First Farmers Bank & Trust

2009 Annual Report.

FIRST FARMERS
FINANCIAL

FIRST FARMERS
BANK & TRUST

SCI
LEASING
GROUP

FIRST FARMERS
BANK & TRUST
Wealth Management Division

To Our Shareholders

GENE MILES

Our 125th year of serving local communities has been one of historic changes and challenges for the banking industry and for our national economy. I'm pleased to report that 2009 also saw First Farmers Bank & Trust continue its history of profitable performance, consistent growth, strong capital position, and expanded customer service.

Indeed, while many banks were pulling back operations in 2009, we extended our reach through our merger with CB Bank Shares, Inc. Under this agreement, Central Bank joined forces with First Farmers Bank & Trust, uniting two of the region's most respected banking institutions and expanding our branch network with new locations in Russiaville and Kokomo.

FINANCIAL STRENGTH

The Central Bank acquisition dovetails well with our growth strategy in North Central Indiana. And it brings together two organizations with a shared philosophy of community banking. We now have 20 locations across Central Indiana, further strengthening our ability to deliver the region's best banking service to even more customers.

The acquisition has also strengthened our already solid financial position. First Farmers Bank & Trust ended the year with $776 million in assets and capital of more than $60 million. We achieved earnings of more than $7.9 million, an 8.2% increase ($4.45 per share) over the prior year. Dividends increased 3.6% over 2008, the 19th consecutive year of dividend increases. Over the past 10 years, our assets have more than tripled and our facilities have doubled.

LENDING LEADERSHIP

A key driver of our growth continues to be our leadership in regional lending. In 2009, we increased our total outstanding loans by nearly $100 million.

In addition to portfolio growth, secondary market mortgage lending nearly tripled between 2008 and 2009 to $98 million as a greater share of borrowers looking to lock in historically low fixed rates and capitalize on tax incentives saw the advantage of working with their local First Farmer's mortgage lender rather than brokers and mega-banks. We continue to be a leader in Agricultural Lending, reflecting both our expertise in this area and our strong commitment to the region's farms and other agribusinesses.

And we are pleased to reiterate that, unlike a number of local competitors, FFBT did not participate in or accept any money from the Troubled Assets Relief Program (TARP) in 2009.

CONTINUED

Unlike some larger institutions that went to the markets to raise capital to meet their requirements, First Farmers Bank & Trust increased its capital the old-fashioned way: by retaining earnings. The Bank's regulatory capital grew 8.1% over the previous year, ensuring we have resources to comfortably support our lending initiatives and continue to provide credit to the communities we serve.

Thanks to our adherence to these solid financial principles, First Farmers Bank & Trust was awarded a Five-Star Superior rating, the highest available, for financial strength and stability from Bauer Financial, Inc., the nation's leading independent bank rating and research firm.

We were also honored to receive, for the first time, the prestigious Five Star Bank Award from the Indiana Bankers Association (IBA). This award is especially meaningful, as it recognizes excellence in five key areas: Political Awareness; Issue Advocacy; Life-Long Learning; Volunteerism; and Community Involvement.

IMPORTANT MILESTONES

The past year also marked some other important milestones for First Farmers. Last May, we opened our new full-service Marion office. This newest location has been very well received, as evidenced by solid deposit and loan activity since the doors opened.

More recently, we marked the retirement of longtime Director John Norris, who served on the Board for nearly 40 years and retired as chairman. Throughout the years, we have benefited tremendously from John's insight and commitment, as evidenced by his attendance at more than 1,000 Board meetings. We thank John for his significant contributions and we wish him all the best in his well-earned retirement.

We also extend a warm welcome to our newest member of the Board of Directors, John O'Donnell. As a highly respected investment professional and former senior banking executive in the Kokomo area, John has tremendous experience in all aspects of financial services. We are truly fortunate to have his expertise on the Board.

In 2009, we also welcomed 27 new employees who joined the First Farmers team through the Central Bank acquisition. Thanks to our shared philosophy of community banking and customer service, the transition has been both smooth and efficient.

