FIRST FARMERS & MERCHANTS CORP
Form 10-K/A
February 10, 2015

**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**FORM 10-K/A**

**Amendment No. 2**

(Mark one)

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

For the fiscal year ended **December 31, 2013**

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 __000-10972____
**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) |

Registrant s telephone number, including area code(931) 388-3145___
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|---|---|

| | |
|---|---|
| None | None |

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $10.00 par value per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
[ ]Yes [ X ] No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
[ ]Yes [ X ] No

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.

[ X ]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 (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

[ X ]Yes [ ] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ X]

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 the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

| | |
|---|---|
| Large accelerated filer [ ] | Accelerated filer [ X ] |
| 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 [ X ]No

The aggregate market value of the registrant s common stock held by non-affiliates as of June 30, 2013 was approximately $121,936,983 based on the reported price at which the common stock was last sold in a transaction known to the registrant.

As of March 1, 2014, the registrant had outstanding 5,021,012 shares of common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Selected sections from Annual Report to Shareholders for Fiscal Year Ended December 31, 2013 titled Comparative Performance and Management s Discussion and Analysis of Financial Condition and Results of Operations -- Part I and II of this Report.

Proxy Statement for 2014 Annual Shareholders Meeting to be held on April 15, 2014 -- Part III of this Report.

**EXPLANATORY NOTE    AMENDMENT NO. 2**

The purpose of this Amendment No. 2 on Form 10-K/A (  Amendment No. 2  ) is to amend the Annual Report on Form 10-K for the year ended December 31, 2013 originally filed with the Securities and Exchange Commission (  SEC  ) on March 5, 2014 (as previously amended by Amendment No. 1 on Form 10-K/A filed with the SEC on September 9, 2014, the  Original Filing  ) of First Farmers and Merchants Corporation (the  Corporation  ).

As described in more detail in Note 2 of the Notes to our Consolidated Financial Statements, this Amendment No.2 addresses an error in accounting for the Corporation  s defined benefit post-retirement healthcare plan. This Amendment No. 2 (i) amends and restates the Corporation  s financial statements and the notes thereto as of and for the years ended December 31, 2013 and 2012 (the  Financial Statements  ) in Item 8 of Part II (  Financial Statements and Supplementary Data  ), as included in Exhibit 13 of the Original Filing, (ii) amends and restates the  Management Report on Internal Control Over Financial Reporting  and the  Report of Independent Registered Public Accounting Firm  , each as incorporated by reference into Item 8 of Part II (  Financial Statements and Supplementary Data  ), as included in Exhibit 13 of the Original Filing, (iii) amends and restates Item 9A of Part II (  Controls and Procedures  ) to reflect management  s finding of a material weakness in the Corporation  s disclosure controls and procedures and remediation plan to address the material weakness, (iv) amends and restates Item 7 of Part II (  Management  s Discussion and Analysis of Financial Condition and Results of Operations  ) included in Exhibit 13 of the Original Filing to reflect the changes to the Financial Statements, (v) amends and restates Item 6 of Part II (  Selected Financial Data  ) included in Exhibit 13 of the Original Filing to reflect the changes to the Financial Statements, and (vi) includes new certifications of the Corporation  s principal executive officer and principal financial officer as Exhibits 31.1, 31.2 and 32.1, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended. The remainder of Parts I through IV have not changed and can be found in the Original Filing. This Amendment No. 2 does not reflect events occurring after the Original Filing, nor does it modify or update the disclosures and information contained in the Original Filing in any way other than described in this Explanatory Note.

Management has evaluated the impact of the error in accounting for the Corporation  s defined benefit post-retirement healthcare plan on the unaudited financial statements included in the Corporation  s Quarterly Reports on Form10-Q for the periods ended March 31, June 30 and September 30, 2014 and determined that such impact is not material and that no restatement of such unaudited financial statements is required.

The Corporation  s management has concluded that, because of the Corporation  s failure to interpret correctly and account for certain actuarial information provided to the Corporation in connection with the accounting for its defined benefit post-retirement healthcare plan in the Financial Statements, a material weakness in internal control over financial reporting existed for the years ended December 31, 2013 and 2012.

This Amendment No. 2 should be read in conjunction with our other filings with the SEC.

**PART II**

**Item 6. Selected Financial Data.**

Selected Financial Data is included in the amended Exhibit 13 to this Annual Report on Form 10-K and is incorporated herein by reference.

**Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.**

Management s Discussion and Analysis of Financial Condition and Results of Operations is included in the amended Exhibit 13 to this Annual Report on Form 10-K and is incorporated herein by reference.

**Item 8. Financial Statements and Supplementary Data.**

(a) ***Consolidated Financial Statements***: The Corporation s consolidated financial statements are included in the amended and restated Exhibit 13 to this Annual Report on Form 10-K and is incorporated herein by reference.

**Item 9A. Controls and Procedures.**

***Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures***

The Corporation with the participation of its management, including the Corporation s Chief Executive Officer and Treasurer (principal financial officer), carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules 13a-15 and 15d-15 under the Securities and Exchange Act of 1934, as amended (the Exchange Act )) as of the end of the period covered by this Report.

Based upon that evaluation and as of the end of the period covered by this Report, the Corporation s Chief Executive Officer and Treasurer (principal financial officer) concluded that, as a result of the material weakness referenced in the Management Report on Internal Control Over Financial Reporting incorporated by reference into Item 8 of this Report, the Corporation s disclosure controls and procedures were not effective in ensuring that information required to be disclosed in the reports that the Corporation files or submits to the SEC under the Exchange Act is recorded, processed, summarized and reported on a timely basis. Notwithstanding the identification of this material weakness, the Corporation s Chief Executive Officer and Treasurer (principal financial officer) have concluded that the Consolidated Financial Statements of the Corporation incorporated by reference into Item 8 of this Report fairly present in all material respects the Corporation s financial condition, results of operations and cash flows as of the dates and for the periods presented in this Report.

