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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS

2023 RESULTS

Record Loans - Loan Growth up 6%
Book Value Per Share Increases 32% to \$29.74

COLUMBIA, Tenn. (January 29, 2024) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced unaudited financial results for the fourth quarter and year ended December 31, 2023.

“First Farmers reported record loans in 2023 with total loans surpassing \$1 billion,” stated Brian K. Williams, Chairman and Chief Executive Officer of First Farmers. “We also reported strong growth in book value per share and recorded the third-best year of earnings in our history, despite the soft economy and challenging banking environment. We believe First Farmers is positioned well to deliver continued growth in loans and earnings in 2024.”

Key highlights of First Farmers’ results for 2023 include:

- Net income was \$16.0 million in 2023, down 11.0% compared with \$18.1 million for 2022;
- Net income per share declined 9.4% to \$3.80 for 2023 compared with \$4.19 in 2022;
- Adjusted net income, which excludes special items, declined 10.4% to \$16.2 million, or \$3.84 per common share in 2023, compared with \$18.1 million, or \$4.21 per common share, in 2022. (see “Non-GAAP Financial Measures” section);
- Total interest income increased 18.6% to \$60.8 million in 2023 from \$51.2 million in 2022;
- Loans grew 5.5% to a record \$1.019 billion from 2022;
- Total interest expense increased 406.2% to \$16.4 million from \$3.2 million in 2022;
- Total non-interest expense fell 3.9% to \$38.6 million from \$40.2 million in 2022;
- Book value per share increased 31.7% to \$29.74 from \$22.59 for the fourth quarter of 2023; and
- Total stock repurchased increased to 101,186 shares, up 141.0%, from 2022.

“We are pleased with our results in 2023 even though the challenges of rapidly rising interest rates and uncertainty arising from two of the largest bank failures in U.S. history during the early part of the year created disruption in our industry,” continued Williams. “The rapid rise in interest rates and increased competition for deposits resulted in lower net interest margins with our total interest expense jumping over 400% compared with the prior year. Despite the adverse banking environment, we maintained our focus on managing First Farmers for the long-term and significantly increased the number of shares repurchased during 2023.

“We enhanced First Farmers’ potential by strengthening our balance sheet to grow future earnings, improving capital levels and building our team with key additions and organizational changes. We maintained a strong focus on expense management and reduced non-interest expenses for the eighth consecutive quarter compared to the same quarter in the prior year. Overall efficiency has benefited from our continued investments in upgrading our digital technology to streamline our operations and improve the delivery of services to our customers. With the Federal Reserve’s forecast of lower interest rates in 2024 combined with our strong regional economy, we expect improvement in our net interest margin and earnings potential compared with 2023,” Williams concluded.

Commenting on the results, Robert E. Krimmel, Chief Financial Officer of First Farmers, said, “The dramatic rise in interest rates during 2023 put pressure on our net interest margin and increased competition for deposits from other banks as they sought more liquidity. We managed through the turmoil by protecting our core deposits and improving our balance sheet structure with a reduction in municipal deposits as part of our long-term strategy to enhance future earnings.

“Our fourth quarter’s results showed solid improvements in building core deposits, continued loan growth and improved asset quality. Our net interest margin was down only one basis point from the third quarter, highlighting our ability to manage the interest rate environment, grow interest and fees on loans and the progress we made in repositioning our borrowings. We believe the combination of reduced borrowing costs and a more stable interest rate environment are positive signs for growing our net interest margin in 2024. In addition, we plan to fund future loan growth from maturities in our securities portfolio to further enhance our net interest income.

“The management of our balance sheet remains an important part of our future earnings stream. We did not have to sell securities during 2023 to provide liquidity to fund loan growth due to the structure of our investment portfolio which has returned \$30 million per quarter on average and will do so for the next two years. During mid-December, we made the decision to take advantage of the lower marginal borrowing costs through the Federal Reserve’s Bank Term Funding Program (BTFP) compared with FHLB borrowings and brokered deposits. This accounted for a \$104 million shift in our borrowings since last year which is expected to save First Farmers \$1 million in future interest expense in 2024,” concluded Krimmel.

