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

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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 - Distribution of Assets, Liabilities, Shareholders Equity, Interest Rates and Interest Differential

	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) **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	

Capital Expenditures

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:						
Commercial	$94,702	15.6%	$83,631	$60,448	$61,192	$63,695
Other	10,573	1.7%	11,594	2,601	5,446	2,943
Tax exempt municipal loans	23,302	3.8%	21,004	25,130	38,877	34,138
Real estate						
Construction	30,685	5.1%	37,008	33,270	37,374	38,877
Commercial mortgages	195,860	32.3%	183,373	152,539	156,704	149,332
Residential mortgages	214,211	35.3%	196,349	196,913	221,748	238,349
Other	22,353	3.6%	19,393	30,410	31,129	32,464
Retail loans	16,275	2.6%	15,651	17,027	15,753	17,124
Lease financing receivables	-	-	-	-	-	274
Net unamortized loan origination fees	(1,195)	-	(844)	(536)	(490)	(541)
	$606,766	100.0%	$567,159	$517,802	$559,179	$576,655

A slight majority of the Bank s outstanding loans continue to be housed in the Maury County portfolio in 2013. Maury County housed 47.5% of the Bank s outstanding loans at December 31, 2013, including most of its out-of-territory loans and participations purchased. The Maury County portfolio experienced a $3,863 increase in outstanding loans for 2013. The majority of the growth came from commercial lending.

Loan demand showed a marked improvement in the latter part of 2013, mainly due to commercial lending. Commercial loans grew 5.5% from the previous year. Portfolio growth and asset quality remain strong. The bank will continue to diligently review its pricing structure and to seek out new lending opportunities and bank relationships within the seven-county footprint.

The Bank has a credit administration function that is responsible for assisting loan officers in underwriting new loans, reviewing problem loans, monitoring the status of problem loans from period to period, and assisting in their resolution. This review process also includes semi-annual reviews by an outside party to assess the quality of the loan portfolio independently. Management has concluded that this independent review has served to strengthen underwriting practices. The analysis and review by the Bank s credit administration department also includes a formal review that is prepared quarterly to assess the risk in the loan portfolio and to determine the adequacy of the allowance for loan and lease losses (ALLL). Loan reviews of all relationships aggregating $400 and greater are completed on an annual schedule.

Loans that are impaired and not accruing interest were actively monitored in 2013 to determine those for which more aggressive action plans should be taken. The Bank ended 2013 with $214, or 0.04% in net charge-offs. The Bank s charge-off level is tracking well under the Bank s target level of 0.25% and below its peer group average of 0.27% for 2013. Management believes that the ALLL was adequate at December 31, 2013.

Table D below summarizes average loan balances and reconciles the ALLL for each of the last five years. Additions or reductions to the allowance, which are included in operating expenses, are also included.

TABLE D - Loan Portfolio

	December 31,				
(Dollars In Thousands)	2013	2012	2011	2010	2009
Average amount of gross loans outstanding	$ 581,596	$ 526,973	$ 543,203	$ 573,524	$ 588,821
Balance of allowance for possible loan					
losses at beginning of year	8,809	9,200	9,420	8,929	8,625
Loans charged off					
Commercial loans	222	1,690	3,353	2,046	2,069
Residential real estate loans	27	176	52	108	134
Loans to individuals	49	19	147	77	101
TOTAL LOANS CHARGED OFF	298	1,885	3,552	2,231	2,304
Recoveries of loans previously charged off					
Commercial loans	53	364	103	782	312
Residential real estate loans	2	2	-	-	19
Loans to individuals	29	8	104	44	42
TOTAL RECOVERIES	84	374	207	826	373
NET LOANS CHARGED OFF	214	1,511	3,345	1,405	1,931
Provision (reduction) charged (credited)					
to operating expenses	-	1,120	3,125	1,896	2,235
BALANCE AT END OF YEAR	$ 8,595	$ 8,809	$ 9,200	$ 9,420	$ 8,929
Ratio of net charge-offs during the period					
to average gross loans outstanding	0.04 %	0.29 %	0.62 %	0.24 %	0.33 %

In reviewing the Bank s loan portfolio, management categorizes certain loans as classified assets, which consist of substandard, doubtful and loss categories of loans, and special mention, which is a less severe category of loans that do not warrant an adverse classification. The Bank closed 2013 with $8,065 in classified assets compared to $14,113 in 2012; of these amounts, $2,325 were classified as doubtful at December 31, 2013 compared to $2,455 as of December 31, 2012, $4,302 and $5,980 were classified as substandard at December 31, 2013 and 2012, respectively, and $1,438 and $5,678 were classified as OREO at December 31, 2013 and 2012, respectively. At December 31, 2013, loans totaling $4,898, or 0.81% of the portfolio, were classified as special mention loans. This compares to loans totaling $1,580 so classified at December 31, 2012, representing an increase of $3,318.

