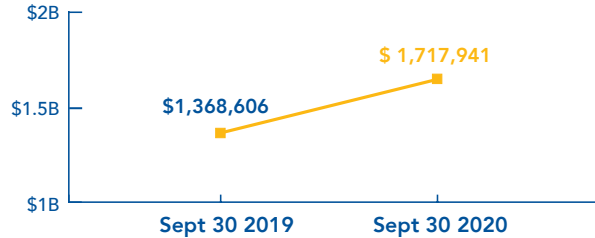


## Third Quarter Highlights

Dollars in thousands

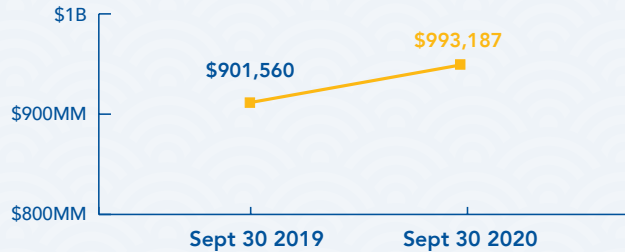
### TOTAL ASSETS

26% Increase Year Over Year

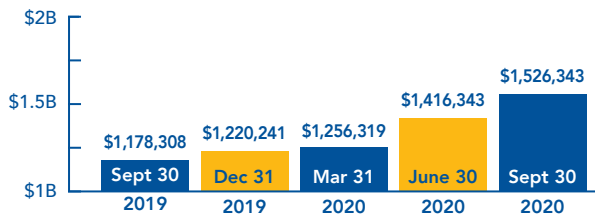


### GROSS LOANS

10% Increase Year Over Year



### TOTAL DEPOSITS



### BOOK VALUE PER SHARE



## Commitment to Community

Supporting our local communities has never been more critical, and First Farmers has continued to give of our time, talent, and resources to serve Middle Tennessee.

Below are a few examples of how we did not let COVID-19 stop us from serving in the third quarter.

- Our sponsorship of the banking exhibit at aMuse'um Children's Museum will serve as an introduction to banking for Middle Tennessee's youngest community members.
- Through our second-annual Back2School Drive, we collected and donated notebooks, glue sticks, crayons and other supplies to local school drives in our communities.
- Our donation to Build and Learn, Inc., a community housing development nonprofit, helped provide citizens in need of work training to build and refurbish homes and use those skills to help veterans and others in need of assistance.



## SHAREHOLDER REPORT

Fall 2020

## Here For You

Despite obstacles brought on by the pandemic, our banking team's commitment to being here for our customers has not wavered.

This message, created by a member of our operations team, aptly demonstrates our approach and mindset through recent months and beyond.

During this crazy year of 2020, our team has been:

COMMITTED  
OPTIMISTIC  
VERSATILE  
INNOVATIVE  
DEPENDABLE

and most importantly:  
**HERE FOR YOU!**

-Michelle C | 10.2020

1.800.882.8378  
ir.myfirstfarmers.com

**FIRST FARMERS**  
Grow With Us.

## Dear Shareholders,

First Farmers and Merchants Corporation is pleased to report solid performance for the third quarter ended September 30, 2020, leveraging on the record-setting growth of the preceding quarter. Highlights of the third quarter of 2020 included increases in adjusted net income from the previous quarter and growth in our balance sheet for both year-over-year and sequential quarter, resulting in record total assets and total deposits – evidence of the strength of the underlying fundamentals driving our business during a period of continued severe economic disruption. The challenging operating environment elevates the importance of efficiency initiatives underway, including enhanced technological investments made over the last several years. Also, as we remain focused on diversification of our revenue streams with fee-based businesses, total administered trust assets reached a record of \$5.7 billion during the third quarter.

