110 YEARS BANKING 1909-2019

FIRST FARMERS®

50 YEARS TRUST SERVICES 1969-2019

2019

A LEGACY OF TRUST

FRIENDS ARE NEVER FORGOTTEN

In 1909, First Farmers began its banking operation in Mount Pleasant. George W. Brown was an outstanding leader from Mount Pleasant who served as a bank director from 1959-1991. He also served as an honorary director and a bank officer.

This conference room was dedicated in memory of George W. Brown in 1991, and rededicated in 2019. We are proud to continue recognizing him for his countless contributions to our bank and the Mount Pleasant community.

Pictured left to right: James L. Bailey Jr., retired Director of First Farmers and Merchants Corporation and T. Randy Stevens, Chairman and CEO, First Farmers and Merchants Corporation.

Dear Shareholders:

In 2019, First Farmers celebrated 110 years of banking success and 50 years of Trust Services with outstanding results. While the interest-rate environment was extremely challenging, First Farmers had another record-setting year. Not only did we break records for net income, total deposits, total loans and total assets, but we also surpassed our previous records for administered trust assets, mortgage banking revenue and the level of past-due/nonaccrual loans as a percentage of total loans.

Thanks to the wisdom of the bank's Board of Directors, the leadership of the Executive Team, and the dedication of our officers and employees, the bank and its holding company were blessed with another profitable year. Thank you for being a valued shareholder.

Sincerely,

T. Randy Stevens
Chairman and CEO

Dear Fellow Shareholders,

First Farmers' dedication to serving Middle Tennessee has stood prominently for 110 years, and with our 2019 results, we built on our legacy of providing long-term value to shareholders.

We continued to hold firmly to our unwavering expectation for safety and soundness while enhancing the quality of our balance sheet and revenue streams. Highlights include:

- Record net income of $16.1 million, or $3.62 per common share, was up 13% from $14.2 million, or $3.17 per common share, from 2018;
- Adjusted net income, which excludes special items, totaled $14.0 million, or $3.15 per common share, compared with $13.8 million, or $3.08 per common share, for 2018;
- Book value per share of the company's stock improved 13% from 2018;
- Total assets reached a record $1.4 billion; and
- Loan growth was 5% for the year.

Quality growth

The strength of the Middle Tennessee economy continued to be favorable during 2019, yet the operating environment was challenged by sharp declines in interest rates and a flattening yield curve. Even as our industry as a whole experienced pressure from margin compression, our keen focus on pricing allowed the company to enjoy an expanded net-interest margin in 2019, alongside loan growth of $42 million, or 5%.

2019 brought a renewed emphasis on the quality of deposit growth. Core deposits are the lifeblood of community banks, and First Farmers was successful in growing deposits $46 million, or 4%, in 2019—even after selling $29 million of deposits with the divestiture of the bank’s White Bluff office.

Well-capitalized with excellent liquidity and asset quality, First Farmers has a financial-health risk profile that allows us to operate from a position of strength as we execute our strategic plan. Affirming the long-term value of the company, the board continued its authorization to buy back common shares of the company and repurchased 72,000 shares in 2019. Since 2006, the company has repurchased more than 1.5 million shares from shareholders.

Non-interest revenue focus

We maintained a laser focus on non-interest revenue streams in 2019. First Farmers’ Trust and Wealth Management Services, which celebrated its 50th anniversary, remained a key source of non-interest income, and achieved a record of $5.4 billion in assets under administration. Mortgage banking activities also helped bolster non-interest income with a record $1.1 million, up 31% from 2018.

Investing in our future

The strategic investments we continue to make in talent, innovation and risk management will ensure that our community bank remains relevant to the evolving needs of our customers. From rolling out new technologies to improving processes, we continued to implement strategies in 2019 to increase customer convenience and operational efficiency.

Recognizing that our people are our greatest asset, we continued to grow First Farmers' extraordinary team of bankers. Whether developing existing employees or strategically bringing in new talent, the team is poised to drive not only the customer experience but our overall performance to new heights. Highlighting just one of our achievements, we were named to the *Nashville Business Journal's* Best Places to Work in 2019, a testament to our commitment to being an employer of choice in Middle Tennessee.

The opportunity ahead

First Farmers enters 2020 with momentum to propel our efforts this year and beyond. Our optimism is underpinned by the vibrancy of the Middle Tennessee market and its attractiveness as a great place to live, work, and raise a family.