Loans having recorded investments of $9,225 and $8,642 at December 31, 2013 and 2012 have been identified as impaired. Loans amounting to $5,396 and $8,074 at December 31, 2013 and 2012, respectively, were not accruing interest. These loans are considered nonaccrual loans and represented 0.9% and 1.4% of gross loans as of December 31, 2013 and 2012, respectively. Interest received on nonaccrual loans during 2013 was $326, during 2012 was $484, and during 2011 was $959. The Bank had no loans that were 90 days or more past due that were not included in nonaccrual loans as of December 31, 2013 or 2012.

The Bank had $3,607 and $4,156 that qualified as troubled debt restructurings as defined in ASC Topic 310-40 as occasion of December 31, 2013 and 2012, respectively. Troubled debt restructurings are loans for which the Bank, for economic or legal reasons related to a borrower s financial difficulties, grants a concession to the borrower which would otherwise not be considered. For a loan to be classified as a troubled debt restructuring, the borrower must be experiencing financial difficulties (even if the borrower is not currently in default on any of its indebtedness), and because of those difficulties the Bank must have made a concession that would otherwise not be granted. These concessions can take many forms, including but not limited to granting temporary payment relief, restructuring a loan to extend the amortization or lower the required payment amount, and forgiveness of principal. Likewise, the financial difficulty being experienced by a borrower can take many forms, including but not limited to:

- Being in default on any existing indebtedness;
- Declaring, or being in the process of declaring, bankruptcy;
- Significant doubt as to whether an existing business can continue to operate as a going concern;

- Historically demonstrating, or forecasting, insufficient cash flows with which to service all debt in a timely manner; or
- Absent the modification, the borrower cannot continue to keep all indebtedness current.

Once identified as a troubled debt restructuring, the bank will track these loans and periodically report to the Board of Directors the aggregate balances thereof. Please refer to Note 1 and Note 4 in the Notes to Consolidated Financial Statements that are included elsewhere in this Annual Report to Shareholders for more information on the Bank s policy regarding loan impairment and troubled debt restructuring.

RESULTS OF OPERATIONS

Interest Income and Expense

Total interest income increased 2.7% during 2013 as a result of an increase in loan volume and slight increase in investment yields. Interest and fees earned on loans totaled 76.7% of gross interest income during 2013 and increased 2.5% from 2012 as a result of an increase in loan volume. Interest earned on securities and other investments totaled 23.3% of total interest income during 2013 and increased 3.3% from 2012 primarily because the investment portfolio s yields have increased in same period.

Total interest expense decreased 24.3% in 2013, compared to a 22.3% decrease in 2012 and a 29.4% decrease in 2011. Decreases in the average interest rate paid on interest bearing liabilities contributed to the lower interest expense. The cost of interest bearing deposits is monitored quarterly by the Bank s Asset/Liability Committee. The net interest margin (tax equivalent net interest income divided by average earning assets) was 3.69%, 3.66% and 4.07% for years ended December 31, 2013, 2012 and 2011, respectively.

Net interest income on a fully taxable equivalent basis is influenced primarily by changes in: (i) the volume and mix of earning assets and sources of funding; (ii) market rates of interest. The impact of some of these factors can be controlled by management policies and actions. External factors can also have a significant impact on changes in net interest income from one period to another. Some examples of such factors include: (i) the strength of credit demands by customers; (ii) Federal Reserve Board monetary policy; and fiscal and debt management policies of the federal government, including changes in tax laws. For the 12 months ended December 31, 2013, net interest income was $34,454, compared to $32,543 and $33,026 for the 12 months ended December 31, 2012 and 2011, respectively.

