2017 ANNUAL REPORT

Trusted Since 1909

A Special Thanks to James L. Bailey Jr. From
Our Chairman and CEO, T. Randy Stevens.

James L. Bailey Jr. has the distinction of having the longest tenure of an outside active director for First Farmers and Merchants Bank and First Farmers and Merchants Corporation. Mayor Bailey served First Farmers for 40 years beginning in 1973 and retiring in 2013. He continues to serve as an honorary director.

Mayor Bailey has a doctor of pharmacy degree and was the owner of Bailey Drugs for several years. He also has been designated as a certified public administrator and has dedicated his life to community service. He served as the mayor of Mt. Pleasant, Tennessee, in two different decades and also served three terms as Maury County mayor with an outstanding record of success.

Thank you, Mayor Bailey, for being a loyal First Farmers customer for over 50 years, a dedicated bank director, and an individual who loves the communities we serve.

T. Randy Stevens

James L. Bailey Jr.

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Letter From
CEO and PRESIDENT

Dear Shareholders:

In 2017, First Farmers was blessed with an excellent year of record earnings, continued expansion into new markets and solid returns for shareholders. Numerous strategic initiatives propelled the company and its performance in 2017. First Farmers achieved record earnings and earnings per share (EPS) after adjusting for the one-time impact of the new corporate tax rate which was signed into law during the last few days of 2017. The adjusted net income of the company rose from $10.0 million to $11.4 million, or 13.5 percent, in 2017. Adjusted EPS increased 16.2 percent from $2.16 to $2.51. The tax legislation impacted First Farmers, and most banks in the U.S., by reducing the carrying value of the company's deferred tax assets. While this revaluation negatively impacted First Farmers' 2017 net income by approximately $1 million, the reduction of corporate taxes will certainly have favorable future consequences on performance.

Key drivers of the company's strong pre-tax earnings growth were: <u>Steady loan and deposit growth coupled with improved margins</u> – Disciplined pricing of loans and deposits led to margin improvement throughout the year and a 5.9 percent increase in net interest income. <u>Higher levels of non-interest income</u> – Non-interest income grew by 6.5 percent thanks to stronger revenue contributions from the company's trust, mortgage and investment services businesses, as well as other fee-based services of the bank. <u>Excellent asset quality</u> – First Farmers' unwavering focus on strong asset quality was again evident in 2017 with credit quality metrics further improving to levels far superior to peer averages, allowing the company to avoid provision expense for loan and lease losses.

Even as First Farmers was achieving historic results from its operations, we continued to keep an eye toward the future and the strategic investments necessary for success. These investments in our bank team, our technology, our customer delivery and our branch footprint are vital to the company's commitment to be a community bank of choice in a rapidly evolving industry and competitive marketplace. There are no greater examples of these investments in First Farmers' future than our two newest offices. We proudly opened offices in downtown Franklin and Brentwood in 2017. These offices are staffed with outstanding teams of First Farmers bankers, and they further strengthen the bank's ability to serve one of the most dynamic and robust markets in the U.S. The achievements of 2017 all drove toward one common goal and that is to deliver sustained, predictable results to you, our shareholder, and reward your investment in First Farmers. We are pleased to report that the market value of the company's common stock increased 9.2 percent to $41.50 during 2017. Additionally, First Farmers continues to deliver one of the highest dividend yields among banks in the state and broader peer groups. This was further enhanced in 2017 as the quarterly cash dividend was increased by 5.3 percent to $0.20 per share, marking the largest dividend increase for shareholders in more than 15 years.

We are proud of the accomplishments of First Farmers in 2017, and now, we look with optimism to 2018 and beyond. Since 1909, this great institution and its generations of dedicated bankers have been trusted to serve our shareholders, our customers and our communities. We are blessed to have this tremendous privilege.

On behalf of First Farmers' board of directors and each member of our bank team, we thank you for your continued confidence and support.

