



For additional information contact
Robert E. Krimmel
Chief Financial Officer
(931) 380-8257

FIRST FARMERS AND MERCHANTS CORPORATION REPORTS SECOND QUARTER NET INCOME OF \$3.3 MILLION OR \$0.75 PER COMMON SHARE

COLUMBIA, Tenn. (July 22, 2019) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced unaudited financial results for the second quarter ended June 30, 2019.

Key highlights of First Farmers’ results for the second quarter of 2019 include:

- Net income of \$3.3 million or \$0.75 per common share, down 15% from \$3.9 million or \$0.87 per common share for the year-earlier quarter and down 38% from \$5.3 million or \$1.20 per common share for the previous quarter;
- Adjusted net income, which excludes special items, totaled \$3.4 million or \$0.77 per common share, compared with \$3.9 million or \$0.86 per common share for the year-earlier quarter and \$3.4 million or \$0.75 per common share for the previous quarter (see non-GAAP reconciliation);
- Net interest margin improved 17 basis points from the year-earlier quarter and up three basis points from the previous quarter; and
- Administered trust assets surpassed \$5 billion during the second quarter.

Commenting on the results, T. Randy Stevens, Chairman and Chief Executive Officer of First Farmers, said, “We are pleased to report continued quarterly sequential adjusted earnings growth for the second quarter. This is the result of an increase in our net interest margin of three basis points for the prior quarter and 17 basis points year over year, as well as a 2% year-over-year increase in loan growth to \$891 million. While our total deposits experienced a slight decrease, most of this was due to the sale of our White Bluff office during the first quarter. Our interest and fees on loans grew a strong 12% year over year, and we saw solid growth in our trust services fee income and mortgage banking activities, which combined to contribute 35% of our total fee-based lines of business, a testament to our diverse revenue streams. On another note, I am proud of all of our employees as we grew administered trust assets to over \$5 billion, a corporate milestone. As we move into the second half of the year, we remain confident in our ability to execute on our long-term strategies and reward our shareholders for their continued optimism in our company.”

Brian K. Williams, President, added, “I am pleased that our growth has not affected our strong credit metrics, which define our portfolio and our lending philosophy. Nonperforming assets for the current quarter declined nine basis points to just 0.12% of total assets from 0.21% for the same period last year and remained flat on a sequential quarter basis. In a year of increases in net interest margin, this is a result of prudent loan underwriting and emphasizes our strategy to build long-lasting relationships with our customers through a systematic approach to grow our business. Considering the solid fundamentals driving our business and the strategic opportunities we see ahead, we are confident in our future and are grateful to our shareholders for their long-term commitment to First Farmers.”

Second Quarter 2019 Results of Operations

The \$567,000 decline in earnings for the second quarter of 2019 compared with the year-earlier quarter was driven by an increase of \$1.1 million in non-interest expense offset by an increase in net interest income after provision of \$361,000. The increase in net interest income reflected an improvement in margins and loan growth of \$20.2 million for the second quarter of 2019 compared with the year-earlier quarter. The increase in non-interest expense resulted from increases of \$556,000 in employee health insurance expense, \$365,000 in salaries and other employee benefits expense and an increase of \$180,000 in advertising and promotions. These increases, primarily salaries, advertising and promotions, reflect key investments in our team and our newer markets. The \$2.0 million decrease in second quarter earnings compared with the previous quarter was driven by the one-time gain on sale of the Company's White Bluff office totaling \$2.0 million, net of tax. The increase in net interest income reflected an improvement in margins for the second quarter of 2019 compared with the previous quarter. The increase in non-interest expense primarily resulted from an increase of \$429,000 in employee health insurance expense.

For the second quarter of 2019, First Farmers experienced a decline in loan balances of \$931,000 or less than 1% from the previous quarter but achieved loan growth of \$20.2 million or 2% from the year-earlier quarter. Total deposits stood at \$1.140 billion at the end of the second quarter of 2019, down \$14 million from the previous quarter and down \$51 million or 4% from the year-earlier quarter. The outstanding loan balances and total deposits were affected by the sale of \$4 million of loans and \$29 million of deposits in connection with the sale of the White Bluff office during the first quarter of 2019.