CHALLENGES & OPPORTUNITIES

Looking ahead, national and regional economic conditions will continue to present challenges in 2010. Continued pressure on the commercial real estate market and increased regulatory pressures are just two of the challenges facing banking institutions nationwide. In our own backyard, many local families and businesses continue to struggle in this prolonged recession.

We believe First Farmers Bank & Trust is well positioned to meet these challenges. We have a solid financial foundation, prudent management, and good efficiency ratios. We also have a dedicated team of employees that sets the standard for customer service excellence in Central Indiana and outstanding, loyal customers.

We will continue to make strategic investments to stay at the cutting edge of technology. The current expansion of our Operations Center and our growing presence on the Internet and social media are some examples of how we leverage technology to engage our customers and enhance our efficiency.

UNWAVERING COMMITMENT

And we will continue our commitment to be a good corporate citizen through our support of local schools, youth programs, and civic organizations that strengthen our community.

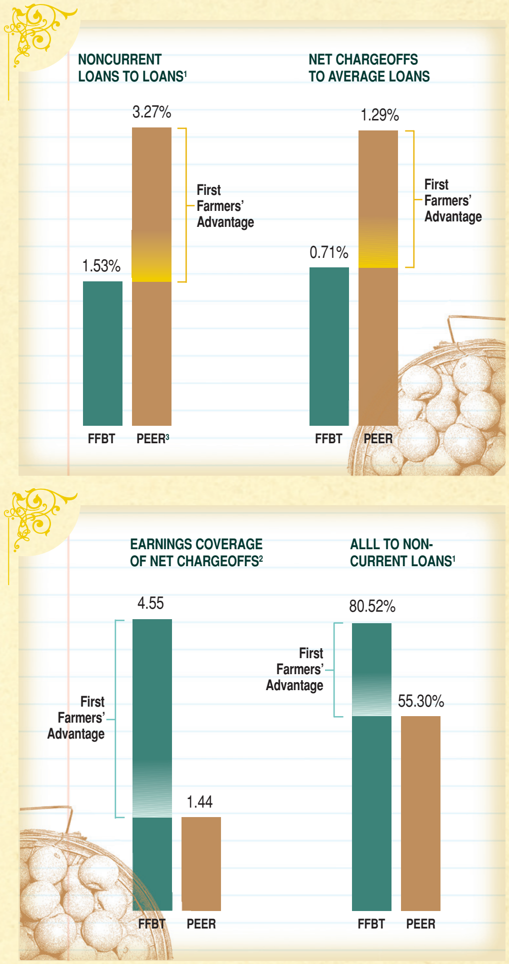
In 2010, we look forward to meeting the challenges and opportunities ahead the same way we always have: by providing our customers with a secure, responsible, and innovative source of financial products, service, and knowledge. After all, this prudent approach has worked well for First Farmers and its customers for 125 years and counting.

Thank you for your continued loyalty to First Farmers. We value our relationship with you.

Sincerely,

Gene Miles
President and Chief Executive Officer

FIRST FARMERS BANK & TRUST COMPARATIVE ASSET QUALITY

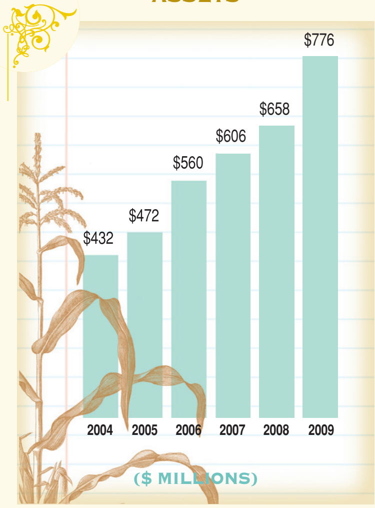


1. Non-current loans include non-accrual and loan accruing but past due 90 days or more.

2. Income before income taxes and extraordinary items and other adjustments, plus provisions for loan and lease losses and allocated transfer risk reserve, plus gains (losses) on securities not held in trading accounts (annualized) divided by net loan and lease charge-offs (annualized).