Sincerely,

T. Randy Stevens
Chairman of the Board and
Chief Executive Officer

Brian K. Williams
President

BOARD OF DIRECTORS

T. RANDY STEVENS
Chairman and CEO
First Farmers and Merchants Corporation

JEFFREY L. AIKEN
President
Tennessee Farm Bureau Federation

JONATHAN M. EDWARDS
President and CEO
Edwards Oil Company

THOMAS NAPIER GORDON
Attorney and Managing Partner
Gordon Brothers Properties

DALTON M. MOUNGER
Attorney

TIMOTHY E. PETTUS
Vice Chairman
First Farmers and Merchants Corporation

PATRICK J. RILEY
President and CEO
Patrick J. Riley & Co.

MATTHEW M. SCOGGINS JR.
CEO Emeritus
Tennessee Farmers Insurance Companies

H. ALAN WATSON
CEO
Maury Regional Health Systems

BRIAN K. WILLIAMS
President
First Farmers and Merchants Corporation

EXECUTIVE MANAGEMENT TEAM

T. RANDY STEVENS
Chairman and CEO

TIMOTHY E. PETTUS
Vice Chairman

BRIAN K. WILLIAMS
President

ROBERT E. KRIMMEL
Chief Financial Officer and Treasurer

BARRY B. WHITE
General Counsel

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BUILDING ON THE STRENGTH OF A 109-YEAR-OLD LEGACY.

We've come a long way since we first opened our doors in 1909. Yet, our values have proudly remained.

For 109 years, First Farmers has been a trusted partner for thousands of families and businesses throughout Middle Tennessee and beyond. Our success is defined by delivering the best possible banking experience to our customers, engaging and investing in our communities, growing and developing our bank team, and returning long-term benefits to our shareholders. With confidence and optimism, we strive to serve those who define our great institution's success for the next 109 years.

2017 PERFORMANCE METRICS

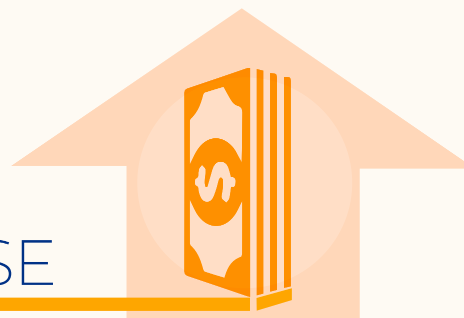
First Farmers is committed to delivering value to our shareholders through sustained, predictable performance from our operations. We are pleased that 2017 results served as a strong demonstration of this commitment.

STOCK VALUE

9.2% INCREASE

QUARTERLY CASH DIVIDEND

5.3% INCREASE



ADJUSTED NET INCOME

13.5% INCREASE

ADJUSTED EARNINGS PER SHARE

16.2% INCREASE

REMEMBER TO REGISTER FOR ALERTS
ON OUR INVESTORS RELATIONS SITE https://ir.myfirstfarmers.com

2017 REPORT TO SHAREHOLDERS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	December 31, 2017	December 31, 2016
ASSETS		
Cash and due from banks	$ 26,878	$ 22,703
Interest-bearing deposits	26,371	9,214
Federal funds sold	1,915	1,165
Total cash and cash equivalents	55,164	33,082
Securities:		
Available-for-sale	371,773	392,583
Held-to-maturity (fair market value $18,525 and $18,057 as of the periods presented)	18,675	19,036
Total securities	390,448	411,619
Loans, net of deferred fees	854,033	812,219
Allowance for loan and lease losses	(9,122)	(9,348)
Net loans	844,911	812,219
Bank premises and equipment, net	28,787	27,594
Bank-owned life insurance	32,091	27,354
Goodwill	9,018	9,018
Deferred tax assets	2,445	4,771
Other assets	12,955	12,110
TOTAL ASSETS	**$ 1,375,819**	**$ 1,337,767**
LIABILITIES		
Deposits:		
Noninterest-bearing	$ 292,502	$ 255,964
Interest-bearing	914,047	907,859
Total deposits	1,206,549	1,163,823
Securities sold under agreements to repurchase	31,222	27,578
Accounts payable and accrued liabilities	14,668	13,661
FHLB borrowings	-	15,000
TOTAL LIABILITIES	**$ 1,252,439**	**$ 1,220,062**
SHAREHOLDERS' EQUITY		
Common stock - $10 par value per share, 8,000,000 shares authorized; 4,493,855 and 4,542,303 shares issued and outstanding as of the periods presented	44,939	45,423
Retained earnings	79,793	74,357
Accumulated other comprehensive loss	(1,447)	(2,170)
Total shareholders' equity attributable to First Farmers and Merchants Corporation	123,285	117,610
Noncontrolling interest - preferred stock of subsidiary	95	95
TOTAL SHAREHOLDERS' EQUITY	**$ 123,380**	**$ 117,705**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,375,819**	**$ 1,337,767**