Consolidation is continuing to reshape the banking industry and the competitive landscape. For First Farmers, this creates opportunity. With a strong foundation and disciplined approach, we are bolstered by our legacy of service to the people of Middle Tennessee. The business case for our community bank remains compelling and empowers us to compete successfully.

It is an honor to be part of this great organization and work alongside the best banking team in Tennessee as we strive to make a difference in the lives of our customers, communities and shareholders. We are deeply appreciative of your support.

Brian K. Williams
President

Pictured at left: Roy Hamilton led the Trust and Wealth Management Services Department at First Farmers for 25 of its first 50 years. He is shown here with Chief Wealth Management Officer Chuck D. McDonald.

TRUST DEPARTMENT CELEBRATES 50TH ANNIVERSARY

2019 was a milestone year for First Farmers' Trust and Wealth Management Services Department team as we celebrated 50 years of serving clients.

A great deal has changed in the world since 1969, but what has not wavered is the individual attention and care we take in helping families achieve peace of mind when it comes to their finances. It is this hallmark approach to client service that has allowed First Farmers to exceed $5.4 billion in assets under administration.

Each of our loyal team members realizes the importance of providing customized, integrated solutions that reflect each client's unique circumstances and aspirations. Members of this team average 26 years of industry experience and 18 years of tenure with First Farmers. We are honored to serve as the trustee, co-trustee or agent for over 600 client relationships.

We extend our sincere gratitude to all of our clients—those who have been with us for decades and those who are new to First Farmers. Thank you for allowing us the opportunity to help you achieve your goals and priorities.

We take great pride and care in assisting families in planning and preparing for the future, and we continue to be committed to providing comprehensive retirement management, wealth planning and family office services for generations to come.

Chuck D. McDonald
Chief Wealth Management Officer

On September 17, 2019, First Farmers invited family, friends, team members and customers to celebrate 50 years of the Trust and Wealth Management Services Department. The event was held at Westbury House in downtown Columbia and featured live music. Remarks were made by T. Randy Stevens, Chairman and CEO; and Chuck D. McDonald, Chief Wealth Management Officer.

TRUST GROWTH THROUGH THE YEARS

Since its inception, the Trust and Wealth Management Services Department has experienced steady growth. The department ended its first year of operation, in 1969, with $1 million in assets under management and has significantly increased to $5.4 billion in assets under administration, which equates to an annualized growth rate of 108% over the past 50 years.

ASSETS MANAGED (IN THOUSANDS)	YEAR
$1,000	1969
$101,100	1979
$483,000	1989
$1,740,000	1999
$2,890,000	2009
$5,400,000	2019

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

RICHARD C. PERKO
President and CEO Lee Company

TIMOTHY E. PETTUS
Vice Chairman, First Farmers and Merchants Corporation

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

H. ALAN WATSON
CEO, Maury Regional Health

BRIAN K. WILLIAMS
President, First Farmers and Merchants Corporation

(Seated L-R) WILLIAM R. NIGH – *Chief Banking Officer,* ROBERT E. KRIMMEL – *Chief Financial Officer and Treasurer*
(Standing L-R) BRIAN K. WILLIAMS – *President,* T. RANDY STEVENS – *Chairman and CEO,* TIMOTHY E. PETTUS – *Vice Chairman*

MISSION

To continue to be Middle Tennessee's leading community bank.

To accomplish this, we will empower our team members to be trusted advisors who make a difference for the customers, communities and shareholders we serve.

CORE VALUES

Integrity
We strive to do what is right for customers the first time and every time, earning their trust and maintaining their privacy.

Service
We are in business to provide the very best and most comprehensive financial services needed to help customers achieve their financial goals.

Innovation
We constantly elevate our knowledge, skills and resources so that we can create success through new ideas, technologies, products and services.

Commitment
We are a bank dedicated to community service, and for us, that means we aim to facilitate the success of individuals, businesses, organizations, communities, shareholders and our team members.

Leadership
We recognize that we are a leading community bank, and we intend to continue to be bold in leading in all aspects of superior financial services and community engagement.