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, the Corporation has included a report of management s assessment of the design and operating effectiveness of its internal controls as part of this Report.

***Changes in Internal Control Over Financial Reporting***

Management s assessment of the Corporation s internal control over financial reporting identified a material weakness related to errors in accounting for the Corporation s defined benefit post-retirement health care plan as of December 31, 2013. These errors were the result of a lack of sufficient personnel with the requisite expertise regarding the accounting for the plan. Other than the identification of this material weakness, there was no change in the Corporation s internal control over financial reporting during the fourth quarter ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

***Remediation Plan for Material Weakness in Internal Control Over Financial Reporting***

In 2013, management began taking steps to remediate the material weaknesses identified during the audit of the Corporation s financial statements as of and for the year ended December 31, 2012. The remediation plan has required intermediate steps over several quarters. These steps began in 2013 when the Corporation s Disclosure Committee, composed of members of management, evolved its role to review new accounting pronouncements, as well as new events within the organization that may impact financial reporting. In 2013, the Corporation s accounting and finance department formalized the monthly, quarterly, and annual close process with a procedures checklist. At the end of 2013, management hired a certified public accountant as Controller who has several years of accounting and financial reporting experience. The Controller has enabled the Corporation to establish an additional layer of review over recording transactions in the general ledger, as well as review of the Corporation s financial reporting and internal control structure. During 2014, the Controller became fully acclimated in the affairs of the Corporation and functioned at a level that demonstrated a sufficient and adequate review over recording complex accounting transactions. The review function pertaining to the defined benefit post-retirement health care plan detected the errors in financial reporting as described above. The Corporation has also implemented a closing procedure to obtain outsourced expertise regarding complex accounting transactions that in-house accounting staff does not have the inherent resources of time or expertise to record and report. Other than the remediation actions described, there was no change in the Corporation s internal control over financial reporting during the year ended December 31, 2013 that has materially affected, or is reasonably likely to materially affect, the Corporation s internal control over financial reporting.

## PART IV

**Item 15. Exhibits and Financial Statement Schedules.**

(a) Index to Consolidated Financial Statements, Financial Statement Schedules and Exhibits:

| | |
|---|---|
| (1) | ***Consolidated Financial Statements***: See Item 8 under Part II, Financial Statements and Supplementary Data. |
| (2) | ***Consolidated Financial Statement Schedules***: All schedules are omitted because they are not applicable or not required, or because the required information is included in the consolidated financial statements or notes in this report. |
| (3) | ***Exhibits:*** |
| 3.1 | Charter. (1) |
| 3.2 | Articles of Amendment to Charter. (1) |
| 3.3 | Second Amended and Restated Bylaws, as amended. (2) |
| 4 | Specimen Stock Certificate. (1) |
| 10.1 | Profit Sharing Plan. (3)* |
| 10.2 | First Amendment to Profit Sharing Plan. (3)* |
| 10.3 | Second Amendment to Profit Sharing Plan. (3)* |
| 10.4 | Executive Salary Continuation Agreement by and between First Farmers and Merchants National Bank and Waymon L. Hickman, dated as of December 1, 1992. (3)* |
| 10.5 | Benefits Agreement by and between First Farmers and Merchants Bank and Thomas Randall Stevens, the Bank s and the Corporation s Chairman and Chief Executive Officer, dated as of January 26, 2007. (4)* |
| 10.6 | Benefits Agreement by and between John P. Tomlinson, III, the Bank s and Corporation s Chief Administrative Officer, dated as of January 29, 2007. (4)* |
| 10.7 | |

| | |
|---|---|
| | Form of First Farmers and Merchants Corporation Amended and Restated Director Deferred Compensation Agreement.(5)* |
| 10.8 | First Amendment to the First Farmers and Merchants Corporation Amended and Restated Director Deferred Compensation Agreement with John P. Tomlinson, III, dated as of December 18, 2007. (5)* |
| 10.9 | Form of First Farmers and Merchants Bank Amended and Restated Director Deferred Compensation Agreement. (5)* |
| 10.10 | First Amendment to the First Farmers and Merchants Bank Director Deferred Compensation Agreement with Thomas Randall Stevens, dated as of January 5, 2007. (5)* |
| 10.11 | First Amendment to the First Farmers and Merchants Bank Amended and Restated Director Deferred Compensation Agreement with John P. Tomlinson, III, dated as of December 18, 2007. (5)* |
| 10.12 | Form of First Farmers and Merchants National Bank Director Split Dollar Agreement. (5)* |
| 10.13 | Form of Amendment to the First Farmers and Merchants National Bank Director Split Dollar Agreement. (5)* |
| 10.14 | First Farmers & Merchants Bank Group Term Carve-Out Plan, dated as of March 27, 2007. (5)* |

10.15 First Farmers and Merchants National Bank Group Term Carve-Out Plan, dated as of July 23, 2002. (5)*

10.16 Amendment to the First Farmers and Merchants National Bank Group Term Carve-Out Plan, dated as of July 23, 2002. (5)*

10.17 First Farmers & Merchants Bank Life Insurance Endorsement Method Split Dollar Plan Agreement, dated as of January 7, 2008. (5)*

10.18 Form of First Farmers and Merchants Corporation Director Deferred Compensation Agreement. (5)*

10.19 Form of First Farmers and Merchants Bank Director Deferred Compensation Agreement. (5)*

10.20 First Farmers and Merchants Bank Director Deferred Compensation Agreement with Tim E. Pettus, dated as of March 5, 2008. (5)*

10.21 First Farmers and Merchants Corporation Director Deferred Compensation Agreement with Tim E. Pettus, dated as of March 5, 2008. (5)*

