

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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FILER

F&M BANCORPORATION INC

CIK: **793049** | IRS No.: **391365327** | State of Incorpor.: **WI** | Fiscal Year End: **1231**
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SIC: **6022** State commercial banks

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FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 1996

OR

[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 0-14553

F & M Bancorporation, Inc.

(Exact name of registrant as specified in its charter)

Wisconsin 39-1365327

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

One Bank Avenue, Kaukauna, Wisconsin 54130

(Address of principal executive offices) (Zip Code)

(414) 766-1717

(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

APPLICABLE ONLY TO CORPORATE ISSUERS:

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of November 12, 1996.

\$1.00 par value common
6,980,940 shares

F & M BANCORPORATION, INC.
AND SUBSIDIARIES

INDEX

<TABLE>
<CAPTION>

Page
Number

<S>
PART I. FINANCIAL INFORMATION:

<C>

Item 1. Financial Statements

Condensed Consolidated Balance Sheets as of September 30, 1996 and December 31, 1995 (Unaudited)	4
Condensed Consolidated Statements of Earnings for the three and nine months ended September 30, 1996 and 1995 (Unaudited)	5
Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 1996 and 1995 (Unaudited)	6
Notes to Condensed Consolidated Financial Statements (Unaudited)	7
Item 2. Managements Discussion and Analysis of Financial Condition and Results of Operations	10
PART II. OTHER INFORMATION	

Item 6. Exhibits and Reports on Form 8-K </TABLE>	17

- 2 -

3

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The condensed consolidated financial statements included herein have been included by F & M Bancorporation, Inc. (the "Company") pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures are adequate to make the information presented not misleading. This information is unaudited but includes all adjustments (consisting only of normal recurring accruals) which, in the opinion of Company management, are necessary for a fair presentation of the results for such periods.

The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year. It is suggested that these condensed financial statements be read in conjunction with the financial statements and the notes thereto included in the Company's 1995 Annual Report.

- 3 -

4

F & M BANCORPORATION, INC. AND
SUBSIDIARIES CONSOLIDATED
BALANCE SHEETS
(Unaudited)

<TABLE>
<CAPTION>

	September 30, 1996	December 31, 1995
	-----	-----
	<C>	<C>
<S>		
ASSETS		
Cash and cash equivalents	\$ 43,729,858	\$ 40,848,045
Federal funds sold	5,039,000	22,118,000
	-----	-----
Total cash and cash equivalents	48,768,858	62,966,045
Investment securities (Note B)		

Held to maturity	90,237,168	65,948,661
Available for sale - stated at fair value	122,870,532	138,898,862
Loans (Note C)	830,020,901	700,043,946
Less: Allowance for loan losses	(10,242,572)	(8,921,131)
Net loans	819,778,329	691,122,815
Bank premises and equipment, net	26,743,588	20,718,823
Other real estate	1,983,064	808,631
Other assets	20,360,435	15,814,189
	\$1,130,741,974	\$996,278,026

LIABILITIES AND SHAREHOLDERS' EQUITY

Liabilities		
Deposits		
Non-interest bearing	\$ 130,831,381	\$110,187,506
Interest bearing	840,447,134	756,524,375
Total deposits	971,278,515	866,711,881
Short-term borrowing	37,960,019	12,194,134
Other borrowings	9,216,622	10,833,244
Accrued expenses and other liabilities	10,309,688	12,281,690
Total liabilities	1,028,764,844	902,020,949
Minority interest in subsidiaries	0	189,863
Shareholders' Equity		
Common stock - \$1 par value:		
Authorized - 20,000,000 shares		
Issued - 7,016,690 and 6,259,717	7,016,690	6,259,717
Capital surplus	60,157,038	43,600,295
Retained earnings	36,236,052	44,899,802
Net unrealized loss on securities available for sale	(750,169)	131,838
Less-Common stock held in treasury at cost- 35,750 shares and 45,000 shares, respectively	(682,481)	(824,438)
Total shareholders' equity	101,977,130	94,067,214
Total liabilities and shareholders' equity	\$1,130,741,974	\$996,278,026

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

- 4 -

5

F & M BANCORPORATION, INC. AND
SUBSIDIARIES CONSOLIDATED
STATEMENTS OF INCOME
(Unaudited)

