

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1994-05-13** | Period of Report: **1994-03-31**
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FILER

CHITTENDEN CORP /VT/

CIK: **200138** | IRS No.: **030228404** | State of Incorporation: **VT** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-07974** | Film No.: **94528249**
SIC: **6022** State commercial banks

Mailing Address
*2 BURLINGTON SQUARE
BURLINGTON VT 05401*

Business Address
*TWO BURLINGTON SQ P O
BOX 820
C/O STOCKHOLDER
RELATIONS
BURLINGTON VT 05401
802-660-4000*

May 13, 1994

Securities and Exchange Commission
450 5th Street
Washington, DC 20549

Re: Chittenden Corporation
Registration No. 0-7974
Quarterly Report (on Form 10-Q)

Gentlemen:

Pursuant to the requirements of Rule 13a-13 under the Securities Exchange Act of 1934, there is, appended to this transmittal, an electronic file of the quarterly report (on Form 10-Q) of Chittenden Corporation, Two Burlington Square, Burlington, VT 05401 for the three months ended March 31, 1994.

If you have any questions concerning this quarterly report, please telephone the undersigned at (802) 660-1410.

Kindly acknowledge receipt of this letter by Compuserve Email.

Thank you.

Very truly yours,

F. Sheldon Prentice
Secretary

FSP/jbo

Enclosures

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

For Three Months Ended March 31, 1994
Commission File Number 0-7974

CHITTENDEN CORPORATION

(Exact Name of Registrant as Specified in its
Charter)

Vermont 03-0228404
(State of Incorporation) (IRS Employer
Identification
No.)

Two Burlington Square 05401
Burlington, Vermont (Zip Code)

(Address of Principal Executive Offices)

Registrant's Telephone Number: (802) 658-4000

Not Applicable
Former Name, Former Address and

Formal Fiscal Year
If Changed Since Last Report

Indicate by checkmark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No _____

At March 31, 1994, there were 6,473,922 shares of the Corporation's \$1.00 par value common stock issued, with 6,227,446 shares outstanding.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

<TABLE>

Chittenden Corporation
Consolidated Balance Sheets (Unaudited)
<CAPTION>

	March 31, 1994	December 31, 1993
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
ASSETS		
Cash and Cash Equivalents	\$143,681	\$195,111
Investment Securities Available For Sale	196,238	-
Investment Securities Held For Sale (Market Value \$152,205,000 in 1993)	-	150,743
Investment Securities Held For Investment (Market Value \$10,629,000 in 1994; and \$2,250,000 in 1993)	10,796	2,250
Loans:		
Commercial	105,520	107,722
Real Estate:		
Residential	374,955	398,014
Commercial	206,559	206,601
Construction	12,237	13,747
Total Real Estate	593,751	618,362
Consumer	120,171	125,226
Total Loans	819,442	851,310
Less: Allowance for Possible Loan Losses	(18,985)	(18,917)
Net Loans	800,457	832,393
Mortgage Loans Held for Sale	5,205	11,646
Premises and Equipment	16,224	16,333
Accrued Interest Receivable	7,249	6,341
Other Real Estate Owned	1,642	2,619
Net Deferred Tax Asset	10,061	9,179
Other Assets	5,777	4,388
Total Assets	\$1,197,330	\$1,231,003
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Liabilities:
Deposits:

Demand	\$147,914	\$159,323
Savings	489,525	496,692
Time:		
Certificates of Deposit		
\$100,000 and Over	71,038	62,640
Other Time Deposits	309,519	316,109
Total Deposits	1,017,996	1,034,764
Short-Term Borrowings	60,726	79,078
Accrued Expenses and Other Liabilities	19,884	19,450
Total Liabilities	1,098,606	1,133,292
Stockholders' Equity:		
Common Stock - \$1 Par Value		
Authorized - 10,000,000 Shares		
Issued - 6,473,922 Shares in 1994;		
and 6,460,584 in 1993;	6,474	6,461
Surplus	51,418	51,228
Retained Earnings	45,818	43,056
Treasury Stock - At Cost, 246,476 Shares in 1994;		
248,129 in 1993;	(2,962)	(2,982)
Valuation Allowance for Net Unrealized Losses on		
Investment Securities Available for Sale	(1,886)	(21)
Unearned Portion of Employee Restricted Stock	(138)	(31)
Total Stockholders' Equity	98,724	97,711
Total Liabilities and Stockholders' Equity	\$1,197,330	\$1,231,003

Certain amounts for 1993 have been reclassified to conform with 1994 classifications.

