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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS SECOND QUARTER NET INCOME OF $4.0 MILLION OR $0.92 PER COMMON SHARE

COLUMBIA, Tenn. (July 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 second quarter ended June 30, 2020.

Key highlights of First Farmers' results for the second quarter of 2020 include:

- Net income of $4.0 million or $0.92 per common share, up 20% from $3.3 million or $0.75 per common share for the year-earlier quarter and up 26% from $3.2 million or $0.73 per common share for the previous quarter;
- Adjusted net income, which excludes special items, totaled $3.4 million or $0.79 per common share, compared with $3.4 million or $0.77 per common share for the year-earlier quarter and $2.6 million or $0.59 per common share for the previous quarter (see non-GAAP reconciliation);
- Total assets reached record $1.6 billion and total deposits reached record $1.4 billion;
- Recorded $85 million in Small Business Administration Paycheck Protection Program ("SBA PPP") loans;
- Provision for loan and lease losses expense of $185,000 compared with a provision credit of $55,000 for the year-earlier quarter and provision expense of $515,000 from the previous quarter; and
- Total nonperforming assets remained at a low level of $1.7 million or 0.11% of total assets.

Commenting on the results, T. Randy Stevens, Chairman and Chief Executive Officer of First Farmers, said, "During one of the most severe economic disruptions in our time, I am pleased to report increases in year-over-year and sequential quarter net income, adjusted net income and net interest income, as well as an increase in total non-interest income over the same period last year. Despite growth in our interest earnings assets, our net interest margin decreased from the prior quarter and same period last year due to the addition of SBA PPP loans, which carry yields much lower than our existing portfolio. Offsetting this decline in loan yields, we were able to lower our cost of funds quickly during the second quarter, relieving some pressure on our net interest margin. Further, I am particularly pleased to report growth in our balance sheet for both year-over-year and the sequential quarter, resulting in record total assets, total loans and total deposits – evidence of the strength of the underlying fundamentals driving our business."

Stevens further commented, "We continue to assist the liquidity needs of our clients while focusing on the health and well-being of our employees and the communities in which we operate. In the second quarter, our team deployed significant resources in support of businesses throughout Middle Tennessee as First Farmers participated in the SBA PPP lending program. I am pleased that our team members have originated 817 loans in the program or $85 million in loan balances, assisting in the preservation of approximately 13,500 jobs in the communities we serve. Additionally, a number of SBA PPP customers have also decided to deepen their banking relationship with us through the opening of new accounts during the second quarter."

Brian K. Williams, President, added, “Despite net recoveries in our loan portfolio, we have recorded a provision for credit losses based on the potential economic effects of the COVID-19 pandemic on our loan portfolio. Our allowance for loan and lease losses now represents 1.07% of total loans outstanding, excluding SBA PPP loans, an increase from 1.0% for the sequential quarter and an increase from 1.04% in the year-earlier period. These comparisons have been skewed by the level of SBA PPP loans recorded during the second quarter, and given their government guarantee, it is important to exclude their impact on our loan and lease loss allowance adequacy. We are 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% of total assets in the year-earlier quarter and were flat on a sequential-quarter basis, a testament to our efforts to maintain a conservative approach to the way we build our business. While we did not repurchase any shares during the second quarter, our Board remains committed to the Company’s quarterly cash dividend payment. Our solid balance sheet will serve our company and its shareholders well as we continue to prudently drive our business forward during uncertain economic times.”

Second Quarter 2020 Results of Operations

Net income increased to $4.0 million, up $679,000 or 20% from the year-earlier quarter. The improvement in earnings was primarily driven by a one-time gain on redemption of bank-owned life insurance of $397,000 coupled with a gain on equity securities of $242,000. Net income, adjusted for special items, was $3.4 million, up $18,000 from the year-earlier quarter. The increase in adjusted net income from the year-earlier quarter was the result of an increase in net-interest income of $248,000 coupled with a decrease in salaries and employee benefits of $286,000 offset by a reduction in service fees on deposit accounts of $295,000 and an increase in provision for loan and lease losses of $240,000.

Net income increased $817,000 or 26% from the sequential quarter. The increase in earnings was primarily driven by decreases in salaries and benefits of $888,000 and in provision for loan and lease losses of $330,000 offset in part by a reduction in service fees on deposit accounts of $175,000. The reduction in salaries and benefits was primarily driven by a reduction in health insurance expense of $495,000 as we experienced fewer claims for the quarter

For the second quarter of 2020, the outstanding loan balances increased $41 million or 4% from the previous quarter to a record $994 million and increased $103 million or 12% from the year-earlier quarter. Loan growth for the quarter was propelled by SBA PPP lending in the amount of $85 million. Total deposits increased $160 million or 13% from the previous quarter to a record $1.416 billion and increased $276 million or 24% from the year-earlier quarter.