13 Selected sections from Annual Report to Shareholders.

21 List of Subsidiaries. (6)

31.1 Certification of the Chief Executive Officer of First Farmers and Merchants Corporation pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Treasurer (principal financial officer) of First Farmers and Merchants Corporation pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of the Chief Executive Officer and Treasurer (principal financial officer) of First Farmers and Merchants Corporation pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company s Annual Report on Form 10-K for the year ended December 31, 2013, is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2013 and 2012; (ii) the Consolidated Statements of Income for each of the years ended December 31, 2013, 2012 and 2011; (iii) the Consolidated Statements of Changes in Shareholders Equity for each of the years ended December 31, 2013, 2012 and 2011; (iv) the Consolidated Statements of Cash Flows for each of the years ended December 31, 2013, 2012 and 2011; and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

* Indicates a compensatory plan or arrangement.

(1) Incorporated by reference to the First Farmers and Merchants Corporation Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on May 7, 2004 (File Number 000-10972).

(2) Incorporated by reference to the First Farmers and Merchants Corporation Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 13, 2011 (File Number 000-10972).

(3) Incorporated by reference to the First Farmers and Merchants Corporation Amendment No. 2 to the Annual Report on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on July 19, 2004 (File Number 000-10972).

(4) Incorporated by reference to the First Farmers and Merchants Corporation Current Report on Form 8-K, as filed with the Securities and Exchange Commission on January 30, 2007 (File Number 000-10972).

(5) Incorporated by reference to the First Farmers and Merchants Corporation Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on March 13, 2009 (File Number 000-10972).

(6) Included in the original filing.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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

By: /s/ T. Randy Stevens
T. Randy Stevens
Chief Executive Officer
Date: February 10, 2015

**EXHIBIT INDEX**

**FIRST FARMERS AND MERCHANTS CORPORATION**

| | |
|---|---|
| 3.1 | Charter. (1) |
| 3.2 | Articles of Amendment to Charter. (1) |
| 3.3 | Second Amended and Restated Bylaws, as amended. (2) |
| 4 | Specimen Stock Certificate. (1) |
| 10.1 | Profit Sharing Plan. (3)* |
| 10.2 | First Amendment to Profit Sharing Plan. (3)* |
| 10.3 | Second Amendment to Profit Sharing Plan. (3)* |
| 10.4 | Executive Salary Continuation Agreement by and between First Farmers and Merchants National Bank and Waymon L. Hickman, dated as of December 1, 1992. (3)* |
| 10.5 | Benefits Agreement by and between First Farmers and Merchants Bank and Thomas Randall Stevens, the Bank s and the Corporation s Chairman and Chief Executive Officer, dated as of January 26, 2007. (4)* |
| 10.6 | Benefits Agreement by and between John P. Tomlinson, III, the Bank s and Corporation s Chief Administrative Officer, dated as of January 29, 2007. (4)* |
| 10.7 | Form of First Farmers and Merchants Corporation Amended and Restated Director Deferred Compensation Agreement.(5)* |
| 10.8 | First Amendment to the First Farmers and Merchants Corporation Amended and Restated Director Deferred Compensation Agreement with John P. Tomlinson, III, dated as of December 18, 2007. (5)* |
| 10.9 | Form of First Farmers and Merchants Bank Amended and Restated Director Deferred Compensation Agreement. (5)* |
| 10.10 | First Amendment to the First Farmers and Merchants Bank Director Deferred Compensation Agreement with Thomas Randall Stevens, dated as of January 5, 2007. (5)* |
| 10.11 | First Amendment to the First Farmers and Merchants Bank Amended and Restated Director Deferred Compensation Agreement with John P. Tomlinson, III, dated as of December 18, 2007. (5)* |
| 10.12 | Form of First Farmers and Merchants National Bank Director Split Dollar Agreement. (5)* |

10.13 Form of Amendment to the First Farmers and Merchants National Bank Director Split Dollar Agreement. (5)*

10.14 First Farmers & Merchants Bank Group Term Carve-Out Plan, dated as of March 27, 2007. (5)*

10.15 First Farmers and Merchants National Bank Group Term Carve-Out Plan, dated as of July 23, 2002. (5)*

10.16 Amendment to the First Farmers and Merchants National Bank Group Term Carve-Out Plan, dated as of July 23, 2002. (5)*

10.17 First Farmers & Merchants Bank Life Insurance Endorsement Method Split Dollar Plan Agreement, dated as of January 7, 2008. (5)*

10.18 Form of First Farmers and Merchants Corporation Director Deferred Compensation Agreement. (5)*

10.19 Form of First Farmers and Merchants Bank Director Deferred Compensation Agreement. (5)*

10.20 First Farmers and Merchants Bank Director Deferred Compensation Agreement with Tim E. Pettus, dated as of March 5, 2008. (5)*

10.21 First Farmers and Merchants Corporation Director Deferred Compensation Agreement with Tim E. Pettus, dated as of March 5, 2008. (5)*

13 Selected sections of Annual Report to Shareholders.

21 List of Subsidiaries. (6)

31.1 Certification of the Chief Executive Officer of First Farmers and Merchants Corporation pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Treasurer (principal financial officer) of First Farmers and Merchants Corporation pursuant to Rule 13a-14 of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32 Certification of the Chief Executive Officer and Treasurer (principal financial officer) of First Farmers and Merchants Corporation pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

101 Pursuant to Rule 405 of Regulation S-T, the following financial information from the Company s Annual Report on Form 10-K for the year ended December 31, 2013, is formatted in XBRL (Extensible Business Reporting Language) interactive data files: (i) the Consolidated Balance Sheets as of December 31, 2013 and 2012; (ii) the Consolidated Statements of Income for each of the years ended December 31, 2013, 2012 and 2011; (iii) the Consolidated Statements of Changes in Shareholders Equity for each of the years ended December 31, 2013, 2012 and 2011; (iv) the Consolidated Statements of Cash Flows for each of the years ended December 31, 2013, 2012 and 2011; and (v) the Notes to Consolidated Financial Statements, tagged as blocks of text.