Noninterest Income and Expenses

The components of non-interest income were as follows:

	2013	2012	2011
Trust	$ 2,298	$ 2,119	$ 1,999
Deposit fees	6,479	6,689	6,784

Mortgage banking income (gains of loans sold)		437		511		469
Earnings on bank owned life insurance		497		705		717
Gain/loss on investment securities		829		2,294		1,458
Gain/loss on other real estate owned		(308)		(1,317)		(948)
Other		884		630		493
	$	11,116	$	11,631	$	10,972

Noninterest income decreased 4.4% in 2013 compared to 2012 and increased 6.0% in 2012 compared to 2011. Mortgage banking had a nominal decrease in 2013 compared to 2012. There was an $829 gain on sale of available-for-sale securities in 2013 compared to a $2,294 gain in 2012. Income from service charges on accounts decreased 3.1% in 2013 compared to 2012, representing 58% of total noninterest income. Income from fiduciary services offered in the Bank s Trust Department increased 8.4% in 2013 compared to 2012, representing 20.7% of total noninterest income. Stability in the equity and bond markets impacted the market value of the assets managed by the Trust Department and the related investment fees earned by the Bank.

The components of noninterest expense were as follows:

	2013	2012	2011
Personnel	$ 18,331	$ 16,486	$ 18,836
Occupancy	2,581	2,528	2,488
Equipment	1,397	1,334	1,224
Other	10,934	10,246	10,569
	$ 33,243	$ 30,594	$ 33,117

Noninterest expenses increased 8.6% in 2013 compared to 2012. A 11.2% increase in salaries and benefits was the primary contributor to this increase, due mainly to increased insurance expense for the year. Furniture and equipment increased $53 in 2013, which was included in the 2013 budget. Noninterest expenses decreased 7.6% in 2012 compared to 2011.

Income Tax Expense

Applicable income taxes on 2013 earnings amounted to $2,700, resulting in an effective tax rate of 21.9% compared to $3,040, or 24.4% in 2012. The effective tax rate for 2013 and 2012 is a function of the net income earned and the effect of having a real estate investment trust structure, which results in having no Tennessee excise tax expense and the effects of interest earned on tax-exempt loans and securities.

Net Income

Net income was 2.2% higher in 2013 than in 2012. No provision for loan losses was expensed in 2013, which was the primary reason for the increase in net income. The Bank s annualized charge-offs ended the year at 0.04%, an improvement from 0.27% in 2012. Classified assets declined $7,192, or 40.2% from 2013 to 2012. Based on these improving trends, the allowance for loan losses was adequate for our loan portfolio. Net income was 34.4% higher in 2012 than in 2011 primarily because of the 64.2% decrease in the provision for loan losses from 2012 to 2011.

OFF-BALANCE SHEET ARRANGEMENTS

As of December 31, 2013, the Bank was a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments included commitments to extend credit and standby letters of credit. Please refer to Note 11 of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report to Shareholders for more information on the Bank s commitments and contingencies. Please refer to Table C above under the heading "Liquidity and Capital Resources" for a summary of the Corporation s earning assets and interest bearing liabilities by maturities.

CRITICAL ACCOUNTING POLICIES

The accounting and reporting policies followed by the Corporation conform, in all material respects, to GAAP and to general practices within the financial services industry. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. In connection with the application of those principles, the Corporation s management has made judgments and estimates that, in the case of determining the ALLL and the recognition of deferred income tax assets has been critical to the determination of the Corporation s financial position, results of operations and cash flows.

Allowance for Loan and Lease Losses

The adequacy of the allowance for loan and lease losses is evaluated quarterly in conjunction with loan review reports and evaluations that are discussed in meetings with loan officers, credit administration and the Corporation s Board of Directors. The Bank s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect a borrower s ability to repay (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors are considered in this evaluation. This process is inherently subjective as it requires material estimates that are susceptible to significant change, including the amounts and timing of future cash flows expected to be received on impaired loans. The allowance for loan and lease losses is maintained at a level believed adequate by management to absorb estimated losses inherent in the loan portfolio.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

Management has implemented procedures that give detailed historical data by segment of retail and commercial credit and performance characteristics to broaden the analysis and improve monitoring of potential credit risk.

Criteria considered and processes utilized in evaluating the adequacy of the ALLL are:

- Portfolio quality trends;
- Changes in the nature and volume of the portfolio;
- Present and prospective economic and business conditions, locally and nationally;
- Management review systems and board oversight, including external loan review processes;
- Changes in credit policy, credit administration, portfolio management and procedures;
- Changes in personnel, management and staff; and
- Existence and effect of any concentrations of credit.

