FIRST FARMERS

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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS RECORD SECOND QUARTER RESULTS

Net Income Rises 36.3% to $5.5 Million
Adjusted Net Income Increases 13.7% to $3.9 Million

COLUMBIA, Tenn. (July 26, 2021) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced record net income for the second quarter ended June 30, 2021.

Key highlights of First Farmers' results for the second quarter of 2021 include:

- Net income rose 36.3% to $5.5 million from $4.0 million for the year-earlier quarter. Net income per common share increased 37.0% to $1.26 from $0.92 in the second quarter of 2020. Net income rose 82% from $3.0 million, or $0.69 per common share, reported in the first quarter of 2021;
- Adjusted net income, which excludes special items, rose 13.7% to $3.9 million, or $0.90 per common share, compared with $3.4 million, or $0.79 per common share, for the year-earlier quarter. Second quarter adjusted income rose 3.3% from $2.9 million, or $0.67 per common share, reported in the first quarter of 2021 (see non-GAAP reconciliation);
- Recorded a one-time gain of $1.3 million, net of tax, on the sale of the Company's Visa Class B common stock ("Visa stock");
- Net interest income increased 2.4% to $11.2 million from $10.9 million for the year-earlier quarter and was up 5.6% from $10.6 million for the first quarter of 2021;
- Total nonperforming assets remained at a low level of $1.3 million, or 0.07% of total assets; and
- Total deposits rose 5.5% to $1.7 billion from $1.6 billion at December 31, 2020.

Commenting on the results, T. Randy Stevens, Chairman and Chief Executive Officer of First Farmers, said, "We are very pleased to report record net income and earnings per share for the second quarter and first six months of 2021. Our team at First Farmers has done an outstanding job in growing and supporting our customer base."

"We continue to use our earnings and strong capital position to build shareholder returns through repurchases of First Farmers' stock. During the second quarter, we increased our stock repurchases to 10,900 shares, a significant increase over our first quarter purchases of 930 shares. We remain optimistic about our continued growth in 2021 based on improved economic trends, growth in our loan pipeline, improvements in our net interest margin and the continuation of good credit trends," concluded Stevens.

Brian K. Williams, President, added, "Our excellent second quarter results benefited from organic growth in banking services, trust services and mortgage banking activities. We reported growth in net interest income and non-interest income, higher fee income from the redemption of SBA PPP loans, low loan losses and focused management of operating expenses. The combination of organic growth and the gain from the sale of our Visa stock investment resulted in record quarterly net income."

"Our second quarter also was a positive turning point for organic loan growth," continued Williams. "We had loan growth of 2% in the second quarter, excluding SBA PPP loans, with net loans rising to $899 million compared with the first quarter of this year. We experienced increased demand for construction loans as the economy improved, and the outlook of our customers turned more positive as they transitioned out of COVID restrictions. We also believe that our attractive credit metrics reflect the strength of our markets and our continued focus on sound underwriting."

Second Quarter 2021 Results of Operations

Net income increased to $5.5 million, up $1.5 million, or 36%, from the year-earlier quarter. The improvement in earnings was primarily driven by a one-time gain on the sale of Visa stock of $1.8 million. Net income, adjusted for special items, was $3.9 million, up $472,000 from the year-earlier quarter. The increase in adjusted net income from the year-earlier quarter was the result of increases in net interest income of $260,000 and non-interest income of $447,000, primarily driven by improvement in service fees on deposit accounts of $262,000, trust services fee income of $145,000, and mortgage banking activities of $55,000. The provision for loan losses was down by $185,000 from the second quarter of last year, reflecting improved credit metrics. Non-interest expense was up by $297,000 from the year-earlier quarter due primarily to an increase in software related expense of $194,000 and in salaries and employee benefits of $187,000. Software related expenses increased due to investments made to increase the efficiency to record and to forgive Small Business Administration Paycheck Protection Program ("SBA PPP") loans.