* Indicates a compensatory plan or arrangement.

(1) Incorporated by reference to the First Farmers and Merchants Corporation Amendment No. 1 to the Annual Report on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on May 7, 2004 (File Number 000-10972).

(2) Incorporated by reference to the First Farmers and Merchants Corporation Annual Report on Form 10-K for the year ended December 31, 2011, as filed with the Securities and Exchange Commission on March 13, 2011 (File Number 000-10972).

(3) Incorporated by reference to the First Farmers and Merchants Corporation Amendment No. 2 to the Annual Report on Form 10-K/A for the year ended December 31, 2003, as filed with the Securities and Exchange Commission on July 19, 2004 (File Number 000-10972).

(4) Incorporated by reference to the First Farmers and Merchants Corporation Current Report on Form 8-K, as filed with the Securities and Exchange Commission on January 30, 2007 (File Number 000-10972).

(5) Incorporated by reference to the First Farmers and Merchants Corporation Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on March 13, 2009 (File Number 000-10972).

(6) Included in the original filing.

**COMPARATIVE PERFORMANCE**

Set forth below is a graph comparing the yearly change in the cumulative total shareholder return on the common stock of First Farmers and Merchants Corporation (FF&M in the graph) against the cumulative total return of the S&P 500 Index and the Dow Jones Select Regional Bank Index for the five-year period commencing December 31, 2008 and ending December 31, 2013.

**VALUE OF $100 INVESTED ON DECEMBER 31, 2008**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
|---|---|---|---|---|---|---|
| FF&M * | $ 100.00 | $ 91.53 | $ 67.52 | $ 62.30 | $ 51.83 | $ 59.19 |
| DOW JONES SELECT REGIONAL BANK INDEX ** | 100.00 | 110.47 | 133.61 | 117.13 | 138.77 | 191.75 |
| S & P 500 *** | 100.00 | 126.47 | 145.54 | 148.61 | 172.23 | 227.99 |

* Assumes that the value of the investment in FF&M was $100 on December 31, 2008, with all dividends reinvested.

** Assumes that the value of the investment in the index was $100 on December 31, 2008, with all dividends reinvested.

*** Assumes that the value of the investment in the index was $100 on December 31, 2008, with all dividends reinvested.

**EXHIBIT 13**

## MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

## FORWARD-LOOKING STATEMENTS

Certain statements contained in this Annual Report to Shareholders may not be based on historical facts and are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may be identified by, among other things, the use of forward-looking terminology such as believes, expects, hopes, may, plans, will, or anticipates, or the negatives of such terms. We caution you not to place undue reliance on such forward-looking statements in this Annual Report to Shareholders because results could differ materially from those anticipated as a result of a variety of factors. These forward-looking statements include, without limitation, those relating to the quality of service provided to customers, reduction in net loans, the effect of fluctuating interest rates on net interest income, the stability of market rates, adequate access to capital to meet liquidity needs, capital expenditures, the completion of our new branch, cash dividends, cash flows on impaired loans, the present value of servicing income, deferred tax assets, potential issuance of shares, the fair value of bonds, impairment of securities, lease commitments, troubled debt restructurings, the Federal Home Loan Bank of Cincinnati (the FHLB ) credit line, repayment of loans by borrowers, legal claims, capital adequacy requirements, fair value valuation methodologies, fair value of other assets, valuation of financial instruments, post-retirement benefit payments, interest rate sensitivity and risk, diversification of the loan portfolio, gross interest income, the adequacy of allowance for loan and lease losses, the loan concentration, expected maturity of investment securities, intent of management to hold certain loans until maturity or payoff, the value of underlying collateral and the impact of accounting standards on the financial statements. Factors that could affect our results include, but are not limited to, changes in economic conditions; fluctuations in prevailing interest rates and the effectiveness of our risk monitoring systems; our ability to maintain credit quality; our ability to provide market competitive products and services; laws and regulations affecting financial institutions in general; our ability to operate and integrate new technology; the effectiveness of our interest rate hedging strategies; government fiscal and monetary policies; changes in our operating or expansion strategy; changes in our assumptions or estimation methodologies; the availability of and costs associated with maintaining and/or obtaining adequate and timely sources of liquidity; limitations on our ability to pay dividends and to meet our cash obligations; assumption and judgments about the collectability of our loan portfolio; our ability to compete with other financial services companies and other factors generally understood to affect the financial results of financial services companies.

---

## EXECUTIVE OVERVIEW

### General

First Farmers and Merchants Corporation (the Corporation ) was incorporated on March 31, 1982 as a Tennessee corporation. As of December 31, 2013, the only direct subsidiary of the Corporation was First Farmers and Merchants Bank (the Bank ), which conducts the principal business of the consolidated company. The Bank was organized as a national bank in 1954 as a successor to a state bank that was organized in 1909. The Bank remained a national bank until July 5, 2005, when it converted back to a state-chartered bank and changed its name from First Farmers and Merchants National Bank to First Farmers and Merchants Bank. The Bank has direct and indirect subsidiaries through which it holds F&M West, Incorporated, Maury Tenn, Incorporated and Maury Tenn Properties, Incorporated. The principal executive offices of the Corporation are located at 816 South Garden Street, Columbia, Maury County, Tennessee. Management of the Corporation evaluates the financial condition of the Corporation in terms of the Bank s operations within its service area.

