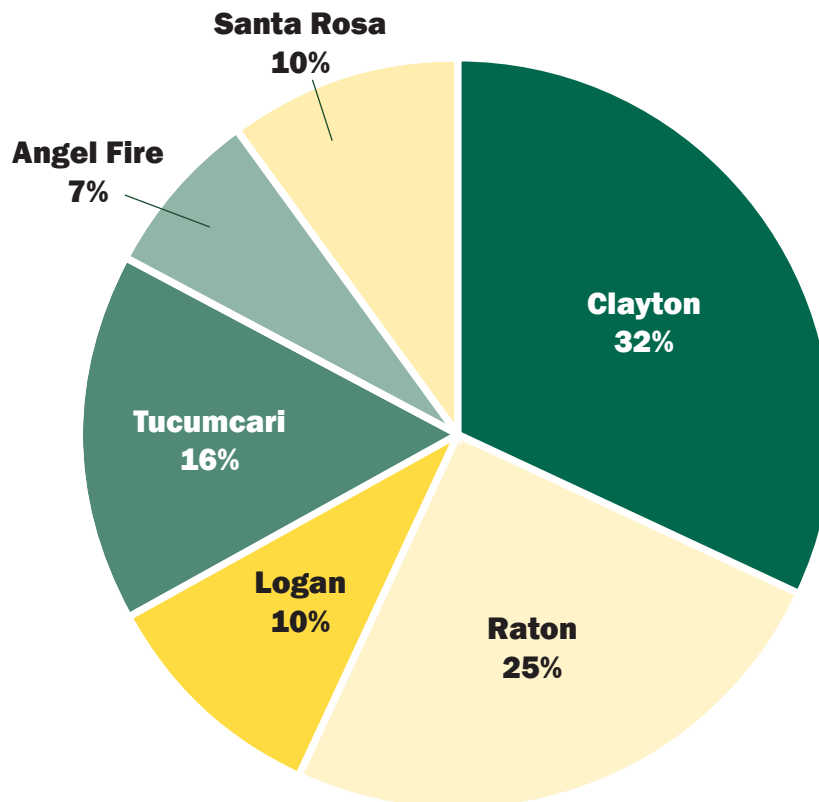
LOANS BY OFFICE
12/31/2017



DEPOSITS BY TYPE
12/31/2017



DEPSOITS BY OFFICE
12/31/2017



Union BancShares, Inc.

STATEMENT OF CONDITION

December 31, 2017 and 2016

ASSETS	2017	2016
Cash	\$ 51,612	\$ 43,844
Investment in Bank	20,962,472	18,811,639
Investment in UBS Statutory Trust I	93,000	93,000
Other Assets	98,889	98,889
TOTAL ASSETS	\$ 21,205,973	\$ 19,047,372
LIABILITIES AND CAPITAL		
Notes Payable	\$ 485,000	\$ 731,000
Trust Preferred Securities	3,093,000	3,093,000
Accrued Interest Payable	31,415	32,891
Other Liabilities	\$ 45,990	\$ 36,204
TOTAL LIABILITIES	\$ 3,655,405	\$ 3,893,095
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	17,090,664	15,879,207
TOTAL CAPITAL	\$ 18,201,214	\$ 16,989,757
Unrealized Gain(Loss) on AFS Securities	(650,646)	(1,835,480)
TOTAL LIABILITIES AND CAPITAL		\$ 21,205,973
Book Value Per Share	\$ 520.03	\$ 485.42

Union BancShares, Inc.

INCOME STATEMENT

December 31, 2017 and 2016

INCOME	2017	2016
Interest Income	\$ 4,096	\$ 3,623
Dividend Income	1,647,000	1,105,000
Equity in Subsidiary - Undistributed Income	965,998	1,168,002
Other Income	0	0
TOTAL INCOME	\$ 2,617,094	\$ 2,276,625
EXPENSE		
Interest Expense	\$ 161,672	\$ 154,433
Operating Expense	65	135
TOTAL EXPENSE	\$ 161,737	\$ 154,568
NET INCOME(LOSS)	\$ 2,455,357	\$ 2,122,057
Income(Loss) per Share of Common Stock	\$ 70.15	\$ 60.63

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	COMMON STOCK	SURPLUS	RETAINED EARNINGS	TOTAL EQUITY
December 31, 2015	\$ 35,000	\$ 1,075,550	\$ 14,458,875	\$ 15,569,425
Adjustment			25	25
Net Earning (Loss)			2,122,057	2,122,057
Income Distribution			(701,750)	(701,750)
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

Union BancShares, Inc.

BOARD OF DIRECTORS

Viola C. Reeves
Chairman of the Board

Stanley E. Manske
Craig L. Reeves

Brian Pohlmeier
J. David Williams



NEW MEXICO
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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



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, Senior Vice President & Chief Investment Officer

ANGEL FIRE OFFICE

Nita Jones, Vice President
Maria Sibley, Vice President

CLAYTON OFFICE

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

LOGAN OFFICE

Leslie Osborn, Vice President

ALBUQUERQUE LPO

Michael Sandoval, 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
Stephanie Avent, Assistant Vice President
Lisa Sena, Assistant Vice President & BSA
Officer

TUCUMCARI OFFICE

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

DALHART LPO

Tim Hatch, 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 Cashier & Security Officer

ANGEL FIRE

#1 First National Place
Angel Fire, NM 87710
(575) 377-3077

CLAYTON

201 Main Street
Clayton, NM 88415
(575) 374-8315

LOGAN

301 South US Highway 54
Logan, NM 88426
(575) 487-5000

RATON

1104 S. Second Street
Raton, NM 87740
(505) 445-1400

SANTA ROSA

2458 Historic Route 66
Santa Rosa, NM 88435
(575) 472-6000

TUCUMCARI

101E. Route 66 Blvd.
Tucumcari, NM 88401
(575) 461-1100

Loan Production Offices

ALBUQUERQUE

6330 Riverside Plaza LN NW, Unit 130
Albuquerque, NM 87120
505-869-6239 505-899-4028

DALHART

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P.O. Box 1849
Dalhart, TX 79022
806-244-3621