Asset Quality

Total nonperforming assets remained flat at \$1.6 million, or 0.12% of total assets, when compared to the previous quarter, but was down from \$2.8 million, or 0.21% of total assets, when compared with the year-earlier quarter. Net charge-offs to average loans were 0.00% for the second quarter of 2019 compared with net charge-offs of 0.00% for the previous quarter and net recoveries of 0.01% for the year-earlier quarter. A credit to provision for loan and lease losses expense of \$55,000 was recorded during the second quarter of 2019 as a result of improving credit metrics compared to the prior quarter. The allowance for loan and lease losses represented 1.04% of total loans outstanding for the second quarter of 2019 compared with 1.04% for the previous quarter and 1.06% for the year-earlier quarter.

Capital Management Initiatives

First Farmers repurchased 17,000 shares of common stock during the second quarter at an average price of \$42.75 per share under its stock repurchase program. Authorization to repurchase 177,000 shares remains under the current program, which is set to expire in December 2019, unless extended or otherwise completed.

About First Farmers and Merchants Corporation and First Farmers and Merchants Bank

First Farmers and Merchants Corporation is the holding company for First Farmers and Merchants Bank, a community bank serving the Middle Tennessee area through 22 offices in seven Middle Tennessee counties. As of June 30, 2019, First Farmers reported total assets of approximately \$1.4 billion, total shareholders' equity of approximately \$141 million, and administered trust assets of \$5.2 billion. For more information about First Farmers, visit us on the Web at www.myfirstfarmers.com under "Investor Relations."

Cautionary Note Regarding Forward Looking Statements

This news release may contain certain “forward-looking statements” that represent First Farmers’ expectations or beliefs concerning future events and often use words or phrases such as “opportunities,” “prospects,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “intends” or similar expressions. Such forward-looking statements contained herein represent the current expectations, plans or forecast of First Farmers’ and are about matters that are inherently subject to risks and uncertainties. These statements are not guarantees of future results or performance and readers are cautioned to not place undue reliance on them, whether included in this news release or made elsewhere from time to time by First Farmers or on its behalf. First Farmers disclaims any obligation to update such forward-looking statements.

Non-GAAP Financial Measures

Statements included in this press release include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. First Farmers management uses non-GAAP financial measures, including: (i) adjusted net income and (ii) adjusted basic earnings per share, in its analysis of the Company’s performance. These non-GAAP financial measures exclude the following from net income: securities gains and losses, gain on sale of White Bluff office, gain on bank owned life insurance, contingency accrual and the income tax effect of adjustments. Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES UNAUDITED RECONCILIATION OF NON-GAAP MEASURES PRESENTED IN EARNINGS RELEASE (Dollars in thousands, except per share data)

	Three Months Ended			Six Months Ended	
	June 30,		March 31,	June 30,	
	2019	2018	2019	2019	2018
Total non-interest income	\$ 3,410	\$ 3,407	\$ 5,787	\$ 9,197	\$ 6,784
Gain on sale of securities	-	(6)	-	-	(6)
Gain on sale of White Bluff office	-	-	(2,700)	(2,700)	-
Gain on bank-owned life insurance	-	(50)	-	-	(50)
Adjusted non-interest income	\$ 3,410	\$ 3,351	\$ 3,087	\$ 6,497	\$ 6,728
Contingency accrual	115	-	-	115	-
Net income as reported	\$ 3,338	\$ 3,905	\$ 5,346	\$ 8,684	\$ 7,034
Total adjustments, net of tax ¹	85	(54)	(1,995)	(1,910)	(54)
Adjusted net income	\$ 3,423	\$ 3,851	\$ 3,351	\$ 6,774	\$ 6,980
Basic earnings per share	\$ 0.75	\$ 0.87	\$ 1.20	\$ 1.95	\$ 1.57
Total adjustments, net of tax ¹	0.02	(0.01)	(0.45)	(0.43)	(0.01)
Adjusted basic earnings per share	\$ 0.77	\$ 0.86	\$ 0.75	\$ 1.52	\$ 1.56

