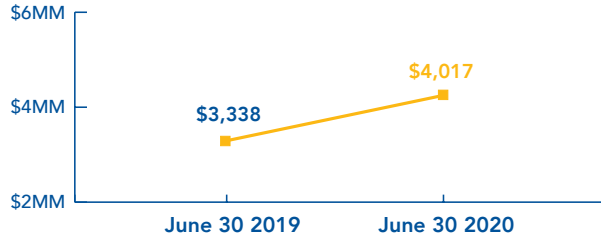


## Second Quarter Highlights

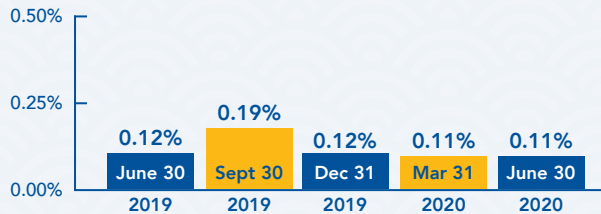
Dollars in thousands

### NET INCOME

20% Increase Year Over Year

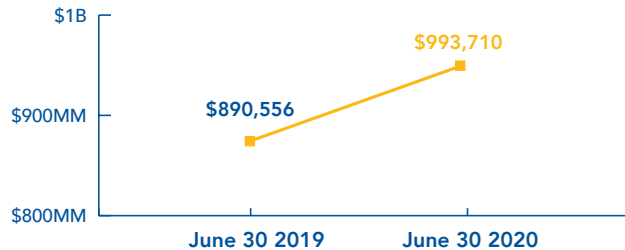


### NON-PERFORMING ASSETS/TOTAL ASSETS



### GROSS LOANS

12% Increase Year Over Year



### BOOK VALUE PER SHARE



## Supporting Our Community

Supporting our local communities is a fundamental part of who we are, especially in times of crisis. When tornados and COVID-19 significantly disrupted Middle Tennessee in rapid succession, First Farmers was quick to take action. Within days of the tornados that hit in March, our team members had organized food and supply drives to support relief efforts.

When the COVID-19 pandemic began disrupting the mid-state weeks later, our team members pulled together to serve our customers and our communities safely. For example, First Farmers extended drive-through and contact center hours and increased mobile deposit limits. Teams pulled together—sometimes working around the clock—to process Small Business Administration (SBA) Paycheck Protection Program (PPP) loans for over 800 small businesses locally, impacting approximately 13,500 Middle Tennessee jobs.

### SBA PAYROLL PROTECTION PROGRAM OVERVIEW



## Award-Winning Service

It's our goal at First Farmers to provide award-winning service to our clients. We are pleased to share that we were named Best Bank and Best Mortgage Lender in Maury County and Best Bank in Spring Hill and Thompson's Station. Thank you for your commitment to continue growing with us.



1.800.882.8378  
ir.myfirstfarmers.com



## SHAREHOLDER REPORT

Summer 2020

**FIRST FARMERS**  
Grow With Us.

## Dear Shareholders,

With the close of the second quarter of 2020, First Farmers and Merchants Corporation experienced strong earnings growth and record-setting balance statement expansion. Highlights of the quarter included increases in year-over-year and sequential quarter net income, adjusted net income and net interest income, plus an increase in total non-interest income over the same period last year. We are particularly pleased to report growth in our balance sheet for both year-over-year and the sequential quarter, resulting from record total assets, total loans and total deposits. These results demonstrate the strength of the underlying fundamentals driving our business during one of the most severe economic disruptions in our time.

The unprecedented COVID-19 pandemic continued to play a major role throughout the quarter. We upheld our unwavering dedication to serve our customers by keeping our branches accessible while maintaining a focus on the health and well-being of our customers and team members. First Farmers responded to the significant strains placed upon businesses and individuals by offering loan payment deferrals to help bridge the cash flow gap. Further, the technological investments made over the last several years have assisted those customers who prefer digital options of delivering our services conveniently and safely.