Net income increased $2.5 million, or 82%, from the sequential quarter. The increase in earnings was driven primarily by an improvement in non-interest income of $2.1 million and a decrease in non-interest expense of $765,000. The increase in non-interest income from the sequential quarter benefitted from the sale of Visa stock in the amount of $1.8 million and increases in gain on equity securities of $239,000 and in service fees on deposit accounts of $146,000. The decrease in non-interest expense from the sequential quarter was driven by a decline in salaries and employee benefits expense of $580,000 and lower net occupancy expense of $103,000. The decrease in salaries and employee benefits expense was due to a decline of $806,000 in employee health insurance offset by an increase in other employee benefits of $226,000.

For the second quarter of 2021, the outstanding loan balances decreased $19 million, or 2%, from the previous quarter to $909 million and decreased $85 million, or 9%, from the year-earlier quarter. Loan contraction for the quarter was driven by SBA PPP loan forgiveness of $36 million, offset in part by SBA PPP loan growth of $4 million. Loan balances, excluding SBA PPP loans, increased $13 million, or 2%, for the quarter. Total deposits decreased $10 million, or 1%, from the previous quarter to $1.696 billion, but increased $280 million, or 20%, from the year-earlier quarter.

Six Months Results

Net income available to common shareholders rose 17.5% to $8.5 million for the first six months of 2021 compared with $7.2 million in the first six months of 2020. Net income per share rose 18.2% to $1.95 for the first six months of 2021 compared with $1.65 in the same period of 2020. The higher growth rate in earnings per share benefited from fewer shares outstanding due to the Company's stock repurchases.

The increase in net income benefited from a 4.4% increase in net interest income after provision for loan losses to $21.9 million and a 20.5% increase in non-interest income to $9.2 million, including the $1.8 million gain on sale of the Visa stock. First Farmers reported organic growth from banking services, trust services and mortgage banking activities. Service fees on deposits rose 6.3% to $3.4 million, trust services fee income increased 13.9% to $2.0 million and revenue from mortgage banking activities was up 40.6% to $835,000 compared with the first six months of 2020.

Non-interest expenses rose 2.3% in the first six months of 2021 to $20.6 million compared with the same period in 2020. The increases were due mostly to higher salaries and employee benefits, net occupancy expense and software support; offset by lower expenses primarily for depreciation, data processing expense, legal and professional fees, and other non-interest expenses.

Asset Quality

Total nonperforming assets decreased to $1.3 million, or 0.07% of total assets, down from $1.5 million, or 0.08%, from the previous quarter. Net charge-offs to average loans were 0.00% for the second quarter of 2021 compared with net charge-offs of 0.00% for the previous quarter and net recoveries of 0.01% in the year-earlier quarter. Provision for loan and lease losses expense was not recorded during the second quarter of 2021 primarily driven by an upgrade in our economic outlook and improvement in our credit metrics. The allowance for loan and lease losses represented 1.05% of total loans outstanding for the second quarter of 2021 compared with 1.03% for the previous quarter and 0.98% for the year-earlier quarter. The allowance for loan and lease losses for the second quarter of 2021 represented 1.10% of total loans outstanding, excluding SBA PPP loans.