In assessing the adequacy of the ALLL, the risk characteristics of the entire loan portfolio are evaluated. This process includes the judgment of management, input from independent loan reviews and reviews that may have been conducted by bank regulators as part of their usual examination process. Refer to notes 1, 4 and 5 in the consolidated financial statements for more information on the allowance for loan losses.

The following table gives a breakdown of the ALLL for each loan category:

	December 31,					
		2013			2012	
Balance at End of Period Applicable to:		Amount	Percent of ALLL		Amount	Percent of ALLL
Commercial	$	7,359	85.62%	$	7,528	85.46%
Residential real estate		1,084	12.61%		1,109	12.59%
Consumer and other retail		152	1.77%		172	1.95%
Total loans	$	8,595	100.00%	$	8,809	100.00%

Deferred Income Tax Assets

Deferred income tax assets consist mainly of the tax effect of excess provisions for loan and lease losses over actual losses incurred, the unrealized loss on available-for-sale securities and deferred compensation. The Corporation and the Bank have paid taxes for many years. Management believes that it is more likely than not that these assets will be realized in future years.

SHAREHOLDER INFORMATION

The 5,021,012 shares of common stock of the Corporation outstanding at December 31, 2013 had an estimated market value of $125,525 and were held by 2,054 shareholders located primarily in the Corporation s market area. A small number of shareholders are not identified individually because some bank nominees, including the Bank s Trust Department, are listed as record owners when, in fact, these holdings represent more than one beneficial owner. No single shareholder s ownership exceeded 5% at year end.

There is no established public trading market for shares of the Corporation s common stock. The table below shows the high and low price of the Corporation s common stock taken from reported prices by those buyers and sellers willing to disclose this information. This table also shows the semi-annual dividend declared per share of common stock, in each of the last two years. In 2013, the Corporation repurchased 158,988 shares of its common stock in several privately negotiated transactions.

			High		Low		Dividend
2013	First Quarter	$	27.50	$	18.52	$	-
	Second Quarter		25.00		19.00		0.370
	Third Quarter		22.50		20.00		-
	Fourth Quarter		25.00		23.00		0.370
2012	First Quarter	$	30.00	$	27.00	$	-
	Second Quarter		28.00		20.00		0.370
	Third Quarter		45.00		21.00		-
	Fourth Quarter		23.00		22.48		0.370

ADDITIONAL FINANCIAL DATA

The following table presents consolidated comparative data for the Corporation for the years shown:

COMPARATIVE DATA

(Dollars In Thousands)

		2013		2012		2011		2010		2009		2008		2007
Total Assets	$	1,092,874	$	1,091,487	$	1,017,808	$	941,625	$	935,009	$	911,137	$	823,046
Average assets	$	1,087,487	$	1,054,316	$	975,671	$	953,155	$	922,549	$	855,278	$	797,239
Average loans (net)	$	572,913	$	518,158	$	534,841	$	564,388	$	579,998	$	534,441	$	484,308
Average deposits	$	938,032	$	893,486	$	820,250	$	795,786	$	760,315	$	701,428	$	673,728
Return on														
average assets		0.88%		0.90%		0.72%		0.76%		0.87%		1.08%		1.08%
Return on														
average equity		8.66%		8.22%		6.21%		6.84%		7.50%		8.60%		8.36%
Tier 1 capital														
to average assets		9.53%		9.69%		10.24%		10.38%		10.55%		10.93%		12.22%

Selected Financial Information

(Dollars in Thousands, Except Per Share Data)