We deployed extensive resources and expertise to support businesses throughout Middle Tennessee as First Farmers participated in the Small Business Administration Paycheck Protection Program ("SBA PPP"). We have originated more than 800 loans in the program, assisting in the preservation of approximately 13,500 jobs in the communities we serve. Moreover, we were pleased to see SBA PPP customers deepening their banking relationship with us through the opening of new accounts during the second quarter.

Net income for the second quarter of 2020 increased 20% to \$4.0 million or \$0.92 per common share from \$3.3 million or \$0.74 per common share for the year-earlier quarter. One factor driving the increase net income was a gain on redemption of bank-owned life insurance coupled with a gain on equity securities. Net income increased 26% from \$3.2 million or \$0.73 per common share when compared to the previous quarter. The quarter-over-quarter improvement resulted from decreases in salaries and benefits and the provision for loan and lease losses, partially offset by a reduction in service fees on deposit accounts. We are pleased with the increase in net income despite recording a higher provision for loan and lease losses based on the potential economic effects of the COVID-19 pandemic on our loan portfolio.

We entered the second quarter with strong asset quality which we continued to maintain during this period. While no one can predict how long this recession may last, we are prepared for a sustained challenging economic environment, as evidenced by increased loan loss reserves despite net recoveries during the second quarter. Our allowance for loan and lease losses now represents 1.07% of total loans outstanding, excluding SBA PPP loans, an increase from 1.0% for the sequential quarter and 1.04% for the year-earlier period.

First Farmers also experienced strong balance sheet growth when compared to the prior year and sequential quarter, resulting in record total assets of \$1.6 billion and total deposits of \$1.4 billion. Despite growth in our interest earnings assets, net interest margin decreased from the prior quarter and the same period last year due to the overall decline in interest rates experienced during the first half of 2020 and the addition of SBA PPP loans, which carry yields lower than our existing portfolio. Moreover, the level of nonperforming assets continued to exemplify solid credit quality. Nonperforming assets increased slightly to \$1.7 million at June 30, 2020, and remained stable at 0.11% of total assets when compared to the prior quarter and slightly improved from 0.12% for the same period last year.

While no one could have predicted the pandemic's abrupt impact on our economy, First Farmers' strong balance sheet and disciplined risk management practices have the company well prepared to navigate challenging times. Through this uncertainty, we remain committed to being a trusted financial partner for our customers.

Since 1982, First Farmers has provided consistent and reliable cash dividends to our shareholders. First Farmers' second-quarter 2020 dividend marked our 84th consecutive payment and underscores our ongoing resolve to enhance shareholder value in the long term.

In closing, we would like to express our sincere appreciation to you, our shareholders, for your investment in First Farmers which in turn allows our company to stand strong in support of our communities and those who call these communities home.

Sincerely,



**T. Randy Stevens**  
Chairman & CEO



**Brian K. Williams**  
President

## Second Quarter 2020



### RESULTS OF OPERATIONS

Dollars in thousands, except per share data

	Six Months Ended June 30	
	2020 (unaudited)	2019 (unaudited)
<b>Interest Income</b>	\$23,836	\$23,897
<b>Interest Expense</b>	\$2,130	\$2,750
<b>Net Interest Income</b>	\$21,706	\$21,147
<b>Provision (credit) for Possible Loan Losses</b>	\$700	\$(55)
<b>Non-interest Income</b>	\$7,639	\$9,197
<b>Non-interest Expense</b>	\$20,154	\$19,783
<b>Income Before Income Taxes</b>	\$8,491	\$10,616
<b>Net Income for Common Shareholders*</b>	\$7,217	\$8,685

### PER SHARE DATA

<b>Basic Earnings per Share</b>	\$1.65	\$ 1.95
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### FINANCIAL CONDITION DATA

	JUNE 30, 2020 (unaudited)	JUNE 30, 2019 (unaudited)
<b>Total Securities</b>	\$392,305	\$341,956
<b>Loans, Net of Deferred Fees</b>	\$993,710	\$890,556
<b>Allowance for Loan and Lease Losses</b>	\$(9,695)	\$(9,227)
<b>Total Assets</b>	\$1,608,659	\$1,369,290

\*June 30, 2019 results include a one-time gain of \$2.0 million, net of tax, on the January 2019 sale of the White Bluff office