</TABLE>

<TABLE>

Chittenden Corporation
Consolidated Statements of Income (Unaudited)
Three Months Ended March 31,

<CAPTION>

	1994	1993
	-----	-----
	(In Thousands)	
<S>	<C>	<C>
Interest Income:		
Loans	\$16,011	\$17,655
Investment Securities:		
Mortgage-Backed	553	732
Taxable	2,062	1,282
Tax-Favored Deb	249	280
Tax-Favored Equity	196	125
Short-Term Investments	141	50
Total Interest Income	19,212	20,124
Interest Expense:		
Deposits:		
Savings	2,965	3,135
Time:		
Certificates of Deposit \$100,000 and Over	607	643
Other Time Deposits	2,908	
Total Interest on Deposits	6,480	7,411
Short-Term Borrowings	476	428
Total Interest Expense	6,956	7,839
Net Interest Income	12,256	12,285
Provision for Possible Loan Losses	1,200	1,650
Net Interest Income After Provision		
For Possible Loan Losses	11,056	10,635
Noninterest Income:		
Trust Department Revenue	1,004	998

Service Charges on Deposit Accounts	957	963
Losses on Investment Securities	(18)	(54)
Mortgage Servicing Income	512	189
Gains on Sales of Mortgage Loans	535	1,559
Credit Card Income	1,713	1,109
Other	983	807
	-----	-----
Total Noninterest Income	5,686	5,571
	-----	-----
Noninterest Expense:		
Salaries	4,270	4,226
Employee Benefits	1,563	1,343
Net Occupancy Expense	1,442	1,465
FDIC Deposit Insurance	592	670
Losses On and Write-Downs of		
Other Real Estate Owned	(95)	218
Credit Card Expense	1,089	807
Other	2,829	3,452
	-----	-----
Total Noninterest Expense	11,690	12,181
	-----	-----
Income Before Income Taxes and Cumulative Effect of Change In Accounting Principle	5,052	4,025
Provision for Income Taxes	1,667	1,172
	-----	-----
Income Before Cumulative Effect of Change in Accounting Principle	3,385	2,853
	-----	-----
Cumulative Effect of Change in Accounting Principle	-	(575)
	-----	-----
Net Income	\$3,385	\$2,278
	=====	=====

Chittenden Corporation
Consolidated Statements of Income (Unaudited)
Three Months Ended March 31,
(Continued)

Earnings Per Share:

Before Cumulative Effect of Change In Accounting Principle	\$0.53	\$0.46
Cumulative Effect of Change In Accounting Principle	-	\$(0.09)
	-----	-----
Net Income	\$0.53	\$0.37
	=====	=====
Dividends Declared	\$0.10	\$0.04
Book Value	\$15.85	\$14.46
Weighted Average Common Shares Outstanding	6,223,006	6,199,108

</TABLE>

<TABLE>

Chittenden Corporation and Subsidiaries
Average Balances, Interest Income and Expense, and Average Rates (Unaudited)
For the Three Months Ended March 31,

<CAPTION>

	1994	
	Average	Average
	Balance	Yield/
		Rate (1)
	Interest	
	Income/	
	Expense (1)	
	(In Thousands)	
	<C>	<C>
<S>	<C>	<C>

ASSETS

Interest-Earning Assets:

Loans (2)	\$824,787	\$15,863	7.80%
Industrial Revenue Bonds (3)	10,244	217	8.59
Investments:			
Taxable	208,670	2,615	5.08
Tax-Favored Debt Securities	28,840	361	5.08
Tax-Favored Equity Securities	28,694	266	3.76
Interest-Bearing			
Deposits in Banks	2,266	18	3.22
Federal Funds Sold	15,000	123	3.33
	-----	-----	
Total Interest-Earning Assets	1,118,501	19,463	7.06

NonInterest-Earning Assets	95,163		
Allowance for Possible Loan Losses	(19,331)		

Total Assets	\$1,194,333		
	=====		

LIABILITIES AND STOCKHOLDERS' EQUITY

Interest-Bearing Liabilities:			
Savings and Interest-Bearing			
Transactional Accounts	502,057	2,965	2.40
Certificates of Deposit			
\$100,000 and Over	70,632	607	3.49
Other Time Deposits	312,847	2,908	3.77
	-----	-----	
Total Interest-Bearing Deposits	885,536	6,480	2.97
Short-Term Borrowings	43,062	476	4.48
Long-Term Debt	-	-	-
	-----	-----	
Total Interest-Bearing Liabilities	928,598	6,956	3.04

NonInterest-Bearing Liabilities:			
Demand Deposits	153,544		
Other Liabilities	13,076		

Total Liabilities	1,095,218		
Stockholders' Equity	99,115		

Total Liabilities and Stockholders' Equity	\$1,194,333		
	=====		
Net Interest Income		\$12,507	
		=====	
Interest Rate Spread (4)			4.02%
Net Yield on Earning Assets (5)			4.53%

</TABLE>

- [FN]
- (1) On a fully taxable equivalent basis. Calculated using a U.S. Federal Income Tax Rate of 35%.
 - (2) Includes nonperforming loans.
 - (3) Industrial revenue bonds are included in Loans in the Financial Statements.
 - (4) Interest rate spread is the average rate earned on total interest-earning assets less the average rate paid for interest-bearing liabilities.
 - (5) Net yield on earning assets is net interest income divided by total interest-earning assets.