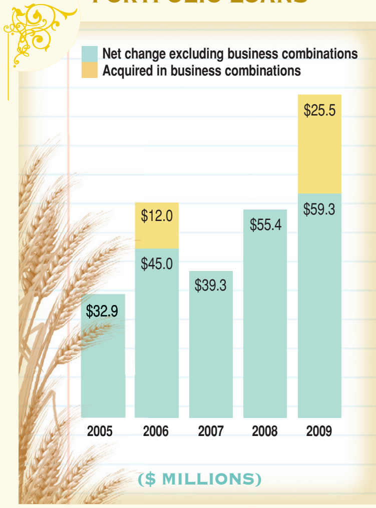
3. Peer is is defined as Indiana FDIC Insured banks with assets between $500 Million and $1 Billion.

ASSETS



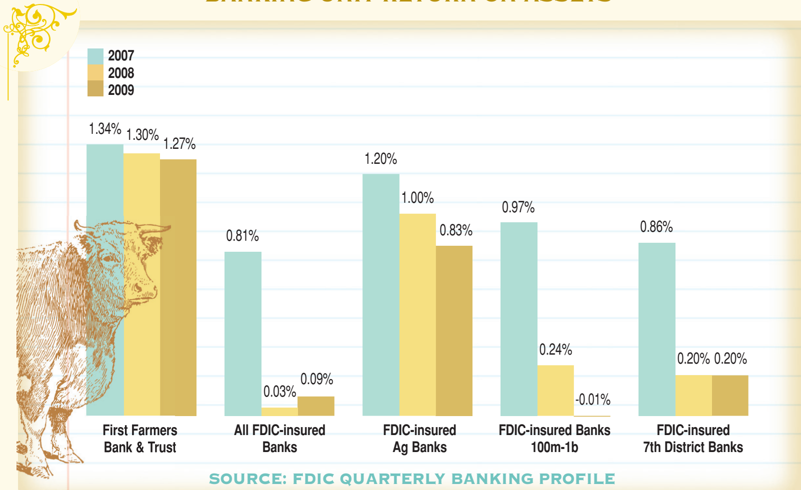
LOANS NET

NET CHANGE IN PORTFOLIO LOANS



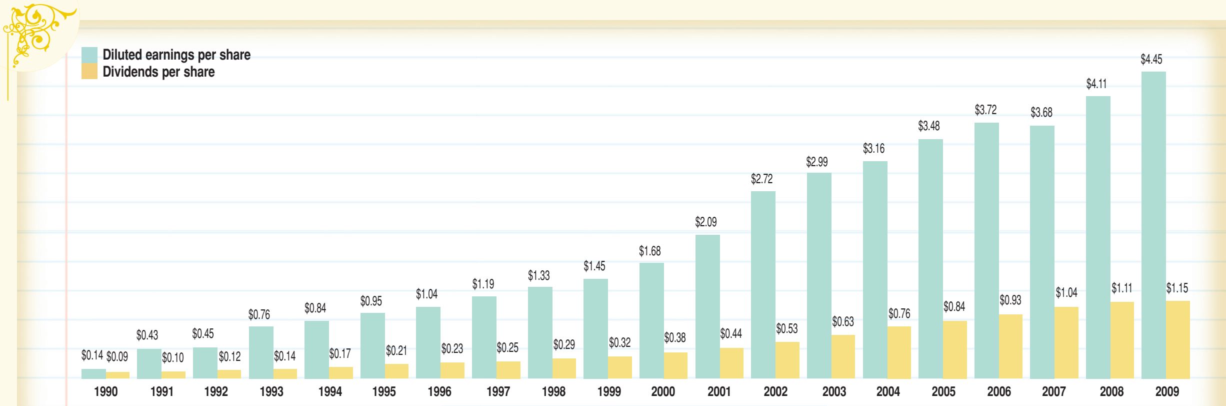
DEPOSITS

BANKING UNIT RETURN ON ASSETS



SOURCE: FDIC QUARTERLY BANKING PROFILE

EARNINGS AND DIVIDENDS



Adjusted for stock splits in 1992 (2:1), 1994 (3:1), 1996 (3:2), 1998 (2:1) and 2001 (2:1)

Summary Financial Highlights

(Dollar amounts in thousands except per share data.)

