Second Quarter 2023

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 losses, 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,	
	2023	2022	2023	2023	2022
Total non-interest income	$ 3,262	$ 3,660	$ 2,754	$ 6,017	$ 7,126
Loss on sale of securities	134	–	183	317	–
(Gain) loss on equity securities	–	(25)	351	351	(25)
Gain on sale of premises and equipment	–	(91)	(4)	(4)	(91)
Adjusted non-interest income	$ 3,396	$ 3,544	$ 3,284	$ 6,681	$ 7,010
Total non-interest expense	$ 9,361	$ 9,755	$ 10,059	$ 19,421	$ 20,180
One-time digital conversion fees	–	–	–	–	(207)
Adjusted non-interest expense	$ 9,361	$ 9,755	$ 10,059	$ 19,421	$ 19,973
Net income as reported	$ 5,039	$ 4,538	$ 4,013	$ 9,051	$ 8,220
Total adjustments, net of tax[1]	99	(86)	392	491	67
Adjusted net income	$ 5,138	$ 4,452	$ 4,405	$ 9,542	$ 8,287
Basic earnings per share	$ 1.19	$ 1.05	$ 0.94	$ 2.13	$ 1.90
Total adjustments, net of tax[1]	0.02	(0.02)	0.09	0.12	0.02
Adjusted basic earnings per share	$ 1.21	$ 1.03	$ 1.03	$ 2.25	$ 1.92

(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)

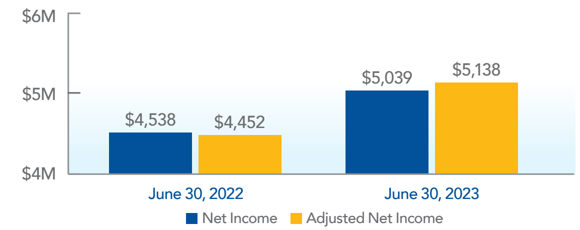
	For the Three Months Ended				
(dollars in thousands, except per share data)	June 30, 2023	March 31, 2023	December 31, 2022	September 30, 2022	June 30, 2022
Results of Operations:					
Interest income	$ 15,020	$ 14,401	$ 14,256	$ 13,279	$ 12,198
Interest expense	2,923	2,189	1,552	810	505
Net interest income	12,097	12,212	12,704	12,469	11,693
Provision credit for credit losses	(260)	–	–	–	–
Non-interest income	3,262	2,754	3,495	3,526	3,660
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,369	10,059	9,920	10,076	9,763
Income before income taxes	6,250	4,907	6,279	5,919	5,590
Income taxes	1,211	894	1,252	1,116	1,052
Net income for common shareholders	$ 5,039	$ 4,013	$ 5,027	$ 4,803	$ 4,538
Per Share Data:					
Basic earnings per share	$ 1.19	$ 0.94	$ 1.17	$ 1.12	$ 1.05
Book value per share	$ 25.54	$ 25.72	$ 22.59	$ 19.70	$ 25.30
Weighted average shares outstanding per quarter	4,244,359	4,273,571	4,290,886	4,301,056	4,313,455
Financial Condition Data and Ratios:					
Total securities	$ 762,175	$ 803,652	$ 828,183	$ 842,896	$ 902,742
Available-for-sale securities, fair market value	$ 744,963	$ 786,430	$ 810,591	$ 825,293	$ 885,129
Available-for-sale securities, amortized cost	$ 845,712	$ 880,890	$ 918,936	$ 944,987	$ 967,235
Loans, net of deferred fees	$ 964,822	$ 972,093	$ 966,167	$ 951,279	$ 941,357
Allowance for credit losses[(1)]	$ (8,200)	$ (8,497)	$ (9,382)	$ (9,383)	$ (9,386)
Total assets	$ 1,878,675	$ 1,913,481	$ 1,942,289	$ 1,941,415	$2,012,409
Total deposits	$ 1,657,587	$ 1,776,987	$ 1,798,628	$ 1,833,041	$1,880,612
Net interest income, on a fully taxable-equivalent basis	$ 12,298	$ 12,456	$ 12,943	$ 12,726	$ 11,956
Net interest margin	2.64%	2.67%	2.69%	2.61%	2.46%
Efficiency	58.04%	64.05%	60.40%	62.15%	62.94%
Asset Quality Data and Ratios:					
Total nonperforming assets	$ 803	$ 873	$ 705	$ 711	$ 1,635
Nonperforming assets to total assets	0.04%	0.05%	0.04%	0.04%	0.08%
Allowance for credit losses to total loans[(1)]	0.85%	0.87%	0.97%	0.99%	1.00%
Net charge-offs (recoveries) to average loans (annualized)	0.00%	0.00%	(0.01%)	(0.01%)	(0.02%)

(1) Prior-quarter data presents allowance for loan and lease losses prior to the adoption of the CECL accounting standard on January 1, 2023.