**All dollar amounts in this Annual Report to Shareholders, other than share and per-share amounts, are in thousands unless otherwise noted.**

**Financial Condition**

The Corporation s assets consist primarily of its investment in the Bank and other smaller investments. Its primary activities are conducted through the Bank. The Bank is committed to providing quality services in diverse markets and a changing interest rate environment. Management hopes to provide Bank customers the quality service of a community bank and the safety and strength of a regional bank.

At December 31, 2013, the Corporation s consolidated total assets were $1,092,874, its consolidated net loans were $598,171, its total deposits were $957,337 and its total shareholders equity was $104,204. The economic climate in the Corporation s market area of middle Tennessee began to stabilize in 2013, as evidenced by the Corporation s loan volume, an increase of 7.1% of net loans at December 31, 2013 compared to December 31, 2012. Total deposits increased by 2.6% and total shareholders equity decreased by 7.6% over the same period. The net unrealized loss on securities, which makes up a portion of other comprehensive income, contributed to the decrease in shareholders equity.

**Results of Operations**

Consolidated net income in 2013 totaled $9,611, a 2.2% increase from 9,404 in 2012 and a 34.4% increase from $6,996 in 2011. Net interest income increased 5.9% from 2012 and increased 4.3% from 2011. With interest rates continuing on a downward trend, loan yields have continued to decrease, while volume has increased. On a per common share basis, net income totaled $1.88 for 2013 versus $1.77 for 2012 and $1.30 for 2011.

The accompanying tables and the discussion and financial information are presented to aid in understanding the Corporation s financial position and results of operations. The emphasis of this discussion is on the years ended December 31, 2013, 2012 and 2011; however, financial information for prior years will also be presented where appropriate or required. This discussion should be read in conjunction with the Consolidated Financial Statements and the Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders.

The Corporation s financial condition is dependent on a variety of factors, including the quality and nature of its assets, its liability and capital structure, the market and economic conditions and the quality of its personnel.

---

**FINANCIAL CONDITION**

**Net Interest Margin**

Net interest margin is defined as the difference between the revenue from earning assets (primarily interest income) and interest expense related to interest bearing liabilities. Net interest margin is a function of the average balances of earning assets and interest bearing liabilities and the yields earned and rates paid on those balances. In order to succeed in the banking industry, it is critical to maintain the net interest margin at a level that, when coupled with noninterest revenues, exceeds additions to the allowance for loan and lease losses, noninterest expenses and income taxes and yields an acceptable profit.

The Corporation plans the Bank s operations with the goal of maintaining a satisfactory spread between the yields on earning assets and the related cost of interest bearing funds. The gross interest spread is determined by comparing the taxable equivalent gross interest margin to average earning assets before deducting the allowance for loan losses. This spread reflects the overall profitability of earning assets, including both those funded by interest bearing sources and those that do not generate interest (primarily noninterest bearing demand deposits). This spread is most often used when analyzing a banking institution s overall gross margin profitability compared to that of other financial institutions. Management uses calculations and similar ratios to assist in pricing decisions for interest-related products. Table A below presents the average daily balances, the components of the gross interest margin (on a taxable equivalent basis), the yield or rate, and the incremental and gross interest spread for each of the last three years by major categories of assets and liabilities.

**TABLE A - <u>Distribution of Assets, Liabilities, Shareholders Equity, Interest Rates and Interest Differential</u>**

| | **YEAR ENDED DECEMBER 31,** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| (Dollars in thousands) | Average Balance | Rate/ Yield | Interest | Average Balance | Rate/ Yield | Interest | Average Balance | Rate/ Yield | Interest |
| ASSETS | | | | | | | | | |
| Interest earning assets | | | | | | | | | |
| Loans, net, see note 2 | $ 572,913 | 5.05% | $ 28,949 | $ 518,158 | 5.50% | $ 28,474 | $ 534,841 | 5.67% | $ 30,338 |
| Bank deposits | 21,706 | 1.73% | 375 | 41,560 | 0.28% | 116 | 28,594 | 0.25% | 71 |
| Taxable securities | 311,796 | 1.82% | 5,677 | 295,004 | 1.75% | 5,148 | 205,631 | 2.18% | 4,485 |
| Tax exempt securities, see note 2 | 78,138 | 5.97% | 4,667 | 83,788 | 5.95% | 4,956 | 95,814 | 5.93% | 5,679 |
| Federal funds sold | 12,732 | 0.25% | 32 | 14,780 | 0.25% | 37 | 11,920 | 0.23% | 27 |
| TOTAL EARNING ASSETS | 997,285 | 3.98% | $ 39,700 | 953,290 | 4.06% | $ 38,731 | 876,800 | 4.63% | $ 40,600 |
| Noninterest earning assets | | | | | | | | | |
| Cash and due from banks | 16,775 | | | 16,096 | | | 16,198 | | |
| Bank premises and equipment | 25,795 | | | 25,886 | | | 23,914 | | |
| Other assets | 47,632 | | | 59,047 | | | 58,400 | | |
| TOTAL ASSETS | $ 1,087,487 | | | $ 1,054,319 | | | $ 975,312 | | |
| LIABILITES AND SHAREHOLDERS' EQUITY | | | | | | | | | |
| Interest bearing liabilities | | | | | | | | | |
| Time and savings deposits: | | | | | | | | | |
| NOW and money market accounts | $ 432,853 | 0.15% | $ 630 | $ 408,077 | 0.22% | $ 896 | $ 368,319 | 0.35% | $ 1,273 |
| Savings | 89,453 | 0.05% | 47 | 80,026 | 0.08% | 62 | 74,309 | 0.12% | 91 |
| Time up to $100 | 122,947 | 0.75% | 916 | 130,391 | 0.87% | 1,132 | 136,691 | 1.09% | 1,493 |
| Time over $100 | 119,130 | 0.92% | 1,101 | 118,208 | 1.06% | 1,253 | 105,514 | 1.29% | 1,366 |
| TOTAL INTEREST BEARING DEPOSITS | 764,383 | 0.35% | 2,694 | 736,702 | 0.45% | 3,343 | 684,833 | 0.62% | 4,223 |
| Federal funds purchased and securities sold under agreements to repurchase | 19,855 | 0.31% | 62 | 18,934 | 0.38% | 72 | 11,980 | 0.48% | 57 |
| FHLB borrowing | 3,868 | 3.90% | 151 | 11,802 | 3.61% | 426 | 18,807 | 3.52% | 662 |
| Other liabilities | - | - | - | - | 0.00% | - | 400 | - | - |
| TOTAL INTEREST BEARING LIABILITIES | 788,106 | 0.37% | $ 2,907 | 767,438 | 0.50% | $ 3,841 | 716,020 | 0.69% | $ 4,942 |
| Noninterest bearing liabilities | | | | | | | | | |
| Demand deposits | 173,648 | | | 156,784 | | | 135,417 | | |
| Other liabilities | 14,800 | | | 15,700 | | | 14,494 | | |
| TOTAL LIABILITIES | 976,554 | | | 939,922 | | | 865,931 | | |
| Shareholders' equity | 110,933 | | | 114,397 | | | 109,381 | | |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | $ 1,087,487 | | | $ 1,054,319 | | | $ 975,312 | | |
| Spread between combined rate earned and combined rates paid* | | 3.61% | | | 3.56% | | | 3.94% | |
| Net yield on interest-earning assets* | | 3.69% | | | 3.66% | | | 4.07% | |