2017 REPORT TO SHAREHOLDERS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

Dollars in thousands, except per share data	Years ended December 31,		
	2017	2016	2015
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 34,504	$ 32,056	$ 30,522
Income on investment securities			
Taxable interest	4,852	4,785	5,713
Exempt from federal income tax	2,566	2,258	2,218
Dividends	400	416	229
Total interest income	42,322	39,515	38,682
INTEREST EXPENSE			
Interest on deposits	2,892	2,384	2,131
Interest on other borrowings	209	93	94
Total interest expense	3,101	2,477	2,225
Net interest income	39,221	37,038	36,457
(Provision credit) provision for loan and lease losses	(225)	840	30
Net interest income after provision	39,446	36,198	36,427
NON-INTEREST INCOME			
Mortgage banking activities	583	498	304
Trust service fees	3,122	2,673	2,530
Service fees on deposit accounts	7,138	6,688	6,616
Brokerage fees	423	289	540
Earnings on bank-owned life insurance	504	411	376
Gain on sales of available-for-sale securities	21	267	534
Gain on bank-owned life insurance	-	123	34
Other non-interest income	449	541	476
Total non-interest income	12,240	11,490	11,410
NON-INTEREST EXPENSE			
Salaries and employee benefits	20,762	18,373	18,897
Net occupancy expense	3,045	2,152	2,192
Depreciation expense	1,472	1,406	1,489
Data processing expense	2,732	2,576	2,506
Legal and professional fees	1,198	1,224	1,301
Stationery and office supplies	285	314	289
Advertising and promotions	1,056	1,368	1,163
FDIC insurance premium expense	630	621	587
Other non-interest expense	5,401	6,027	5,742
Total non-interest expenses	36,581	34,061	34,166
Income before provision for income taxes	15,105	13,627	13,671
Provision for income taxes	4,727	3,301	3,349
Net income	**10,378**	**10,326**	**10,322**
Noncontrolling interest – dividends on preferred stock of subsidiary	16	16	16
Net income available to common shareholders	**$ 10,362**	**$ 10,310**	**$ 10,306**
Weighted average shares outstanding	**4,523,677**	**4,634,171**	**4,832,217**
Earnings per share	**$ 2.29**	**$ 2.22**	**$ 2.13**

FIRST FARMERS ESTABLISHES THE RANDY & LEESA STEVENS EVENTS CENTER.

In 2017, First Farmers and Merchants Bank honored T. Randy and Leesa Stevens with the naming of the Randy & Leesa Stevens Events Center in its Northside Office at 901 Nashville Highway in Columbia.

"If you know Randy and Leesa Stevens, then you know First Farmers. For more than four decades they have shared their values, energy, talents and commitment with the entire First Farmers family – both within and beyond our walls," said Brian Williams, President, First Farmers and Merchants Corporation.

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WHAT SETS US APART.

At First Farmers, our commitment to giving back to the people and communities we serve goes far beyond banking. We believe our shared values of faith and family, and fostering deep-rooted connections within the community, are what set First Farmers apart. In 2017, we continued our community involvement efforts by supporting nonprofits and other organizations that share our commitment to nurturing the economic and social development of the Middle Tennessee region.

The Saint Thomas Health Foundation thanks First Farmers for our valued donation. With our help, Saint Thomas Heart is able to provide outstanding care to those who may not be able to afford heart care.

This is the fourth year that First Farmers has partnered with Greenways for Nashville for #GivingTuesday.

Boys & Girls Club of Maury County

Nashville native H.K. Derryberry shared his courageous story of overcoming life's obstacles and an inspiring message of "If I can do it, you can do it," at our annual board retreat.