	2009	2008	2007	2006	2005
Results of Operations					
Net Interest Income	$ 26,375	$ 23,713	$ 21,854	$ 20,002	$ 18,079
Provision for Loan Losses	4,810	2,845	2,450	2,045	1,480
Non-Interest Income	9,470	7,135	7,008	5,483	4,958
Non-Interest Expense	19,517	17,504	17,401	14,035	12,490
Income Taxes	3,643	3,221	2,503	2,796	2,865
Net Income	$ 7,876	$ 7,278	$ 6,508	$ 6,609	$ 6,202
Financial Ratios					
Return on Average Assets	1.15%	1.18%	1.13%	1.30%	1.35%
Return on Average Equity	13.57	14.30	13.90	15.83	16.49
Net Interest Margin*	4.25	4.28	4.27	4.42	4.40
Efficiency Ratio**	50.95	56.60	55.46	51.58	51.13
Balance Sheet Data					
Average Total Assets	$ 686,231	$ 618,831	$ 575,807	$ 507,543	$ 461,008
Average Loans***	528,103	468,479	438,821	383,478	347,133
Average Deposits	536,153	481,128	464,810	413,460	370,450
Per Share Data					
Basic Earnings per share	$ 4.45	$ 4.11	$ 3.68	$ 3.72	$ 3.48
Diluted Earnings per share	4.45	4.11	3.68	3.72	3.48
Cash Dividends Declared	1.15	1.11	1.04	0.93	0.84
Book Value	34.00	30.91	27.71	24.89	22.11
Capital					
Leverage Ratio	9.6%	9.8%	9.8%	8.7%	9.8%
Tier I capital to risk-weighted assets	10.8	11.7	11.7	10.6	12.4
Total capital to risk-weighted assets	12.0	13.0	12.9	11.7	13.6
Asset Quality					
Allowance to Total Loans	1.27%	1.28%	1.21%	1.20%	1.17%
Non-performing Loans / Total Loans	1.53	1.04	1.27	0.81	0.85
Net Charge Offs / Average Loans	0.71	0.39	0.43	0.33	0.40

* Fully tax equivalent
** Fully tax equivalent, excludes gain on sales of bonds, amortization of intangibles, and for 2009 and 2007 charges on early retirement of debt
*** Including loans held for sale, net of allowance for loan and lease losses

Complete audited financial statements are available upon request from the Company's corporate offices.

Condensed Consolidated Balance Sheets

DECEMBER 31, 2009 AND 2008

(Dollar amounts in thousands except per share data.)

	2009	2008
ASSETS		
Cash and due from financial institutions	$ 21,883	$ 17,011
Money market funds	11,229	8,728
Cash and cash equivalents	33,112	25,739
Securities available for sale	62,702	49,577
Securities held to maturity (fair value $43,556 in 2009 and $43,808 in 2008)	42,624	42,877
Restricted stock, at cost	5,027	4,239
Loans held-for-sale	6,141	2,603
Loans, net of allowance of $7,618 and $6,556	587,309	503,596
Premises and equipment, net	12,997	11,893
Goodwill	5,838	5,278
Core deposit and other intangibles	3,583	3,280
Bank-owned life insurance	1,068	-
Accrued interest receivable and other assets	15,125	8,725
	$ 775,526	$ 657,807
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing deposits	$ 112,259	$ 85,173
Interest-bearing deposits	495,509	414,154
Total deposits	607,768	499,327
Federal funds purchased	11,675	16,250
Repurchase agreements	2,959	4,008
Federal Home Loan Bank advances	69,200	62,200
Subordinated debentures	18,000	18,000
Accrued interest payable and other liabilities	5,721	3,417
Total liabilities	715,323	603,202
Stockholders' equity		
Common stock, $1 stated value, 2,000,000 shares authorized, 1,786,138 issued and 1,770,789 outstanding in 2009; and 1,786,138 issued and 1,766,550 outstanding in 2008	1,786	1,786
Additional paid-in capital	3,505	3,563
Retained earnings	55,348	49,507
Treasury Stock (15,349 shares in 2009 and 19,588 shares in 2008)	(689)	(852)
Accumulated other comprehensive income (loss)	253	601
Total stockholders' equity	60,203	54,605
	$ 775,526	$ 657,807