<TABLE>

Chittenden Corporation and Subsidiaries
Average Balances, Interest Income and Expense, and Average Rates (Unaudited)
For the Three Months Ended March 31,

<CAPTION>

	1993		
	-----	-----	-----
Average	Interest	Average	
Balance	Income/	Yield/	
	Expense (1)	Rate (1)	
	-----	-----	-----
	(In Thousands)		

CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$3,385	\$2,278
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for possible loan losses	1,200	1,650
Depreciation and amortization	490	532
Amortization of excess of cost over fair value of net assets acquired		88
Prepaid Income taxes	131	1,708
Amortization of premiums, fees, and discounts, net	277	234
Investment (gains) losses	18	54
Net (Increase) decrease in loans held for sale	6,441	(3,661)
(Increase) decrease in accrued interest receivable	(908)	(592)
(Increase) decrease in other assets	(180)	(533)
Increase (decrease) in accrued expenses and other liabilities	434	(7,625)
	-----	-----
Net cash provided by operating activities	11,288	(5,867)
	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of investment securities	63,413	2,139
Proceeds from maturing investment securities and principal payments on mortgage-backed securities	26,439	25,809
Purchase of investment securities	(147,080)	(34,644)
Loans originated, net of principal repayments	30,527	24,886
Purchases of premises and equipment	(381)	(633)
	-----	-----
Net cash provided by (used in) investing activities	(27,082)	17,557
	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	(16,768)	(9,594)
Net increase (decrease) in short-term borrowings	(18,352)	(9,116)
Principal repayments of long-term debt	0	0
Proceeds from issuance of common stock	92	10
Dividends paid-common stock	(623)	(275)
Proceeds from issuance of treasury stock	15	12
	-----	-----
Net cash provided by (used in) financing activities	(35,636)	(18,963)
Net increase (decrease) in cash and cash equivalents	(51,430)	(7,273)
Cash and cash equivalents at beginning of year	195,111	129,303
	-----	-----
Cash and cash equivalents at March 31,	\$143,681	\$122,030
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid for the year for:		
Interest	\$6,954	\$7,876
Income taxes	250	850
Noncash transactions:		
Loans transferred to other real estate owned	232	241

</TABLE>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
March 31, 1994

Note 1 - Accounting Policies

The Company's significant accounting policies are described in Note 1 of the Notes to Consolidated Financial Statements included in its 1993 Annual Report on Form 10-K filed with the Securities and Exchange Commission. For interim reporting purposes, the Company follows the same basic accounting policies and considers each interim period as an integral part of an annual period.

The financial information included herein is unaudited; however, such information reflects all adjustments (consisting of normal recurring accruals) which are, in the opinion of management, necessary for a fair statement of results for the interim periods.

Note 2 - Adoption of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments In Debt and Equity Securities."

The Company adopted SFAS 115 on January 1, 1994. Under SFAS 115, Investment Securities are now classified under three different categories - held for sale, trading securities, and available for sale. The Company's Investment Portfolio at March 31, 1994 consisted primarily of the available for sale category. The effect of adopting on January 1, 1994 was an increase in stockholders equity of \$965,000 (net of an income tax effect of \$497,000) to reflect the unrealized gain in the available for sale portfolio. At March 31, 1994, the Company recorded a decrease in stockholders' equity of \$1,886,000 (net of an income tax effect of \$1,016,000) to reflect the net unrealized losses on the available for sale portfolio.

Note 3 - Other Real Estate Owned (OREO) - In-Substance Foreclosure

At March 31, 1994, the Company reclassified from its OREO portfolio to its Loan portfolio the In-Substance Foreclosure properties. The change in classification resulted in a decrease of OREO and an increase in Loans of \$1,219,000 at March 31, 1994; \$750,000 at December 31, 1993; and \$1,005,000 at March 31, 1993.

Note 4 - Adoption of Statement of Financial Accounting Standards No. 112, "Employers Accounting for Post Employment Benefits"

The Company adopted SFAS 112 on January 1, 1994. SFAS 112 requires the recognition of certain post-employment benefits. The adoption of SFAS 112 did not have a material impact on the Company's consolidated financial statements.

PART I. FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Item 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Chittenden Corporation's net income for the first quarter of 1994 was \$3.4 million compared with \$2.3 million a year ago. Net income per share of common stock was \$0.53 for the first three months of 1994, up from \$0.37 reported a year ago. Return on average assets was 1.15% for the first three months of 1994 compared with 0.80% last year. Return on average equity was 13.85% for the first three months of 1994 compared with 10.48% for the same period in 1993.

Net interest income on a fully taxable equivalent basis was \$12.5 million, unchanged from the amount earned during the first quarter of 1993. The net yield on earning assets was 4.53% in the first quarter of 1994, down 16 basis points from the 1993

period. The impact of the lower net yield was offset by higher average earning assets which increased by \$37.3 million, or 3.5%, over the first quarter 1993 amount.

Provisions for and activity in the allowance for possible loan losses are summarized as follows:

<TABLE>

<CAPTION>

	First Quarter Ended March 31, 1994 1993 (In Thousands)	
<S>	<C>	<C>
Beginning Allowance for Possible		
Loan Losses Balance	\$18,917	\$16,372
Provision for Possible		
Loan Losses	1,200	1,650
Loans Charged Off	(1,356)	(1,361)
Loan Recoveries	224	236
Ending Allowance for Possible Loan		
Losses Balance	\$18,985	\$16,897
	=====	=====

</TABLE>

Noninterest income amounted to \$5.7 million for the first quarter of 1994, up 2.1% from a year ago. Trust Department revenue and service charges on deposit accounts remained at the same levels as a year ago. Mortgage servicing income increased \$323,000, reflecting the lack of amortization in 1994 of deferred premiums from mortgage sales. The deferred premiums were fully amortized in 1993. Gains on sales of mortgage loans were \$1.0 million lower than 1993 first quarter, reflecting a lower volume of mortgage sales due to primarily decreased levels of refinancing activity. Chittenden continues to sell most of its fixed rate residential mortgage production on the secondary market. Credit card income increased by \$604,000, or 54.5%, reflecting both an increased customer base and higher volumes.

For the first quarter of 1994, noninterest expenses were \$11.7 million, down 4.0% from last year. Salary expenses were up 1.0% and employee benefits increased by 16.4%, reflecting higher medical insurance expenses and incentive compensation accruals related to Company performance. Occupancy expense was about even with the prior year. F.D.I.C. insurance premiums were down 11.6% due to both a lower premium rate and lower deposit levels. Expenses connected with maintaining properties acquired by foreclosure reflected a net credit of \$95,000, due to the recovery of previously incurred expenses. Credit card expenses increased by 34.9% due to the higher volumes described above.

CREDIT QUALITY

Nonperforming assets include nonaccrual loans, restructured debt, and foreclosed real estate (Other Real Estate Owned). As of March 31, 1994, nonperforming assets totaled \$15.4 million, down \$9.4 million from the level one year earlier and down \$339,000 from

the level reported at December 31, 1993.

The allowance for loan losses was \$19.0 million at March 31, 1994, up from \$18.9 million at year-end 1993 and \$16.9 million at March 31, 1993. At March 31, 1994, the allowance measured 2.32% of loans, compared with 2.22% at year-end 1993, and 1.99% at March 31, 1993.

A summary of credit quality follows:

<TABLE>

<CAPTION>

	03/31/94	12/31/93	03/31/93
	(In Thousands)		
<S>	<C>	<C>	<C>
Nonaccrual Loans	\$13,571	\$12,756	\$18,306
Restructured Debt	190	367	52
Other Real Estate Owned (OREO)	1,642	2,619	6,471
Total Nonperforming Assets (NPA)	\$15,403 =====	\$15,742 =====	\$24,829 =====
Loans Past Due 90 Days or More and Still Accruing Interest	\$ 1,022	\$ 1,453	\$ 1,889
Allowance for Possible Loan Losses	18,985	18,917	16,897
NPA as % of Loans plus OREO	1.88%	1.84%	2.90%
Loss Allowance as % of Loans	2.32	2.22	1.99
Loss Allowance as % of Nonperforming Loans	137.96	144.15	92.04
Loss Allowance as % of NPA	123.26	120.17	68.05

</TABLE>

CAPITAL:

Common stockholders' equity totaled \$98.7 million at March 31, 1994, up from \$97.7 million at year-end 1993. The increase from year-end reflects first quarter net income of \$3.4 million, valuation allowance for net unrealized losses on investment securities available for sale of \$1.9 million (net of an income tax effect of \$1.0 million), and dividends paid to stockholders

of \$623,000. The valuation allowance reflects adoption of Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

"Tier One" capital, consisting entirely of common equity, measured 11.72% of risk-weighted assets at March 31, 1994. Total capital, including the "Tier Two" allowance for loan losses, stood at 13.10% of risk-weighted assets. The leverage capital ratio was 8.41%. These ratios placed Chittenden in the "well-capitalized" category according to regulatory standards.

LIQUIDITY:

The Company's liquidity and rate sensitivity are monitored by the Bank's asset and liability committee. This committee meets regularly to review and direct the