* Taxable equivalent basis

Notes:

1. U.S. government (agency, state and political subdivision), and corporate debt securities plus equity securities in the available-for-sale and held-to-maturity categories are taxable securities. Most municipal debt securities are nontaxable.
2. The taxable equivalent adjustment has been computed based on a 34% federal income tax rate and has given effect to the disallowance of interest expense, for federal income tax purposes, related to certain tax-free assets. Loans include nonaccrual loans for all years presented.
3. The average balances of the amortized cost of available-for-sale securities were used in the calculations in this table.

Table B below sets forth, for the periods indicated, a summary of consolidated changes in interest earned and interest paid, reflected by the interest generated by volume changes and the interest generated by changes in the yield or rate. On a tax equivalent basis, net interest income increased $1,904 for the year ended December 31, 2013 compared to the year ended December 31, 2012, primarily because of an increase in earning assets. Interest paid on interest bearing deposits was down in 2013 compared to 2012 primarily because of lower average interest rates. Interest paid on the FHLB line of credit was $151 in 2013 compared to $426 in 2012.

**TABLE B - Volume and Yield/Rate Variances**

(Taxable Equivalent Basis)

| ` | 2013 Compared to 2012 | | | 2012 Compared to 2011 | | |
|---|---|---|---|---|---|---|
| | Volume | Yield /Rate | Net Increase (Decrease) | Volume | Yield /Rate | Net Increase (Decrease) |
| **Revenue earned on** | | | | | | |
| Loans, net | $ 3,012 | $ (2,537) | $ 475 | $ (946) | $ (918) | $ (1,864) |
| Bank deposits | (56) | 315 | 259 | 32 | 13 | 45 |
| Investment securities | | | | | | |
| Taxable securities | 292 | 238 | 530 | 1,948 | (1,285) | 663 |
| Tax-free securities | (354) | 65 | (289 ) | (782) | 34 | (748) |
| Other Investments | - | - | - | - | 4 | 4 |
| Federal funds sold | (5) | 0 | (5) | 7 | 3 | 10 |
| Total interest earning assets | 2,889 | (1,919) | 970 | 259 | (2,149) | (1,890) |
| **Interest paid on** | | | | | | |
| NOW and money market accounts | 54 | (320) | (266) | 139 | (516) | (377) |
| Savings deposits | 8 | (23) | (15) | 7 | (36) | (29) |
| Time deposits up to $100 | (65) | (151) | (216) | (69) | (292) | (361) |
| Time deposits over $100 | 10 | (162) | (152) | 164 | (277) | (113) |
| Federal funds purchased and securities sold under agreements to repurchase | 3 | (13) | (10) | 33 | (18) | 15 |
| Short term debt | - | - | - | - | - | - |
| Long term debt | (286) | 11 | (275) | (247) | 11 | (236) |
| Total interest-bearing funds | (276) | (658) | (934) | 27 | (1,128) | (1,101) |
| **Net interest earnings** | $ 3,165 | $ (1,261) | $ 1,904 | $ 232 | $ (1,021) | $ (789) |

Notes:

1. The change in interest earned or paid resulting from both volume and rate or yield has been allocated accordingly in proportion to the relationship of the absolute amounts of the change in each. Loans include nonaccrual loans for all years presented.

2. The computation of the taxable equivalent adjustment has given effect to the disallowance of interest expense, for federal income tax purposes, related to certain tax-exempt assets.

3. U.S. government (agency, state and political subdivision), and corporate debt securities plus equity securities in the available-for-sale and held-to-maturity categories are taxable securities.

**Assets and Liabilities**

Average earning assets increased 4.6% in 2013 compared to 2012 and increased 8.7% in 2012 compared to 2011.  As a financial institution, the Corporation s primary earning assets are loans made by the Bank. In 2013, average net loans represented 57.4% of average earning assets compared to 54.4% of average earnings assets at December 31, 2012. Average net loans increased 10.6% in 2013 compared to 2012 and decreased 3.1% in 2012 compared to 2011. Management of the Corporation believes that average net loans will increase throughout 2014 because of the increase in demand for loans over the past six months.