During the 2017 Fall Community Build, First Farmers came together with local organizations to raise $70,000 for Habitat for Humanity Williamson-Maury. Then we rolled up our sleeves and helped build a house that a family now calls home.

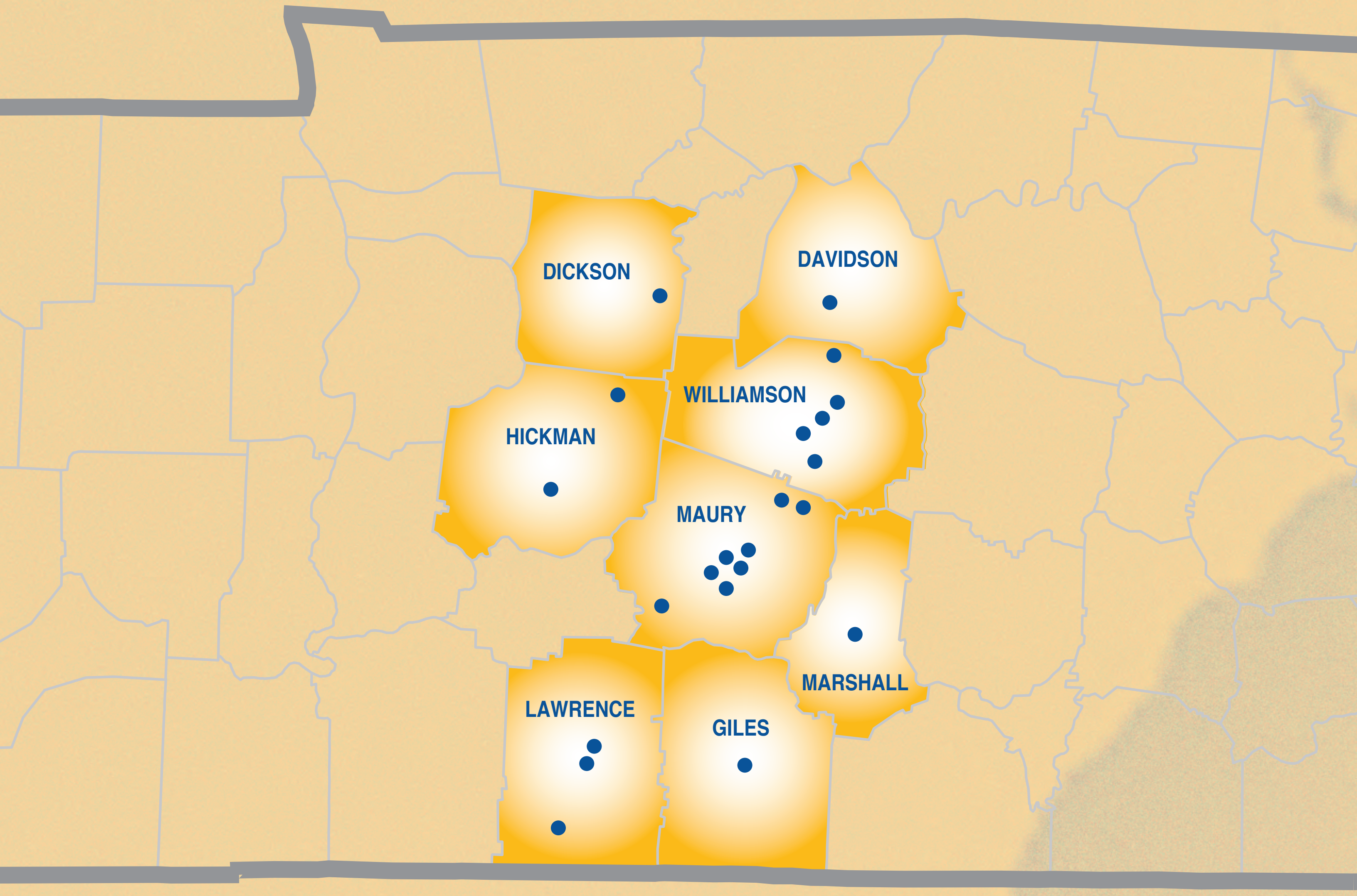
GROWTH AND SERVICE: NOW SERVING MIDDLE TENNESSEE WITH 22 LOCATIONS.

