FIRST FARMERS

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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS IMPROVED THIRD QUARTER RESULTS

Net Income Rises 18% to $4.8 Million
Net Interest Income Increases 7.3% to a Record $12.5 Million

COLUMBIA, Tenn. (October 24, 2022) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced double digit growth in net income for the third quarter of 2022, compared with the prior year's third quarter.

"First Farmers' growth in net income for the third quarter benefited from higher net interest income, lower non-interest expense, growth in our net interest margin and continued organic loan growth," stated Brian K. Williams, Chairman and Chief Executive Officer of First Farmers. "We are on pace to report record net income for 2022 based on our year-to-date performance and our expectations for continued growth in the fourth quarter.

"Our Board of Directors recently approved a 9.5% increase in our cash dividend to $0.23 per share, highlighting our strong financial performance in 2022 and our positive outlook for the future. We believe the increase in our cash dividend and recent increases in our stock repurchases demonstrate our Board's focus on delivering long-term shareholder value," continued Williams.

Key highlights of First Farmers' results for the third quarter of 2022 include:

- Net income rose 18.0% to $4.8 million in the third quarter of 2022 compared with $4.1 million in the third quarter of 2021. Net income per common share was $1.12 in the third quarter of 2022 compared with $0.94 in the third quarter of 2021. Net income rose 5.8% from $4.5 million, or $1.05 per common share, in the second quarter of 2022;
- Adjusted net income, which excludes special items, rose 22.1% to a record $4.8 million, or $1.12 per common share, compared with $3.9 million, or $0.91 per common share, for the year-earlier quarter. Third quarter adjusted net income rose 7.9% from $4.5 million, or $1.03 per common share, reported in the second quarter of 2022 (see non-GAAP reconciliation);
- Net interest income before provision increased 7.3% to $12.5 million from $11.6 million for the year-earlier quarter;
- Net loans grew 1.1% from the second quarter of 2022 (4.2% annualized) and were up 5.4% from the third quarter of 2021 after excluding SBA Paycheck Protection ("SBA PPP") loans; and
- Total nonperforming assets dropped to $711,000, or 0.04% of total assets.

Williams continued, "First Farmers' efficiency ratio continued to improve in the third quarter, reflecting growth in our revenue and discipline in our cost structure. During the quarter, we increased our investments in systems to support our future growth, including a new lending platform that will be rolled out over the next year. We expect the new platform to improve our service to customers, support our teams in enhancing the customer experience, and create more opportunities for future loan and deposit production."

Robert E. Krimmel, Chief Financial Officer, added, "The majority of our year-to-date 2022 earnings were generated by our bank's core operations and reflects the growth in our loan portfolio, higher net interest margin and lower non-interest expenses compared with last year. Our net interest margin improved to 2.61% in the third quarter and benefited from new loans added with higher interest rates. Our balance sheet remains asset sensitive, and we expect to benefit from future interest rate increases as the Federal Reserve strives to dampen inflation.

"Our asset quality is very strong and improved since last year based on the continued reduction in non-performing loans, our low loan losses and the high quality of new loans added this year. We have benefited from a strong economy in the markets we serve but remain focused on protecting our asset quality through careful underwriting of new loans, limiting our loans in higher risk segments and remaining close to our customer base as part of our early warning system to protect future earnings."

Third Quarter 2022 Results of Operations

Net income was up $734,000 to $4.8 million, or 18.0%, from the year-earlier third quarter. The improvement in earnings was driven by growth in net interest income of $843,000 resulting from higher loan yields which contributed to expansion in our net interest margin of 15 basis points for the third quarter of 2022. The increase in interest and fees on loans was offset partially by a reduction in SBA PPP loan fees recognized during the third quarter of 2021 of $1.3 million. Non-interest expense declined by $322,000, or 3.1%, compared with the third quarter of 2021 driven by a reduction in salaries and employee benefits expense of $430,000, or 6.8%. Net income, adjusted for special items, excluded a $134,000 gain on the sale of securities (net of tax) recognized during the third quarter of 2021.

