FIRST FARMERS

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# FIRST FARMERS AND MERCHANTS CORPORATION REPORTS THIRD QUARTER NET INCOME OF $3.7 MILLION OR $0.84 PER COMMON SHARE

COLUMBIA, Tenn. (October 26, 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 third quarter ended September 30, 2020.

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

- Net income of $3.7 million or $0.84 per common share, down 6% from $3.9 million or $0.88 per common share for the year-earlier quarter and down 8% from $4.0 million or $0.92 per common share for the previous quarter;
- Adjusted net income, which excludes special items, totaled $3.7 million or $0.84 per common share, compared with $3.7 million or $0.84 per common share for the year-earlier quarter and $3.4 million or $0.79 per common share for the previous quarter (see non-GAAP reconciliation);
- Total assets reached record $1.7 billion and total deposits reached record $1.5 billion, while administered trust assets surpassed record $5.7 billion; and
- Total nonperforming assets declined to $1.6 million or 0.09% of total assets.

Commenting on the results, T. Randy Stevens, Chairman and Chief Executive Officer of First Farmers, said, "Despite continued severe economic disruption, we are pleased to report solid adjusted net income, which increased 7% over the sequential quarter and was in line with the year-earlier quarter. Moreover, I am particularly pleased with our strong credit metrics as well as the underlying solid fundamentals driving our business during this uncertain economic climate. Our deposits experienced strong growth, reaching a record level, while total assets also reached a record $1.7 billion. As expected, loan growth was soft from the sequential quarter, but we did see an increase of 10% year over year. Our strong credit quality and record total assets and deposits support our future earnings growth."

Stevens continued, "Total administered trust assets reached a record $5.7 billion as we continue to build on our fee based lines of business. Excluding one-time items, non-interest income rebounded during the quarter, led by service fees on deposit accounts and trust services fees, which together accounted for 79% of the improvement in total non-interest income. Despite growth in our interest earning assets, we experienced decreases in our net interest margin, which we believe is temporary as a result of lower yielding Small Business Administration Paycheck Protection Program ("SBA PPP") loans and lower market interest rates. Alongside the resilient markets we serve, First Farmers remains well positioned to maintain the growth momentum in our balance sheet and business model."

Brian K. Williams, President, added, "As we navigate the current, unprecedented operating environment, our company's strong balance sheet and disciplined risk management practices remain quite evident as we continue to record excellent asset quality trends. Since the onset of this pandemic driven recession, we have heightened our ongoing surveillance of risk in the loan portfolio, and I am pleased that total non-performing assets declined to just 0.09% of total assets from 0.19% of total assets in the year-earlier quarter and 0.11% on a sequential-quarter basis. First Farmers was quick to act in assisting our customers with deferrals of

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loan payments during the second quarter. Since then, we have seen an excellent trend as loans in deferral status totaled less than 3% of total loans as of the quarter-end. Additionally, the company has benefited from our steady approach to managing concentrations within the loan portfolio, and this has limited our exposure to those industries which have been hardest hit by the pandemic. Our allowance for loan and lease losses remained flat compared with the sequential period at 1.07% of total loans outstanding, excluding SBA PPP loans. The safety and soundness of our company coupled with solid financial performance allows the Board of Directors to continue rewarding our shareholders through the quarterly cash dividend, which was maintained at $0.21 per share for the quarter."

**Third Quarter 2020 Results of Operations**

Net income decreased to $3.7 million, down $215,000 or 6% from the year-earlier quarter. The decline in earnings was driven by decreases in provision credit for loan and lease losses of $305,000 and gain on redemption of bank-owned life insurance of $150,000, offset by an increase in net interest income of $295,000 supported by growth in average interest earning assets of $193 million coupled with a significant decline in our net interest margin of 61 basis points. Net income, adjusted for special items, was $3.7 million, down $52,000 from the year-earlier quarter. The decline in earnings was driven by decreases in provision credit for loan and lease losses of $305,000 and non-interest expense of $60,000, offset by an increase in net interest income of $295,000.