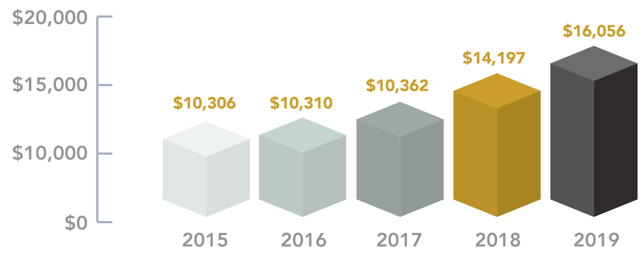
FIRST FARMERS ACHIEVEMENT AWARD

Tennessee State Parks Chief Ranger T. Shane Petty, pictured third from left above, is the recipient of the 2019 First Farmers Achievement Award. Shane is responsible for safety and security in all 56 of the system's parks, which have approximately 20 million visitors a year. He directs 240 rangers across the state, and oversees all emergency operations and the horse-mounted patrol program. Shane's career has involved floods, plane crashes, wildfire search-and-rescues, and helicopter rescues. In total, Shane has worked more than 2,000 emergencies, in addition to his K-9 searches.

"Shane is a family man," said Brian K. Williams, President of First Farmers and Merchants Corporation. "Without question, Chief Ranger Shane Petty meets the standards of the First Farmers Achievement Award. His character and integrity are consistent with the standards of this award and are as outwardly visible as the badge on his uniform."

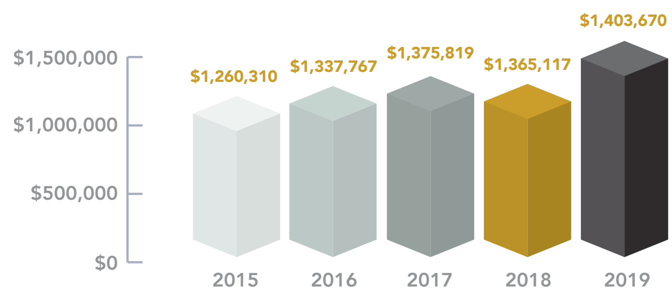
Net Income (in thousands)

Record net income of $16.1 million for 2019 was the result of careful planning and execution of our long-term strategy and marked a 56% increase over five years. This year's net income includes a $2.0 million gain, net of tax, on the sale of our White Bluff office, which propelled our earnings to new heights.



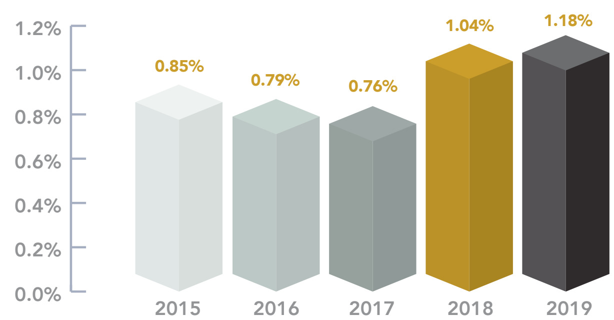
Total Assets (in thousands)

For our shareholders, a focus on growth includes measured success over the long term and a prudent strategy. Supporting these efforts of improved profitability, our total assets closed the year at $1.4 billion for the first time in our 110-year history, as we have recorded growth of 11% since 2015.



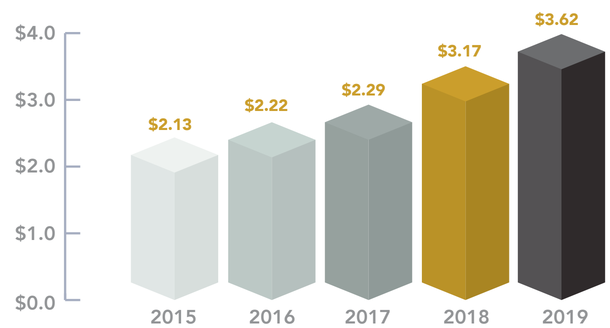
Return on Average Assets

Sustaining profits and growth requires discipline and a focus on our earning assets. In 2019, we are pleased to highlight 39% improvement in the return on average assets measurement over the past five years.