<TABLE>
<CAPTION>

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
<S>	<C>	<C>	<C>	<C>
Interest income				
Interest and fees on loans	\$18,755,595	\$16,484,322	\$53,591,224	\$46,812,951
Interest on investment securities				
Taxable	1,905,592	2,016,375	5,932,845	6,063,245
Exempt from federal tax	1,234,912	970,494	3,387,061	2,871,126
Other interest income	190,942	202,944	987,633	406,105
Total interest income	22,087,041	19,674,135	63,898,763	56,153,427
Interest expense				
Interest on deposits	9,462,602	8,394,625	27,273,432	23,357,142
Interest on short-term borrowing	547,221	140,856	1,223,285	780,265
Interest on other borrowing	40,802	303,396	284,487	752,591

Total interest expense	10,050,625	8,838,877	28,781,204	24,889,998
Net interest income	12,036,416	10,835,258	35,117,559	31,263,429
Provision for loan losses	469,000	491,750	1,289,332	1,126,750
Net interest income after provision for loan losses	11,567,416	10,343,508	33,828,227	30,136,679
Other income				
Service charges on deposit accounts	805,343	689,658	2,229,592	1,946,631
Other operating income	701,742	537,055	1,943,234	1,481,559
Net security gain (loss)	33,360	7,156	8,840	32,741
	1,540,445	1,233,869	4,181,666	3,460,931
Other expenses				
Salaries and employee benefits	4,219,809	3,582,366	12,024,547	10,590,506
Other operating expense	3,524,455	3,099,700	10,328,723	10,269,886
	7,744,264	6,682,066	22,353,270	20,860,392
Income before income taxes	5,363,597	4,895,311	15,656,623	12,737,218
Income taxes	1,660,994	1,646,597	4,976,409	4,060,917
NET INCOME	\$ 3,702,603	\$ 3,248,714	\$10,680,214	\$ 8,676,301
EARNINGS PER SHARE	\$ 0.53	\$ 0.48	\$ 1.53	\$ 1.28

See accompanying notes to unaudited consolidated financial statements.

- 5 -

6

F & M BANCORPORATION, INC. AND
SUBSIDIARIES CONSOLIDATED
STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine months ended September 30,	
	1996	1995
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	\$ 10,680,214	\$ 8,676,301
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for depreciation and net amortization	1,832,820	1,709,585
Provision for loan losses	1,289,332	1,126,750
(Gain) loss on sale of investment securities	(8,840)	(32,741)
Increase in other assets	(1,156,995)	(1,078,350)
Gain on sale of equipment	(49,334)	(4,215)
Increase (decrease) in other liabilities	(2,347,876)	2,028,449
Provision for other real estate losses	40,785	48,775
Gain on sale of other real estate	(6,778)	(60,322)
Minority interest	8,383	(17,511)
Net cash provided by operating activities	10,281,711	12,396,721
Cash flows from investing activities:		
Proceeds from sale of investment securities available for sale	1,270,160	11,229,819
Proceeds from maturities of investment securities available for sale	39,228,279	19,033,518

Purchase of investment securities available for sale	(20,535,322)	(27,717,785)
Proceeds from maturities of investment securities held to maturity	4,822,968	5,015,332
Purchase of investment securities held to maturity	(20,808,299)	(7,555,811)
Net increase in loans	(87,307,408)	(52,957,827)
Capital expenditures	(6,231,244)	(1,515,791)
Proceeds from sale of equipment	240,286	6,091
Proceeds from sale of other real estate	309,717	688,356
Payment for purchase of other real estate	---	(48,991)
Payment for purchase of stock of subsidiary banks, net of cash received	(483,579)	---
	-----	-----
Net cash used in investing activities	(89,494,442)	(53,823,089)
	-----	-----
Cash flows from financing activities:		
Net increase in deposits	44,858,774	41,777,315
Net increase (decrease) in short-term borrowings	25,765,885	(8,299,037)
Dividends paid	(3,643,943)	(2,910,705)
Purchase of common stock	---	(845,625)
Net increase (decrease) in other borrowings	(2,075,872)	9,466,756
Net proceeds options exercised	110,700	14,025
	-----	-----
Net cash provided by financing activities	65,015,544	39,202,729
	-----	-----
Net decrease in cash and cash equivalents	(14,197,187)	(2,223,639)
Cash and cash equivalents at beginning of period	62,966,045	43,483,408
	-----	-----
Cash and cash equivalents at end of period	\$ 48,768,858	\$ 41,259,769
	=====	=====

</TABLE>

See accompanying notes to unaudited consolidated financial statements.