Average investment securities, which comprised 39.1% of average earning assets in 2013, increased 2.9% from 2012 compared to a 25.7% increase in 2012 from 2011. This increase in average investments was the result of sluggish loan growth in the half of the year and therefore management grew the investment portfolio during this time. Average total assets increased 3.2% during 2013 compared to an increase of 8.1% between 2012 and 2011.

The Bank s average deposits increased 5.0% in 2013 compared to 2012. The increase in average deposits for 2012 was primarily a result of an increase in interest bearing deposits, which also contributed to the Bank s 8.9% increase in average deposits in 2012 compared to 2011. Average interest-bearing transaction accounts in 2013 increased 3.8% from 2012. Time deposits up to $100 decreased 5.7% as of December 31, 2013 compared to December 31, 2012 and time deposits over $100 increased 0.8% over the same period. Average savings deposits increased 11.8% in 2013 compared to 2012. Average Negotiable Order of Withdrawal ( NOW ) and money market accounts increased 6.1% in 2013 compared to 2012. Savings deposits have historically been steady providers of a core, low cost source of funding.

Customer relationship development helped maintain a relatively stable base in noninterest bearing deposits during 2013. The Bank s noninterest bearing deposits have remained strong and were 18.5% of average total deposits in 2013, 17.5% of average total deposits in 2012 and 16.5% of average total deposits in 2011. Average noninterest bearing deposits increased 10.8% for 2013 and 15.8% for 2012.

The Bank has a Blanket Agreement for Advances and Security Agreement with the FHLB for term debt or other obligations. For more information, see Note 11 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders.

**LIQUIDITY AND CAPITAL RESOURCES**

The Bank uses a formal asset and liability management process to ensure adequate liquidity and control interest rate risk. The Bank s goal of liquidity management is to provide adequate funds to meet loan demand and any potential unexpected deposit withdrawals. The Bank accomplishes this goal by striving for consistent core deposit growth, holding adequate liquid assets and maintaining unused capacity to borrow funds. The Bank s objective of interest rate risk management is to maintain reasonable stability in the gross interest margin despite changes in the level of interest rates and the spread among interest rates.

**Liquidity**

Most of the capital needs of the Bank historically have been financed with retained earnings and deposits received, and the Corporation s primary source of liquidity has been dividends declared by the Bank. The Bank s Board of Directors has adopted a liquidity policy that outlines specific liquidity target balances. Compliance with this policy is reviewed quarterly by the Bank s Asset/Liability Committee and results are reported to the Bank s Board of Directors. At December 31, 2013, available liquidity was $271,383 compared to $282,724 as of December 31, 2012.

Management believes that the Corporation s traditional sources of cash generated from the Bank s operating activities are adequate to meet the Corporation s liquidity needs for normal ongoing operations; however, the Bank also has access to additional sources of funds, if necessary, through additional advances from the FHLB or the Cash Management Advance Line of Credit Agreement with the FHLB. In March 2008, the Bank obtained five advances at $7,000 each from the FHLB, and in September 2008, the Bank obtained two additional advances of $3,100 each for a total borrowing in 2009 of $41,200. The first three scheduled repayments of the advances were made in March 2010, March and September 2011, and March 2012. The remaining payments occurred in March and September 2013. The borrowings from the FHLB have been used generally for investment strategies to enhance the Bank s portfolio.

**Interest Rate Risk**

The Bank uses an earnings simulation model to evaluate the impact of different interest rate scenarios on the gross margin. Each quarter, the Bank s Asset/Liability Committee assesses the relationship of rate sensitive earning assets to rate sensitive interest bearing liabilities (interest rate sensitivity), which is the principal factor in determining the effect that fluctuating interest rates will have on future net interest income. Rate sensitive earning assets and interest bearing liabilities are those that can be repriced to current market rates within a defined time period. The Asset/Liability

Committee measures near-term risk (within the next 12 and 24 months) to net interest income resulting from changes in interest rates. The model incorporates the Bank s assets and liabilities, together with forecasted changes in the balance sheet mix and assumptions that reflect the current interest rate environment, to simulate the effect of possible changes in interest rates on net interest income. The Asset/Liability Committee s policy is to conduct a monthly review of budgeted financial goals where the actual dollar change in net interest income is different from interest rate movements. A negative dollar change in net interest income for a 12- and 24- month period of less than 10.0% of net interest income given a 200 basis point shift in interest rates is considered an acceptable rate risk position. At December 31, 2013, if interest rates were to rise 200 basis points (2.0%) over the next 24 months, net interest income would be $385 more than currently projected if rates were to remain stable. This would represent an increase in net interest income of 1.2%. At December 31, 2013, if interest rates were to decline 100 basis points (1.0%) over the next 24 months, net interest income would be $2,498 less than the projection of rates remaining stable. This would represent a decrease in net interest income of 7.5%. The changes in percentages in both cases are within policy guidelines established by the Bank s Board of Directors.

Another tool used to monitor the Bank s overall interest rate sensitivity is a gap analysis (the difference between the earning asset and interest bearing liability amounts scheduled to be re-priced to current market rates in subsequent periods). Table C below shows the Bank s rate-sensitive position at December 31, 2013, as measured by the gap analysis. Non-maturing balances such as money market, savings and NOW accounts have no contractual or stated maturities. Management has attempted to use historical data (pricing history) on these categories to best determine the impact of these non-maturing balances on the net interest margin as interest rates change. Management anticipates that rates will remain steady through most of 2014 and has determined that the Bank is in an acceptable rate risk position. Table A under the heading Net Interest Margin above provides additional information regarding the largest components of interest bearing liabilities.