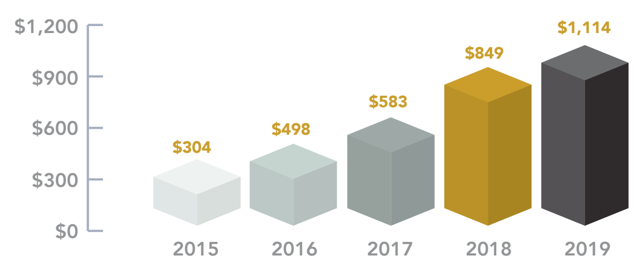
Earnings Per Share

Return for our shareholders is best measured by our earnings per share, which has improved 70% since 2015. We ended 2019 with record earnings per share and continue to reward our shareholders over the long term through appreciation in the value of our common stock and a solid cash dividend.



Mortgage Banking Revenue (in thousands)

Mortgage banking activities have emerged as a non-interest income revenue source for First Farmers as we continue to expand in that area. Mortgage banking activities revenue has grown 266% since 2015, and revenue reached a record $1.1 million in 2019.



2019 REPORT TO SHAREHOLDERS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

Dollars in thousands

	December 31, 2019	December 31, 2018
ASSETS		
Cash and due from banks	$ 26,614	$ 36,100
Interest-bearing deposits	6,712	4,173
Federal funds sold	819	246
Total cash and cash equivalents	34,145	40,519
Securities available-for-sale	329,796	332,237
Securities held-to-maturity (fair market value $18,005 and $17,615 as of the periods presented)	17,606	18,644
Equity securities	2,000	-
Loans held-for-sale	2,540	506
Loans, net of deferred fees	934,770	894,685
Allowance for loan and lease losses	(8,960)	(9,282)
Net loans	925,810	885,403
Bank premises and equipment, net	35,762	31,605
Bank-owned life insurance	32,198	31,960
Goodwill	9,018	9,018
Other assets	14,795	15,225
TOTAL ASSETS	**$ 1,403,670**	**$ 1,365,117**
LIABILITIES		
Deposits:		
Non-interest-bearing	$ 311,274	$ 302,345
Interest-bearing	908,967	872,325
Total deposits	1,220,241	1,174,670
Securities sold under agreements to repurchase	11,742	40,579
Accounts payable and accrued liabilities	21,799	15,885
FHLB borrowings	5,500	4,000
TOTAL LIABILITIES	**$ 1,259,282**	**$ 1,235,134**
SHAREHOLDERS' EQUITY		
Common stock - $10 par value per share, 8,000,000 shares authorized; 4,379,871 and 4,451,447 shares issued and outstanding as of the periods presented	43,799	44,514
Retained earnings	98,945	89,299
Accumulated other comprehensive income (loss)	1,549	(3,925)
Total shareholders' equity attributable to First Farmers and Merchants Corporation	144,293	129,888
Non-controlling interest - preferred stock of subsidiary	95	95
TOTAL SHAREHOLDERS' EQUITY	**$ 144,388**	**$ 129,983**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**$ 1,403,670**	**$ 1,365,117**

2019 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, 2019	2018	2017
INTEREST AND DIVIDEND INCOME			
Interest and fees on loans	$ 40,772	$ 37,821	$ 34,504
Income on investment securities			
Taxable interest	5,042	5,347	4,852
Exempt from federal income tax	2,143	2,508	2,566
Interest from federal funds sold and other	236	217	171
Total interest income	48,193	45,893	42,093
INTEREST EXPENSE			
Interest on deposits	5,220	3,715	2,892
Interest on other borrowings	523	457	209
Total interest expense	5,743	4,172	3,101
Net interest income	42,450	41,721	38,992
(Provision credit) provision for loan and lease losses	(360)	50	(225)
Net interest income after provision	42,810	41,671	39,217
NON-INTEREST INCOME			
Mortgage banking activities	1,114	849	583
Trust service fees	3,598	3,650	3,122
Service fees on deposit accounts	7,077	7,186	6,925
Investment services fee income	404	584	423
Earnings on bank-owned life insurance	461	487	504
Gain (loss) on sales of securities	27	(205)	21
Gain on redemption of bank-owned life insurance	150	542	-
Gain on sale of White Bluff office	2,700	-	-
Other non-interest income	676	726	681
Total non-interest income	16,207	13,819	12,259
NON-INTEREST EXPENSE			
Salaries and employee benefits	23,710	22,883	20,868
Net occupancy expense	2,518	2,929	3,045
Depreciation expense	2,056	1,514	1,472
Core provider expense	3,007	2,818	2,732
Software support and other computer expense	2,092	1,999	1,745
Legal and professional fees	1,001	1,102	1,198
Audits and exams expense	653	692	451
Advertising and promotions	1,269	1,223	1,056
FDIC insurance premium expense	80	432	630
Other non-interest expense	3,212	3,092	3,174
Total non-interest expenses	39,598	38,684	36,371
Income before provision for income taxes	19,419	16,806	15,105
Provision for income taxes	3,347	2,593	4,727
Net income	**16,072**	**14,213**	**10,378**
Non-controlling interest – dividends on preferred stock of subsidiary	16	16	16
Net income available to common shareholders	**$ 16,056**	**$ 14,197**	**$ 10,362**
Weighted average shares outstanding	**4,429,952**	**4,477,947**	**4,523,677**
Earnings per share	**$ 3.62**	**$ 3.17**	**$ 2.29**

