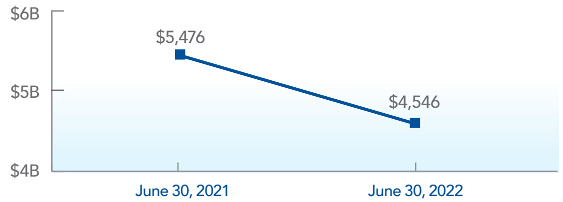
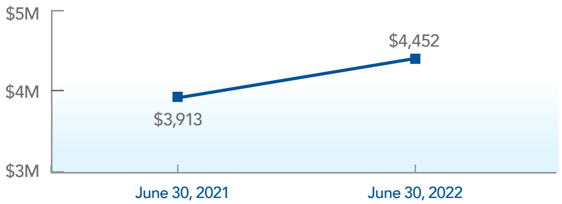
Second Quarter Highlights

Dollars in thousands, except per share data

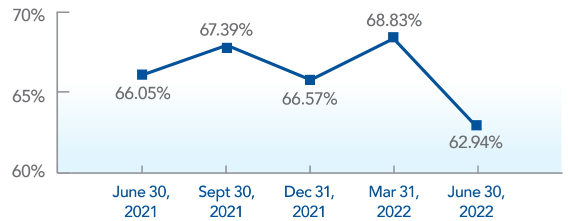
Net Income *17.1% decrease**



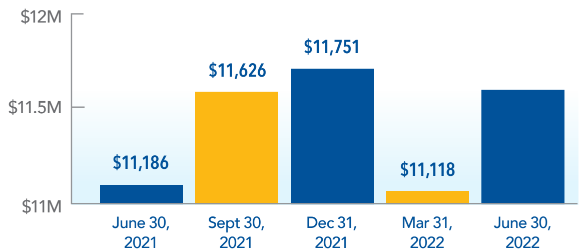
Adjusted Net Income *13.8% Increase*



Efficiency



Net Interest Income**



Net Interest Margin**

* June 31, 2021 results include a $1.8 million gain, or $1.3 million on an after-tax basis, on the sale of Visa stock.

** SBA PPP Fees recorded by each quarter include: 2Q21 - $987,000; 3Q21 - $1,311,000 and 4Q21 - $521,000

Q2 Shareholder Report

SUMMER 2022

FIRST FARMERS

BANKING | WEALTH MANAGEMENT | TRUST

Dear Fellow Shareholders,

Your First Farmers team delivered a solid second quarter led by double-digit organic loan growth, increased net interest income, and improved operating efficiency. Our core operating performance was very strong, and we are well-positioned for future growth. Across the organization, our teams were focused and worked collaboratively to deliver improved results in a cost-effective manner. We are pleased with their efforts and look forward to their continued contributions to our success.

Second Quarter Results

Total loans grew 5.6% for the quarter, or 22.6% on an annualized basis. We attribute this strong organic loan growth to successful new business development efforts, our deep and trusted relationships, and the continued strength of the Middle Tennessee economy.

Net interest income was up 4.5% to $11.7 million from the year-earlier quarter driven by growth in income on investment securities. We also saw strength in key non-interest income sources with trust services fee income and service fees on deposit accounts surpassing the year-earlier quarter. These were partially offset by lower mortgage fees resulting from the slowdown in activity as interest rates continued to climb during the quarter.

Non-interest expense declined by $170,000 due to decreases in data processing and salary and employee benefit expenses. These cost reductions were part of our strategy to streamline our operations and leverage technology to support our customers. As a result, we are pleased to report substantial improvement in our efficiency ratio over the past year. Our team delivered positive operating leverage during the quarter by growing top line revenue while effectively controlling expenses.

Our net income for the second quarter of 2022 was $4.5 million, or $1.05 per share, versus $5.5 million, or $1.26 per share, in the second quarter of last year. The second quarter of 2021 included a $1.8 million gain, or $1.3 million on an after-tax basis, on the sale of Visa stock. Adjusted net income*, which excludes special items, rose 13.8% to $4.5 million, or $1.03 per share, in the second quarter of 2022 compared with $3.9 million, or $0.90 per share, in the second quarter of 2021.
The risk profile of our bank remains favorable. This is highlighted by our low levels of non-performing assets and past due loans as well as the quality of new loans generated from our markets. With a continued focus on returning value to stockholders, we repurchased 6,950 shares in the quarter and maintained our quarterly cash dividend of $0.21 per share.

Looking Ahead

The quality of this quarter's earnings was strong and provides a solid foundation from which to grow. Our pipeline of loan activity remains solid, and we continue to execute our efficiency initiatives. Our growth strategy has focused our resources to enhance the customer experience and generate more opportunities for loan and deposit production. We remain very positive about First Farmers' performance in the second half of 2022. Thank you for your investment and support. We look forward to reporting on our continued progress.