Net income decreased $337,000 or 8% from the sequential quarter. The decrease in earnings was driven by gains on the redemption of bank-owned life insurance of $397,000 and on equity securities of $242,000 recorded during the second quarter offset in part by a decline in provision for loan and lease losses expense of $185,000. Net income, adjusted for special items, was $3.7 million, up $239,000 from the previous quarter. The increase in earnings was driven by a decline in provision for loan and lease losses expense of $185,000 coupled with increases in service fees on deposit accounts of $147,000 and trust services fee income of $91,000, offset in part by an increase in salaries and employee benefits expense of $205,000.

For the third quarter of 2020, the outstanding loan balances decreased slightly by $523,000 from the previous quarter to $993 million, but increased $92 million or 10% from the year-earlier quarter. Total deposits increased $110 million or 8% from the previous quarter to a record $1.526 billion and increased $348 million or 30% from the year-earlier quarter.

**Asset Quality**

Total nonperforming assets decreased to $1.6 million, or 0.09% of total assets, down from $1.7 million or 0.11% from the previous quarter. Net recoveries to average loans were 0.01% for the third quarter of 2020 compared with net recoveries of 0.01% for the previous quarter and net charge-offs of 0.00% the year-earlier quarter. No provision for loan and lease losses expense was recorded during the third quarter of 2020. The allowance for loan and lease losses represented 0.98% of total loans outstanding for the third quarter of 2020 compared with 0.98% for the previous quarter and 1.00% for the year-earlier quarter. The allowance for loan and lease losses for the third 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 third 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 September 30, 2020, First Farmers reported total assets of approximately $1.7 billion, total shareholders' equity of approximately $158 million, and administered trust assets of $5.7 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 sale of fixed assets, 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 | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2020 | 2019 | 2020 | 2020 | 2019 |
| Total non-interest income | $ 3,396 | $ 3,553 | $ 3,735 | $ 11,035 | $ 12,750 |
| Gain on sale of securities | - | (12) | - | (129) | (12) |
| Gain on equity securities | - | - | (242) | (242) | - |
| Gain on sale of White Bluff office | - | - | - | - | (2,700) |
| Gain on sale of fixed assets | - | - | - | (102) | - |
| Gain on redemption of bank-owned life insurance | - | (150) | (397) | (820) | (150) |
| Adjusted non-interest income | $ 3,396 | $ 3,391 | $ 3,096 | $ 9,742 | $ 9,888 |
| Contingency accrual | - | (6) | - | - | 109 |
| Net income as reported | $ 3,680 | $ 3,895 | $ 4,017 | $ 10,897 | $ 12,579 |
| Total adjustments, net of tax[1] | - | (163) | (576) | (1,170) | (2,073) |
| Adjusted net income | $ 3,680 | $ 3,732 | $ 3,441 | $ 9,727 | $ 10,506 |
| Basic earnings per share | $ 0.84 | $ 0.88 | $ 0.92 | $ 2.50 | $ 2.83 |
| Total adjustments, net of tax[1] | - | (0.04) | (0.13) | (0.27) | (0.47) |
| Adjusted basic earnings per share | $ 0.84 | $ 0.84 | $ 0.79 | $ 2.23 | $ 2.36 |

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

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## FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
## CONSOLIDATED BALANCE SHEETS