First Farmers continued to successfully expand its mid-state presence with the addition of two new offices in Williamson County. The downtown Franklin office opened in February 2017, and the Brentwood location was opened in September 2017. With these offices, First Farmers now has 22 locations to serve customers across Middle Tennessee.

"Williamson County remains a strategic growth market for our bank. With the opening of Berry Farms in late 2016, and the addition of our downtown Franklin and Brentwood locations, we will have more than doubled our Williamson County presence within 12 months," said T. Randy Stevens, Chairman and CEO, First Farmers and Merchants Corporation.

A HISTORY OF GROWTH.

First Farmers was founded in Maury County more than a century ago. As the population of the region has grown, the bank has kept pace by forging ahead as a steady and reliable provider of financial services. Today, the bank has grown across the Middle Tennessee region, with offices in Davidson, Dickson, Giles, Hickman, Lawrence, Marshall, Maury and Williamson counties.



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BANK LOCATIONS

DAVIDSON COUNTY

Nashville

Green Hills Office†
4013 Hillsboro Circle
615-279-5214

DICKSON COUNTY

White Bluff

White Bluff Office†
2011 Highway 47 North
615-797-3153

GILES COUNTY

Pulaski

Pulaski Office†
302 South Second Street
931-363-3830

HICKMAN COUNTY

Bon Aqua

East Hickman Office†
9512 Highway 46
931-670-0090

Centerville

Centerville Office†
116 Church Street
931-729-3522

LAWRENCE COUNTY

Lawrenceburg

Crockett Office†
116 West Gaines Street
931-766-5650

Lawrenceburg Office†*
1501 North Locust Avenue
931-762-6490

Loretto

Loretto Office†
201 South Military Street
931-853-4358

MARSHALL COUNTY

Lewisburg

Ellington Office†*
260 North Ellington Parkway
931-359-6222

MAURY COUNTY

Columbia

Main Office†
816 South Garden Street
931-388-3145

Campbell Plaza Office – Kroger†*
1202 South James
Campbell Boulevard
931-380-8278