Net income increased $265,000, or 5.8%, from the sequential second quarter while adjusted net income grew $351,000, or 7.9%. The improvement in earnings was due to growth in net interest income after provision of $776,000 outpacing the growth in salaries and employee benefits expense of $298,000.

For the third quarter of 2022, securities available-for-sale declined $60 million from the sequential second quarter. Securities available-for-sale amortized cost decreased $22 million and was used to fund loan growth for the quarter while the unrealized loss adjustment for securities available-for-sale increased another $38 million for the quarter as bond prices were driven lower with higher interest rates as the Fed continued to raise short-term interest rates. Our outstanding loan balances increased $9.9 million, or 5.4% on an annualized basis, to $951 million as loan growth slowed compared with the second quarter of 2022. Total deposits decreased $48 million, or 2.5%, from the previous quarter to $1.8 billion, but increased $96 million, or 5.6%, from the year-earlier period. The decline in total deposits during the third quarter of 2022 was driven largely by the migration of certain client balances to the Company's Trust department.

Total shareholders' equity declined $24 million due to the unrealized loss adjustment to the available-for-sale securities portfolio that totaled $28 million, net of tax, for the third quarter. The decline is viewed as temporary by the Company since the intention is to hold these securities until maturity. Total unrealized losses related to the available-for-sale investment portfolio increased to $120 million compared to unrealized gains of $19 from the year-earlier quarter, and unrealized losses of $82 million for the second quarter of 2022. The fair market value of the Company's available-for-sale securities portfolio is adjusted each quarter based on changes in interest rates.

Nine Months Results

Net income available to common shareholders was $13.0 million for the first nine months of 2022, up 3.8% compared with $12.5 million in the first nine months of 2021. Net income per share increased 4.9% to $3.02 for the first nine months of 2022 compared with $2.88 in the same period of 2021. The increase in earnings was driven by growth in net interest income after provision of $2.0 million, along with a decline in salaries and employee benefits of $1.2 million, offset partially by a one-time gain on the sale of Visa stock of $1.8 million recognized in the second quarter of 2021, increased software support and other computer expense of $584,000, and a reduction in mortgage banking activities of $557,000. Adjusted net income increased 21.6% to $13.1 million for the first nine months of 2022 while adjusted net income per share increased 23.1% compared to the same period in 2021.

The increase in adjusted net income benefited from a 6.1% increase in net interest income after provision for loan losses to $35.6 million supported by growth in income on investment securities of $2.8 million offset in part by a reduction in interest and fees on loans of $1.2 million. The reduction in interest and fees on loans was impacted by $3.1 million in recognized SBA PPP loan fees during the first nine months of 2021. Non-interest expenses declined 2.4% in the first nine months of 2022 to $30.3 million compared with the same period in 2021. The decrease in non-interest expenses was due mostly to lower salaries and employee benefits; offset by higher software support and other computer expense related to technology upgrades experienced during the first quarter of 2022.

Asset Quality

Nonperforming assets decreased to $711,000 at the end of the third quarter of 2022 and totaled 0.04% of total assets, down from $1.6 million, or 0.08%, in the previous quarter. Nonperforming assets were down $868,000, or 55.0% from the year-earlier third quarter. Net recoveries to average loans were 0.01% for the third quarter of 2022 compared with 0.02% for the previous quarter and net charge-offs of 0.00% for the year-earlier quarter. No adjustments were made to provision for loan and lease losses during the third quarter of 2022. The allowance for loan and lease losses represented 0.99% of total loans outstanding for the third quarter of 2022 compared with 1.00% for the previous quarter and 1.06% for the year-earlier quarter.

