FIRST FARMERS

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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS FIRST QUARTER NET INCOME OF $3.2 MILLION OR $0.73 PER COMMON SHARE

COLUMBIA, Tenn. (April 27, 2020) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced unaudited financial results for the quarter ending March 31, 2020.

Key aspects of First Farmers' results for the first quarter of 2020 include:

- Net income of $3.2 million or $0.73 per common share, down 40% from $5.3 million or $1.20 per common share for the year-earlier quarter and down 8% from $3.5 million or $0.79 per common share for the previous quarter;
- Adjusted net income, which excludes special items, totaled $2.6 million or $0.59 per common share, down 22% from $3.4 million or $0.75 per common share for the year-earlier quarter and down 25% from $3.5 million or $0.79 per common share for the previous quarter (see non-GAAP reconciliation);
- Net interest income of $10.8 million, up 3% from $10.5 million and up 1% from $10.6 million for the previous quarter;
- Adjusted non-interest income, which excludes special items, totaled $3.3 million, up 5% from $3.1 million for the year-earlier quarter and down 6% from $3.4 million for the previous quarter (see non-GAAP reconciliation);
- Loan growth of $15 million or 2% from the previous quarter and $61 million or 7% compared with the year-earlier quarter; and
- Provision for loan and leases losses expense of $515,000 compared with $0 for the year-earlier and previous quarters.

Commenting on the results, T. Randy Stevens, Chairman and Chief Executive Officer of First Farmers, said, "Despite a very difficult economic environment, which contributed to decreases in year-over-year and sequential-quarter net income and adjusted net income, we are pleased with the underlying fundamentals driving our business, including increases in net interest income for the aforementioned periods, as well as an increase in total non-interest income over the same period last year, excluding the sale of our White Bluff office in the first quarter of 2019. Our net interest margin also increased slightly from the sequential quarter. Further, we experienced growth both year-over-year and in the sequential-quarter, resulting in record total loans and deposit base. Considering the strong credit metrics driving our business, the resiliency of the markets we serve and the opportunities we continue to see ahead, we remain confident in our ability to continue to reward our shareholders for their loyalty."

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Stevens further commented, “The COVID-19 pandemic has caused disruptions to the global economy and the communities in which we operate. In response, we have implemented social distancing guidelines that include separating department office spaces while allowing remote work. Our utmost concern is the health and welfare of our employees and customers, and we continually monitor Federal, State and local rules in the geographies we serve. As a result of this pandemic, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was enacted, and First Farmers made the decision to participate in the Payroll Protection Program (“PPP”) administered by the Small Business Administration (“SBA”) to help as many small businesses as possible in Middle Tennessee. We received over 500 inquiries from small businesses, and we were able to process over 250 applications prior to the SBA notification on April 16, 2020, that they were no longer taking applications because the funding set aside for PPP loans had been exhausted. We are proud of the PPP loans we were able to get approved, and we are hopeful that the PPP program will receive additional Congressional funding so that we can complete the remaining customer inquiries we have received.”

Brian K. Williams, President, added, “We increased our provision for loan and lease loss expense to $515,000 as a result of the current economic environment and loan growth from the same period last year. Our allowance for loan and lease losses now represents 1.0% of total loans outstanding, an increase from 0.96% for the sequential quarter, but down from 1.04% in the year-earlier period. We are particularly pleased with the excellent credit quality that continues to define both our loan portfolio and our lending metrics. Total nonperforming assets declined to just 0.11% of total assets from 0.12% in the year-earlier quarter and on a sequential-quarter basis, highlighting our efforts to maintain a disciplined approach to the way we build our business. The strength of First Farmers’ balance sheet will serve our company and its shareholders well as we navigate the unprecedented economic environment in which we are now operating.”

First Quarter 2020 Results of Operations

Net income declined to $3.2 million, down $2.1 million or 40% from the year-earlier quarter. The reduction in earnings was primarily driven by the one-time gain on sale of the Company’s White Bluff office totaling $2.0 million, net of tax, in the year-earlier quarter. Net income, adjusted for special items, was $2.6 million, down $745,000 or 22% from the year earlier quarter. The decrease in adjusted net income from the year-earlier quarter was the result of an increase in employee health insurance expense of $719,000 coupled with an increase in provision for loan and lease loss expense of $515,000 as a result of the deteriorating economic environment and to support loan growth, offset in part by improvement in net interest income of $311,000.

Net income decreased $277,000 or 8% from the sequential quarter. The decrease in earnings was primarily driven by the increase in provision for loan and lease loss expense of $515,000 as a result of the deteriorating economic environment and to support loan growth coupled with an increase in health insurance expense of $474,000, offset in part by the gain on redemption of a bank-owned life insurance policy.

For the first quarter of 2020, the outstanding loan balances increased $15 million or 2% to a record $952 million from the previous quarter and increased $61 million or 7% from the year-earlier quarter. Total deposits increased $36 million or 3% from the previous quarter to a record $1.256 billion and increased $102 million or 9% from the year-earlier period.

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Asset Quality

Total nonperforming assets continued to improve, closing the quarter at $1.6 million, or 0.11% of total assets, down from $1.7 million, or 0.12% of total assets, for the previous quarter and decreased from $1.6 million, or 0.12% of total assets, in the year-earlier quarter. Net charge offs to average loans were 0.00% for the first quarter of 2020, which was the same for both the previous quarter and the year-earlier quarter. As a result of the change in the current economic environment coupled with loan growth, a provision for loan and lease losses of $515,000 was recorded during the first quarter of 2020. The allowance for loan and lease losses represented 1.00% of total loans outstanding for the first quarter of 2020, up from 0.96% for the previous quarter but down from 1.04% for the year-earlier quarter.

Capital Management Initiatives

During the first quarter, First Farmers repurchased 20,000 shares of common stock at an average price of $45.03 per share under its stock repurchase program. Authorization to repurchase approximately 180,000 shares remains under the current program, which is set to expire in December 2020, 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 March 31, 2020, First Farmers reported total assets of approximately $1.4 billion, total shareholders' equity of approximately $151 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, sale of office location gains and losses, sale of other fixed assets included in other non-interest income, gain on redemption of bank owned life insurance, contingency loss on litigation 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.

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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		
	March 31,		December 31,
	2020	2019	2019
Total non-interest income	$ 3,904	$ 5,787	$ 3,457
Gain on sale of securities	(129)	-	(15)
Gain on sale of White Bluff office	-	(2,700)	-
Gain on sale of fixed assets	(102)	-	-
Gain on redemption of bank owned life insurance	(423)	-	-
Adjusted non-interest income	$ 3,250	$ 3,087	$ 3,442
Contingency loss on litigation	-	-	(1)
Net income as reported	$ 3,200	$ 5,346	$ 3,477
Total adjustments, net of tax[1]	(594)	(1,995)	(12)
Adjusted net income	$ 2,606	$ 3,351	$ 3,465
Basic earnings per share	$ 0.73	$ 1.20	$ 0.79
Total adjustments, net of tax[1]	(0.14)	(0.45)	-
Adjusted basic earnings per share	$ 0.59	$ 0.75	$ 0.79

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

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	(dollars in thousands, except per share data)	**(unaudited) March 31, 2020**	**December 31, 2019[1]**
ASSETS	Cash and due from banks	$ 27,506	$ 26,614
	Interest-bearing deposits	27,436	6,712
	Federal funds sold	8,393	819
	Total cash and cash equivalents	63,335	34,145
	Securities:		
	Available-for-sale	319,765	329,796
	Held-to-maturity (fair market value $18,097 and $18,005 as of the periods presented)	17,594	17,606
	Equity securities	2,000	2,000
	Loans held-for-sale	2,171	2,540
	Loans, net of deferred fees	952,491	934,770
	Allowance for loan and lease losses	(9,485)	(8,960)
	Net loans	943,006	925,810
	Bank premises and equipment, net	35,933	35,762
	Bank-owned life insurance	32,252	32,198
	Goodwill	9,018	9,018
	Other assets	12,855	14,795
	TOTAL ASSETS	$ 1,437,929	$ 1,403,670
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 326,669	$ 311,274
	Interest-bearing	929,650	908,967
	Total deposits	1,256,319	1,220,241
	Securities sold under agreements to repurchase	10,337	11,742
	Federal Home Loan Bank borrowings	-	5,500
	Accounts payable and accrued liabilities	20,488	21,799
	TOTAL LIABILITIES	1,287,144	1,259,282
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,359,738 and 4,379,871 shares issued and outstanding as of the periods presented	43,597	43,799
	Retained earnings	100,513	98,945
	Accumulated other comprehensive income	6,580	1,549
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	150,690	144,293
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	150,785	144,388
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,437,929	$ 1,403,670

[1] Derived from audited financial statements as of December 31, 2019.