	2013	2012	2011	2010	2009	2008
Interest Income						
Interest and fees on loans	$ 28,653	$ 27,951	$ 29,838	$ 31,925	$ 31,815	$ 32,901
Income on investment securities						
Taxable interest	5,501	4,967	4,219	3,857	4,894	6,649
Exempt from federal income tax	2,913	3,106	3,616	3,575	3,761	3,866
Dividends	197	207	197	194	204	194
	8,611	8,280	8,032	7,626	8,859	10,709
Other interest income	97	153	98	58	66	271
Total Interest Income	37,361	36,384	37,968	39,609	40,740	43,881
Interest Expense						
Interest on deposits	2,694	3,343	4,223	6,029	7,916	11,626
Interest on other short term borrowings	213	498	719	972	1,156	831
Total Interest Expense	2,907	3,841	4,942	7,001	9,072	12,457
Net Interest Income	34,454	32,543	33,026	32,608	31,668	31,424
Provision For Possible Loan Losses	-	1,120	3,125	1,896	2,235	1,687
Net Interest Income After						
Provision for Loan Losses	34,454	31,423	29,901	30,712	29,433	29,737
Noninterest Income						
Trust department income	2,298	2,119	1,999	1,965	1,924	2,463
Service fees on deposit accounts	6,479	6,689	6,784	6,781	7,231	7,705
Other service fees, commissions, and fees	563	610	584	708	431	393
Other operating income	947	(81)	147	(1,300)	793	974
Securities gains	829	2,294	1,458	1,614	2,482	1,351
Total Noninterest Income	11,116	11,631	10,972	9,768	12,861	12,886
Noninterest Expense						
Salaries and employee benefits	18,331	16,486	18,836	15,811	17,137	16,562
Net occupancy expense	2,581	2,528	2,488	2,116	2,662	2,620
Furniture and equipment expense	1,397	1,334	1,224	1,076	1,120	1,007
Other operating expenses	10,950	10,262	10,585	13,191	12,148	11,259
Total Noninterest Expense	33,259	30,610	33,133	32,194	33,067	31,448
Income Before Provision						
For income Taxes	12,311	12,444	7,740	8,286	9,227	11,175
Provision For Income Taxes	2,700	3,040	744	1,043	1,187	1,967
Net Income	$ 9,611	$ 9,404	$ 6,996	$ 7,243	$ 8,040	$ 9,208
Earnings Per Common Share	$ 1.88	$ 1.77	$ 1.30	$ 1.32	$ 1.45	$ 1.63
Weighted Average Shares Outstanding	5,110,849	5,315,634	5,400,063	5,486,183	5,537,611	5,635,060

(See Note 1 of Notes to Consolidated Financial Statements)

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors

and Shareholders

First Farmers and Merchants Corporation

Columbia, Tennessee

We have audited First Farmers and Merchants Corporation s (Corporation) internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Corporation s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying management report on internal control over financial reporting. Our responsibility is to express an opinion on the Corporation s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Corporation, (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles and receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Corporation s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

In our report dated March 5, 2014, we expressed an unqualified opinion on internal control over financial reporting. As described in the following paragraphs, a material weakness was subsequently identified in connection with the restatement of the previously issued financial statements. Accordingly, management revised its assessment about the effectiveness of the Corporation s internal control over financial reporting and our present opinion on the effectiveness of the Corporation s internal control over financial reporting as of December 31, 2013, expressed herein, is different from that expressed in our previous report.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility a material misstatement of the Corporation s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management s assessment.

- Errors in recording and accounting for the Corporation s defined benefit post-retirement health care plan were identified. The errors were the result of a lack of sufficient resources within the Corporation with the requisite expertise regarding the accounting for the plan, and have resulted in restatement of the Corporation s financial statements for the years ended December 31, 2013 and 2012. This material weakness was considered in determining the nature, timing and extent of auditing procedures applied in our audit of the Corporation s consolidated financial statements, and this report does not affect our report dated March 5, 2014 (February 10, 2015, as to the effects of the restatement discussed in Note 2), on those consolidated financial statements.

In our opinion, because of the effect of the material weakness described above on the achievement of the objectives of the control criteria, the Corporation has not maintained effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements of December 31, 2013, and our report dated March 5, 2014 (February 10, 2015, as to the effects of the restatement discussed in Note 2), expressed an unqualified opinion thereon and included an explanatory paragraph relating to the restatement.

//s//**BKD, LLP**

Louisville, Kentucky

March 5, 2014 (February 10, 2015, as to the effects of the material weakness described above)

FIRST FARMERS AND MERCHANTS CORPORATION

COLUMBIA, TENNESSEE

MANAGEMENT REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

We, as management of First Farmers and Merchants Corporation (the Corporation) and its subsidiaries, are responsible for establishing and maintaining adequate internal control over financial reporting. Pursuant to the rules and regulations of the Securities and Exchange Commission, internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- Pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of the assets of the Corporation;
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Corporation are being made only in accordance with authorizations of management and directors of the Corporation; and
- Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the company s assets that could have a material effect on the financial statements.

