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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS RECORD 2022 RESULTS

Net Income Rises 16% to a Record $18.1 Million

COLUMBIA, Tenn. (January 23, 2023) – 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 2022, compared with 2021.

Commenting on the results, Brian K. Williams, Chairman and Chief Executive Officer of First Farmers, said, "I am incredibly proud of our entire team who helped us achieve record results in 2022. Throughout the year, we maintained a laser focus on our core business lines while attracting new customers and deepening relationships with our existing customer base. This was highlighted by our loan growth reaching 9.1% during 2022 despite the rapid rise in interest rates, which is the highest pace in six years.

"Technology enhancements in 2022 propelled our strategy for improving service levels for our customers and driving greater efficiency throughout the Company. Our focus on innovation will continue in 2023 with key initiatives including the introduction of a new loan origination system, new features for our digital banking platform, and enhancements to services provided to depositors and treasury management clients.

"Alongside the record performance of 2022, the Board of Directors rewarded our shareholders in September with a 9.5% increase in the quarterly cash dividend and extended the share repurchase program through 2023. The fundamentals, which powered our results in 2022, remain in place as we enter 2023, and we are confident in First Farmers' consistent, sustainable long-term performance for our shareholders," concluded Williams.

Key highlights of First Farmers' results for 2022 include:

- Net income rose 15.6% to a record $18.1 million in 2022 compared with $15.6 million for 2021;
- Net income per common share increased 16.7% to a record $4.19 in 2022 from $3.59 in 2021;
- Adjusted net income, which excludes special items, rose 22.5% to $18.1 million in 2022, or $4.21 per common share, compared with $14.8 million, or $3.40 per common share, in 2021 (see "Non-GAAP Financial Measures" section);
- Net interest income after provision increased 6.6% to a record $48.0 million in 2022 from $45.3 million in 2021;
- Net loans grew 9.1% to $956.8 million from 2021; and
- Total non-interest expense fell 6.5% to $40.2 million from 2021 driving improved operating efficiency to 60.40% for the fourth quarter of 2022.

Robert E. Krimmel, Chief Financial Officer, added, "Our record financial performance in 2022 was highlighted by continued progress in key metrics. We reported growth in our net interest margin, lower non-interest expenses, higher return on assets and an improved efficiency ratio.

“Adjusted non-interest income declined because of mortgage banking activities as higher interest rates reduced demand for home purchases and mortgage refinancing. This was partially offset by higher trust services fee income driven by growth in new client accounts offsetting the impact of weak financial markets during the year. We are very pleased with our trust business which continues to provide a steady level of fee income, as customers choose a more customized service for wealth management.

“We made progress during 2022 in reducing non-interest expense by 6.5% through disciplined cost controls. We also began to experience increased operating efficiencies resulting from our expanded digital and technology platforms, with continued progress expected in this area as we roll out the new digital loan platform in 2023.

“First Farmers’ growth in revenues combined with lower non-interest expenses contributed to our improved fourth quarter efficiency ratio of 60.4%, compared with 66.6% for the same period last year. We are very pleased that these improvements were made through core earnings as well as our programs to streamline operations as we enhance customer service and access to our suite of banking products,” concluded Krimmel.

Fourth Quarter 2022 Results of Operations

Net income was $5.0 million in the fourth quarter of 2022, up $2.0 million, or 63.7%, from the year-earlier quarter. The improvement in earnings was due to one-time executive retirement benefit expenses of $1.5 million ($1.1 million net of tax) recognized during the fourth quarter of 2021, and growth in net-interest income of $953,000 for the fourth quarter of 2022 coupled with a decline in salaries and employee benefits of $676,000 in the quarter. Adjusted net income, which excludes special items, rose 24.8% to $5.0 million, up $1.0 million from the year-earlier quarter. Net interest income improved by $953,000 propelled by net interest margin growth of seven basis points supported by net loan growth of $79 million.

Non-interest income decreased $368,000 and was driven primarily by a reduction in mortgage banking activities of $271,000 impacted by the Federal Reserve’s increase in interest rates, which rose 425 basis points during 2022. Non-interest expense was down by $2.0 million from the year-earlier quarter due primarily to lower salaries and employee benefits expense, including the $1.5 million one-time executive retirement benefit expenses from 2021.