Capital Management Initiatives

During the second quarter, First Farmers repurchased 10,900 shares of the Company's common stock. Of this amount, 900 shares were repurchased under a Rule 10b-18 plan of the Securities Exchange Act of 1934 at an average price of $33.82 per share under the Company's stock repurchase program. The Company also repurchased 10,000 shares through privately negotiated transactions at an average price of $39.19 per share. Authorization to repurchase approximately 188,000 shares remains under the current program, which is set to expire in December 2021, 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, 2021, First Farmers reported total assets of approximately $1.9 billion, total shareholders' equity of approximately $162 million, and administered trust assets of $6.2 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 Visa stock, gain on sale of fixed assets, and gain on redemption of bank-owned life insurance. 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,	
	2021	2020	2021	2021	2020
Total non-interest income	$ 5,658	$ 3,735	$ 3,550	$ 9,208	$ 7,639
Gain on sale of securities	(65)	-	(121)	(186)	(129)
Gain on equity securities	(239)	(242)	-	(239)	(242)
Gain on sale of Visa stock	(1,811)	-	-	(1,811)	-
Gain on sale of fixed assets	-	-	-	-	(102)
Gain on redemption of bank-owned life insurance	-	(397)	-	-	(820)
Adjusted non-interest income	$ 3,543	$ 3,096	$ 3,429	$ 6,972	$ 6,346
Net income as reported	$ 5,476	$ 4,017	$ 3,003	$ 8,479	$ 7,217
Total adjustments, net of tax[1]	(1,563)	(576)	(89)	(1,652)	(1,170)
Adjusted net income	$ 3,913	$ 3,441	$ 2,914	$ 6,827	$ 6,047
Basic earnings per share	$ 1.26	$ 0.92	$ 0.69	$ 1.95	$ 1.65
Total adjustments, net of tax[1]	(0.36)	(0.13)	(0.02)	(0.38)	(0.27)
Adjusted basic earnings per share	$ 0.90	$ 0.79	$ 0.67	$ 1.57	$ 1.38

(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, 2021	December 31, 2020[1]
ASSETS	Cash and due from banks	$ 30,328	$ 29,126
	Interest-bearing deposits	23,647	105,470
	Federal funds sold	46,363	3,774
	Total cash and cash equivalents	100,338	138,370
	Securities:		
	Available-for-sale	766,552	594,649
	Held-to-maturity (fair market value $17,477 and $18,195 as of the periods presented)	16,573	17,259
	Equity securities	2,481	2,242
	Loans held-for-sale	1,312	3,679
	Loans, net of deferred fees	908,510	964,695
	Allowance for loan and lease losses	(9,581)	(9,715)
	Net loans	898,929	954,980
	Bank premises and equipment, net	34,085	34,421
	Bank-owned life insurance	35,023	34,016
	Goodwill	9,018	9,018
	Other assets	14,631	13,511
	TOTAL ASSETS	$ 1,878,942	$ 1,802,145
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 465,056	$ 427,073
	Interest-bearing	1,230,934	1,181,101
	Total deposits	1,695,990	1,608,174
	Securities sold under agreements to repurchase	-	11,691
	Accounts payable and accrued liabilities	21,317	22,286
	TOTAL LIABILITIES	1,717,307	1,642,151
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,347,908 and 4,359,738 shares issued and outstanding as of the periods presented	43,479	43,597
	Retained earnings	115,076	108,761
	Accumulated other comprehensive income	2,985	7,541
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	161,540	159,899
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	161,635	159,994
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,878,942	$ 1,802,145

(1) Derived from audited financial statements as of December 31, 2020.