All internal control systems, no matter how well designed, have inherent limitations, including the possibility of human error and the circumvention of overriding controls. Accordingly, even effective internal control can provide only reasonable assurance with respect to financial statement preparation. Further, because of changes in conditions, the effectiveness of internal control may vary over time.

Because of the inherent limitations, any system of internal control over financial reporting, no matter how well designed, may not prevent or detect misstatements due to the possibility that a control can be circumvented or overridden or that misstatements due to error or fraud may occur that are not detected. Also, projections of the effectiveness to future periods are subject to the risk that the internal controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures included in such controls may deteriorate.

Management has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2013, based on the control criteria established in a report entitled Internal Control Integrated Framework (1992), issued by the Committee of Sponsoring Organizations of the Treadway Commission. Errors in recording and accounting for the Corporation s defined benefit post-retirement health care plan were identified. The errors were the result of a lack of personnel with the requisite expertise regarding the accounting for the plan. Based on such evaluation, management concluded that there was a material weakness in the Corporation s internal control over financial reporting as of December 31, 2013.

Remediation Plan of Material Weakness in Internal Control

Management proposes to make modifications to the internal control procedures for identifying, calculating and recording transactions to remediate the material weakness. At the end of 2013, management hired a certified public accountant as Controller to serve as an additional layer of review over recording complex transactions in the general ledger, as well as review of the Corporation s financial reporting and internal controls structure. Additionally, the Company s remediation action will include obtaining outsourced expertise for those complex accounting transactions that in-house accounting staff does not have sufficient resources of time or expertise to record and report. The effectiveness of the Corporation s internal control over financial reporting as of December 31, 2013, has been audited by BKD, LLP, an independent registered public accounting firm that audited the Corporation s consolidated financial statements included in this annual report and has issued an adverse opinion as a result of the material weakness identified.

Report of Independent Registered Public Accounting Firm

Audit Committee, Board of Directors

and Shareholders

First Farmers and Merchants Corporation

Columbia, Tennessee

We have audited the accompanying consolidated balance sheets of First Farmers and Merchants Corporation (Corporation) as of December 31, 2013 and 2012, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders equity and cash flows for each of the years in the two-year period ended December 31, 2013. The Corporation s management is responsible for these financial statements. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. Our audits included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management and evaluating the overall financial statement presentation. We believe our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Corporation as of December 31, 2013 and 2012, and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2 to the consolidated financial statements, the accompanying 2013 and 2012 consolidated financial statements have been restated to correct a misstatement.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Corporation s internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 5, 2014 (February 10, 2015, as to the effects of the material weaknesses described in *Management s Report on Internal Control Over Financial Reporting,* as revised), expressed an adverse opinion on the effectiveness of the Corporation s internal control over financial reporting because of the material weakness.

//s//**BKD, LLP**

Louisville, Kentucky

March 5, 2014 (February 10, 2015, as to the effects of the restatement discussed in Note 2)

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(Dollars in Thousands, Except Per Share Data)	December 31, 2013 *Restated*	December 31, 2012 *Restated*
ASSETS	Cash and due from banks	$20,391	$23,443
	Interest-bearing due from banks	25,167	31,953
	Federal funds sold	9,850	15,000
	Total cash and cash equivalents	55,408	70,396
	Securities		
	Available-for-sale (amortized cost $346,892 and $339,971 as of December 31, 2013 and December 31, 2012, respectively)	329,714	345,718
	Held-to-maturity (fair market value $28,595 and $33,420 as of December 31, 2013 and December 31, 2012, respectively)	27,839	31,755
	Total securities	357,553	377,473
	Loans, net of deferred fees	606,766	567,159
	Allowance for loan and lease losses	(8,595)	(8,809)
	Net loans	598,171	558,350
	Bank premises and equipment, net	24,868	26,417
	Other real estate owned	1,438	5,678
	Bank owned life insurance	25,867	25,112
	Goodwill	9,018	9,018
	Deferred tax asset	9,946	5,008
	Other assets	10,605	14,035
	TOTAL ASSETS	$1,092,874	$1,091,487
LIABILITIES	Deposits		
	Noninterest-bearing	$179,823	$169,136
	Interest-bearing	777,514	763,713
	Total deposits	957,337	932,849
	Securities sold under agreements to repurchase	18,095	17,068
	Accounts payable and accrued liabilities	13,238	18,675
	Federal Home Loan Bank (FHLB) advances	-	10,100
	TOTAL LIABILITIES	988,670	978,692
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 5,021,012 and 5,180,000 shares issued and outstanding as of December 31, 2013 and December 31, 2012, respectively	50,210	51,800
	Retained earnings	62,900	59,162
	Accumulated other comprehensive income (loss)	(9,001)	1,738
	TOTAL SHAREHOLDERS' EQUITY BEFORE NONCONTROLLING INTEREST - PREFERRED STOCK OF SUBSIDIARY	104,109	112,700
	Noncontrolling interest - preferred stock of subsidiary	95	95