Fourth Quarter 2023 Results of Operations

Net income decreased to \$3.7 million in the fourth quarter of 2023, down \$1.4 million, or 27.3% from the year-earlier quarter. Net income per share declined 25.1% to \$0.88 for the fourth quarter of 2023 compared with \$1.17 in the fourth quarter of 2022. The decrease in earnings was due primarily to a decline in net interest income. Adjusted net income, which excludes special items, declined 33.4% to \$3.4 million, down \$1.7 million from the fourth quarter of 2022. The decline in net interest income was driven by elevated deposit costs up \$3.9 million offset in part by an increase in interest and fees on loans of \$2.1 million supported by growth in net loan balances of \$53 million compared to the fourth quarter of 2022.

Non-interest income increased \$190,000 and was driven by a gain on redemption of bank owned life insurance of \$331,000, offset by a decrease of \$206,000 in service fees on deposit accounts. Non-interest expense was down by \$243,000 from the year-earlier quarter due to lower salaries and employee benefits expense of \$360,000 offset by a \$90,000 increase in FDIC insurance premium expense compared to the fourth quarter of 2022.

Net income for the fourth quarter of 2023 was up from the sequential third quarter by \$321,000, or 9.6%. The improvement in earnings was due to an increase in provision credit for credit losses of \$230,000 and growth in non-interest income of \$188,000, offset by an increase in non-interest expense of \$190,000. Net interest income returned to a growth trend of \$40,000 compared to the sequential quarter as the net interest margin declined only one basis point. The improvement in asset quality allowed for the release of additional provision for credit losses, and non-interest income benefited from the redemption of bank owned life insurance. The positive momentum in revenue growth improved efficiency for the quarter to 62.84%.

For the fourth quarter of 2023, outstanding loan balances increased \$15 million, or 1.5%, from the sequential quarter to \$1.019 billion and increased \$53 million, or 5.5%, from the fourth quarter of 2022. Total deposits decreased \$56 million, or 3.4%, from the sequential third quarter to \$1.619 billion, and decreased \$180 million, or 10.0%, from the year-earlier quarter. The decline in total deposits compared to the sequential quarter was related to a reduction in municipal deposits of \$43 million and in brokered deposits of \$18 million offset in part by core deposit growth of \$5 million. During mid-December of 2023, the Federal Reserve's bank term funding program was utilized to shift marginal funding balances of \$104 million to the program from FHLB borrowings and brokered deposits to save over 50 basis points in funding costs. The reduction in total deposits compared to the fourth quarter of 2022 was driven by decreases of \$191 million in municipal deposits supporting the strategic decision to reduce the balances along with a planned reduction in pledged securities.

Total shareholders' equity increased \$28 million due to improvement in the unrealized loss adjustment to the available-for-sale securities portfolio that totaled \$23 million, net of tax, for the fourth quarter 2023. Tangible book value per share improved 25.9% for the fourth quarter of 2023 compared to the sequential quarter and 31.7% compared to the year-earlier quarter. The improvement in the value of the available-for-sale securities portfolio was driven by a decline in market interest rates. Total unrealized losses related to the available-for-sale investment portfolio decreased to \$83 million compared to unrealized losses of \$114 million for the third quarter of 2023 and unrealized losses of \$108 million for the same period in 2022. 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 available to common shareholders was \$16.0 million for 2023, down 11.1% compared with \$18.1 million in 2022. Net income per share declined 9.4% to \$3.80 for 2023 compared with \$4.19 in 2022. The decline in earnings was driven by decreases in net interest income of \$3.6 million and non-interest income of \$947,000, offset in part by a reduction in non-interest expense of \$1.6 million and an increase in the provision credit for credit losses of \$170,000 compared to 2022.

The reduction in net interest income was driven by elevated deposit costs which were up 407.7% to \$11.5 million, other borrowings expense which was up \$1.6 million, and interest on investment securities which declined \$914,000, offset in part by a 26.2% increase in interest and fees on loans of \$10.2 million supported by loan growth of \$53 million compared to 2022. The decline in non-interest income was driven by lower revenue from mortgage banking activities which was down \$487,000 and service fees on deposit accounts which declined \$485,000, loss on equity securities of \$408,000, and loss on sale of available-for-sale securities of \$312,000, offset in part by increases in gain on redemption of bank owned life insurance of \$331,000, other non-interest income of \$283,000 and trust services fee income of \$171,000 compared to 2022. The decrease in non-interest expense was due to lower salaries and employee benefits of \$1.5 million compared to 2022.