The entire First Farmers team is dedicated to giving back to our communities. Through various service projects – like collecting nonperishable food items for Second Harvest Food Bank and donating supplies to local schools – First Farmers employees demonstrate that they truly care about making a positive impact on Middle Tennessee.

HERE FOR YOU

Without a doubt, First Farmers would not be one of Tennessee's leading community banks without its unwavering focus on what matters most—our people.

After all, at the end of the day, a bank is a collection of people. From our CEO to our newest employee, we are dedicated to success and growth … yours and ours.

First Farmers is here for you.

GIVE BACK

First Farmers was founded on the belief that in order to build a strong local bank, one must first build strong local relationships. Our team is composed of family-focused, volunteer-oriented community members who enjoy serving others.

AWARDS

First Farmers was the recipient of several awards in 2019. Highlights included:

- A 2019 Best Place to Work, Nashville Business Journal, by employee survey
- Best Bank, Mortgage Lender, and Place to Work in Maury County, reader poll by The Columbia Daily Herald
- Best Financial Institution in Spring Hill and Thompson's Station, reader poll by The Advertiser News

FIRST FARMERS together with Zelle

PRODUCTS, TECHNOLOGY & INNOVATION

We recognize our future success depends, in part, on our ability to keep pace with products and services that increase efficiency in our operations, reduce costs and—most importantly—provide tools and resources that improve our customers' experience.

The financial services industry continues to undergo rapid technological changes, and 2019 brought several new technology enhancements for First Farmers—most notably a new website, complete with a variety of enhanced tools and features.

We became one of the first community banks in Middle Tennessee to introduce Cardless Cash via our mobile banking app. This feature helps users find the nearest First Farmers ATM and set up a cash withdrawal—before they even arrive—making routine stops at the ATM faster, more convenient and more secure.

Zelle was another addition to our mobile banking app in 2019. Zelle allows users to directly deposit cash into friends' and families' bank accounts, which eliminates the need for payments by cash or check. Zelle is fast, safer than its alternatives and user-friendly.

Additional highlights include:

- Online applications and decision-making software to expedite the consumer loan application process;
- Enhanced document delivery using electronic signature for a more convenient customer experience;
- Online financial calculators to help with forecasting and assessing financial choices;
- Electronic workflows to streamline internal processes and reduce paper-based approvals; and
- Insured Cash Sweep®, or ICS®, service for business accounts.

First Farmers continues to invest in the newest technology and provide comprehensive financial solutions for our customers.

Shannon L. Tidwell
Chief Information Officer

First Farmers has a long history of giving back to the communities we serve. Using our time, talent and financial investments, we foster connections and strive to make an impact across five areas:

- Children, Youth and Education Organizations
- Affordable Housing
- Community Arts
- Civic Enhancement/Community Improvements
- Community Health and Wellness

We are proud to partner with a variety of nonprofit organizations across Middle Tennessee that are working to nurture the economic and social development of our region.

In 2019, we continued to serve Middle Tennessee's citizens by helping to meet their basic needs and addressing issues such as poverty, hunger, health care and safety.

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COMMUNITY PARTNERS

1. Maury Regional Health Care Foundation NICU Program
2. Amuse'um Columbia Children's Museum
3. School supplies donated to Joseph Brown Elementary School
4. Safe Haven Family Shelter
5. Columbia State Community College Foundation
6. Habitat for Humanity build day

FIRST FARMERS®

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