

FIRST FARMERS & MERCHANTS CORP
Form 10-Q
May 09, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark one)

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

For the quarterly period ended **March 31, 2014**.

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 Numbers: 000-10972

First Farmers and Merchants Corporation

Edgar Filing: FIRST FARMERS & MERCHANTS CORP - Form 10-Q

(Exact name of registrant as specified in its charter)

Tennessee
(State or other jurisdiction of incorporation or organization)

62-1148660
(I.R.S. Employer Identification No.)

816 South Garden Street
Columbia, Tennessee
(Address of principal executive offices)

38402-1148
(Zip Code)

931-388-3145

(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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of May 5, 2014, the registrant had 4,981,999 shares of common stock outstanding.

1

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements.

The following unaudited condensed consolidated financial statements of the Registrant are included in this Report:

Condensed consolidated balance sheets March 31, 2014 and December 31, 2013.

Condensed consolidated statements of income - For the three months ended March 31, 2014 and March 31, 2013.

Condensed consolidated statements of comprehensive income - For the three months ended March 31, 2014 and March 31, 2013.

Condensed consolidated statements of cash flows - For the three months ended March 31, 2014 and March 31, 2013.

Selected notes to condensed consolidated financial statements.

2

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

		March 31, 2014	December 31, 2013
		(unaudited)	(1)
<i>(Dollars in Thousands Except Share and Per Share Data)</i>			
ASSETS	Cash and due from banks	27,056	\$ 20,391
	Interest-bearing deposits	27,539	25,167
	Federal funds sold	14,400	9,850
	Total cash and cash equivalents	68,995	55,408
	Securities:		
	Available-for-sale (amortized cost \$351,800 and \$346,892 as of March 31, 2014 and December 31, 2013, respectively)	339,504	329,714
	Held-to-maturity (fair market value \$27,583 and \$28,595 as of March 31, 2014 and December 31, 2013, respectively)	26,912	27,839
	Total securities	366,416	357,553
	Loans, net of deferred fees	620,457	606,766
	Allowance for loan and lease losses	(8,621)	(8,595)
	Net loans	611,836	598,171
	Bank premises and equipment, net	24,767	24,868
	Other real estate owned	1,062	1,438
	Bank owned life insurance	26,153	25,867
	Goodwill	9,018	9,018
	Deferred tax asset	9,016	10,905
	Other assets	10,902	10,605
	TOTAL ASSETS	\$128,165	\$ 1,093,833
LIABILITIES	Deposits		
	Noninterest-bearing	186,110	\$ 179,823
	Interest-bearing	800,064	777,514
	Total deposits	986,174	957,337
	Securities sold under agreements to repurchase	20,060	18,095
	Accounts payable and accrued liabilities	14,941	15,728
	TOTAL LIABILITIES	1,021,175	991,160
SHAREHOLDERS' EQUITY	Common stock - \$10 par value per share, 8,000,000 shares authorized; 4,981,999 and 5,021,012 shares issued and outstanding as of March 31, 2014 and December 31, 2013, respectively	49,820	50,210
	Retained earnings	63,045	61,369
	Accumulated other comprehensive loss	(5,970)	(9,001)

TOTAL SHAREHOLDERS EQUITY BEFORE NONCONTROLLING INTEREST - PREFERRED STOCK OF SUBSIDIARY	106,895	102,578
Noncontrolling interest - preferred stock of subsidiary	95	95
TOTAL SHAREHOLDERS EQUITY	106,990	102,673
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	\$128,165	\$ 1,093,833

(1) Derived from audited financial statements.

The accompanying notes are an integral part of the condensed consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

		Three Months Ended March	
		31,	
		2014	2013
			\$
<i>(Unaudited) (Dollars in Thousands, Except Per Share Data)</i>			
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	6,936	6,962
	Income on investment securities		
	Taxable interest	1,354	1,437
	Exempt from federal income tax	679	746
	Dividends	73	78
	Total interest income	9,042	9,223
INTEREST EXPENSE	Interest on deposits	604	735
	Interest on other borrowings	16	99
	Total interest expense	620	834
	Net interest income	8,422	8,389
	Provision for loan and lease losses	-	-
	Net interest income after provision	8,422	8,389
NONINTEREST INCOME	Gain on loans sold	36	179
	Trust department income	670	596
	Service fees on deposit accounts	1,520	1,565
	Brokerage fees	104	107
	Earnings on bank owned life insurance	111	87
	Gain on sale of securities	45	823
	Gain (loss) on foreclosed property	6	(139)
	Other noninterest income	159	111
	Total noninterest income	2,651	3,329
NONINTEREST EXPENSE	Salaries and employee benefits	4,521	4,472
	Net occupancy expense	467	523
	Depreciation expense	360	380
	Data processing expense	588	544
	Legal and professional fees	228	183
	Stationary and office supplies	70	74
	Advertising and promotions	328	253
	FDIC insurance premium expense	129	186
	Other real estate expense	7	21
	Other noninterest expense	1,400	1,469
	Total noninterest expenses	8,098	8,105
	Income before provision for income taxes	2,975	3,613
	Provision for income taxes	713	557
	Net income before noncontrolling interest - dividends on preferred stock of subsidiary	2,262	3,056
	Noncontrolling interest-dividends on preferred stock subsidiary	-	-
	Net income for common shareholders	2,262	\$ 3,056
PER SHARE	Weighted Average Shares Outstanding	5,017,789	5,178,759