TOTAL SHAREHOLDERS' EQUITY	104,204	112,795
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$1,092,874	$1,091,487

The accompanying notes are an integral part of the consolidated financial statements.

4

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

		Years Ended December 31,		
		2013	**2012**	
	(Dollars in Thousands, Except Per Share Data)	*Restated*	*Restated*	**2011**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$28,653	$27,951	$29,838
	Income on investment securities			
	Taxable interest	5,501	4,967	4,219
	Exempt from federal income tax	2,913	3,106	3,616
	Dividends	294	360	295
	Total interest income	37,361	36,384	37,968
INTEREST EXPENSE	Interest on deposits	2,694	3,343	4,223
	Interest on other borrowings	213	498	719
	Total interest expense	2,907	3,841	4,942
	Net interest income	34,454	32,543	33,026
	Provision for loan and lease losses	-	1,120	3,125
	Net interest income after provision	34,454	31,423	29,901
NONINTEREST INCOME	Gain on loans sold	437	511	469
	Trust department income	2,298	2,119	1,999
	Service fees on deposit accounts	6,479	6,689	6,784
	Brokerage fees	361	231	36
	Earnings on bank owned life insurance	497	705	717
	Gain on sale of securities	829	2,294	1,458
	Loss on foreclosed property	(308)	(1,317)	(948)
	Other non-interest income	523	399	457
	Total noninterest income	11,116	11,631	10,972
NONINTEREST EXPENSE	Salaries and employee benefits	18,331	16,486	18,836
	Net occupancy expense	2,581	2,528	2,488
	Furniture and equipment expense	1,397	1,334	1,224
	Data processing expense	2,288	2,007	1,867
	Legal and professional fees	1,037	943	997
	Stationary and office supplies	293	279	286
	Advertising and promotions	1,090	1,179	1,217
	FDIC Insurance premium expense	728	703	875
	Other real estate expense	128	309	640
	Other noninterest expense	5,370	4,826	4,687
	Total noninterest expenses	33,243	30,594	33,117
	Income before provision for income taxes	12,327	12,460	7,756
	Provision for income taxes	2,700	3,040	744
	Net income before noncontrolling interest - dividends on preferred stock of subsidiary	9,627	9,420	7,012
	Noncontrolling interest-dividends on preferred stock subsidiary	16	16	16
	Net income for common shareholders	$9,611	$9,404	$6,996
PER SHARE	Weighted Average Shares Outstanding	5,110,849	5,315,634	5,393,765

Earnings per share	$1.88	$1.77	$1.30

The accompanying notes are an integral part of the consolidated financial statements.

5

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (LOSS)

(Dollars in thousands)	Year Ended December 31, 2013 *Restated*	2012 *Restated*	2011
Net Income for common shareholders	$9,611	$9,404	$6,996
Other Comprehensive Income (Loss)			
Unrealized appreciation (depreciation) on available-for-sale securities, net of tax (benefit) expenses of ($8,507), $1,204, and $2,960	(13,589)	1,923	4,728
Reclassification adjustment for realized gains included in net income, net of taxes of ($319), ($883), and ($561), respectively	(510)	(1,411)	(897)
Change in unfunded portion of postretirement benefit obligations, net of tax (benefit) expenses of $2,102, ($1,243) and $1,214, respectively	3,360	(1,982)	1,940
Other Comprehensive Income (Loss)	(10,739)	(1,470)	5,771
Total Comprehensive Income (Loss)	$(1,128)	$7,934	$12,767

The accompanying notes are an integral part of the consolidated financial statement