Asset Quality

Total nonperforming assets increased slightly to $1.7 million, or 0.11% of total assets, up from $1.6 million or 0.11% from the previous quarter. Net recoveries to average loans were 0.01% for the second quarter of 2020 compared with net charge-offs of 0.00% for the previous quarter and the year-earlier quarter. A provision for loan and lease losses expense of $185,000 was recorded during the second quarter of 2020 primarily driven by a downgrade in our economic outlook and estimations for the impact of payment deferral loans offset by the decrease in loan balances, excluding SBA PPP loans. The allowance for loan and lease losses represented 0.98% of total loans outstanding for the second quarter of 2020 compared with 1.00% for the previous quarter and 1.04% for the year-earlier quarter. The allowance for loan and lease losses for the second quarter of 2020 represented 1.07% of total loans outstanding, excluding SBA PPP loans.

Capital Management Initiatives

First Farmers did not repurchase any shares during the second quarter 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 June 30, 2020, First Farmers reported total assets of approximately $1.6 billion, total shareholders' equity of approximately $155 million, and administered trust assets of $5.4 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 redemption of 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,	
	2020	2019	2020	2020	2019
Total non-interest income	$ 3,735	$ 3,410	$ 3,904	$ 7,639	$ 9,197
Gain on sale of securities	-	-	(129)	(129)	-
Gain on equity securities	(242)	-	-	(242)	-
Gain on sale of White Bluff office	-	-	-	-	(2,700)
Gain on sale of fixed assets	-	-	(102)	(102)	-
Gain on redemption of bank-owned life insurance	(397)	-	(423)	(820)	-
Adjusted non-interest income	$ 3,096	$ 3,410	$ 3,250	$ 6,346	$ 6,497
Contingency accrual	-	115	-	-	115
Net income as reported	$ 4,017	$ 3,338	$ 3,200	$ 7,217	$ 8,684
Total adjustments, net of tax[1]	(576)	85	(594)	(1,170)	(1,910)
Adjusted net income	$ 3,441	$ 3,423	$ 2,606	$ 6,047	$ 6,774
Basic earnings per share	$ 0.92	$ 0.75	$ 0.73	$ 1.65	$ 1.95
Total adjustments, net of tax[1]	(0.13)	0.02	(0.14)	(0.27)	(0.43)
Adjusted basic earnings per share	$ 0.79	$ 0.77	$ 0.59	$ 1.38	$ 1.52