**TABLE C - Rate Sensitivity of Earning Assets and Interest-Bearing Liabilities**

| (Dollars in Thousands)<br>**As of December 31, 2013** | Three Months or Less | Three to Six Months | Six to 12 Months | Over One Year | Total |
|---|---|---|---|---|---|
| Earning assets | | | | | |
| Bank time deposits | $35,017 | $- | $- | $- | $35,017 |
| Taxable investment securities | 1,104 | 712 | 1,382 | 280,179 | 283,377 |
| Tax-exempt investment securities | - | 425 | 332 | 73,418 | 74,175 |
| Loans and leases, net of deferred fees | 23,909 | 27,700 | 64,238 | 482,324 | 598,171 |
| Total earning assets | 60,030 | 28,837 | 65,952 | 835,921 | 990,740 |
| Interest-bearing liabilities | | | | | |
| NOW and money market accounts | 141,927 | - | - | 304,740 | 446,667 |
| Savings | - | - | - | 92,013 | 92,013 |
| Time up to $100 | 26,437 | 32,278 | 32,032 | 25,310 | 116,057 |
| Time over $100 | 31,514 | 27,309 | 36,120 | 27,834 | 122,777 |
| Other short-term debt | 18,095 | - | - | - | 18,095 |
| FHLB borrowing | - | - | - | - | - |
| Total interest bearing liabilities | 217,973 | 59,587 | 68,152 | 449,897 | 795,609 |
| Period gap | (157,943) | (30,750) | (2,200) | 386,024 | 195,131 |
| Cumulative gap | $(157,943) | $(188,693) | $(190,893) | $195,131 | |

**<u>Capital Expenditures</u>**

Historically, internal growth has financed the capital needs of the Bank. In 2012, the Bank completed the construction of a new branch in Williamson County, Tennessee. The branch opened in April of 2012. The Bank signed a ground lease to build a branch in Davidson County, Tennessee. The branch is expected to be completed by second quarter 2014.

**Contractual Obligations**

The following table summarized the Corporation s contractual obligations as of December 31, 2013:

| | Payment due by period | | | | |
|---|---|---|---|---|---|
| **Contractual Obligations** | **Total** | **Less than 1 year** | **1-3 years** | **3-5 years** | **More than 5 years** |
| Operating lease obligations | $ 5,525 | $ 336 | $ 667 | $ 580 | $3,942 |
| Repurchase agreements and time deposits | 256,929 | 203,782 | 40,134 | 13,013 | - |
| Total | $ 262,454 | $ 204,118 | $ 40,801 | $ 13,593 | $3,942 |

**Dividends**

Cash dividends declared in 2013 were 38.9% of net income compared to 41.4% of net income for 2012. The Corporation plans to continue an average annual payout ratio over 20% while continuing to maintain a capital to asset ratio reflecting financial strength and adherence to regulatory guidelines.

**Regulatory Capital**

Under federal regulatory standards, in order to be adequately capitalized the Corporation s Tier 1 Risk-Based Capital Ratio (ratio of Tier 1 Capital to risk-weighted assets) must be at least 4%, its Total Risk-Based Capital Ratio (ratio of total capital to risk-weighted assets) must be at least 8%, and its Tier 1 Leverage Capital Ratio (ratio of Tier 1 Capital to average assets) must be at least 4%. Tier 1 Capital generally consists of common stock.

As of December 31, 2013, the Corporation s Tier 1 Risk-Based Capital Ratio, Total Risk-Based Capital Ratio and Tier 1 Leverage Capital Ratio were 14.4%, 15.5% and 9.5%, respectively. At December 31, 2012, the comparable ratios were 14.6%, 15.8% and 9.7% respectively. Please refer to Note 13 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders for more information on the capital strength of the Corporation and the Bank.

**Loans and Loan Quality**

The Bank s loan portfolio is the largest component of earning assets and, therefore, provides the highest amount of revenue. The loan portfolio also contains the highest exposure to risk, as a result of credit quality. When analyzing potential loans, management assesses both interest rate objectives and credit quality objectives in determining whether to authorize a given loan and the appropriate pricing for that loan. The Bank maintains a diversified portfolio in order to spread its risk and reduce its exposure to economic downturns that may occur in different segments of the economy or in particular industries. As of December 31, 2013, total loans maturing and repricing after one year that have predetermined interest rates and floating or adjustable interest rates totaled $482,324. The composition of the loan portfolio is disclosed in detail in Note 4 in the Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders.

The following table presents the maturities of the Bank s loans by category as of December 31, 2013:

| | | Within One Year | | One to Five Years | | After Five Years | | Total |
|---|---|---|---|---|---|---|---|---|
| Commercial, financial and agricultural | $ | 45,366 | $ | 48,421 | $ | 11,488 | $ | 105,275 |
| Tax exempt municipal loans | | 3,553 | | 9,818 | | 9,931 | | 23,302 |
| Real estate | | | | | | | | |
| Construction | | 15,495 | | 8,831 | | 5,612 | | 29,938 |
| Commercial mortgages | | 26,685 | | 100,829 | | 68,346 | | 195,860 |
| Residential mortgages | | 21,233 | | 70,218 | | 122,312 | | 213,763 |
| Other | | 3,211 | | 12,940 | | 6,202 | | 22,353 |
| Retail loans | | 9,198 | | 6,942 | | 135 | | 16,275 |
| Total | $ | 124,741 | $ | 257,999 | $ | 224,026 | $ | 606,766 |

The lending activities of the Bank are subject to written underwriting standards and policies established by the Bank s Board of Directors and management that include loan review procedures and approvals. Applications for loans are received by designated employees at 15 of the Bank s offices. Depending primarily on the dollar amount of the loan, there are various approval levels required, including that of the Executive Committee of the Bank s Board of Directors.

The composition of the Bank s loan and lease portfolio for the years ended December 31, 2013, 2012, 2011, 2010 and 2009 were as follows:

| | 2013 | Percentage of Total | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|
| Commercial and industrial: | | | | | | |