- 6 -

7

F & M BANCORPORATION, INC. AND
SUBSIDIARIES NOTES TO UNAUDITED
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 1996
(Unaudited)

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements, which include the accounts of F&M Bancorporation, Inc. and its subsidiaries, have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. These statements have been restated to reflect the acquisition of Union State Bank, acquired January 9, 1995, and Community State Bank, acquired on June 28, 1996. These transactions have been accounted for using the pooling of interests method of accounting. Monycor Bancshares, Inc., acquired on February 5, 1996, accounted for as pooling of interests, was not material to prior years' reported operating results and accordingly, previous years' results have not been restated. The acquisitions of the TCF office in Little Chute, acquired April 26, 1996, and the Bradley Bank, acquired May 10, 1996, were accounted for using the purchase method of accounting; accordingly, the financial data includes results of operations only since the dates of acquisition. All per share information has been adjusted to reflect the 10% stock dividend, paid to shareholders on June 10, 1996. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for fair presentation have been included.

NOTE B - INVESTMENT SECURITIES

Carrying amounts and market values of investment securities held to maturity at September 30, 1996 are as follows:

<TABLE>

<CAPTION>

Carrying Amount	Market Value
-----	-----
(in thousands)	

<S>	<C>	<C>
Exempt obligations of states and political subdivisions	\$90,237	\$91,020
	=====	=====

</TABLE>

NOTE C - LOANS

At September 30, 1996, loans are as follows:
(in thousands)

<TABLE>		<C>
<S>		
Commercial and industrial		\$147,570
Agricultural		47,617
Real estate construction		32,214
Real estate mortgage		535,746
Installment and other consumer		66,874

		830,021
Less allowance for loan losses		(10,243)
Net loans		

		\$819,778
		=====

</TABLE>

NOTE D - EARNINGS PER SHARE OF COMMON STOCK

Earnings per share of common stock are based on weighted average number of common shares outstanding of 6,980,713 and 6,794,768 for the three months ended September 30, 1996 and 1995 and 6,977,104 and 6,800,540 for the nine months ended September 30, 1996 and 1995, respectively.

- 7 -

8

NOTE E - NON-PERFORMING ASSETS

The following table sets forth the amount of non-performing loans, other real estate owned and non-performing assets, and each of their percentages to total loans at September 30, 1996:

(in thousands)		
<TABLE>		
<S>	<C>	<C>
Non-accrual loans	\$10,858	1.31%
Loans past due 90 days or more	69	0.01
Restructured loans	0	0.00
	-----	----
Total non-performing loans	10,927	1.32
Other real estate owned	1,983	0.24
	-----	----
Total non-performing assets	\$12,910	1.56%
	=====	=====

</TABLE>

NOTE F - SUMMARY OF LOAN LOSS EXPERIENCE

The following table summarizes loan balances at September 30, 1996; changes in the allowance for loan losses arising from loans charged-off and recoveries on loans previously charged-off, by loan category; and provisions for loan losses which have been charged to expense:

<TABLE>		<C>
<S>		
(in thousands)		
Average balance of loans year-to-date		\$772,964
		=====
Allowance for loan losses at December 31, 1995		8,921
Loans charged off		
Commercial and Industrial		395
Real Estate - Mortgage		26
Installments and Other Consumer Loans		314

Total charge offs	735
Recoveries on loans previously charged off	
Commercial and Industrial	99
Real Estate - Mortgage	3
Installment and Other Consumer Loans	80
Total recoveries	182
Net loans charged off	553
Adjustments	
Balance related to acquisitions	586
Provisions for loan losses	1,289
Allowance for loan losses at end of period	\$ 10,243
Ratio of net charge offs during period to average loans outstanding (annualized)	0.10%
Allowance for loan losses to total loans	1.23%

- 8 -

9

NOTE G - ALLOCATION OF ALLOWANCE FOR LOAN LOSSES

The following table summarizes the allocation of allowances for loan losses and gives a breakdown of the percentage of loans in each category at September 30, 1996:

<TABLE>
<CAPTION>

(in thousands)	Amount of reserve for loan losses	Percent of loans in each category to total loans
Commercial, industrial, and agricultural	\$ 4,226	23.5%
Real estate - construction	170	3.9
Real estate - mortgage	3,807	64.5
Installment and other consumer loans	2,040	8.1
	\$10,243	100.0%

</TABLE>

- 9 -

10

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

GENERAL

The following discussion and analysis provides information regarding F & M Bancorporation, Inc.'s (the "Company") results of operations for the

three and nine months ended September 30, 1996 and 1995 and financial condition at September 30, 1996. These statements have been restated to reflect the acquisitions of Union State Bank ("Union"), acquired January 9, 1995 and Community State Bank ("Community"), acquired on June 28, 1996. These transactions have been accounted for using the pooling of interests method of accounting. Monycor Bancshares, Inc., acquired on February 5, 1996, accounted for as pooling of interests, was not material to prior years' reported operating results; accordingly, previous years' results have not been restated. The acquisitions of TCF office in Little Chute, acquired April 26, 1996, and Bradley Bank, acquired May 10, 1996, were accounted for using the purchase method of accounting; accordingly, the Company's financial data includes results of operations of these entities only since the dates of acquisition. All per share information has been adjusted to reflect the 10% stock dividend, paid to shareholders on June 10, 1996.

The Company has announced three pending acquisition which, if consummated, would affect the Company's future operations. In August 1996, the Company announced that it had entered into a letter of intent to acquire Green County Bank, Brodhead, Wisconsin, and a definitive agreement to acquire the State Bank of East Troy, East Troy, Wisconsin, with total assets of approximately \$30 million and \$55 million respectively. In October 1996, the Company announced that it had entered into a letter of intent to acquire Prairie City Bank, Prairie du Chien, Wisconsin, a bank with total assets of approximately \$85 million. The Company intends to account for the pending acquisitions using the pooling of interests method of accounting. The Company expects these acquisitions to be consummated in the first half of 1997.

RESULTS OF OPERATIONS

For the three months ended September 30, 1996, net income increased \$454,000, or 14.0%, to \$3.7 million from \$3.2 million in the third quarter of 1995. The annualized return on average assets was 1.32% for the third quarter of 1996 compared with 1.33% for the third quarter of 1995. Returns on average stockholders' equity on an annualized basis for the third quarters of 1996 and 1995 were 14.68% and 14.43%, respectively.

For the nine months ended September 30, 1996, net income increased \$2.0 million, or 23.1%, to \$10.7 million from \$8.7 million in the first nine months of 1995. The annualized return on average assets was 1.33% for the nine months ended September 30, 1996 compared with 1.23% for the first nine months of 1995. Returns on average stockholders' equity on an annualized basis for the nine months ended June 30, 1996 and 1995 were 14.49% and 13.48%, respectively.

Net Interest Income

Net interest income for the three months ended September 30, 1996 increased \$1.2 million, or 11.1%, to \$12.0 million from \$10.8 million in the third quarter of 1995. Total interest income for the third quarter of 1996 increased \$2.4 million, or 12.3%, to \$22.1 million from \$19.7 million in the third quarter of 1995, while interest expense increased \$1.2 million, or 13.7%, to \$10.1 million in the second quarter of 1996 from \$8.9 million in 1995.

- 10 -

11

Net interest income for the nine months ended September 30, 1996 increased \$3.9 million, or 12.3%, to \$35.1 million from \$31.2 million in the first nine months of 1995. Total interest income for the nine months ended September 30, 1996 increased \$7.7 million, or 13.8%, to \$63.9 million from \$56.2 million for the nine months ended September 30, 1995, while interest expense increased \$3.9 million, or 15.6%, to \$28.8 million in the nine months ended September 30, 1996 from \$24.9 million in 1995.

Increased net interest income for the nine month period resulted primarily from maintaining net interest margins and increased lending activity. Total interest income increased for the three and nine month period in 1996 compared to the same periods last year as a result of an increase in interest and fees on loans due to increased loan activity (including the increased loans resulting from recent company acquisitions), and generally stable interest rates, while total interest expense increased for the three and six month period in 1996 compared to 1995 as a result of increased levels of deposits including those resulting from acquisitions.