(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) June 30, 2020**	**December 31, 2019[1]**
ASSETS	Cash and due from banks	$ 25,742	$ 26,614
	Interest-bearing deposits	107,544	6,712
	Federal funds sold	204	819
	Total cash and cash equivalents	133,490	34,145
	Securities:		
	Available-for-sale	372,480	329,796
	Held-to-maturity (fair market value $18,408 and $18,005 as of the periods presented)	17,583	17,606
	Equity securities	2,242	2,000
	Loans held-for-sale	3,137	2,540
	Loans, net of deferred fees	993,710	934,770
	Allowance for loan and lease losses	(9,695)	(8,960)
	Net loans	984,015	925,810
	Bank premises and equipment, net	35,528	35,762
	Bank-owned life insurance	34,800	32,198
	Goodwill	9,018	9,018
	Other assets	16,366	14,795
	TOTAL ASSETS	$ 1,608,659	$ 1,403,670
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 434,748	$ 311,274
	Interest-bearing	981,595	908,967
	Total deposits	1,416,343	1,220,241
	Securities sold under agreements to repurchase	12,501	11,742
	Federal Home Loan Bank borrowings	-	5,500
	Accounts payable and accrued liabilities	24,459	21,799
	TOTAL LIABILITIES	1,453,303	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	103,615	98,945
	Accumulated other comprehensive income	8,049	1,549
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	155,261	144,293
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	155,356	144,388
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,608,659	$ 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 June 30,		Six Months Ended June 30,	
	(dollars in thousands, except per share data)	**2020**	**2019**	**2020**	**2019**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 10,026	$ 10,218	$ 20,242	$ 20,152
	Income on investment securities				
	Taxable interest	1,207	1,244	2,477	2,512
	Exempt from federal income tax	493	541	1,013	1,099
	Interest from federal funds sold and other	35	56	104	134
	Total interest income	11,761	12,059	23,836	23,897
INTEREST EXPENSE	Interest on deposits	827	1,199	2,102	2,405
	Interest on other borrowings	8	182	28	345
	Total interest expense	835	1,381	2,130	2,750
	Net interest income	10,926	10,678	21,706	21,147
	Provision (provision credit) for loan and lease losses	185	(55)	700	(55)
	Net interest income after provision	10,741	10,733	21,006	21,202
NON-INTEREST INCOME	Mortgage banking activities	312	257	594	449
	Trust services fee income	872	918	1,749	1,805
	Service fees on deposit accounts	1,533	1,828	3,241	3,478
	Investment services fee income	76	111	195	193
	Earnings on bank-owned life insurance	154	115	267	230
	Gain on sale of investments	-	-	129	-
	Gain on redemption of bank-owned life insurance	397	-	820	-
	Gain on sale of White Bluff office	-	-	-	2,700
	Other non-interest income	391	181	644	342
	Total non-interest income	3,735	3,410	7,639	9,197
NON-INTEREST EXPENSE	Salaries and employee benefits	5,633	5,919	12,154	11,461
	Net occupancy expense	650	623	1,284	1,252
	Depreciation expense	519	514	1,043	1,020
	Data processing expense	777	766	1,574	1,512
	Software support and other computer expense	635	537	1,199	1,022
	Legal and professional fees	239	257	473	521
	Audits and exams expense	164	182	348	340
	Advertising and promotions	169	358	394	752
	FDIC insurance premium expense	102	90	127	173
	Other non-interest expense	740	940	1,550	1,722
	Total non-interest expense	9,628	10,186	20,146	19,775
	Income before provision for income taxes	4,848	3,957	8,499	10,624
	Provision for income taxes	823	611	1,274	1,931
	Net income	4,025	3,346	7,225	8,693
	Noncontrolling interest - dividends on preferred stock subsidiary	8	8	8	8
	Net income available to common shareholders	$ 4,017	$ 3,338	$ 7,217	$ 8,685
	Weighted average shares outstanding	4,359,738	4,442,627	4,367,382	4,446,741
	Earnings per share	$ 0.92	$ 0.75	$ 1.65	$ 1.95

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

	For the Three Months Ended				
(dollars in thousands, except per share data)	**June 30, 2020**	**March 31, 2020**	**December 31, 2019**	**September 30, 2019**	**June 30, 2019**
Results of Operations:					
Interest income	$ 11,761	$ 12,075	$ 12,091	$ 12,205	$ 12,059
Interest expense	835	1,295	1,447	1,546	1,381
Net interest income	10,926	10,780	10,644	10,659	10,678
Provision (provision credit) for loan and lease losses	185	515	-	(305)	(55)
Non-interest income	3,735	3,904	3,457	3,553	3,410
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,636	10,518	9,928	9,902	10,194
Income before income taxes	4,840	3,651	4,173	4,615	3,949
Income taxes	823	451	696	720	611
Net income for common shareholders	$ 4,017	$ 3,200	$ 3,477	$ 3,895	$ 3,338
Per Share Data:					
Basic earnings per share	$ 0.92	$ 0.73	$ 0.79	$ 0.88	$ 0.75
Weighted average shares outstanding per quarter	4,359,738	4,375,025	4,400,940	4,426,166	4,442,627
Financial Condition Data and Ratios:					
Total securities	$ 392,305	$ 343,360	$ 347,402	$ 347,373	$ 341,956
Loans, net of deferred fees	$ 993,710	$ 952,491	$ 937,310	$ 901,560	$ 890,556
Allowance for loan and lease losses	$ (9,695)	$ (9,485)	$ (8,960)	$ (8,937)	$ (9,227)
Total assets	$ 1,608,659	$ 1,437,929	$ 1,403,670	$ 1,368,606	$ 1,369,290
Total deposits	$ 1,416,343	$ 1,256,319	$ 1,220,241	$ 1,178,308	$ 1,140,513
Net interest income, on a fully taxable-equivalent basis	$ 11,187	$ 11,059	$ 10,926	$ 10,945	$ 10,974
Net interest margin	3.08%	3.42%	3.41%	3.48%	3.55%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 1,698	$ 1,610	$ 1,665	$ 2,593	$ 1,616
Nonperforming assets to total assets	0.11%	0.11%	0.12%	0.19%	0.12%
Allowance for loan and lease losses to total loans	0.98%	1.00%	0.96%	0.99%	1.04%
Net charge-offs (recoveries) to average loans (annualized)	(0.01%)	0.00%	0.00%	0.00%	0.00%

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