~~\$~~45

\$ 0.59

The accompanying notes are an integral part of the condensed consolidated financial statements.

4

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(unaudited) dollars in thousands

	Three Months Ended March 31,	
	2014	2013
Net Income	\$ 2,262	\$ 3,056
Comprehensive Loss		
Unrealized depreciation on available-for-sale securities, net of taxes of \$1,897 and \$1,020 for 2014 and 2013, respectively	3,030	(1,629)
Less: reclassification adjustment for realized gain included in net income, net of taxes of \$17 and \$317, for 2014 and 2013, respectively	(28)	(506)
Change in unfunded portion of postretirement benefit obligations, net of taxes of \$18, \$29 , for 2014 and 2013 respectively	29	(47)
Other Comprehensive Income (Loss)	3,031	(2,182)
Comprehensive Income (Loss)	5,293	874
Less: comprehensive income attributable to the noncontrolling interest	-	-
Total Comprehensive Income	\$ 5,293	\$ 874

The accompanying notes are an integral part of the condensed consolidated financial statements

5

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(unaudited)
(Dollars in Thousands)

		Three Months Ended March 31,		
		2014	2013	
		\$	\$	
OPERATING ACTIVITIES	Net income available for common shareholders	2,262	3,056	
	Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
	Provision for loan losses	-	-	
	Provision for depreciation and amortization of premises and equipment	360	380	
	Deferred tax expense	(67)	(212)	
	Net securities gains	(45)	(823)	
	Gains on loans sold	(36)	(179)	
	Proceeds from sale of mortgage loans held for sale	1,217	10,156	
	Funding of mortgage loans held for sale	(1,109)	(10,301)	
	(Gain) loss on other real estate owned	(6)	139	
	Gain on sale of assets	-	16	
	Amortization of investment security premiums, net of accretion of discounts	247	339	
	Increase in cash surrender value of life insurance contracts	(111)	(87)	
	(Increase) decrease in:			
	Other assets	(311)	(492)	
	Increase (decrease) in:			
	Other liabilities	1,124	(676)	
	Total adjustments	1,263	(1,740)	
		Net cash provided by operating activities	3,525	1,316
INVESTING ACTIVITIES	Proceeds from sales of available-for-sale securities	754	72,447	
	Proceeds from maturities and calls of available-for-sale securities	8,514	16,629	
	Proceeds from maturities and calls of held-to-maturity securities	925	765	
	Purchases of investment securities			
	available-for-sale	(14,376)	(129,012)	
	Net (increase) decrease in loans	(13,665)	(4,765)	
	Purchase of bank owned life insurance	(175)	-	
	Proceeds from sale of other real estate owned	376	287	
	Proceeds from sale of assets	-	(486)	
	Purchases of premises and equipment	(259)	(57)	
	Net cash used in investing activities	(17,906)	(44,192)	
FINANCING ACTIVITIES	Net increase in deposits	28,837	30,655	
	Net increase (decrease) in securities sold under agreements to repurchase	1,965	1,698	
	Payments to FHLB borrowings	-	(7,000)	
	Repurchase of common stock	(976)	(1,028)	
	Cash dividends paid on common stock	(1,858)	-	
		Net cash provided by financing activities	27,968	24,325
	Increase (decrease) in cash and cash equivalents	13,587	(18,551)	
	Cash and cash equivalents at beginning of period	55,408	70,396	
	Cash and cash equivalents at end of period	\$ 68,995	\$ 51,845	
	Supplemental disclosures of cash flow information			
Cash paid during the period for: expenses				
Interest on deposits and borrowed funds	\$ 693	\$ 780		
Income taxes	137	(201)		
Loans to facilitate sale of other real estate owned	-	1,760		
Real estate acquired in settlement of loans	-	42		

The accompanying notes are an integral part of the consolidated financial statements.

6

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited condensed consolidated financial statements reflect all adjustments that are, in the opinion of management of First Farmers and Merchants Corporation (the Corporation), necessary to fairly present the financial position, results of operations and cash flows of the Corporation. Those adjustments consist only of normal recurring adjustments.