Capital Management Initiatives

During the third quarter of 2022, First Farmers repurchased 13,529 shares of the Company’s common stock in the open market at an average price of $31.44 per share in accordance with the Company’s stock repurchase program which represents a 95% increase compared to the second quarter of 2022. Authorization to repurchase approximately 179,000 shares remains under the current program, which is set to expire in December 2022, 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, 2022, First Farmers reported total assets of approximately $1.9 billion, total shareholders’ equity of approximately $85 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, 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 EARNINGS RELEASE
(Dollars in thousands, except per share data)

	Three Months Ended			Nine Months Ended	
	September 30,		June 30,	September 30,	
	2022	2021	2022	2022	2021
Total non-interest income	$ 3,526	$ 3,712	$ 3,660	$ 10,652	$ 12,920
Gain on sale of securities	-	(181)	-	-	(367)
Gain on equity securities	-	-	(25)	(25)	(239)
Gain on sale of premises and equipment	-	-	(91)	(91)	-
Gain on sale of Visa Stock	-	-	-	-	(1,811)
Adjusted non-interest income	$ 3,526	$ 3,531	$ 3,544	$ 10,536	$ 10,503
Total non-interest expense	$ 10,076	$ 10,398	$ 9,755	$ 30,256	$ 31,013
One-time digital conversion fees	-	-	-	(207)	-
Adjusted non-interest expense	$ 10,076	$ 10,398	$ 9,755	$ 30,049	$ 31,013
Net income as reported	$ 4,803	$ 4,069	$ 4,538	$ 13,023	$ 12,548
Total adjustments, net of tax[1]	-	(134)	(86)	67	(1,786)
Adjusted net income	$ 4,803	$ 3,935	$ 4,452	$ 13,090	$ 10,762
Basic earnings per share	$ 1.12	$ 0.94	$ 1.05	$ 3.02	$ 2.88
Total adjustments, net of tax[1]	-	(0.03)	(0.02)	0.02	(0.41)
Adjusted basic earnings per share	$ 1.12	$ 0.91	$ 1.03	$ 3.04	$ 2.47

(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) September 30, 2022	December 31, 2021[(1)]
ASSETS	Cash and due from banks	$ 25,691	$ 19,791
	Interest-bearing deposits	5,121	75,065
	Federal funds sold	133	8,374
	Total cash and cash equivalents	30,945	103,230
	Securities:		
	Available-for-sale	825,293	876,987
	Held-to-maturity (fair market value $13,378 and $15,932 as of the periods presented)	15,098	15,128
	Equity securities	2,505	2,481
	Loans held-for-sale	1,153	2,197
	Loans, net of deferred fees	951,279	886,891
	Allowance for loan and lease losses	(9,383)	(9,605)
	Net loans	941,896	877,286
	Bank premises and equipment, net	32,747	32,627
	Bank-owned life insurance	35,710	35,354
	Goodwill	9,018	9,018
	Deferred tax asset	33,674	4,085
	Other assets	13,376	14,345
	TOTAL ASSETS	$ 1,941,415	$ 1,972,738
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 547,934	$ 522,725
	Interest-bearing	1,285,107	1,268,481
	Total deposits	1,833,041	1,791,206
	Accounts payable and accrued liabilities	23,635	22,901
	TOTAL LIABILITIES	1,856,676	1,814,107
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,296,361 and 4,317,306 shares issued and outstanding as of the periods presented	42,964	43,173
	Retained earnings	129,292	119,507
	Accumulated other comprehensive loss	(87,611)	(4,144)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	84,645	158,536
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	84,740	158,631
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,941,415	$ 1,972,738

(1) Derived from audited financial statements as of December 31, 2021.