Asset Quality

Nonperforming assets declined to \$1.4 million, or 0.08% of total assets, down from \$3.1 million, or 0.17% of total assets, from the sequential quarter of 2023 and up from \$705,000, or 0.04% of total assets,

from the fourth quarter of 2022. The reduction in nonperforming assets during the fourth quarter of 2023 was related to the resolution of a single \$2.3 million commercial real estate loan at no loss. Net recoveries to average loans were 0.00% for the fourth quarter of 2023 compared with net recoveries of 0.00% for the sequential quarter and net recoveries of 0.01% for the fourth quarter of 2022. A provision credit of \$230,000 was recorded to the allowance for credit losses during the fourth quarter of 2023. The allowance for credit losses represented 0.75% of total loans outstanding for the fourth quarter of 2023 compared with 0.78% for the sequential quarter and 0.97% for the fourth quarter of 2022. The allowance for credit losses for unfunded commitments declined to \$895,000, or 0.28% of total unfunded commitments, for the fourth quarter of 2023 compared with 0.30% for the sequential quarter. The allowance for credit losses for held-to-maturity (“HTM”) securities represented 0.06% of total HTM securities for the fourth quarter of 2023 compared with 0.06% for the sequential quarter.

Capital Management Initiatives

During the fourth quarter of 2023, First Farmers repurchased 351 shares of the Company’s common stock in the open market at an average price of \$25.07 per share with prices ranging from \$24.73 to \$25.78 per share in accordance with the Company’s stock repurchase program. The Company reduced stock repurchases during the fourth quarter of 2023 to preserve capital. In response to improving capital levels as of year-end 2023, First Farmers’ Board of Directors reauthorized the stock repurchase program of up to 200,000 shares through December 2024.

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, 2023, First Farmers reported total assets of approximately \$1.9 billion, total shareholders’ equity of approximately \$124 million, and administered trust assets of \$5.9 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 losses, gain on sale of premises and equipment, gain on redemption of bank-owned life insurance, 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,	
	2023	2022	2023	2023	2022
Total non-interest income	\$ 3,685	\$ 3,495	\$ 3,497	\$ 13,200	\$ 14,147
Loss on sale of securities	-	5	-	317	5
Loss (gain) on equity securities	31	-	-	383	(25)
Gain on sale of premises and equipment	(1)	-	(3)	(8)	(91)
Gain on redemption of bank-owned life insurance	(331)	-	-	(331)	-
Adjusted non-interest income	<u>\$ 3,384</u>	<u>\$ 3,500</u>	<u>\$ 3,494</u>	<u>\$ 13,561</u>	<u>\$ 14,036</u>
 Total non-interest expense	 \$ 9,669	 \$ 9,912	 \$ 9,487	 \$ 38,578	 \$ 40,168
One-time digital conversion fees	-	-	-	-	(207)
Adjusted non-interest expense	<u>\$ 9,669</u>	<u>\$ 9,912</u>	<u>\$ 9,487</u>	<u>\$ 38,578</u>	<u>\$ 39,961</u>
 Net income as reported	 \$ 3,659	 \$ 5,027	 \$ 3,338	 \$ 16,049	 \$ 18,050
Total adjustments, net of tax ¹	(309)	4	(2)	180	71
Adjusted net income	<u>\$ 3,350</u>	<u>\$ 5,031</u>	<u>\$ 3,336</u>	<u>\$ 16,229</u>	<u>\$ 18,121</u>
 Basic earnings per share	 \$ 0.88	 \$ 1.17	 \$ 0.79	 \$ 3.80	 \$ 4.19
Total adjustments, net of tax ¹	(0.07)	-	-	0.04	0.02
Adjusted basic earnings per share	<u>\$ 0.81</u>	<u>\$ 1.17</u>	<u>\$ 0.79</u>	<u>\$ 3.84</u>	<u>\$ 4.21</u>