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)	**2021**	**2020**	**2021**	**2020**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 9,480	$ 10,026	$ 19,091	$ 20,242
	Income on investment securities				
	Taxable interest	1,780	1,207	3,021	2,477
	Exempt from federal income tax	602	493	1,095	1,013
	Interest from federal funds sold and other	10	35	36	104
	Total interest income	11,872	11,761	23,243	23,836
INTEREST EXPENSE	Interest on deposits	685	827	1,463	2,102
	Interest on other borrowings	1	8	1	28
	Total interest expense	686	835	1,464	2,130
	Net interest income	11,186	10,926	21,779	21,706
	Provision (provision credit) for loan and lease losses	-	185	(150)	700
	Net interest income after provision	11,186	10,741	21,929	21,006
NON-INTEREST INCOME	Mortgage banking activities	367	312	835	594
	Trust services fee income	1,017	872	1,992	1,749
	Service fees on deposit accounts	1,795	1,533	3,444	3,241
	Investment services fee income	89	76	171	195
	Earnings on bank-owned life insurance	124	154	223	267
	Gain on sale of investments	65	-	186	129
	Gain on redemption of bank-owned life insurance	-	397	-	820
	Gain on sale of Visa stock	1,811	-	1,811	-
	Other non-interest income	390	391	546	644
	Total non-interest income	5,658	3,735	9,208	7,639
NON-INTEREST EXPENSE	Salaries and employee benefits	5,820	5,633	12,220	12,154
	Net occupancy expense	648	650	1,399	1,284
	Depreciation expense	501	519	1,010	1,043
	Data processing expense	681	777	1,464	1,574
	Software support and other computer expense	829	635	1,553	1,199
	Legal and professional fees	191	239	417	473
	Audits and exams expense	171	164	347	348
	Advertising and promotions	232	169	488	394
	FDIC insurance premium expense	160	102	313	127
	Other non-interest expense	692	740	1,404	1,550
	Total non-interest expense	9,925	9,628	20,615	20,146
	Income before provision for income taxes	6,919	4,848	10,522	8,499
	Provision for income taxes	1,435	823	2,035	1,274
	Net income	5,484	4,025	8,487	7,225
	Noncontrolling interest - dividends on preferred stock subsidiary	8	8	8	8
	Net income available to common shareholders	$ 5,476	$ 4,017	$ 8,479	$ 7,217
	Weighted average shares outstanding	4,357,546	4,359,738	4,358,470	4,367,382
	Earnings per share	$ 1.26	$ 0.92	$ 1.95	$ 1.65

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, 2021**	**March 31, 2021**	**December 31, 2020**	**September 30, 2020**	**June 30, 2020**
Results of Operations:					
Interest income	$ 11,872	$ 11,371	$ 11,724	$ 11,763	$ 11,761
Interest expense	686	778	855	809	835
Net interest income	11,186	10,593	10,869	10,954	10,926
Provision (provision credit) for loan and lease losses	-	(150)	-	-	185
Non-interest income	5,658	3,550	3,412	3,396	3,735
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,933	10,690	10,301	9,842	9,636
Income before income taxes	6,911	3,603	3,980	4,508	4,840
Income taxes	1,435	600	683	828	823
Net income for common shareholders	$ 5,476	$ 3,003	$ 3,297	$ 3,680	$ 4,017
Per Share Data:					
Basic earnings per share	$ 1.26	$ 0.69	$ 0.76	$ 0.84	$ 0.92
Weighted average shares outstanding per quarter	4,357,546	4,359,405	4,359,738	4,359,738	4,359,738
Financial Condition Data and Ratios:					
Total securities	$ 785,606	$ 828,466	$ 614,150	$ 492,781	$ 392,305
Loans, net of deferred fees	$ 908,510	$ 927,232	$ 964,695	$ 993,187	$ 993,710
Allowance for loan and lease losses	$ (9,581)	$ (9,575)	$ (9,715)	$ (9,712)	$ (9,695)
Total assets	$ 1,878,942	$ 1,879,018	$ 1,802,145	$ 1,717,941	$ 1,608,659
Total deposits	$ 1,695,990	$ 1,706,177	$ 1,608,174	$ 1,526,143	$ 1,416,343
Net interest income, on a fully taxable-equivalent basis	$ 11,484	$ 10,841	$ 11,115	$ 11,204	$ 11,187
Net interest margin	2.60%	2.55%	2.69%	2.87%	3.08%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 1,347	$ 1,546	$ 1,560	$ 1,616	$ 1,698
Nonperforming assets to total assets	0.07%	0.08%	0.09%	0.09%	0.11%
Allowance for loan and lease losses to total loans	1.05%	1.03%	1.01%	0.98%	0.98%
Net charge-offs (recoveries) to average loans (annualized)	0.00%	0.00%	(0.01%)	(0.01%)	(0.01%)

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