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)	**2022**	**2021**	**2022**	**2021**
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 10,140	$ 9,800	$ 27,712	$ 28,891
	Income on investment securities				
	Taxable interest	2,559	1,752	7,538	4,773
	Exempt from federal income tax	504	553	1,525	1,648
	Interest from federal funds sold and other	76	38	192	74
	Total interest income	13,279	12,143	36,967	35,386
INTEREST EXPENSE	Interest on deposits	810	517	1,687	1,980
	Interest on other borrowings	-	-	-	1
	Total interest expense	810	517	1,687	1,981
	Net interest income	12,469	11,626	35,280	33,405
	(Provision credit) for loan and lease losses	-	-	(320)	(150)
	Net interest income after provision	12,469	11,626	35,600	33,555
NON-INTEREST INCOME	Mortgage banking activities	118	280	558	1,115
	Trust services fee income	1,013	1,024	3,106	3,016
	Service fees on deposit accounts	1,974	1,809	5,668	5,253
	Investment services fee income	113	85	333	256
	Earnings on bank-owned life insurance	119	166	356	389
	Gain on sale of investments	-	181	-	367
	Gain on equity securities	-	-	25	-
	Gain on sale of premises and equipment	-	-	91	-
	Gain on sale of Visa stock	-	-	-	1,811
	Other non-interest income	189	167	515	713
	Total non-interest income	3,526	3,712	10,652	12,920
NON-INTEREST EXPENSE	Salaries and employee benefits	5,924	6,354	17,419	18,574
	Net occupancy expense	575	540	1,716	1,702
	Depreciation expense	433	497	1,365	1,507
	Data processing expense	459	784	2,003	2,248
	Software support and other computer expense	980	655	2,792	2,208
	Legal and professional fees	204	157	723	574
	Audits and exams expense	157	174	519	521
	Advertising and promotions	355	272	797	760
	FDIC insurance premium expense	198	152	528	465
	Other non-interest expense	791	813	2,394	2,454
	Total non-interest expense	10,076	10,398	30,256	31,013
	Income before provision for income taxes	5,919	4,940	15,996	15,462
	Provision for income taxes	1,116	871	2,965	2,906
	Net income	4,803	4,069	13,031	12,556
	Noncontrolling interest - dividends on preferred stock subsidiary	-	-	8	8
	Net income available to common shareholders	$ 4,803	$ 4,069	$ 13,023	$ 12,548
	Weighted average shares outstanding	4,301,056	4,340,048	4,310,501	4,352,262
	Earnings per share	$ 1.12	$ 0.94	$ 3.02	$ 2.88

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, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**	**September 30, 2021**
Results of Operations:					
Interest income	$ 13,279	$ 12,198	$ 11,490	$ 12,151	$ 12,143
Interest expense	810	505	372	400	517
Net interest income	12,469	11,693	11,118	11,751	11,626
Provision credit for loan and lease losses	-	-	(320)	-	-
Non-interest income	3,526	3,660	3,466	3,863	3,712
Non-interest expense and non-controlling interest – preferred stock of subsidiary	10,076	9,763	10,425	11,961	10,398
Income before income taxes	5,919	5,590	4,479	3,653	4,940
Income taxes	1,116	1,052	797	582	871
Net income for common shareholders	$ 4,803	$ 4,538	$ 3,682	$ 3,071	$ 4,069
Per Share Data:					
Basic earnings per share	$ 1.12	$ 1.05	$ 0.85	$ .71	$ 0.94
Weighted average shares outstanding per quarter	4,301,056	4,313,455	4,317,169	4,326,090	4,340,048
Financial Condition Data and Ratios:					
Total securities	$ 842,896	$ 902,742	$ 944,543	$ 894,596	$ 848,223
Available-for-sale securities, fair market value	$ 825,293	$ 885,129	$ 926,944	$ 876,987	$ 829,180
Available-for-sale securities, amortized cost	$ 944,987	$ 967,235	$ 983,958	$ 883,853	$ 828,465
Loans, net of deferred fees	$ 951,279	$ 941,357	$ 891,108	$ 886,891	$ 902,234
Allowance for loan and lease losses	$ (9,383)	$ (9,386)	$ (9,388)	$ (9,605)	$ (9,590)
Total assets	$ 1,941,415	$ 2,012,409	$ 2,144,206	$ 1,972,738	$ 1,920,554
Total deposits	$ 1,833,041	$ 1,880,612	$ 1,998,175	$ 1,791,206	$ 1,736,614
Net interest income, on a fully taxable-equivalent basis	$ 12,726	$ 11,956	$ 11,379	$ 12,013	$ 11,899
Net interest margin	2.61%	2.46%	2.43%	2.62%	2.63%
Efficiency	62.15%	62.94%	68.83%	66.57%	67.39%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 711	$ 1,635	$ 1,002	$ 1,217	$ 1,579
Nonperforming assets to total assets	0.04%	0.08%	0.05%	0.06%	0.08%
Allowance for loan and lease losses to total loans	0.99%	1.00%	1.05%	1.08%	1.06%
Net (recoveries) charge-offs to average loans (annualized)	(0.01%)	(0.02%)	(0.05)%	0.00%	0.00%

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