(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

		(unaudited) December 31, 2023	December 31, 2022 ⁽¹⁾
		<i>(dollars in thousands, except per share data)</i>	
ASSETS	Cash and due from banks	\$ 22,654	\$ 27,193
	Interest-bearing deposits	2,689	1,754
	Federal funds sold	117	57
	Total cash and cash equivalents	<u>25,460</u>	<u>29,004</u>
	Securities:		
	Available-for-sale	692,763	810,591
	Held-to-maturity (fair market value \$14,394 and \$14,162, net of allowance for credit losses of \$9 and \$0 for the periods presented)	15,038	15,087
	Equity securities	2,123	2,505
	Loans held-for-sale	470	-
	Loans, net of deferred fees	1,018,866	966,167
	Allowance for credit losses	<u>(7,666)</u>	<u>(9,382)</u>
	Net loans	1,011,200	956,785
	Bank premises and equipment, net	30,208	32,140
	Bank-owned life insurance	34,602	35,829
	Goodwill	9,018	9,018
	Deferred tax asset	24,862	30,511
	Other assets	<u>25,859</u>	<u>20,819</u>
	TOTAL ASSETS	<u><u>\$ 1,871,603</u></u>	<u><u>\$ 1,942,289</u></u>
LIABILITIES	Deposits:		
	Noninterest-bearing	\$ 463,858	\$ 534,474
	Interest-bearing	<u>1,154,706</u>	<u>1,264,154</u>
	Total deposits	1,618,564	1,798,628
	Accounts payable and accrued liabilities	24,798	21,996
	Federal Reserve Bank BTFP borrowings	104,000	-
	Federal Home Loan Bank borrowings	<u>-</u>	<u>25,000</u>
	TOTAL LIABILITIES	<u>1,747,362</u>	<u>1,845,624</u>
SHAREHOLDERS' EQUITY	Common stock - \$10 par value per share, 8,000,000 shares authorized; 4,174,142 and 4,275,328 shares issued and outstanding as of the periods presented	41,741	42,753
	Retained earnings	143,249	132,905
	Accumulated other comprehensive loss	<u>(60,844)</u>	<u>(79,088)</u>
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	<u>124,146</u>	<u>96,570</u>
	Noncontrolling interest - preferred stock of subsidiary	<u>95</u>	<u>95</u>
	TOTAL SHAREHOLDERS' EQUITY	<u>124,241</u>	<u>96,665</u>
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u><u>\$ 1,871,603</u></u>	<u><u>\$ 1,942,289</u></u>

⁽¹⁾ Derived from audited financial statements as of December 31, 2022.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(unaudited)

		Three Months Ended December 31,		Twelve Months Ended December 31,	
		2023	2022	2023	2022
<i>(dollars in thousands, except per share data)</i>					
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	\$ 13,354	\$ 11,250	\$ 49,180	\$ 38,962
	Income on investment securities				
	Taxable interest	2,222	2,466	9,329	10,004
	Exempt from federal income tax	433	500	1,786	2,025
	Interest from federal funds sold and other	82	40	457	232
	Total interest income	16,091	14,256	60,752	51,223
INTEREST EXPENSE	Interest on deposits	5,054	1,142	14,362	2,829
	Interest on other borrowings	994	410	2,035	410
	Total interest expense	6,048	1,552	16,397	3,239
	Net interest income	10,043	12,704	44,355	47,984
	Provision credit for credit losses	(230)	-	(490)	(320)
	Net interest income after provision	10,273	12,704	44,845	48,304
NON-INTEREST INCOME	Mortgage banking activities	26	56	127	614
	Trust services fee income	1,064	1,054	4,331	4,160
	Service fees on deposit accounts	1,781	1,987	7,170	7,655
	Investment services fee income	87	73	366	406
	Earnings on bank-owned life insurance	156	119	558	475
	Loss on sale of available-for-sale securities	-	(5)	(317)	(5)
	Gain on sale of premises and equipment	1	-	8	91
	(Loss) gain on equity securities	(31)	-	(383)	25
	Gain on redemption of bank-owned life insurance	331	-	331	-
	Other non-interest income	270	211	1,009	726
	Total non-interest income	3,685	3,495	13,200	14,147
NON-INTEREST EXPENSE	Salaries and employee benefits	5,336	5,696	21,581	23,115
	Net occupancy expense	524	486	2,171	2,202
	Depreciation expense	441	421	1,670	1,786
	Data processing expense	531	525	2,066	2,528
	Software support and other computer expense	1,119	1,029	4,275	3,821
	Legal and professional fees	231	284	874	1,007
	Audits and exams expense	181	211	706	730
	Advertising and promotions	252	277	1,001	1,074
	FDIC insurance premium expense	239	149	920	677
	Other non-interest expense	815	834	3,314	3,228
	Total non-interest expense	9,669	9,912	38,578	40,168
	Income before provision for income taxes	4,289	6,287	19,467	22,283
	Provision for income taxes	622	1,252	3,402	4,217
	Net income	3,667	5,035	16,065	18,066
	Noncontrolling interest - dividends on preferred stock subsidiary	8	8	16	16
	Net income available to common shareholders	\$ 3,659	\$ 5,027	\$ 16,049	\$ 18,050
	Weighted average shares outstanding	4,174,283	4,290,886	4,228,232	4,305,557
	Earnings per share	\$ 0.88	\$ 1.17	\$ 3.80	\$ 4.19