(1) The effective tax rate of 26.1% is used to determine net of tax amounts.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

		(unaudited) June 30, 2019	December 31, 2018 ⁽¹⁾
		<i>(dollars in thousands, except per share data)</i>	
ASSETS	Cash and due from banks	\$ 22,228	\$ 36,100
	Interest-bearing deposits	33,095	4,173
	Federal funds sold	94	246
	Total cash and cash equivalents	55,417	40,519
	Securities:		
	Available-for-sale	323,369	332,237
	Held-to-maturity (fair market value \$18,753 and \$17,615 as of the periods presented)	18,587	18,644
	Total securities	341,956	350,881
	Loans, net of deferred fees	890,556	895,191
	Allowance for loan and lease losses	(9,227)	(9,282)
	Net loans	881,329	885,909
	Bank premises and equipment, net	36,343	31,605
	Bank-owned life insurance	32,191	31,960
	Goodwill	9,018	9,018
	Other assets	13,036	15,225
TOTAL ASSETS		<u>\$ 1,369,290</u>	<u>\$ 1,365,117</u>
LIABILITIES	Deposits:		
	Noninterest-bearing	\$ 313,659	\$ 302,345
	Interest-bearing	826,854	872,325
	Total deposits	1,140,513	1,174,670
	Securities sold under agreements to repurchase	36,992	40,579
	Federal Home Loan Bank borrowings	30,000	4,000
	Accounts payable and accrued liabilities	21,047	15,885
TOTAL LIABILITIES		1,228,552	1,235,134
SHAREHOLDERS' EQUITY	Common stock - \$10 par value per share, 8,000,000 shares authorized; 4,428,908 and 4,451,447 shares issued and outstanding as of the periods presented	44,289	44,514
	Retained earnings	95,125	89,299
	Accumulated other comprehensive income (loss)	1,229	(3,925)
	Total shareholders' equity before noncontrolling interest – preferred stock of subsidiary	140,643	129,888
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	140,738	129,983
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		<u>\$ 1,369,290</u>	<u>\$ 1,365,117</u>

⁽¹⁾ Derived from audited financial statements as of December 31, 2018.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

		Three Months Ended June 30,		Six Months Ended June 30,	
		2019	2018	2019	2018
<i>(dollars in thousands, except per share data)</i>					
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	\$ 10,218	\$ 9,150	\$ 20,152	\$ 17,954
	Income on investment securities				
	Taxable interest	1,244	1,425	2,512	2,665
	Exempt from federal income tax	541	632	1,099	1,287
	Interest from federal funds sold and other	56	73	134	148
	Total interest income	12,059	11,280	23,897	22,054
INTEREST EXPENSE	Interest on deposits	1,199	836	2,405	1,628
	Interest on other borrowings	182	72	345	120
	Total interest expense	1,381	908	2,750	1,748
	Net interest income	10,678	10,372	21,147	20,306
	Provision credit for loan and lease losses	(55)	-	(55)	-
	Net interest income after provision	10,733	10,372	21,202	20,306
NON-INTEREST INCOME	Mortgage banking activities	257	175	449	416
	Trust services fee income	918	880	1,805	1,840
	Service fees on deposit accounts	1,828	1,851	3,478	3,627
	Investment services fee income	111	144	193	244
	Earnings on bank-owned life insurance	115	125	230	247
	Gain on sale of investments	-	6	-	6
	Gain on bank-owned life insurance	-	50	-	50
	Gain on sale of White Bluff office	-	-	2,700	-
	Other non-interest income	181	176	342	354
	Total non-interest income	3,410	3,407	9,197	6,784
NON-INTEREST EXPENSE	Salaries and employee benefits	5,919	5,093	11,461	10,540
	Net occupancy expense	623	817	1,252	1,427
	Depreciation expense	514	379	1,020	763
	Data processing expense	766	642	1,512	1,331
	Software support and other computer expense	537	587	1,022	1,128
	Legal and professional fees	257	265	521	545
	Audits and exams expense	182	176	340	351
	Advertising and promotions	358	267	752	572
	FDIC insurance premium expense	90	98	173	227
	Other non-interest expense	940	739	1,722	1,790
	Total non-interest expense	10,186	9,063	19,775	18,674
	Income before provision for income taxes	3,957	4,716	10,624	8,416
	Provision for income taxes	611	803	1,931	1,374
	Net income	3,346	3,913	8,693	7,042
	Noncontrolling interest - dividends on preferred stock subsidiary	8	8	8	8
	Net income available to common shareholders	\$ 3,338	\$ 3,905	\$ 8,685	\$ 7,034
	Weighted average shares outstanding	4,442,627	4,484,717	4,446,741	4,488,835
	Earnings per share	\$ 0.75	\$ 0.87	\$ 1.95	\$ 1.57

-MORE-

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL HIGHLIGHTS
(unaudited)

For the Three Months Ended					
<i>(dollars in thousands, except per share data)</i>	June 30, 2019	March 31, 2019	December 31, 2018	September 30, 2018	June 30, 2018
Results of Operations:					
Interest income	\$ 12,059	\$ 11,838	\$ 12,226	\$ 11,613	\$ 11,280
Interest expense	1,381	1,369	1,326	1,098	908
Net interest income	10,678	10,469	10,900	10,515	10,372
(Provision credit) provision for loan and lease losses	(55)	-	50	-	-
Non-interest income	3,410	5,787	3,740	3,517	3,407
Non-interest expense and non-controlling interest – preferred stock of subsidiary	10,194	9,590	10,507	9,733	9,071
Income before income taxes	3,949	6,666	4,083	4,299	4,708
Income taxes	611	1,320	511	708	803
Net income for common shareholders	<u>\$ 3,338</u>	<u>\$ 5,346</u>	<u>\$ 3,572</u>	<u>\$ 3,591</u>	<u>\$ 3,905</u>
Per Share Data:					
Basic earnings per share	\$ 0.75	\$ 1.20	\$ 0.80	\$ 0.80	\$ 0.87
Weighted average shares outstanding per quarter	4,442,627	4,450,901	4,461,790	4,472,684	4,484,717
Financial Condition Data and Ratios:					
Total securities	\$ 341,956	\$ 341,241	\$ 350,881	\$ 374,350	\$ 389,577
Loans, net of deferred fees	\$ 890,556	\$ 891,487	\$ 895,191	\$ 871,334	\$ 870,351
Allowance for loan and lease losses	\$ (9,227)	\$ (9,278)	\$ (9,282)	\$ (9,206)	\$ (9,187)
Total assets	\$ 1,369,290	\$ 1,346,492	\$ 1,365,117	\$ 1,363,007	\$ 1,366,045
Total deposits	\$ 1,140,513	\$ 1,154,809	\$ 1,174,670	\$ 1,164,432	\$ 1,191,828
Net interest income, on a fully taxable-equivalent basis	\$ 12,354	\$ 12,144	\$ 12,544	\$ 11,941	\$ 11,641
Net interest margin	3.55%	3.52%	3.54%	3.41%	3.38%
Asset Quality Data and Ratios:					
Total nonperforming assets	\$ 1,616	\$ 1,610	\$ 1,674	\$ 2,831	\$ 2,836
Nonperforming assets to total assets	0.12%	0.12%	0.12%	0.21%	0.21%
Allowance for loan and lease losses to total loans	1.04%	1.04%	1.04%	1.06%	1.06%
Net charge-offs (recoveries) to average loans (annualized)	0.00%	0.00%	(0.01%)	(0.01%)	(0.01%)

-END-