Provision for Loan Losses

The provision for loan losses for the three months ended September 30, 1996 decreased \$23,000, or 4.6%, to \$469,000 from \$492,000 in the third quarter of 1995. The provision for loan losses for the nine months ended September 30,

1996 was \$1.3 million a 14.4% increase from \$1.1 million for the nine months ended September 30, 1995. This increase in the provision for the first nine months was due mainly to the increase in the loan portfolio. Subject to its continuing review, developments related to nonperforming assets and other factors that determine the loan loss provision, management anticipates the provision for the last quarter of the year will be consistent with the provision for the previous three quarters of 1996. See "Allowance for Loan Losses" for further discussion.

Non-Interest Income

Non-interest income for the three months ended September 30, 1996 increased \$307,000, or 24.8%, to \$1.5 million from \$1.2 million in the third quarter of 1995. Non-interest income for the nine months ended September 30, 1996 increased \$721,000, or 20.8%, to \$4.2 million. Increases for both the three and nine month periods were due primarily to increases in service charges and other fee income, resulting from increased customer activity and the effect of the recent acquisitions.

Non-Interest Expense

Non-interest expense for the three months ended September 30, 1996 increased \$1.1 million, or 15.9%, to \$7.7 million from \$6.6 million in the third quarter of 1995. Non-interest expense for the nine months ended September 30, 1996 increased \$1.5 million, or 7.2%, to \$22.4 million from \$20.9 million in the first nine months of 1995. The increases were due primarily to the effect of acquisitions, additional staffing and normal increases in salaries and employee benefits, partially offset for the nine month period by the decrease in FDIC insurance premiums which occurred in May, 1995.

The overhead ratio, which is computed by subtracting non-interest income from non-interest expense (excluding net securities transactions) and dividing by average total assets, was 2.23% in the third quarter of 1996 compared with 2.23% in the third quarter of 1995. On a year-to-date basis the overhead ratio was 2.27% for the first nine months of 1996 as compared to 2.46% for the same time period in 1995. The decrease in this ratio in the first nine months of 1996 was the result of the factors set forth above.

- 11 -

12

Provision for Income Taxes

The Company's provision for income taxes for the three months ended September 30, 1996 increased \$14,000, or 0.9%, to \$1.7 million from \$1.6 million in the third quarter of 1995. The provision for income taxes for the nine months ended September 30, 1996 increased \$915,000, or 22.5%, to \$5.0 million from \$4.1 million in 1995. The increase in income tax provision was principally due to increased taxable income.

Net Income

As a result of the foregoing factors, net income for the third quarter of 1996 increased by \$454,000, or 14.0%, to \$3.7 million from \$3.2 million in the same period for 1995. Net income for the nine months of 1996 increased by \$2.0 million, or 23.1%, to \$10.7 million from \$8.7 million in the first nine months of 1995.

Net income per share was \$0.53 for the third quarter of 1996 compared with \$0.48 in the third quarter of 1995, an increase of 10.4%. Net income per share was \$1.53 for the first half of 1996, compared with \$1.28 in the same period for 1995, an increase of 19.5%. As of September 30, 1996, fully diluted earnings per share are equal to the stated earnings per share numbers.

FINANCIAL CONDITION

Loan Portfolio

At September 30, 1996, total loans increased \$130 million, or 18.6%, to \$830 million from \$700 million at December 31, 1995. The loan mix in the Company's portfolio at September 30, 1996 did not change in any material respect compared with December 31, 1995. The increase resulted primarily from continued strong loan demand spread throughout the Company's subsidiary banks and the acquisitions in the first nine months of 1996.

Non-Performing Assets

At September 30, 1996, non-performing assets amounted to \$12.9 million compared to \$7.6 million at December 31, 1995. Non-performing loans at

September 30, 1996 were \$10.9 million, or 1.32% of total loans, compared to \$6.8 million at December 31, 1995. Other real estate owned ("OREO") at September 30, 1996 was \$2.0 million as compared to \$809,000 at December 31, 1995. The ratio of non-performing assets to total loans at September 30, 1996 was 1.56%. Management continues to work at reducing the level of non-performing assets.

Summary of Loan Loss Experience

For the nine months of 1996, total charge-offs were \$735,000 and total recoveries were \$182,000. The annualized ratio of net charge-offs to average loans outstanding for the nine months ended September 30, 1996 was .10%. The charge-offs were not concentrated in any particular industry.