Complete audited financial statements are available upon request from the Company's corporate offices.

Condensed Consolidated Statements of Income

YEARS ENDED DECEMBER 31, 2009 AND 2008

(Dollar amounts in thousands except per share data.)

	2009	2008
Interest and dividend income		
Loans, including fees	$ 33,354	$ 32,727
Securities		
Taxable	1,415	1,985
Non-taxable	2,172	2,116
Federal funds sold and money market funds	35	171
	36,976	36,999
Interest expense		
Deposits	7,137	9,798
Short-term borrowings	34	228
Note payable and FHLB advances	2,246	2,074
Subordinated debentures	1,184	1,186
	10,601	13,286
Net interest income	26,375	23,713
Provision for loan losses	4,810	2,845
Net interest income after provision for loan losses	21,565	20,868
Other income		
Trust fees	144	75
Service charges on deposit accounts	2,255	2,436
Net gain on sale and redemption of securities	610	30
Net gain on sale of loans	3,479	1,097
Other income	2,982	3,497
	9,470	7,135
Other expenses		
Salaries and employee benefits	10,390	9,760
Occupancy and equipment expense	2,804	2,703
Amortization of intangible assets	720	782
Early redemption of FHLB advances	268	-
FDIC Insurance	1,091	321
Other operating expenses	4,243	3,938
	19,516	17,504
Income before income taxes	11,519	10,499
Provision for income taxes	3,643	3,221
Net income	$ 7,876	$ 7,278
Basic and diluted earnings per share	$ 4.45	$ 4.11
Basic and diluted weighted average common shares outstanding	1,769,854	1,770,204

Complete audited financial statements are available upon request from the Company's corporate offices.

Condensed Consolidated Statements of Changes in Stockholders' Equity

YEARS ENDED DECEMBER 31, 2009 AND 2008

(Dollar amounts in thousands except per share data.)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Stock-holders' Equity
Balance at January 1, 2008	$ 1,786	$ 3,606	$ 44,193	$ (631)	$ 100	$ 49,054
Comprehensive income:						
Net income			7,278			7,278
Change in unrealized gain/loss on securities available for sale, net					501	501
Total comprehensive income						7,779
Purchase of treasury stock, 7,300 shares				(345)		(345)
Sale of treasury stock, 1,619 shares		7		60		67
Restricted stock awards from treasury, 2,050 shares, net of forfeitures of 200 shares		(64)		64		-
Stock-based compensation		14				14
Dividends declared ($1.11 per share)			(1,964)			(1,964)
Balance at December 31, 2008	1,786	3,563	49,507	(852)	601	54,605
Comprehensive income:						
Net income			7,876			7,876
Change in unrealized gain/loss on securities available for sale, net					(348)	(348)
Total comprehensive income						7,528
Purchase of treasury stock, 436 shares				(18)		(18)
Sale of treasury stock, 2,200 shares		(4)		92		88
Restricted stock awards from treasury, 2,475 shares		(89)		89		-
Stock-based compensation		35				35
Dividends declared ($1.15 per share)			(2,035)			(2,035)
Balance at December 31, 2009	$ 1,786	$ 3,505	$ 55,348	$ (689)	$ 253	$ 60,203

Complete audited financial statements are available upon request from the Company's corporate offices.

