# Third 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 | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | September 30, | | June 30, | September 30, | |
| | 2023 | 2022 | 2023 | 2023 | 2022 |
| Total non-interest income | $ 3,497 | $ 3,526 | $ 3,262 | $ 9,514 | $ 10,652 |
| Loss on sale of securities | – | – | 134 | 317 | – |
| (Gain) loss on equity securities | – | – | – | 351 | (25) |
| Gain on sale of premises and equipment | (3) | – | – | (7) | (91) |
| Adjusted non-interest income | $ 3,494 | $ 3,526 | $ 3,396 | $ 10,175 | $ 10,536 |
| | | | | | |
| Total non-interest expense | $ 9,487 | $ 10,076 | $ 9,361 | $ 28,908 | $ 30,256 |
| One-time digital conversion fees | – | – | – | – | (207) |
| Adjusted non-interest expense | $ 9,487 | $ 10,076 | $ 9,361 | $ 28,908 | $ 30,049 |
| | | | | | |
| Net income as reported | $ 3,338 | $ 4,803 | $ 5,039 | $ 12,390 | $ 13,023 |
| Total adjustments, net of tax[1] | (2) | – | 99 | 488 | 67 |
| Adjusted net income | $ 3,336 | $ 4,803 | $ 5,138 | $ 12,878 | $ 13,090 |
| | | | | | |
| Basic earnings per share | $ 0.79 | $ 1.12 | $ 1.19 | $ 2.92 | $ 3.02 |
| Total adjustments, net of tax[1] | – | – | 0.02 | 0.11 | 0.02 |
| Adjusted basic earnings per share | $ 0.79 | $ 1.12 | $ 1.21 | $ 3.03 | $ 3.04 |

(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)*

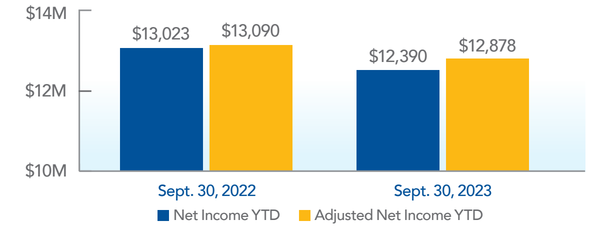
| | For the Three Months Ended | | | | |
|---|---|---|---|---|---|
| *(dollars in thousands, except per share data)* | September 30, 2023 | June 30, 2023 | March 31, 2023 | December 31, 2022 | September 30, 2022 |
| **Results of Operations:** | | | | | |
| Interest income | $ 15,240 | $ 15,020 | $ 14,401 | $ 14,256 | $ 13,279 |
| Interest expense | 5,237 | 2,923 | 2,189 | 1,552 | 810 |
| Net interest income | 10,003 | 12,097 | 12,212 | 12,704 | 12,469 |
| Provision credit for credit losses | – | (260) | – | – | – |
| Non-interest income | 3,497 | 3,262 | 2,754 | 3,495 | 3,526 |
| Non-interest expense and non-controlling interest – preferred stock of subsidiary | 9,487 | 9,369 | 10,059 | 9,920 | 10,076 |
| Income before income taxes | 4,013 | 6,250 | 4,907 | 6,279 | 5,919 |
| Income taxes | 675 | 1,211 | 894 | 1,252 | 1,116 |
| Net income for common shareholders | $ 3,338 | $ 5,039 | $ 4,013 | $ 5,027 | $ 4,803 |
| **Per Share Data**: | | | | | |
| Basic earnings per share | $ 0.79 | $ 1.19 | $ 0.94 | $ 1.17 | $ 1.12 |
| Book value per share | $ 23.61 | $ 25.54 | $ 25.72 | $ 22.59 | $ 19.70 |
| Weighted average shares outstanding per quarter | 4,206,805 | 4,244,359 | 4,273,571 | 4,290,886 | 4,301,056 |
| **Financial Condition Data and Ratios:** | | | | | |
| Total securities | $ 713,707 | $ 762,175 | $ 803,652 | $ 828,183 | $ 842,896 |
| Available-for-sale securities, fair market value | $ 696,505 | $ 744,963 | $ 786,430 | $ 810,591 | $ 825,293 |
| Available-for-sale securities, amortized cost | $ 810,959 | $ 845,712 | $ 880,890 | $ 918,936 | $ 944,987 |
| Loans, net of deferred fees | $1,004,066 | $ 964,822 | $ 972,093 | $ 966,167 | $ 951,279 |
| Allowance for credit losses[1] | $ (7,871) | $ (8,200) | $ (8,497) | $ (9,382) | $ (9,383) |
| Total assets | $1,868,540 | $ 1,878,675 | $ 1,913,481 | $ 1,942,289 | $ 1,941,415 |
| Total deposits | $ 1,674,673 | $ 1,657,587 | $ 1,776,987 | $ 1,798,628 | $1,833,041 |
| Net interest income, on a fully taxable-equivalent basis | $ 10,223 | $ 12,298 | $ 12,456 | $ 12,943 | $ 12,726 |
| Net interest margin | 2.22% | 2.64% | 2.67% | 2.69% | 2.61% |
| Efficiency | 69.17% | 58.04% | 64.05% | 60.40% | 62.15% |
| **Asset Quality Data and Ratios:** | | | | | |
| Total nonperforming assets | $ 3,109 | $ 803 | $ 873 | $ 705 | $ 711 |
| Nonperforming assets to total assets | 0.17% | 0.04% | 0.05% | 0.04% | 0.04% |
| Allowance for credit losses to total loans[1] | 0.78% | 0.85% | 0.87% | 0.97% | 0.99% |
| Net charge-offs (recoveries) to average loans (annualized) | 0.00% | 0.00% | 0.00% | (0.01%) | (0.01%) |

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

## Third Quarter Highlights

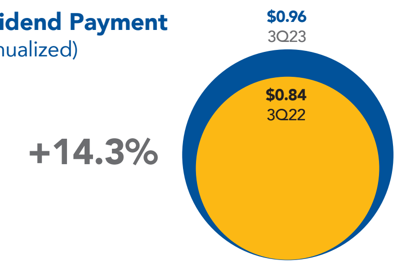
*Dollars in thousands, except per share data*

### Net Income and Adjusted Net Income, Nine Months Ended



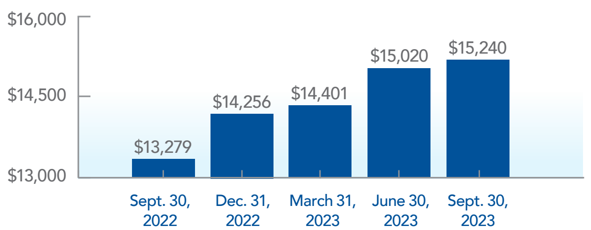

### Loan Growth *(dollars in millions)*


### Dividend Payment
(Annualized)




### Shares Repurchased


### Interest and Fees on Loans




# Q3 Shareholder Report

Third Quarter 2023

FIRST FARMERS
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## Dear Fellow Shareholders,

We reported growth in loans and deposits for the third quarter of 2023; however, net income was down from the prior year due to the sharp rise in interest rates and increased competition for deposits. We remained focused on protecting our core deposit base during the quarter as part of our strategy to maintain an optimal balance sheet and strengthen our customer base.

**Third Quarter Results**
The substantial increase in interest rates since last year drove the sharp increase in interest expense, lower net interest margin and decline in net income compared with last year. Net income for the third quarter was down 30.5% to $3.3 million compared with $4.8 million in the third quarter of last year.

We reported a 14.7% increase in interest income in the third quarter compared with the third quarter of last year due primarily to growth in loan balances along with higher interest rates. This increase in interest income was more than offset by a 546.5% increase in interest expense compared with the third quarter of last year. Interest rates grew significantly from last year driven by the Federal Reserve increasing market interest rates to slow inflation. The rise in interest rates led to competition for deposits, primarily from regional banks in search of liquidity, that contributed higher interest expense for the quarter. We were successful in protecting our core deposits and grew total deposits by 4.1% on an annualized basis during the third quarter to $1.67 billion, adding $17 million in new deposits compared to the prior quarter.

Our Trust services business line continued to expand customer relationships and held $5.4 billion in administered assets at the end of the quarter. Fees generated from Trust services continue to be a major source of noninterest revenue generated for the bank growing 8.9% compared to the third quarter of last year. Our loan activity remained positive during the quarter, despite the higher interest rate environment. Our lending teams have done an exceptional job in serving our clients and gaining new customers as some banks have curtailed lending in our local market. We added $39 million in new loans for the third quarter reaching a record $1.004 billion and funded almost all of the growth with our investment portfolio cash flow. Loans were up 16.3% annualized from the second quarter and up 5.5% from the third quarter of last year.

We continue to have the financial capacity to fund new loans and have remained very selective in lending to maintain our high credit quality standards. Our credit team also continues to stress test the loan portfolio to ensure higher interest rates do not weigh on our strong credit quality. At the quarter's end, we reported a $2.3 million increase in nonperforming loans due to a single loan that was fully resolved at no loss early in the fourth quarter.

**Investing for the Future**
We continued to invest in new digital technologies to streamline our operations and improve the delivery of services to our customers. The successful rollout of a new loan origination system was completed during the third quarter. This system will offer a better overall experience to our loan customers alongside improved operational efficiency and management of the loan portfolio. This follows our upgraded digital banking platform that was rolled out last year and enhanced earlier this year. Our customers have readily adopted the new technology as highlighted by higher usage and satisfaction rates and improved access to their bank accounts.

New technology initiatives remain instrumental in improving operating costs. We reported the seventh consecutive quarterly decrease in noninterest expense in the third quarter due to our expense management initiatives. We expect to leverage continued investments in our digital platforms and operating technologies to improve our future operating efficiencies.

**Outlook for Fourth Quarter**
We remain positive about the future of First Farmers. Although 2023 will be viewed as a very challenging year for the banking industry due to the sharp rise in deposit interest rates, we are focused on key initiatives. We are repositioning our balance sheet to support our continued growth. We are maintaining prudent risk selection aimed at ensuring solid credit quality , and we have a disciplined pricing strategy for loans and deposits that should grow earnings as interest rates stabilize. Our favorable outlook is also underscored by the economic health of our markets in Middle Tennessee. We continue to benefit from net growth in new residents and low unemployment rates.

We increased repurchases of the Company's stock in the third quarter to the highest level since 2016, highlighting our confidence in our future. We remain focused on executing our strategic plan to build long-term shareholder value and look forward to reporting future progress.

Sincerely,

Brian K. Williams
Chairman and Chief Executive Officer