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

		Three Months Ended March 31,	
	(dollars in thousands, except per share data)	**2020**	**2019**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 10,216	$ 9,934
	Income on investment securities		
	Taxable interest	1,270	1,268
	Exempt from federal income tax	520	558
	Interest from federal funds sold and other	69	78
	Total interest income	12,075	11,838
INTEREST EXPENSE	Interest on deposits	1,275	1,206
	Interest on other borrowings	20	163
	Total interest expense	1,295	1,369
	Net interest income	10,780	10,469
	Provision for loan and lease losses	515	-
	Net interest income after provision	10,265	10,469
NON-INTEREST INCOME	Mortgage banking activities	282	192
	Trust services fee income	877	887
	Service fees on deposit accounts	1,708	1,650
	Investment services fee income	119	82
	Earnings on bank owned life insurance	113	115
	Gain on sale of available-for-sale securities	129	-
	Gain on redemption of bank owned life insurance	423	-
	Gain on sale of White Bluff office	-	2,700
	Other non-interest income	253	161
	Total non-interest income	3,904	5,787
NON-INTEREST EXPENSE	Salaries and employee benefits	6,521	5,542
	Net occupancy expense	634	629
	Depreciation expense	524	506
	Data processing expense	797	746
	Software support and other computer expense	564	485
	Legal and professional fees	234	264
	Audit and exam expenses	184	158
	Advertising and promotions	225	394
	FDIC insurance premium expense	25	83
	Other non-interest expense	810	783
	Total non-interest expense	10,518	9,590
	Income before provision for income taxes	3,651	6,666
	Provision for income taxes	451	1,320
	Net income before noncontrolling interest - dividends on preferred stock of subsidiary	3,200	5,346
	Noncontrolling interest - dividends on preferred stock subsidiary	-	-
	Net income for common shareholders	$ 3,200	$ 5,346
	Weighted average shares outstanding	4,375,025	4,450,901
	Earnings per share	$ 0.73	$ 1.20

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

	For the Three Months Ended				
(dollars in thousands, except per share data)	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**	**March 31, 2019**
Results of Operations:					
Interest income	$ 12,075	$ 12,091	$ 12,205	$ 12,059	$ 11,838
Interest expense	1,295	1,447	1,546	1,381	1,369
Net interest income	10,780	10,644	10,659	10,678	10,469
Provision (credit) for loan and lease losses, net	515	-	(305)	(55)	-
Non-interest income	3,904	3,457	3,553	3,410	5,787
Non-interest expense and non-controlling interest – preferred stock of subsidiary	10,518	9,928	9,902	10,194	9,590
Income before income taxes	3,651	4,173	4,615	3,949	6,666
Income taxes	451	696	720	611	1,320
Net income for common shareholders	$ 3,200	$ 3,477	$ 3,895	$ 3,338	$ 5,346
Per Share Data:					
Basic earnings per share	$ 0.73	$ 0.79	$ 0.88	$ 0.75	$ 1.20
Weighted average shares outstanding per quarter	4,375,025	4,400,940	4,426,166	4,442,627	4,450,901
Financial Condition Data and Ratios:					
Total securities	$ 343,360	$ 349,402	$ 347,373	$ 341,956	$ 341,241
Loans, net of deferred fees	$ 952,491	$ 934,770	$ 901,560	$ 890,556	$ 891,487
Allowance for loan and lease losses	$ (9,485)	$ (8,960)	$ (8,937)	$ (9,227)	$ (9,278)
Total assets	$ 1,437,929	$ 1,403,670	$ 1,368,606	$ 1,369,290	$ 1,346,492
Total deposits	$ 1,256,319	$ 1,220,241	$ 1,178,308	$ 1,140,513	$ 1,154,809
Net interest income, on a fully taxable-equivalent basis	$ 11,059	$ 10,926	$ 10,945	$ 10,974	$ 10,773
Net interest margin	3.42%	3.41%	3.48%	3.55%	3.52%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 1,610	$ 1,665	$ 2,593	$ 1,616	$ 1,610
Nonperforming assets to total assets	0.11%	0.12%	0.19%	0.12%	0.12%
Allowance for loan and lease losses to total loans	1.00%	0.96%	1.00%	1.04%	1.04%
Net charge-offs to average loans annualized	0.00%	0.00%	0.00%	0.00%	0.00%

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