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

	For the Three Months Ended				
	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023	December 31, 2022
<i>(dollars in thousands, except per share data)</i>					
Results of Operations:					
Interest income	\$ 16,091	\$ 15,240	\$ 15,020	\$ 14,401	\$ 14,256
Interest expense	6,048	5,237	2,923	2,189	1,552
Net interest income	10,043	10,003	12,097	12,212	12,704
Provision credit for credit losses	(230)	-	(260)	-	-
Non-interest income	3,685	3,497	3,262	2,754	3,495
Non-interest expense and non-controlling interest – preferred stock of subsidiary	9,677	9,487	9,369	10,059	9,920
Income before income taxes	4,281	4,013	6,250	4,907	6,279
Income taxes	622	675	1,211	894	1,252
Net income for common shareholders	<u>\$ 3,659</u>	<u>\$ 3,338</u>	<u>\$ 5,039</u>	<u>\$ 4,013</u>	<u>\$ 5,027</u>
Per Share Data:					
Basic earnings per share	\$ 0.88	\$ 0.79	\$ 1.19	\$ 0.94	\$ 1.17
Book value per share	\$ 29.74	\$ 23.61	\$ 25.54	\$ 25.72	\$ 22.59
Weighted average shares outstanding per quarter	4,174,283	4,206,805	4,244,359	4,273,571	4,290,886
Financial Condition Data and Ratios:					
Total securities	\$ 709,924	\$ 713,707	\$ 762,175	\$ 803,652	\$ 828,183
Available-for-sale securities, fair market value	\$ 692,763	\$ 696,505	\$ 744,963	\$ 786,430	\$ 810,591
Available-for-sale securities, amortized cost	\$ 776,078	\$ 810,959	\$ 845,712	\$ 880,890	\$ 918,936
Loans, net of deferred fees	\$ 1,018,866	\$ 1,004,066	\$ 964,822	\$ 972,093	\$ 966,167
Allowance for credit losses ⁽¹⁾	\$ (7,666)	\$ (7,871)	\$ (8,200)	\$ (8,497)	\$ (9,382)
Total assets	\$ 1,871,603	\$ 1,868,540	\$ 1,878,675	\$ 1,913,481	\$ 1,942,289
Total deposits	\$ 1,618,564	\$ 1,674,673	\$ 1,657,587	\$ 1,776,987	\$ 1,798,628
Net interest income, on a fully taxable-equivalent basis	\$ 10,268	\$ 10,223	\$ 12,298	\$ 12,456	\$ 12,943
Net interest margin	2.21%	2.22%	2.64%	2.67%	2.69%
Efficiency	62.84%	69.17%	58.04%	64.05%	60.40%
Asset Quality Data and Ratios:					
Total nonperforming assets	\$ 1,407	\$ 3,109	\$ 803	\$ 873	\$ 705
Nonperforming assets to total assets	0.08%	0.17%	0.04%	0.05%	0.04%
Allowance for credit losses to total loans ⁽¹⁾	0.75%	0.78%	0.85%	0.87%	0.97%
Net charge-offs (recoveries) to average loans (annualized)	0.00%	0.00%	0.00%	0.00%	(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.

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