6

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2013, 2012 and 2011	Shares of stock	Preferred Stock	Common Stock	Retained Earnings *Restated*	Accumulated Other Comprehensive Income (Loss) *Restated*	Total *Restated*
Balance at December 31, 2010	5,430,000	$ 95	$ 54,300	$ 54,524	$ (2,563)	$ 106,356
Net income before dividends on preferred stock of subsidiary				7,012		7,012
Other comprehensive income					5,771	5,771
Repurchase of common stock	(100,000)		(1,000)	(2,011)		(3,011)
Cash dividends declared, $0.74 per share				(3,963)		(3,963)
Cash dividends - preferred stock of subsidiary				(16)		(16)
Balance at December 31, 2011	5,330,000	95	53,300	55,546	3,208	112,149
Net income before dividends on preferred stock of subsidiary, as restated				9,420		9,420
Other comprehensive income, as restated					(1,470)	(1,470)
Repurchase of common stock	(150,000)		(1,500)	(1,900)		(3,400)
Cash dividends declared, $0.74 per share				(3,888)		(3,888)
Cash dividends - preferred stock of subsidiary				(16)		(16)
Balance at December 31, 2012 *(Restated)*	5,180,000	95	51,800	59,162	1,738	112,795
Net income before dividends on preferred stock of subsidiary, as restated				9,627		9,627
Other comprehensive loss, as restated					(10,739)	(10,739)
Repurchase of common stock	(158,988)		(1,590)	(2,132)		(3,722)
Cash dividends declared, $0.74 per share				(3,741)		(3,741)
Cash dividends - preferred stock of subsidiary				(16)		(16)
Balance at December 31, 2013 *(Restated)*	5,021,012	$ 95	$ 50,210	$ 62,900	$ (9,001)	$ 104,204

(Dollars in thousands, except per share data)

The accompanying notes are an integral part of the consolidated financial statements.

7

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

		Years Ended Dec	
	(Dollars in thousands)	2013 *Restated*	2012 *Resta*
OPERATING ACTIVITIES	Net income available for common shareholders	$9,611	$9,40
	Adjustments to reconcile net income to net cash provided by (used in) operating activities		
	Provision for loan losses	-	1,12
	Provision for depreciation and amortization of premises and equipment	1,543	1,41
	Deferred tax benefit (expense)	1,785	784
	Net securities gains	(829)	(2,2
	Gains on loans sold	(437)	(51
	Proceeds from sale of mortgage loans held for sale	21,047	28,6
	Funding of mortgage loans held for sale	(18,481)	(28,
	Loss on other real estate owned	308	1,31
	Gain (loss) on sale of premises and equipment	38	(10
	Amortization of investment security premiums, net of accretion of discounts	1,312	3,52
	Increase in cash surrender value of life insurance contracts	(497)	(70
	(Increase) decrease in		
	Other assets	1,243	741
	Increase (decrease) in		
	Other liabilities	143	(27
	Total adjustments	7,175	5,66
	Net cash provided by operating activities	16,786	15,0
INVESTING ACTIVITIES	Proceeds from sales of available-for-sale securities	137,150	421
	Proceeds from maturities and calls of available-for-sale securities	44,908	68,6
	Proceeds from maturities and calls of held-to-maturity securities	3,890	3,43
	Purchases of investment securities available-for-sale	(189,436)	(52
	Net (increase) decrease in loans	(38,267)	(50,
	Proceeds from sale of other real estate owned	2,378	1,81
	Proceeds from sale of premises and equipment	799	-
	Purchases of premises and equipment	(831)	(78
	Purchase of life insurance policies	(258)	(2,2
	Net cash used in investing activities	(39,667)	(80,
FINANCING ACTIVITIES	Net increase in deposits	24,488	76,4
	Net increase in securities sold under agreements to repurchase	1,027	721
	Payments to FHLB borrowings	(10,100)	(7,0
	Repurchase of common stock	(3,722)	(3,4
	Cash dividends paid on common stock	(3,800)	(3,9
	Net cash provided by financing activities	7,893	62,7
	Increase (decrease) in cash and cash equivalents	(14,988)	(2,6
	Cash and cash equivalents at beginning of period	70,396	73,0
	Cash and cash equivalents at end of period	$55,408	$70,3
	Supplemental disclosures of cash flow information		
	Cash paid during the period for expenses		
	Interest on deposits and borrowed funds	$2,816	$3,71

Income taxes	2,072	860
Loans to facilitate sale of other real estate owned	1,905	1,77
Real estate acquired in settlement of loans	312	1,35

The accompanying notes are an integral part of the consolidated financial statements.

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES