FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **1995-05-10** | Period of Report: **1995-03-31**
SEC Accession No. 0000703329-95-000029

(HTML Version on secdatabase.com)

FILER

FIRST FARMERS & MERCHANTS CORP
CIK:**703329**| IRS No.: **621148660** | State of Incorp.:**TN** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-10972** | Film No.: **95536223**
SIC: **6022** State commercial banks

Mailing Address
816 S GARDEN ST
COLUMBIA TN 38402-1148

Business Address
816 S GARDEN ST
COLUMBIA TN 38402
6153808257

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

Quarterly Report Pursuant to Section 13 or 15(d) of

the Securities Exchange Act of 1934

For the quarter ended March 31, 1995

Commission file number 0-10972

First Farmers and Merchants Corporation

(Exact name of registrant as specified in its charter)

Tennessee	62-1148660
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

816 South Garden Street Columbia, Tennessee	38402 - 1148
(Address of principal executive offices)	(Zip Code)

(615) 388-3145

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark 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

Indicate the number of shares outstanding of each of the issuer's common stock, as of March 31, 1995.   1,400,000 shares

This filing contains   10 pages.

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements

The following unaudited consolidated financial statements of the registrant and its subsidiary for the three months ended March 31, 1995, are as follows:

Consolidated balance sheets - March 31, 1995, and December 31, 1994.

Consolidated statements of income - For the three months ended March 31, 1995, and March 31, 1994.

Consolidated statements of cash flows - For the three months ended March 31, 1995, and March 31, 1994.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

MARCH 31, 1995 and DECEMBER 31, 1994

<TABLE>
<CAPTION>

ASSETS		1995		1994
<S>	<C>	<C>		
Cash and due from banks	$	25,065,698	$	26,735,526
Federal funds sold		6,750,000		-
Securities				
Available for sale (amortized cost $7,052,011 and $12,646,156 respectively)		6,959,434		12,565,226
Held to maturity (fair value $137,882,175 and $138,892,331 respectively)		139,520,229		143,061,031
Total securities		146,479,663		155,626,257
Loans, net of unearned income		270,891,568		262,694,120
Allowance for possible loan losses		(2,523,486)		(2,342,290)
Net loans		268,368,082		260,351,830
Bank premises and equipment, at cost less allowance for depreciation and amortization		6,216,985		6,193,080
Other assets		11,711,064		11,887,492
TOTAL ASSETS	$	464,591,492	$	460,794,185
LIABILITIES				
Deposits				
Noninterest-bearing	$	61,338,076	$	61,845,878
Interest-bearing (including certificates of deposit over $100,000: 1995 - $35,122,549; 1994 - $26,169,831)		352,885,826		343,306,545
Total deposits		414,223,902		405,152,423
Federal funds purchased		-		7,000,000
Dividends payable		-		574,000
Accounts payable and accrued liabilities		5,106,663		4,239,636
TOTAL LIABILITIES		419,330,565		416,966,059
COMMITMENTS AND CONTINGENCIES				
STOCKHOLDERS' EQUITY				
Common stock - $10 par value, authorized 4,000,000 shares; 1,400,000 shares issued and outstanding		14,000,000		14,000,000
Retained earnings		31,316,473		29,876,683
Net unrealized loss on available-for-sale securities, net of tax		(55,546)		(48,557)

TOTAL STOCKHOLDERS' EQUITY		45,260,927		43,828,126
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$	464,591,492	$	460,794,185
		UNAUDITED		(A)

<FN>
<F1>
(A) The Consolidated Balance Sheet at December 31, 1994, has been taken from the audited financial statements at that date.
</FN>
</TABLE>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
<TABLE>
<CAPTION>

		March 31, 1995		1994
INTEREST INCOME				
<S>	<C>	<C>		
Interest and fees on loans	$	5,996,217	$	4,833,093
Interest on investment securities				
Taxable interest				
Available-for-sale		132,954		432,628
Held-to-maturity		1,503,173		1,303,755
Exempt from federal income tax		544,260		530,936
Dividends		35,087		32,831
		2,215,474		2,300,150
Other interest income		32,537		43,650
TOTAL INTEREST INCOME		8,244,228		7,176,893
INTEREST EXPENSE				
Interest on deposits		3,598,330		2,977,760
Interest on other short term borrowings		56,155		8,252
TOTAL INTEREST EXPENSE		3,654,485		2,986,012
NET INTEREST INCOME		4,589,743		4,190,881
PROVISION FOR POSSIBLE LOAN LOSSES		145,000		60,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES		4,444,743		4,130,881
NONINTEREST INCOME				
Trust department income		358,672		240,322
Service charges on deposits accounts		599,848		548,048
Other service charges, commissions, and fees		54,055		134,592
Other operating income		92,151		88,134
Investment securities gains (losses)		(2,348)		9,695
TOTAL NONINTEREST INCOME	1,102,378	1,020,791		
NONINTEREST EXPENSES				
Salaries and employee benefits		1,604,622		1,508,052
Net occupancy expense		302,844		317,953
Furniture and equipment expense		278,185		238,698
Other operating expenses		1,409,232		1,216,822
TOTAL NONINTEREST EXPENSES		3,594,883		3,281,525
INCOME BEFORE PROVISION FOR INCOME TAXES		1,952,238		1,870,147
PROVISION FOR INCOME TAXES		512,448		528,638
NET INCOME	$	1,439,790	$	1,341,509
EARNINGS PER COMMON SHARE (1,400,000 outstanding shares)	$	1.03	$	0.96

</TABLE>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

THREE MONTHS ENDED MARCH 31, 1995 and 1994

(Unaudited)

<TABLE>
<CAPTION>

	1995	1994
OPERATING ACTIVITIES		
<S>	<C>	<C>
Net income	$ 1,439,790	$ 1,341,508
Adjustments to reconcile net income to net cash provided by operating activities		
Excess (deficiency) of provision for possible loan losses over net charge offs	181,196	41,858
Provision for depreciation and amortization of premises and equipment	145,893	132,989
Amortization of deposit base intangibles	42,005	42,005
Amortization of investment security premiums, net of accretion of discounts	186,428	23,637
Increase in cash surrender value of life insurance contracts	(16,928)	(31,863)
Deferred income taxes	(70,805)	30,050
(Increase) decrease in		
Interest receivable	(80,101)	(450,865)
Other assets	295,268	1,274,869
Increase (decrease) in		
Interest payable	331,357	56,897
Other liabilities	535,670	533,101
TOTAL ADJUSTMENTS	1,549,983	1,652,678
NET CASH PROVIDED BY OPERATING ACTIVITIES	2,989,773	2,994,186
INVESTING ACTIVITIES		
Proceeds from maturities, calls, and sales of available-for-sale securities	8,039,866	-
Proceeds from maturities and calls of held-to-maturity securities	1,155,000	3,973,153
Purchases of investment securities		
Available-for-sale	(34,700)	-
Held-to-maturity	(200,000)	(14,283,732)
Net increase in loans	(8,197,448)	(985,105)
Purchases of premises and equipment	(169,798)	(213,786)
NET CASH USED BY INVESTING ACTIVITIES	592,920	(11,509,470)
FINANCING ACTIVITIES		
Net increase in noninterest-bearing and interest-bearing deposits	9,071,479	20,414,374
Net increase (decrease) in short term borrowings	(7,000,000)	(109,042)
Cash dividends	(574,000)	(525,000)
NET CASH PROVIDED BY FINANCING ACTIVITIES	1,497,479	19,780,332
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,080,172	11,265,048
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	26,735,526	23,042,168
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 31,815,698	$ 34,307,216

</TABLE>

The unaudited consolidated financial statements have been prepared on a consistent basis and in accordance with the instructions to Form 10-Q and do not include all the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes included in the Corporation's annual report on Form 10-K for the year ended December 31, 1994.

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

Material Changes in Financial Condition

Average total assets were $458 million at the end of the first three months of 1995 compared to $442 million at the end of the first three months of 1994. Period-end assets were $464.5 million compared to $460.7 million at December 31, 1994, and $454.3 at March 31, 1994. The following sections analyze the average balance sheet and the major components of the period-end balance sheet.

SECURITIES

At March 31, 1995, the Corporation's investment securities portfolio had $6.9 million available-for-sale securities and $139.5 million held-to-maturity securities. This compares to $12.5 and $26.7 million available-for-sale securities and $143.0 and $133.6 million held-to-maturity securities at December 31, 1994, and March 31, 1994, respectively. The liquidity portion of the current portfolio, $6.9 million or 5% of the total portfolio, is an integral part of the asset/liability management process. As such, it represents an important source of liquidity available to fund loans and accommodate asset reallocation strategies dictated by changes in bank operating and tax plans, shifting yield spread relationships, and changes in configuration of the yield curve. Items held for these purposes were classified as "available-for-sale" after the adoption of Financial Accounting Standards No. 115 (SFAS 115), "Accounting for Certain Investments in Debt and Equity Securities", and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of stockholders' equity. Net unrealized losses on available-for-sale securities were $89 thousand at March 31, 1995. The management of the Corporation's subsidiary bank has the positive intent and ability to hold to maturity the 95% balance of the portfolio and these securities are reported at amortized cost. The 5% liquidity portion of the current portfolio is down from 8% of the portfolio at year end and 17% of the portfolio at the end of the first quarter last year. The liquidity portion of the current securities portfolio has declined during the first quarter of 1995 because those funds were used to fund expanding loan growth.

LOANS

The average loan portfolio of the Corporation's subsidiary increased $16.1 million or 6.5% in the first three months of 1995 compared to a $7.9 million or 3.4% increase in the first three months of 1994. This growth reflects the expanded loan demand in the service area. Commercial loans posted the largest increase, 13.8% during the first quarter of 1995 and 25.0% since March 31, 1994. Personal loans increased 6.9% during the first quarter of 1995 and 11.3% since March, 1994, while loans secured by real estate posted a 4.6% growth for the first three months of 1995 and 5.6% growth since March, 1994.

The Corporation's subsidiary loan review function and Special Assets Committee reviewed approximately 7% of the average dollar value of the loan portfolio during the first three months of 1995. After this review, loans totaling $4.8 million, 1.8% of the portfolio, were classified as other assets especially mentioned at March 31, 1995, which is up from the $3.9 million so classified at December 31, 1994. Loans totaling $10.4 million, 3.9% of the portfolio, were classified as substandard at March 31, 1995, compared to $12.5 million so classified at December

31, 1994. Loans totaling $.5 million, .2% of the portfolio, were classified as doubtful at March 31, 1995, compared to $.9 million at December 31, 1994. Any loans classified for regulatory purposes as loss, doubtful, substandard, or special mention do not represent or result from trends or uncertainties which management reasonably expects will materially affect operating results, liquidity, or capital resources. Neither do such loans represent material credits about which management is aware of any information which causes management to have serious doubts as to the ability of such borrowers to comply with the loan repayment terms. Management is not aware of any known trends, events or uncertainties that will have or that are reasonably likely to have a material effect on the corporation's liquidity, capital resources or operations. Loans totaling $2.1 million, .8% of the total portfolio, were nonperforming at the end of the first three months of 1995 compared to $2.6 million and $2.0 million at December 31, 1994 and March 31, 1994, respectively. Nonperforming loans are those which are accounted for on a non-accrual basis. Interest accruals are discontinued when, in the opinion of management, it is not reasonable to expect that such interest will be collected.

DEPOSITS

Average deposits of the Corporation's subsidiary were $406.1 million for the first three months of 1995 compared to $404.4 and $398.4 for the year ended December 31, 1994 and for the first three months of 1994, respectively. Short and medium term rate increases caused depositors to move money from interest-bearing checking accounts which decreased 4.6% during the first quarter of 1995 to longer term interest-bearing products like certificates. Certificates of deposit under $100,000 increased 2.6% and certificates of deposit over $100,000 increased 22.8% during the first quarter of 1995.

CAPITAL

Average shareholders' equity was $44.8 million at March 31, 1995, compared to $40.0 million at March 31, 1994, an increase of 12.0%. Average shareholders' equity increased 7.1% during the first three months of 1995 compared to an increase of 6.8% during the first three months of 1994. Most of the capital needs of the Corporation's subsidiary bank have historically been financed through internal growth.

At March 31, 1995, the Corporation had an equity capital to asset ratio of 9.8% compared to a 9.3% ratio at December 31, 1994 and an 9.0% ratio at March 31, 1994. At the close of the first three months of 1995, additional dividends of approximately $10.1 million to the Corporation could have been declared by the subsidiary bank without regulatory agency approval.

Regulatory risk-adjusted capital adequacy standards were strengthened during 1993. Equity capital (net of certain adjustments for intangible assets and investments in non-consolidated subsidiaries and certain classes of preferred stock are considered Tier 1 ("core") capital. Tier 2 ("total") capital consists of core capital plus subordinated debt, some types of preferred stock, and varying amounts of the Allowance for Possible Loan Losses. The minimum standard for a "well capitalized" bank is a risk-based core capital ratio of 6%, a risk-based total capital ratio of 10%, and a core capital to average total assets ratio of 5%. As of March 31, 1995, the Bank's core and total risk-based ratios were 16.2% and 17.1% respectively. The comparable ratios were 16.2% and 17.1% at year end, 1994. At March 31, 1995, the Bank had a ratio of average core capital to average total assets of 9.5% compared to 9.0% at December 31, 1994.

Material Changes in Results of Operations

During the first three months of 1995, the Corporation's consolidated income totaled $1.4 million compared to $1.3 million for the first three months of 1994. The Corporation's total interest income during the first three months of 1995 was $8.2 million compared to $7.2 million during the first three months of 1994. This was a increase of 14.9%. Loan income was up 24.1%, while investment income showed a decrease of 4.1%.

Interest expense increased 22.4% during the first three months of 1995. The net interest margin (tax equivalent net interest income divided by average earning assets annualized) for the three months ended March 31, 1995, was 4.7%, compared to 4.4% for the corresponding period in 1994.

The provision for loan losses was $145,000 for the first three months of 1995 compared to $60,000 for the first three months of 1994, which was a 141.7% increase. The amount of the additions to the allowance for loan losses charged to operating expenses was based on the following factors: (a) national and local economic factors; (b) past experience; and (c) Loan Review and Special Assets Committee review governed by the provisions of Statement of Financial Accounting Standards No. 114 (SFAS 114/118), "Accounting for Impaired Loans". Recoveries of $99 thousand exceeded charge offs of $62 thousand for the first three months of 1995, compared to net charge offs of $21 thousand for the first three months of 1994. The ratio of net charge offs to net average loans outstanding has been less than .5% for the last five years and below the usual ratio for the industry.

There were no write downs of other real estate associated with declines in real estate values subsequent to foreclosure and disposition of the properties at less than their carrying value during the first quarter of 1995. The carrying value of Other Real Estate is included in other assets on the face of the balance sheet and represents real estate acquired through foreclosure and is stated at the lower of cost or fair value minus cost to sell. An allowance for other real estate owned is not maintained. Historically, and at the present time, parcels have not remained in this category for long periods of time and any decreases or losses associated with the properties have been charged to current income. Management evaluates properties included in this category on a regular basis. Actual foreclosures are included in the carrying value for Other Real Estate at March 31, 1995, and total $555 thousand which compares to $545 thousand and $561 thousand at December 31, 1994, and March 31, 1994, respectively.

Non-interest income increased 8.0% during the first three months of 1995 compared to the same period of 1994. Fee income from providing fiduciary services is included in this total and increased over 49%. Non-interest expense increased 9.6% during the first three months of 1995 compared to the same period of 1993. The largest increase was in furniture and equipment expense which increased 16.5%.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FIRST FARMERS AND MERCHANTS CORPORATION
(Registrant)

Date May 8, 1995 /s/ Waymon L. Hickman
Waymon L. Hickman,
President
(Chief Executive Officer)

Date May 8, 1995 /s/ Patricia N. McClanahan
Patricia N. McClanahan,
Treasurer
(Principal Accounting Officer)

<TABLE> <S> <C>

<ARTICLE> 9
<MULTIPLIER> 1,000

<S>	<C>
<PERIOD-TYPE>	3-MOS
<FISCAL-YEAR-END>	DEC-31-1995
<PERIOD-END>	MAR-31-1995
<CASH>	25,065,698
<INT-BEARING-DEPOSITS>	280
<FED-FUNDS-SOLD>	6,750,000
<TRADING-ASSETS>	0
<INVESTMENTS-HELD-FOR-SALE>	6,959,434
<INVESTMENTS-CARRYING>	139,520,229
<INVESTMENTS-MARKET>	137,882,175
<LOANS>	270,891,568
<ALLOWANCE>	(2,523,486)
<TOTAL-ASSETS>	464,591,492
<DEPOSITS>	414,223,902
<SHORT-TERM>	0
<LIABILITIES-OTHER>	5,106,663
<LONG-TERM>	0
<COMMON>	14,000,000
<PREFERRED-MANDATORY>	0
<PREFERRED>	0
<OTHER-SE>	31,260,927
<TOTAL-LIABILITIES-AND-EQUITY>	464,591,492
<INTEREST-LOAN>	5,996,217
<INTEREST-INVEST>	2,215,474
<INTEREST-OTHER>	32,537
<INTEREST-TOTAL>	8,244,228
<INTEREST-DEPOSIT>	3,598,330
<INTEREST-EXPENSE>	3,654,485
<INTEREST-INCOME-NET>	4,589,743
<LOAN-LOSSES>	145,000
<SECURITIES-GAINS>	(2,348)
<EXPENSE-OTHER>	3,594,883
<INCOME-PRETAX>	1,952,238
<INCOME-PRE-EXTRAORDINARY>	0
<EXTRAORDINARY>	0
<CHANGES>	0
<NET-INCOME>	1,439,790
<EPS-PRIMARY>	1.03
<EPS-DILUTED>	1.03
<YIELD-ACTUAL>	8.13
<LOANS-NON>	2,078,784
<LOANS-PAST>	0
<LOANS-TROUBLED>	0

<LOANS-PROBLEM> 0
<ALLOWANCE-OPEN> 2,342,290
<CHARGE-OFFS> 62,877
<RECOVERIES> 99,070
<ALLOWANCE-CLOSE> 2,523,486
<ALLOWANCE-DOMESTIC> 0
<ALLOWANCE-FOREIGN> 0
<ALLOWANCE-UNALLOCATED> 0

</TABLE>