Sincerely,

Brian K. Williams
Chairman & Chief Executive Officer

* *A full reconciliation of Non-GAAP measures is included in tables on the opposite panel.*

Second Quarter 2022

Non-GAAP Financial Measures

Statements included in this Shareholder Quarterly Report 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, gain on sale of Visa stock, gain on sale of premises and equipment, one-time digital conversion fees, 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 Shareholder Quarterly Report

(Dollars in thousands, except per share data)

	Three Months Ended			Six Months Ended	
	June 30,		March 31,	June 30,	
	2022	2021	2022	2022	2021
Total non-interest income	$ 3,660	$ 5,658	$ 3,466	$ 7,126	$ 9,208
Gain on sale of securities	-	(65)	-	-	(186)
Gain on equity securities	(25)	(239)	-	(25)	(239)
Gain on sale of Visa stock	-	(1,811)	-	(91)	-
Gain on sale of premises and equipment	(91)	-	-	-	(1,811)
Adjusted non-interest income	$ 3,544	$ 3,543	$ 3,466	$ 7,010	$ 6,972
Total non-interest expense	$ 9,755	$ 9,925	$ 10,425	$ 20,180	$ 20,615
One-time digital conversion fees	-	-	(207)	(207)	-
Adjusted non-interest expense	$ 9,755	$ 9,925	$ 10,218	$ 19,973	$ 20,615
Net income as reported	$ 4,538	$ 5,476	$ 3,682	$ 8,220	$ 8,479
Total adjustments, net of tax[1]	(86)	(1,563)	153	67	(1,652)
Adjusted net income	$ 4,452	$ 3,913	$ 3,835	$ 8,287	$ 6,827
Basic earnings per share	$ 1.05	$ 1.26	$ 0.85	$ 1.90	$ 1.95
Total adjustments, net of tax[1]	(0.02)	(0.36)	0.04	0.02	(0.38)
Adjusted basic earnings per share	$ 1.03	$ 0.90	$ 0.89	$ 1.92	$ 1.57

(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 Financial Highlights

(unaudited)

	For the Three Months Ended				
(dollars in thousands, except per share data)	June 30, 2022	March 31, 2022	December 31, 2021	September 30, 2021	June 30. 2021
Results of Operations:					
Interest income	$ 12,198	$ 11,490	$ 12,151	$ 12,143	$ 11,872
Interest expense	505	372	400	517	686
Net interest income	11,693	11,118	11,751	11,626	11,186
Provision credit for loan and lease losses	-	(320)	-	-	-
Non-interest income	3,660	3,466	3,863	3,712	5,658
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,755	10,425	11,961	10,398	9,933
Income before income taxes	5,598	4,479	3,653	4,940	6,911
Income taxes	1,052	797	582	871	1,435
Net income for common shareholders	$ 4,546	$ 3,682	$ 3,071	$ 4,069	$ 5,476
Per Share Data:					
Basic earnings per share	$ 1.05	$ 0.85	$ 0.71	$ 0.94	$ 1.26
Weighted average shares outstanding per quarter	4,313,455	4,317,169	4,326,090	4,340,048	4,357,546
Financial Condition Data and Ratios:					
Total securities	$ 902,742	$ 944,543	$ 894,596	$ 848,223	$ 785,606
Available-for-sale securities, fair market value	$ 885,129	$ 926,944	$ 876,987	$ 829,180	$ 766,552
Available-for-sale securities, amortized cost	$ 967,235	$ 983,958	$ 883,853	$ 828,465	$ 763,750
Loans, net of deferred fees	$ 941,357	$ 891,108	$ 886,891	$ 902,234	$ 908,510
Allowance for loan and lease losses	$ (9,386)	$ (9,388)	$ (9,605)	$ (9,590)	$ (9,581)
Total assets	$ 2,012,409	$ 2,144,206	$ 1,972,738	$ 1,920,554	$ 1,878,942
Total deposits	$ 1,880,612	$ 1,998,175	$ 1,791,206	$ 1,736,614	$ 1,695,990
Net interest income, on a fully taxable-equivalent basis	$ 11,956	$ 11,379	$ 12,013	$ 11,899	$ 11,484
Net interest margin	2.46%	2.43%	2.62%	2.63%	2.60%
Efficiency	62.94%	68.83%	66.57%	67.39%	66.05%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 1,635	$ 1,002	$ 1,217	$ 1,579	$ 1,347
Nonperforming assets to total assets	0.08%	0.05%	0.06%	0.08%	0.07%
Allowance for loan and lease losses to total loans	1.00%	1.05%	1.08%	1.06%	1.05%
Net (recoveries) charge-offs to average loans (annualized)	(0.02%)	(0.05%)	0.00%	0.00%	0.00%