Net income for the third quarter of 2020 decreased 6% to \$3.7 million or \$0.84 per common share from \$3.9 million or \$0.88 per common share for the year-earlier quarter. Net income for the year-earlier period was favorably impacted by a provision credit for loan and lease losses and a gain on redemption of bank-owned life insurance. Comparing the third quarter of 2020 to the year-earlier quarter, we experienced an increase in net interest income supported by growth in our average interest earning assets. This was offset by a decline in our net interest margin of 61 basis points, which is temporary and the result of lower yielding Small Business Administration Paycheck Protection Program (“SBA PPP”) loans along with lower market interest rates. Net income, adjusted for special items, decreased \$52,000 to \$3.7 million or \$0.84 per common share, from the year-earlier period. The decline in adjusted earnings was driven by a decrease in provision credit for loan and lease losses and higher non-interest expense, offset by an increase in net interest income.

Net income decreased 8% from \$4.0 million or \$0.92 per common share from the previous quarter. The prior quarter included gains on the redemption of bank-owned life insurance and on equity securities. Net income, adjusted for special items, increased 7% from \$3.4 million or \$0.79 per common share for the previous quarter, due to a decline in provision for loan and lease losses expense coupled with increases in service fees on deposit accounts and trust services fee income, offset in part by an increase in salaries and employee benefits expense.

We entered the third quarter with strong asset quality and strict management control practices as we continue to record excellent asset quality trends. While First Farmers was quick to assist its customers through deferrals of loan payments during the second quarter, loans in deferral status significantly decreased during the third quarter to less than 3% of total

loans. We did not record provision for loan and lease losses during the third quarter. The allowance for loan and lease losses remained in-line compared with the sequential period at 1.07% of total loans outstanding, excluding SBA PPP loans.

Our continued record-setting pace of balance sheet expansion for both the year-over-year and sequential quarters resulted in total assets of \$1.7 billion and total deposits of \$1.5 billion. As expected, loan growth was soft from the sequential quarter, but we did see an increase of 10% year over year. Moreover, the level of non-performing assets continued to demonstrate excellent credit quality, with total non performing assets declining to just 0.09% of total assets from 0.19% of total assets in the year-earlier quarter and 0.11% on a sequential-quarter basis. Since the onset of the pandemic and ensuing recession, the company has continued to heighten the ongoing surveillance of risk in the loan portfolio. We see our asset quality metrics benefitting from our

longstanding approach to managing concentrations in the loan portfolio resulting in limited exposure to industries hardest hit by the pandemic.

Our company’s strong balance sheet and track record of conservative risk management practices demonstrate their undeniable contribution to shareholder value most clearly during challenging times like these. We are grateful to our customers, our shareholders, and the communities we serve for their support as we navigate the path forward.

Sincerely,



**T. Randy Stevens**  
Chairman & CEO



**Brian K. Williams**  
President

## Third Quarter 2020



### RESULTS OF OPERATIONS

### Nine Months Ended September 30

Dollars in thousands, except per share data

	2020 (unaudited)	2019 (unaudited)
<b>Interest Income</b>	\$35,599	\$36,102
<b>Interest Expense</b>	\$2,939	\$4,296
<b>Net Interest Income</b>	\$32,660	\$31,806
<b>Provision (credit) for Possible Loan Losses</b>	\$700	\$(360)
<b>Non-interest Income</b>	\$11,035	\$12,750
<b>Non-interest Expense</b>	\$29,988	\$29,678
<b>Income Before Income Taxes</b>	\$13,007	\$15,238
<b>Net Income for Common Shareholders*</b>	\$10,897	\$12,579

### PER SHARE DATA

<b>Basic Earnings per Share</b>	\$2.50	\$2.83
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### FINANCIAL CONDITION DATA

	SEPT 30, 2020 (unaudited)	SEPT 30, 2019 (unaudited)
<b>Total Securities</b>	\$492,781	\$347,373
<b>Loans, Net of Deferred Fees</b>	\$993,187	\$901,560
<b>Allowance for Loan and Lease Losses</b>	\$(9,712)	\$(8,937)
<b>Total Assets</b>	\$1,717,941	\$1,368,606

\*September 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