Net income for the fourth quarter of 2022 was up from the sequential third quarter by $224,000, or 4.7%. The improvement in earnings was due primarily to growth in net interest income of $235,000 coupled with a decline in non-interest expense of $156,000, improving the operating efficiency ratio to 60.40%.

For the fourth quarter of 2022, the balance of securities available-for-sale declined $15 million from the sequential third quarter. Securities available-for-sale amortized cost decreased $26 million and was used to fund loan growth for the quarter. The unrealized loss adjustment for securities available-for-sale decreased by $9 million for the quarter as bond prices improved due to lower long-term market interest rates compared to the sequential quarter.

For the fourth quarter of 2022, outstanding loan balances increased $15 million, or 1.6%, from the previous quarter to $957 million and increased $79 million, or 9.1%, from the year-earlier quarter. Loan growth for the quarter benefited from increases in commercial real estate of $9 million and commercial and industrial of $5 million. Total deposits declined by $34 million, or 1.9%, from the sequential third quarter to $1.799 billion, but rose by $7 million, or 0.4%, from the year-earlier quarter. The decline in total deposits during the fourth quarter of 2022 was driven largely by the continued migration of certain client balances to the Company's Trust department, as customers selected an enhanced level of bank services.

Total shareholders' equity increased $12 million due to improvement in the unrealized loss adjustment to the available-for-sale securities portfolio that totaled $9 million, net of tax, for the fourth quarter 2022. Tangible book value per share improved 16.3% for the fourth quarter of 2022 compared to the sequential quarter but declined 40.8% compared to the year-earlier quarter. The improvement in the value of the available-for-sale securities portfolio was driven by a decline in long-term market interest rates. Total unrealized losses related to the available-for-sale investment portfolio decreased to $108 million compared to unrealized losses of $120 million for the third quarter of 2022, but rose from unrealized losses of $7 million from the year-earlier quarter. The fair market value of the Company's available-for-sale securities portfolio is adjusted each quarter based on changes in interest rates.

Twelve Months Results

Net income rose 15.6% to a record $18.1 million, or $4.19 per share, for 2022 compared with $15.6 million, or $3.59 per share, for 2021. The increase in net income benefited from a 6.6% increase in net interest income after provision for loan losses to $48.3 million and a 6.5% decrease in non-interest expense to $40.2 million but was offset in part by a 15.7% decline in non-interest income that included a $1.8 million gain on the sale of Visa stock in 2021.

Net interest income after provision for loan losses improved by $3.0 million propelled by growth in average interest earning assets of $146 million compared to 2021. During the year, asset quality improved leading to an increase in provision credit for loan and leases of $170,000.

Non-interest income declined by 15.7% due to the $1.8 million sale of Visa stock last year along with a reduction in mortgage banking activities of $828,000 that was offset partially by growth in service fees on deposit accounts and trust services fee income. Service fees on deposit accounts were up 7.9% to $7.7 million and trust services fee income were up 2.8% to $4.2 million with new client accounts offsetting the decline in administered assets driven by weakness in the stock and bond markets compared to 2021.

Non-interest expenses declined 6.5% in 2022 to $40.2 million compared with 2021. The decreases were due to lower salaries and employee benefits, including one-time executive retirement benefit expenses of $1.5 million recorded in 2021.

Asset Quality

Asset quality improved in 2022 as measured by a decline in nonperforming assets to $705,000. Nonperforming assets totaled 0.04% of total assets, down from $711,00 or 0.04% from the previous quarter and down from $1.2 million, or 0.06% of total assets, from the year-earlier quarter. Net recoveries to average loans were 0.01% for the fourth quarter of 2022 compared with net recoveries of 0.01% for the previous quarter and net recoveries of 0.00% for the year-earlier quarter. No provision for loan and lease losses was made during the fourth quarter of 2022. The allowance for loan and lease losses represented 0.97% of total loans outstanding for the fourth quarter of 2022 compared with 0.99% for the previous quarter and 1.08% for the year-earlier quarter.

Capital Management Initiatives

During the fourth quarter of 2022, First Farmers repurchased 21,033 shares of the Company's common stock in the open market and privately negotiated transactions. The average price of the repurchased shares in the fourth quarter of 2022 was $30.49 per share. Stock repurchases increased 55% compared to the third quarter of 2022 and were up 107% compared to the year earlier quarter. First Farmers' Board of Directors reauthorized the stock repurchase program of up to 200,000 shares through December 2023.