Condensed Consolidated Statements of Cash Flows

YEARS ENDED DECEMBER 31, 2009 AND 2008

(Dollar amounts in thousands.)

	2009	2008
Cash flows from operating activities		
Net income	$ 7,876	$ 7,278
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	1,153	1,184
Amortization of intangible assets	720	782
Net securities amortization (accretion)	403	326
Servicing rights amortization and impairment	1,022	585
Stock-based compensation	35	14
Provision for loan losses	4,810	2,845
Net gain on sale of loans	(3,479)	(1,097)
Net gain on sale and redemption of securities	(610)	(30)
Net loss on sale and disposal of premises & equipment	9	91
Increase on bank-owned life insurance	(3)	-
Loans originated for resale	(97,639)	(34,808)
Proceeds from sale of loans	95,622	34,741
Changes in assets and liabilities		
Interest receivable and other assets	(3,157)	1,147
Interest payable and other liabilities	186	(1,020)
Net cash from operating activities	6,948	12,038
Cash flows from investing activities		
Securities available-for-sale		
Proceeds from sales	21,298	-
Purchases	(35,851)	(43,567)
Proceeds from principal payments, calls and maturities	19,645	46,762
Securities held-to-maturity		
Purchases	(5,959)	(4,168)
Proceeds from principal payments, calls and maturities	6,175	3,435
Loans made to customers net of payments received	(64,147)	(58,058)
Premises and equipment expenditures	(1,356)	(626)
Proceeds from the sale of premises and equipment	-	6
Net cash received in acquisition	2,817	-
Proceeds from the sale of other real estate owned	579	580
Proceeds from redemption of restricted stock	54	-
Purchase of restricted stock	(380)	(1,130)
Net cash from investing activities	(57,125)	(56,766)
Cash flows from financing activities		
Net change in deposit accounts	$ 60,120	$ 27,158
Net change in short-term borrowings	(5,624)	(6,581)
Payments on FHLB advances	(12,000)	(12,000)
Proceeds from FHLB advances	17,000	38,000
Purchase of treasury stock	(18)	(345)
Sale of treasury stock	88	67
Dividends paid	(2,016)	(1,947)
Net cash from financing activities	57,550	44,352
Net change in cash and cash equivalents	7,373	(376)
Cash and cash equivalents at beginning of year	25,739	26,115
Cash and cash equivalents at end of year	$ 33,112	$ 25,739
Supplemental disclosures of cash flow information		
Cash paid during the year for:		
Interest	$ 10,718	$ 13,697
Income taxes	2,787	4,239
Supplemental non-cash disclosures		
Real estate acquired in satisfaction of debts previously contracted	2,176	1,301

Complete audited financial statements are available upon request from the Company's corporate offices.

Converse
123 North Jefferson
Converse, IN 46919

Amboy
115 South Main Street
Amboy, IN 46911

Culver
101 Main Street
Culver, IN 46511

Elwood
10077 N. State Road 37
Elwood, IN 46036

Galveston
112 S. California Street
Galveston, IN 46932

Greentown
603 W. Main
Greentown, IN 46936

Huntington
211 Hauenstein Road
Huntington, IN 46750

Knox
1402 S. Heaton Street
Knox, IN 46534

Kokomo Central
501 West Lincoln Road
Kokomo, IN 46902

Kokomo North
2041 N. Reed Road
Kokomo, IN 46901

Kokomo South
410 Flint Way
Kokomo, IN 46902

Logansport
3910 East Market Street
Logansport, IN 46947

Marion
830 North Baldwin Avenue
Marion, IN 46952

North Judson
310 Lane Street
North Judson, IN 46366

Peru River
120 S. Broadway
Peru, IN 46970

Peru Square
2 N. Broadway
Peru, IN 46970

Russiaville
160 West Main Street
Russiaville, IN 46979

Sheridan
2400 W. State Road 38
Sheridan, IN 46069

Tipton
825 E. Jefferson
Tipton, IN 46072

Wabash
1004 North Cass Street
Wabash, IN 46992

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