| | *(dollars in thousands, except per share data)* | (unaudited) September 30, 2020 | December 31, 2019[1] |
|---|---|---|---|
| **ASSETS** | Cash and due from banks | $ 22,022 | $ 26,614 |
| | Interest-bearing deposits | 120,538 | 6,712 |
| | Federal funds sold | 4,485 | 819 |
| | Total cash and cash equivalents | 147,045 | 34,145 |
| | Securities: | | |
| | Available-for-sale | 473,268 | 329,796 |
| | Held-to-maturity (fair market value $18,110 and $18,005 as of the periods presented) | 17,271 | 17,606 |
| | Equity securities | 2,242 | 2,000 |
| | Loans held-for-sale | 4,121 | 2,540 |
| | Loans, net of deferred fees | 993,187 | 934,770 |
| | Allowance for loan and lease losses | (9,712) | (8,960) |
| | Net loans | 983,475 | 925,810 |
| | Bank premises and equipment, net | 35,166 | 35,762 |
| | Bank-owned life insurance | 33,872 | 32,198 |
| | Goodwill | 9,018 | 9,018 |
| | Other assets | 12,463 | 14,795 |
| | **TOTAL ASSETS** | $ 1,717,941 | $ 1,403,670 |
| **LIABILITIES** | Deposits: | | |
| | Noninterest-bearing | $ 403,062 | $ 311,274 |
| | Interest-bearing | 1,123,081 | 908,967 |
| | Total deposits | 1,526,143 | 1,220,241 |
| | Securities sold under agreements to repurchase | 11,734 | 11,742 |
| | Federal Home Loan Bank borrowings | - | 5,500 |
| | Accounts payable and accrued liabilities | 22,213 | 21,799 |
| | **TOTAL LIABILITIES** | 1,560,090 | 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 | 106,379 | 98,945 |
| | Accumulated other comprehensive income | 7,780 | 1,549 |
| | Total shareholders' equity attributable to First Farmers and Merchants Corporation | 157,756 | 144,293 |
| | Noncontrolling interest - preferred stock of subsidiary | 95 | 95 |
| | **TOTAL SHAREHOLDERS' EQUITY** | 157,851 | 144,388 |
| | **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | $ 1,717,941 | $ 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 September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|---|
| | *(dollars in thousands, except per share data)* | **2020** | **2019** | **2020** | **2019** |
| **INTEREST AND DIVIDEND INCOME** | Interest and fees on loans | $ 9,996 | $ 10,386 | $ 30,238 | $ 30,538 |
| | Income on investment securities | | | | |
| | Taxable interest | 1,245 | 1,252 | 3,722 | 3,764 |
| | Exempt from federal income tax | 492 | 524 | 1,505 | 1,623 |
| | Interest from federal funds sold and other | 30 | 43 | 134 | 177 |
| | Total interest income | 11,763 | 12,205 | 35,599 | 36,102 |
| **INTEREST EXPENSE** | Interest on deposits | 801 | 1,399 | 2,903 | 3,804 |
| | Interest on other borrowings | 8 | 147 | 36 | 492 |
| | Total interest expense | 809 | 1,546 | 2,939 | 4,296 |
| | Net interest income | 10,954 | 10,659 | 32,660 | 31,806 |
| | Provision (provision credit) for loan and lease losses | - | (305) | 700 | (360) |
| | Net interest income after provision | 10,954 | 10,964 | 31,960 | 32,166 |
| **NON-INTEREST INCOME** | Mortgage banking activities | 349 | 331 | 943 | 780 |
| | Trust services fee income | 963 | 902 | 2,712 | 2,707 |
| | Service fees on deposit accounts | 1,680 | 1,793 | 4,921 | 5,271 |
| | Investment services fee income | 97 | 74 | 292 | 267 |
| | Earnings on bank-owned life insurance | 148 | 116 | 415 | 346 |
| | Gain on sale of investments | - | 12 | 129 | 12 |
| | Gain on redemption of bank-owned life insurance | - | 150 | 820 | 150 |
| | Gain on sale of White Bluff office | - | - | - | 2,700 |
| | Other non-interest income | 159 | 175 | 803 | 517 |
| | Total non-interest income | 3,396 | 3,553 | 11,035 | 12,750 |
| **NON-INTEREST EXPENSE** | Salaries and employee benefits | 5,838 | 6,124 | 17,992 | 17,585 |
| | Net occupancy expense | 622 | 678 | 1,906 | 1,930 |
| | Depreciation expense | 517 | 527 | 1,560 | 1,547 |
| | Data processing expense | 788 | 739 | 2,362 | 2,251 |
| | Software support and other computer expense | 691 | 509 | 1,890 | 1,531 |
| | Legal and professional fees | 209 | 236 | 682 | 757 |
| | Audits and exams expense | 184 | 160 | 532 | 500 |
| | Advertising and promotions | 198 | 232 | 592 | 984 |
| | FDIC insurance premium expense | 107 | - | 234 | 173 |
| | Other non-interest expense | 688 | 697 | 2,238 | 2,420 |
| | Total non-interest expense | 9,842 | 9,902 | 29,988 | 29,678 |
| | Income before provision for income taxes | 4,508 | 4,615 | 13,007 | 15,238 |
| | Provision for income taxes | 828 | 720 | 2,102 | 2,651 |
| | Net income | 3,680 | 3,895 | 10,905 | 12,587 |
| | Noncontrolling interest - dividends on preferred stock subsidiary | - | - | 8 | 8 |
| | Net income available to common shareholders | $ 3,680 | $ 3,895 | $ 10,897 | $ 12,579 |
| | Weighted average shares outstanding | 4,359,738 | 4,426,166 | 4,364,815 | 4,439,858 |
| | Earnings per share | $ 0.84 | $ 0.88 | $ 2.50 | $ 2.83 |