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 December 31, 2022, First Farmers reported total assets of approximately $1.9 billion, total shareholders' equity of approximately $96.7 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, gain on sale of Visa stock, gain on sale of premises and equipment, one-time executive retirement benefits, 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			Twelve Months Ended	
	December 31,		September 30,	December 31,	
	2022	2021	2022	2022	2021
Total non-interest income	$ 3,495	$ 3,863	$ 3,526	$ 14,147	$ 16,783
Loss (gain) on sale of securities	5	(254)	-	5	(621)
Gain on equity securities	-	-	-	(25)	(239)
Gain on sale of Visa stock	-	-	-	-	(1,811)
Gain on sale of premises and equipment	-	-	-	(91)	-
Adjusted non-interest income	$ 3,500	$ 3,609	$ 3,526	$ 14,036	$ 14,112
Total non-interest expense	$ 9,912	$ 11,953	$ 10,076	$ 40,168	$ 42,966
One-time executive retirement benefits	-	(1,553)		-	(1,553)
One-time digital conversion fees	-	-	-	(207)	-
Adjusted non-interest expense	$ 9,912	$ 10,400	$ 10,076	$ 39,961	$ 41,413
Net income as reported	$ 5,027	$ 3,071	$ 4,803	$ 18,050	$ 15,619
Total adjustments, net of tax[1]	4	960	-	71	(826)
Adjusted net income	$ 5,031	$ 4,031	$ 4,803	$ 18,121	$ 14,793
Basic earnings per share	$ 1.17	$ 0.71	$ 1.12	$ 4.19	$ 3.59
Total adjustments, net of tax[1]	-	0.22	-	0.02	(0.19)
Adjusted basic earnings per share	$ 1.17	$ 0.93	$ 1.12	$ 4.21	$ 3.40

(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) December 31, 2022	December 31, 2021[1]
ASSETS	Cash and due from banks	$ 27,193	$ 19,791
	Interest-bearing deposits	1,754	75,065
	Federal funds sold	57	8,374
	Total cash and cash equivalents	29,004	103,230
	Securities:		
	Available-for-sale	810,591	876,987
	Held-to-maturity (fair market value $14,162 and $15,932 as of the periods presented)	15,087	15,128
	Equity securities	2,505	2,481
	Loans held-for-sale	-	2,197
	Loans, net of deferred fees	966,167	886,891
	Allowance for loan and lease losses	(9,382)	(9,605)
	Net loans	956,785	877,286
	Bank premises and equipment, net	32,140	32,627
	Bank-owned life insurance	35,829	35,354
	Goodwill	9,018	9,018
	Deferred tax asset	30,511	4,085
	Other assets	20,819	14,345
	TOTAL ASSETS	$ 1,942,289	$ 1,972,738
LIABILITIES	Deposits:		
	Noninterest-bearing	$ 534,474	$ 522,725
	Interest-bearing	1,264,154	1,268,481
	Total deposits	1,798,628	1,791,206
	Accounts payable and accrued liabilities	21,996	22,901
	FHLB borrowings	25,000	-
	TOTAL LIABILITIES	1,845,624	1,814,107
SHAREHOLDERS' EQUITY	Common stock - $10 par value per share, 8,000,000 shares authorized; 4,275,328 and 4,317,306 shares issued and outstanding as of the periods presented	42,753	43,173
	Retained earnings	132,905	119,507
	Accumulated other comprehensive loss	(79,088)	(4,144)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	96,570	158,536
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	96,665	158,631
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 1,942,289	$ 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)