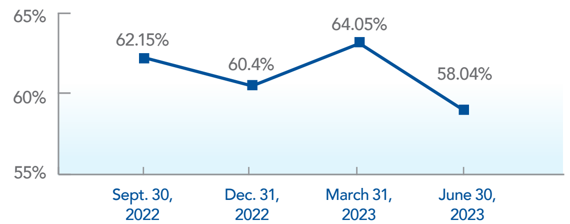
Second Quarter Highlights

Dollars in thousands, except per share data

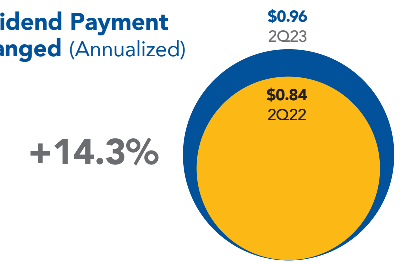
Net Income and Adjusted Net Income



Efficiency

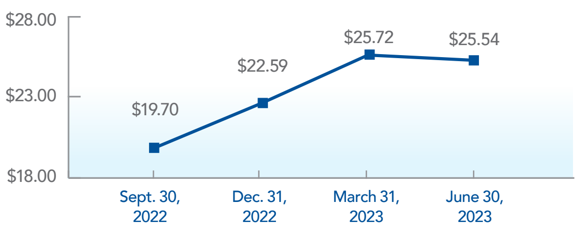


Dividend Payment Changed (Annualized)



Shares Repurchased

Book Value Per Share



Q2 Shareholder Report

Second Quarter 2023

FIRST FARMERS
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Dear Fellow Shareholders,

We are pleased to report double digit growth in net income for the second quarter of 2023 compared with the second quarter of last year. Our solid financial performance benefited from higher net interest income, the continuation of disciplined expense controls and improved asset quality. First Farmers' earnings for the latest quarter represent the highest quarterly net income in two years.

Strong Second Quarter Results

Net income rose 11.0% to $5.0 million and net income per share increased 12.8% to $1.19 compared with the second quarter of last year. Adjusted net income, which excludes special items, rose 15.4% to $5.1 million and adjusted net income per share increased 17.5% to $1.21 compared with the second quarter of last year.

We continue to drive greater efficiency into our business as demonstrated by our efficiency ratio which improved to 58% in the second quarter, the lowest level for First Farmers in the last 10 years. This ratio benefited from growth in net interest income and the trend in lower expenses. This was our sixth consecutive quarterly decrease in noninterest expenses.

Net interest income rose 3.5% in the second quarter resulting from higher interest and fees on loans which were up 33.1% since the second quarter of last year. Growth in interest expense was almost six times higher than last year's second quarter level due to the sharp increase in market rates and competition for deposits.

Total deposits were $1.658 billion at the end of the second quarter of 2023 and were down $119 million from the first quarter of 2023 primarily due to the withdrawal of $113 million from a single municipal customer. This was consistent with our strategy to reduce public deposits closer to our internal target levels. Excluding the balance withdrawal from the municipal customer, total deposits declined only $6 million, or less than one tenth of one percent. Insured deposits rose $30 million to $1.161 billion. Uninsured deposits not covered by FDIC insurance were $220 million, or 13.3% of total deposits for the second quarter of 2023.

At the close of the second quarter, our loan pipeline remained active, and we expect new loans to contribute to our net interest margin while maintaining our high credit standards. Asset quality improved in the second quarter and was highlighted by only $803,000 in nonperforming assets that totaled 0.04% of total assets, down from $1.6 million, or 0.08% of total assets, from the second quarter of 2022. We also recorded a provision credit for credit losses of $260,000 in the second quarter of 2023.

We are focused on further optimizing our balance sheet structure to enhance long-term performance. This includes reduction of our investment portfolio to increase liquidity and fund new loan opportunities. We made progress during the quarter with a 5.2% decrease in securities representing 41% of total assets, the lowest level since the fourth quarter of 2020. Additionally, we continue to reduce our municipal deposit balances to improve our core operating metrics of return on assets, non-interest income generated per asset, and our net interest margin.

Building Long-Term Shareholder Value

First Farmers increased its quarterly cash dividend 4.3% to $0.24 per share. The higher dividend rate was paid on July 17, 2023, to shareholders of record as of July 3, 2023. This represents the second time in three quarters that our Board of Directors increased the cash dividend, highlighting our continued earnings momentum into 2023. In addition, we increased our stock repurchase activity during the second quarter. Although these actions led to a slight reduction in our book value per share, our capital base remains very strong and our regulatory capital positions continue to improve.

Outlook for Second Half of 2023

We remain positive about the outlook for First Farmers during the second half of 2023, even as the economy is showing signs of weakness in the months ahead. We expect our earnings growth to moderate in the third and fourth quarters of this year due to the expected impact higher interest rates, competition for deposits and our strategy to defend our core deposit base will have on our net interest income.

We believe we are solidly positioned for more challenging market conditions by managing our loan risk, maintaining excess liquidity and protecting our core deposit base.

I am extremely proud of our entire First Farmers Team. It is through their efforts that we have built a bank which can deliver trusted service to our customers and sustainable performance for our shareholders even in more difficult environments.

We value your investment in First Farmers and look forward to reporting on our continued progress in the second half of this year.

Sincerely,

Brian K. Williams
Chairman and Chief Executive Officer