The accompanying condensed consolidated financial statements are presented in accordance with the requirements of Form 10-Q and consequently do not include all of the disclosures normally required by accounting principles generally accepted in the United States of America or those normally made in the Corporation's Annual Report on Form 10-K. Accordingly, the reader of this Quarterly Report on Form 10-Q should refer to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013 for further information in this regard. The condensed consolidated balance sheet of the Corporation as of December 31, 2013 has been derived from the audited consolidated balance sheet of the Corporation as of that date. The results of operations for the period are not necessarily indicative of the results to be expected for the full year.

Reclassifications: Certain reclassifications considered to be immaterial have been made in the prior year condensed consolidated financial statements to conform to current year presentation. These reclassifications had no effect on net income.

NOTE 2 ACCUMULATED OTHER COMPREHENSIVE INCOME (AOCI) BY COMPONENT

Amounts reclassified from AOCI and the affected line items in the statements of income during the periods ended March 31, 2014 and 2013, were as follows (dollars in thousands):

Amounts Reclassified from AOCI March 31, 2014	Affected Line Item in the Statements of Income
--	---

March 31,
2013

Unrealized gains on available-for-sale securities

	\$	45	\$	823	Realized gain on sale of securities
					Total reclassified amount before tax
		45		823	and noncontrolling interest
		(17)	(317)		Tax expense
	\$	28	\$	506	Net reclassified amount
Amortization of defined benefit pension items					
Actuarial losses	\$	(47)	\$	(47)	
				(47)	Total reclassified amount before tax
				18	- Tax benefit
	\$	(29)	\$	(47)	Net reclassified amount
Total reclassifications out of AOCI	\$	(1)	\$	459	

The components of accumulated other comprehensive income, included in shareholder's equity, are as follows (dollars in thousands):

	March 31, 2014	December 31, 2013
Net unrealized losses on available-for-sale securities	\$ (12,296)	(17,178)
Net actuarial gain on unfunded portion of postretirement benefit obligation	2,588	2,542
	(9,708)	(14,636)
Tax effect	3,738	5,635
Accumulated other comprehensive loss	\$ (5,970)	\$ (9,001)

NOTE 3 FAIR VALUE MEASUREMENTS

The fair value of an asset or liability is the price that would be received to sell that asset or paid to transfer that liability in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. In estimating fair value, the Corporation utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) Topic 820, Fair Value Measurements and Disclosures (ASC Topic 820) establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, market consensus, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.

- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions about the assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Corporation's monthly and/or quarterly valuation process.

The following table summarizes financial assets measured at fair value on a recurring basis as of March 31, 2014 and December 31, 2013, and by the level within the fair value hierarchy utilized to measure fair value (dollars in thousands):

Assets measured at fair value on a recurring basis as of March 31, 2014

Available-For-Sale Securities	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$	- \$	109,467 \$	- \$ 109,467
U.S. government sponsored agency mortgage backed securities		-	165,986	- 165,986
States and political subdivisions		-	44,360	- 44,360
Corporate bonds		-	19,691	- 19,691
Total assets at fair value	\$	- \$	339,504 \$	- \$ 339,504

Assets measured at fair value on a recurring basis as of December 31, 2013

Available-For-Sale Securities	Level 1	Level 2	Level 3	Total
U.S. Government agencies	\$	- \$	105,072 \$	- \$ 105,072
U.S. government sponsored agency mortgage backed securities		-	157,423	- 157,423
States and political subdivisions		-	46,337	- 46,337
Corporate bonds		-	20,882	- 20,882
Total assets at fair value	\$	- \$	329,714 \$	- \$ 329,714

Below is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There were no significant changes in the valuation techniques during the three months ended March 31, 2014.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the Corporation obtains fair value measurements from an independent pricing service, such as Interactive Data, which utilizes pricing models to determine fair value measurement. The Corporation reviews the pricing quarterly to verify the reasonableness of the pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other factors. U.S. government agencies, state and political subdivisions, U.S. government sponsored agency mortgage-backed securities and corporate bonds are classified as Level 2 inputs.

Nonrecurring Measurements

The following table summarizes financial assets measured at fair value on a nonrecurring basis as of March 31, 2014 and December 31, 2013, by the level within the fair value hierarchy utilized to measure fair value (dollars in thousands):

March 31, 2014		Level 1		Level 2		Level 3		Total
Impaired loans (collateral-dependent)	\$		- \$		- \$	4,136 \$		3,507
Other real estate owned			-		-	-		-
December 31, 2013		Level 1		Level 2		Level 3		Total
Impaired loans (collateral-dependent)	\$		- \$		-&nbs			