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

| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands, except per share data)* | **September 30, 2020** | **June 30, 2020** | **March 31, 2020** | **December 31, 2019** | **September 30, 2019** |
| **Results of Operations:** | | | | | |
| Interest income | $ 11,763 | $ 11,761 | $ 12,075 | $ 12,091 | $ 12,205 |
| Interest expense | 809 | 835 | 1,295 | 1,447 | 1,546 |
| Net interest income | 10,954 | 10,926 | 10,780 | 10,644 | 10,659 |
| Provision (provision credit) for loan and lease losses | - | 185 | 515 | - | (305) |
| Non-interest income | 3,396 | 3,735 | 3,904 | 3,457 | 3,553 |
| Non-interest expense and non-controlling interest – preferred stock of subsidiary | 9,842 | 9,636 | 10,518 | 9,928 | 9,902 |
| Income before income taxes | 4,508 | 4,840 | 3,651 | 4,173 | 4,615 |
| Income taxes | 828 | 823 | 451 | 696 | 720 |
| Net income for common shareholders | $ 3,680 | $ 4,017 | $ 3,200 | $ 3,477 | $ 3,895 |
| **Per Share Data:** | | | | | |
| Basic earnings per share | $ 0.84 | $ 0.92 | $ 0.73 | $ 0.79 | $ 0.88 |
| Weighted average shares outstanding per quarter | 4,359,738 | 4,359,738 | 4,375,025 | 4,400,940 | 4,426,166 |
| **Financial Condition Data and Ratios:** | | | | | |
| Total securities | $ 492,781 | $ 392,305 | $ 343,360 | $ 347,402 | $ 347,373 |
| Loans, net of deferred fees | $ 993,187 | $ 993,710 | $ 952,491 | $ 937,310 | $ 901,560 |
| Allowance for loan and lease losses | $ (9,712) | $ (9,695) | $ (9,485) | $ (8,960) | $ (8,937) |
| Total assets | $ 1,717,941 | $ 1,608,659 | $ 1,437,929 | $ 1,403,670 | $ 1,368,606 |
| Total deposits | $ 1,526,143 | $ 1,416,343 | $ 1,256,319 | $ 1,220,241 | $ 1,178,308 |
| Net interest income, on a fully taxable-equivalent basis | $ 11,204 | $ 11,187 | $ 11,059 | $ 10,926 | $ 10,945 |
| Net interest margin | 2.87% | 3.08% | 3.42% | 3.41% | 3.48% |
| **Asset Quality Data and Ratios:** | | | | | |
| Total nonperforming assets | $ 1,616 | $ 1,698 | $ 1,610 | $ 1,665 | $ 2,593 |
| Nonperforming assets to total assets | 0.09% | 0.11% | 0.11% | 0.12% | 0.19% |
| Allowance for loan and lease losses to total loans | 0.98% | 0.98% | 1.00% | 0.96% | 1.00% |
| Net (recoveries) charge-offs to average loans (annualized) | (0.01%) | (0.01%) | 0.00% | 0.00% | 0.00% |

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