- 12 -

13

Allowance for Loan Losses

At September 30, 1996, the allowance for loan losses as a percentage of total loans was 1.23% compared with a ratio of 1.27% at December 31, 1995. This decrease in the first nine months of 1996 was due primarily to the robust growth in the loan portfolio, which more than offsets the effect of a \$1.3 million net increase in the allowance in the first nine months of 1996. Management continually reviews the loan portfolio, and other factors, to determine the appropriate allowance. The allowance for loan losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on evaluations of the collectibility of loans and prior loan loss experience, although actual experience will depend on future developments with particular loans and may be affected by general economic trends and developments. In determining the additions to the allowance charged to operating expenses, management considered historical loss experience, changes in the nature and volume of the loan portfolio, overall portfolio quality, and current economic conditions that may affect the borrower's ability to pay.

Investment Portfolio

At September 30, 1996, the investment portfolio increased \$8.3 million, or 4.0%, to \$213 million from \$205 million at December 31, 1995. At September 30, 1996, the investment portfolio represented 18.8% of total assets compared with 20.6% at December 31, 1995.

Deposits

Total deposits at September 30, 1996 increased \$104.6 million, or 12.1%, to \$971 million from \$867 million at December 31, 1995. Interest-bearing deposits at September 30, 1996 increased \$83.9 million, or 11.1%, to \$840 million from \$756 million at December 31, 1995.

Borrowings

Short-term borrowings at September 30, 1996 were \$38.0 million, as compared to \$12.2 million at December 31, 1995. Short-term borrowings consist primarily of federal funds purchased. The Company has used short-term borrowings to assist in funding its increasing loan demand. Management has taken steps to monitor short-term borrowing levels and supplement them by increasing interest rates paid to depositors, developing new deposit products, and carefully monitoring the growth in the loan portfolio, although loan growth has continued to outpace the growth in deposits.

Several of the Company's subsidiary banks, as members of the Federal Home Loan Bank (FHLB), had borrowings from the FHLB as of September 30, 1996. These borrowings are secured by pledges of mortgage loans, and totaled \$9.2 million at September 30, 1996, compared to \$10.8 million at December 31, 1995. These FHLB borrowings had original maturities of three month to seven years at September 30, 1996.

Capital Adequacy

During the nine months ended September 30, 1996, stockholders' equity increased \$7.9 million due to net income of \$10.7 million in the nine months, offset by the effect of SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities" which decreased stockholders' equity by \$882,000 during the nine months, along with dividends paid to stockholders. At

September 30, 1996, the Company's risk-based Tier 1 capital ratio was 11.35%. The total risk-based capital ratio was 12.57% and the leverage ratio was 8.63%. All such ratios exceed regulatory minimums of 4.0%, 8.0% and 3.0%, respectively. The average equity to average assets ratio was 9.19% at September 30, 1996, compared with 9.09% at September 30, 1995.

- 13 -

14

F & M's common stock dividend payout ratio was 31.2% in the first nine months of 1996 as compared to 30.0% in the comparable 1995 period. These numbers do not include the dividends historically paid by Union and Community prior to their acquisitions by the Company.

At September 30, 1996, each of the Company's subsidiary banks was in compliance with all applicable capital requirements, and management believes that the capitalization of those banks is adequate.

During the first nine months the Company incurred capital expenditures of approximately \$3.6 million for replacement and renovation of facilities and the purchase of a new branch location. In addition, on May 10, 1996, the Company acquired Bradley for \$6.6 million in cash. The Company's Little Chute acquisition resulted in net cash of \$6.6 million paid to F&M, in exchange for F&M's assumption of \$7.5 million in deposits and transfer to F&M of the physical assets of the Little Chute branch. The capital expenditures are being paid for by cash provided by operations.

Liquidity

As shown in the Company's Consolidated Statements of Cash Flows for the nine months ended September 30, 1996, cash and cash equivalents decreased by \$14.2 million during the period to \$48.8 million at September 30, 1996. The decrease primarily reflected \$10.3 million in net cash provided by operating activities and \$65.0 million in net cash provided by financing activities, offset by \$89.5 million in net cash used in investing activities. Net cash provided by operating activities primarily consisted of the Company's net income in the period increased by adjustments for non-cash credits. Net cash provided by financing activities principally reflected an increase in deposits and short-term borrowing, partially offset by a decrease in other borrowings. Net cash used in investing activities consisted primarily of a net increase in loans plus necessary capital expenditures.