	(dollars in thousands, except per share data)	Three Months Ended December 31, 2022	Three Months Ended December 31, 2021	Twelve Months Ended December 31, 2022	Twelve Months Ended December 31, 2021
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	$ 11,250	$ 9,600	$ 38,962	$ 38,491
	Income on investment securities				
	Taxable interest	2,466	2,016	10,004	6,789
	Exempt from federal income tax	500	521	2,025	2,169
	Interest from federal funds sold and other	40	14	232	88
	Total interest income	14,256	12,151	51,223	47,537
INTEREST EXPENSE	Interest on deposits	1,142	400	2,829	2,380
	Interest on other borrowings	410	-	410	1
	Total interest expense	1,552	400	3,239	2,381
	Net interest income	12,704	11,751	47,984	45,156
	Provision credit for loan and lease losses	-	-	(320)	(150)
	Net interest income after provision	12,704	11,751	48,304	45,306
NON-INTEREST INCOME	Mortgage banking activities	56	327	614	1,442
	Trust services fee income	1,054	1,029	4,160	4,045
	Service fees on deposit accounts	1,987	1,840	7,655	7,093
	Investment services fee income	73	85	406	341
	Earnings on bank-owned life insurance	119	165	475	554
	(Loss) gain on sale of investments	(5)	254	(5)	621
	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	211	163	726	876
	Total non-interest income	3,495	3,863	14,147	16,783
NON-INTEREST EXPENSE	Salaries and employee benefits	5,696	7,925	23,115	26,499
	Net occupancy expense	486	623	2,202	2,699
	Depreciation expense	421	526	1,786	2,033
	Data processing expense	525	786	2,528	3,034
	Software support and other computer expense	1,029	667	3,821	2,875
	Legal and professional fees	284	220	1,007	794
	Audits and exams expense	211	116	730	637
	Advertising and promotions	277	244	1,074	1,004
	FDIC insurance premium expense	149	171	677	636
	Other non-interest expense	834	675	3,228	2,755
	Total non-interest expense	9,912	11,953	40,168	42,966
	Income before provision for income taxes	6,287	3,661	22,283	19,123
	Provision for income taxes	1,252	582	4,217	3,488
	Net income	5,035	3,079	18,066	15,635
	Noncontrolling interest - dividends on preferred stock subsidiary	8	8	16	16
	Net income available to common shareholders	$ 5,027	$ 3,071	$ 18,050	$ 15,619
	Weighted average shares outstanding	4,290,886	4,326,090	4,305,557	4,345,665
	Earnings per share	$ 1.17	$ 0.71	$ 4.19	$ 3.59

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

	For the Three Months Ended				
(dollars in thousands, except per share data)	**December 31, 2022**	**September 30, 2022**	**June 30, 2022**	**March 31, 2022**	**December 31, 2021**
Results of Operations:					
Interest income	$ 14,256	$ 13,279	$ 12,198	$ 11,490	$ 12,151
Interest expense	1,552	810	505	372	400
Net interest income	12,704	12,469	11,693	11,118	11,751
Provision credit for loan and lease losses	-	-	-	(320)	-
Non-interest income	3,495	3,526	3,660	3,466	3,863
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,920	10,076	9,763	10,425	11,961
Income before income taxes	6,279	5,919	5,590	4,479	3,653
Income taxes	1,252	1,116	1,052	797	582
Net income for common shareholders	$ 5,027	$ 4,803	$ 4,538	$ 3,682	$ 3,071
Per Share Data:					
Basic earnings per share	$ 1.17	$ 1.12	$ 1.05	$ 0.85	$ 0.71
Weighted average shares outstanding per quarter	4,290,886	4,301,056	4,313,455	4,317,169	4,326,090
Financial Condition Data and Ratios:					
Total securities	$ 828,183	$ 842,896	$ 902,742	$ 944,543	$ 894,596
Available-for-sale securities, fair market value	$ 810,591	$ 825,293	$ 885,129	$ 926,944	$ 876,987
Available-for-sale securities, amortized cost	$ 918,936	$ 944,987	$ 967,235	$ 983,958	$ 883,853
Loans, net of deferred fees	$ 966,167	$ 951,279	$ 941,357	$ 891,108	$ 886,891
Allowance for loan and lease losses	$ (9,382)	$ (9,383)	$ (9,386)	$ (9,388)	$ (9,605)
Total assets	$ 1,942,289	$ 1,941,415	$ 2,012,409	$ 2,144,206	$ 1,972,738
Total deposits	$ 1,798,628	$ 1,833,041	$ 1,880,612	$ 1,998,175	$ 1,791,206
Net interest income, on a fully taxable-equivalent basis	$ 12,943	$ 12,726	$ 11,956	$ 11,379	$ 12,013
Net interest margin	2.69%	2.61%	2.46%	2.43%	2.62%
Efficiency	60.40%	62.15%	62.94%	68.83%	66.57%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 705	$ 711	$ 1,635	$ 1,002	$ 1,217
Nonperforming assets to total assets	0.04%	0.04%	0.08%	0.05%	0.06%
Allowance for loan and lease losses to total loans	0.97%	0.99%	1.00%	1.05%	1.08%
Net recoveries to average loans (annualized)	(0.01%)	(0.01%)	(0.02%)	(0.05)%	0.00%

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