Hatcher Lane Office†
1501 South James
Campbell Boulevard
931-380-8260

High Street Drive Thru
515 North High Street
931-380-8291

Northside Office†*
901 Nashville Highway
931-380-8340

Mt. Pleasant

Mt. Pleasant Office†
128 North Main Street
931-379-3292

Spring Hill

Spring Hill Office†
5398 Main Street
931-486-2212

Port Royal Office†
4871 Port Royal Road
931-486-2436

WILLIAMSON COUNTY

Brentwood

Brentwood Office†
5020 Harpeth Drive
615-514-1228

Franklin

Berry Farms Office†
1004 Village Plains Boulevard
615-591-2430

Cool Springs Office†
300 Billingsly Court
615-771-6484

Downtown Franklin Office†
121 First Avenue South
615-435-8818

McEwen Office†
1536 West McEwen Drive
615-435-8814

**Cash Dispenser Only
†ATM at Location
*Open Saturday

FOR BRANCH HOURS VISIT
myfirstfarmers.com/locations/

ADDITIONAL ATM LOCATIONS

COLUMBIA

Maury Regional
Medical Center
1224 Trotwood Avenue**

QuikMart/Shell
2223 Carmack Boulevard**

QuikMart/Shell
312 East James Campbell
Boulevard**

QuikMart/Shell
1120 Hampshire Pike**

QuikMart/Shell
1517 Hampshire Pike**

QuikMart/Shell
1102 Nashville Highway**

QuikMart/Shell
2577 Nashville Highway**

Tennessee Farm Bureau
147 Bear Creek Pike**

LAWRENCEBURG

QuikMart/Shell
710 East Gaines Street**

QuikMart/Shell
2100 North Locust Avenue**

QuikMart/Shell
1904 West Gaines Street**

LEWISBURG

Downtown
121 Second Ave South**

Marshall Plaza
1748 Mooresville Road**

QuikMart/Shell
800 North Ellington Parkway**

LORETTO

QuikMart/Shell
215 South Military Street**

Mt. Pleasant
QuikMart/Shell
9170 New Lawrenceburg Highway**

NASHVILLE

Downtown
201 Broadway**

SPRING HILL

QuikMart/Shell
5414 Main Street**

BANK OFFICERS

T. RANDY STEVENS
Chairman of the Board and
Chief Executive Officer

TIMOTHY E. PETTUS
Vice Chairman

BRIAN K. WILLIAMS
President

BARRY B. WHITE
General Counsel

ROBERT E. KRIMMEL
Chief Financial Officer

JOHN P. TOMLINSON III
Chief Risk Officer

STEPHANIE G. HARLAN
Executive Assistant and
Secretary to the Board

LESLIE R. BROOKS III
Senior Commercial
Banking Officer

PAUL T. BUTTS JR.
Senior Executive
Branch Operations

M. HARVEY CHURCH
Senior Retail Banking Officer

R. CRAIG HOLLAND
Senior Operations Officer

STEPHEN K. HUGHES
Senior Commercial
Banking Officer

FELICIA Y. BROWN
Chief Marketing Officer

CHUCK MCDONALD
Senior Trust Executive

CHARLES F. ISAACS
Franklin President

ROBERT C. MATTHEWS
Director of Human Resources

RICHARD R. BENSON
Mortgage Relationship Manager

LUCAS W. BURT
Mt. Pleasant Branch Manager

CAROL M. CALDWELL
Business Banking
Relationship Manager

ANDREW DAVIS
Chief Credit Officer

KATHY L. DUNCAN
Retail Area Manager

SUZANNE A. ESTES
Commercial Banking
Relationship Manager

ROB FERRARA
Spring Hill Market Manager

COLBY M. FLINT
Regional Credit Officer

BRADY M. GARDNER
Commercial Relationship
Manager

JAMES C. GARDNER
Nashville President

MICHELLE D. GARDNER
Compliance Manager

JILL A. GILES
Controller

BEN GOBBLE
Business Banking
Relationship Manager

PAUL E. GOOD
Senior Investment Officer

MIRIAM T. GREEN
Loretto Branch Manager

BILLY R. HARVEL
Regional Manager of
Commercial Banking

WILLIAM BRITT HENDERSON
Treasury Manager

JUDY M. HICKMAN
Branch Administrator

LINDA L. HICKS
Director of Deposit Operations

CARLA F. HINSON
Retail Relationship Manager

JOHN HOLLINGSWORTH
Senior Commercial
Relationship Manager

MARCUS F. HOUSTON
Retail Relationship Manager

MICHAEL JONES
Business Banking
Relationship Manager

RORY A. MALLARD
Senior Commercial Banking Officer

RODERICK ZANE MARTIN
Business Banking
Relationship Manager

CATHY S. MASHBURN
Lawrenceburg Branch Manager

CAROL D. MESSER
Main Office Branch Manager

MARK MEYER
Senior Investment Officer

DAWN D. MOORE
Senior Personal Trust Officer

GRANT PEMBERTON
Commercial Banking
Relationship Manager

CHARLES E. PLUNKETT
Trust Officer

ONITA PORTER
Chief Audit Officer

BRADLEY J. RICE
Commercial Banking
Relationship Manager

C. LYNN ROSS
Director of Loan Operations

C. STACEY SHEDD
Retail Area Manager

ANDREW SMITH
Senior Product
Development Officer

GLYNIS D. SMITH
Security/Audit Officer

TARA STOUT
Director of Training
and Development

LARISSA H. THOMAS
Senior Underwriting Officer

LINDA W. THOMASON
Trust Officer

SHANNON L. TIDWELL
Chief Information Officer

GAIL E. TINDALL
Chief Compliance, BSA,
and OFAC Officer

AMY B. VAUGHT
Senior Benefits Trust Officer

TERESA L. WALKER
Retail Relationship Manager

SAMUEL WANTLAND
Assistant General Counsel
and Special Assets Officer

PAMELA D. WHITE
Central Balancing Manager

WILLIAM F. WHITE JR.
Regional Manager
of Commercial Banking

BRENDA O. WOLAVER
Retail/Business Banking
Relationship Manager

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Columbia, TN 38401
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24/7 Banking 800-699-8855

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