The Company manages its liquidity to provide adequate funds to support the borrowing requirements and deposit flow of its customers. Management views liquidity as the ability to raise cash at a reasonable cost or with a minimum of loss and as a measure of balance sheet flexibility to react to marketplace, regulatory and competitive changes. The primary sources of the Company's liquidity are investment securities available for sale and other marketable assets maturing within one year. The Company attempts, when possible, to match relative maturities of assets and liabilities, while maintaining the desired net interest margin. Although the percentage of earning assets represented by loans is increasing, management believes that its source of liquidity is adequate.

- 14 -

15

OTHER

SFAS No. 114 (Accounting by Creditors for Impairment of a Loan) as amended by SFAS No. 118 (Accounting by Creditors for Impairment of a Loan-Income Recognition and Disclosures) was adopted by the Company as of January 1, 1995. In accordance with the new standard, the 1995 allowance for loan losses includes specific allowances related to loans which have been judged to be impaired and which fall within the scope of SFAS No. 114 (primarily commercial loans). A loan is impaired when, based on current information, it is probable

that the Company will not collect all amounts due in accordance with the contractual terms of the loan agreement. These specific allowances are based on discounted cash flows of expected future payments using the loan's initial effective interest rate or the fair value of the collateral if the loan is collateral dependent. Since the Company evaluates the overall adequacy of the allowance for credit losses on an ongoing basis, the adoption of SFAS No. 114 did not affect the amount of the allowance for credit losses or the existing income recognition and charge-off policies for nonperforming loans.

SFAS No. 121 (Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of) was issued by FASB in March 1995. SFAS No. 121 requires long-lived assets and certain intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. The statement also requires long-lived assets and certain intangibles to be disposed of or be reported at the lower of carrying amount or fair value less cost to sell. This statement was adopted by the Company effective January 1, 1996. The adoption of SFAS No. 121 did not have a significant impact on the Company's financial condition or results of operations.

SFAS No. 122 (Accounting for Mortgage Servicing Rights) was issued by FASB in May 1995. SFAS No. 122 requires accounting recognition of the rights to service mortgage loans for others. The total cost of the mortgage loan will be allocated between the relative fair values of the loan and the mortgage servicing rights. The cost allocated to mortgage servicing rights will be recognized as a separate asset and amortized over the period of estimated servicing income. This statement was adopted by the Company effective January 1, 1996. The adoption of SFAS No. 122 did not have a significant impact on the Company's financial condition or results of operations. Future impact of adoption is contingent on the future levels of mortgage loan sales.

SFAS No. 123 (Accounting for Stock-Based Compensation) was issued by FASB in October 1995. SFAS No. 123 establishes financial accounting and reporting standards for stock-based employee compensation plans. The statement encourages a "fair value-based method" of accounting for stock-based compensation plans. Upon adoption of SFAS No. 123, the Company will be required to disclose in the notes to the financial statements the difference between the "fair value method" and the "intrinsic value method" as prescribed by APB Opinion No. 25, "Accounting for Stock Issued to Employees." The Company will continue to account for stock-based compensation in accordance with APB Opinion No. 25 on the Company's financial statements. SFAS No. 123 was adopted as of January 1, 1996, and did not have a significant impact on the Company's financial condition or results of operations.

- 15 -

16

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS.

The foregoing discussion contains forward-looking statements (statements which are not historical fact, and which may include the terms "believe," "expect" or "anticipate") that involve risks and uncertainties. The Company's actual future results could materially differ from those discussed. Factors that could cause or contribute to such differences include, but are not limited to, general economic trends, acquisition activity, changes in borrowers' conditions, regulatory changes and those discussed above and in the Company's annual report on Form 10-K for the year ended December 31, 1995 (including the Management's Discussion and Analysis incorporated by reference therein).

-16-

17

PART II OTHER INFORMATION

- Item 6. Exhibits and Reports on Form 8-K
 - (a) Exhibits
 - 27 Financial Data Schedule

(b) Reports on Form 8-K
None during the quarter

- 17 -

18

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.

F & M BANCORPORATION, INC.

(Registrant)

Date 11/11/96

Gail E. Janssen

Gail E. Janssen
Chief Executive Officer

Date November 11, 1996

Daniel E. Voet

Daniel E. Voet
Chief Financial Officer and Treasurer

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