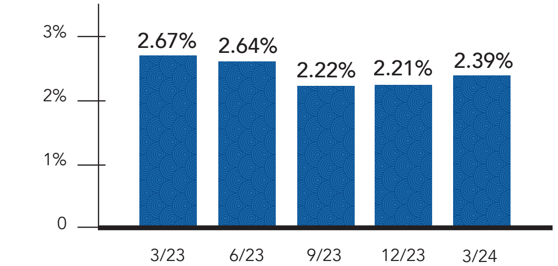
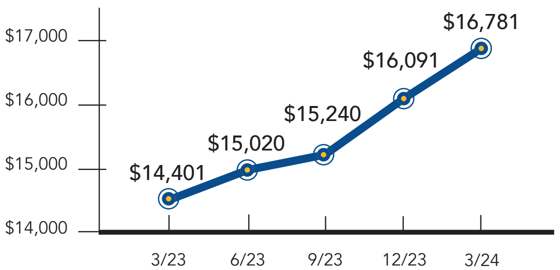
First Quarter Highlights

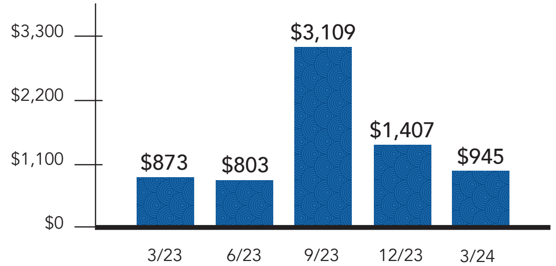
Net interest margin



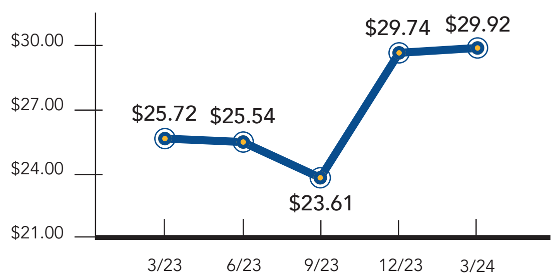
Interest and fees on loans *(dollars in thousands)*



Non-performing assets *(dollars in thousands)*



Book value per share



FIRST FARMERS

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1

FIRST QUARTER REPORT 2024

DEAR FELLOW SHAREHOLDERS

We continued to focus on strengthening First Farmers' balance sheet in the first quarter in light of the persistence of higher interest rates and the opportunity to enhance future earnings. The repositioning of our balance sheet contributed to growth in interest income, outpacing the growth in interest expense during the first quarter which resulted in an improvement in net interest margin compared with the fourth quarter. We also reported that non-interest income grew, while non-interest expenses were down for the ninth consecutive quarter-over-quarter comparison. We expect these trends to continue for the remainder of 2024 and to result in earnings growth in the second half of this year.

First Quarter Results

First quarter's earnings were down compared with the first quarter of last year reflecting the surge in interest expense driven by rising interest rates and strong deposit competition during the last half of 2023. Interest expense was up $4.0 million compared with last year's first quarter, a 181.8% increase.

The repositioning of our balance sheet contributed to growth in our net interest margin during the first quarter representing the first increase in over four quarters. While the direction of market interest rates remains erratic, we believe we are at or near the end of the Federal Reserve's tightening cycle, which is expected to be favorable to our net interest margin and earnings over the remainder of 2024.

Net income was $3.4 million, or $0.82 per share, in the first quarter of 2024 compared with $4.0 million, or $0.94 per share, in the first quarter of last year. The decline was due primarily to higher interest expense, offset slightly by a $2.4 million increase in interest and fees on loans, a 26.5% increase in non-interest income which rose $729,000 and a $206,000 decrease in non-interest expenses.

Loan demand was dampened in the first quarter as the continuation of high interest rates impacted the borrowing decisions of consumers and businesses. We expect loan demand to improve in the second half of this year due to the continuation of the strong economy in our markets. The earning assets mix of First Farmers is poised to deliver higher interest income levels throughout the year as maturing investments are used to fund loans at higher market rates. Our investment portfolio is generating approximately $30 million per quarter in liquidity to support new loan growth or reduce higher marginal funding sources.

We lowered the levels of municipal and brokered deposits on our balance sheet during the first quarter compared with the first quarter of last year to reduce interest expense and focus on core deposits. We also took advantage of the Federal Reserve's Bank Term Funding Program to lower our marginal funding costs. This shift is projected to save First Farmers approximately $1 million in future interest expense in 2024.

Shareholders Elect New Director

Shareholders elected nine incumbent Directors to serve a one-year term at our annual shareholders meeting held on April 16, 2024, and elected Dr. Martin M. Chaney as a new member of First Farmers' Board of Directors. Dr. Chaney is the CEO of Maury Regional Health where he has cast a strong strategic vision. He adds an additional depth of experience to our Board of Directors, and we look forward to his counsel and expertise in shaping the strategic direction of our company.

Focus on Growing Earnings

The improved balance sheet position of First Farmers points to growth in earnings as we move through the remainder of 2024, and this earnings acceleration will be supported by disciplined management of our asset quality and reinforcement of our strong capital position. Our investments in technology and process innovation will continue to enhance delivery to our customers and operational efficiency. We expect to report improvements in our efficiency ratio due to our lower cost structure and growing revenue streams from loans and non-interest income.

Since last year, we have enhanced First Farmers' posture and flexibility to respond to economic and industry uncertainty. We have a strong team of bankers in place to lead our strategic initiatives, and they are committed to delivering high quality service with a personal touch that is the hallmark of a great community bank.

We value your investment in First Farmers and look forward to reporting on our continued progress during 2024.

Sincerely,

Brian K. Williams
Chairman and Chief Executive Officer

First Quarter 2024

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 and losses, gain on redemption of bank-owned life insurance, gain on sale of premises and equipment, 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		
	March 31, 2024	March 31, 2023	December 31, 2023
Total non-interest income	$ 3,483	$ 2,754	$ 3,685
Loss on sale of securities	–	183	–
(Gain) loss on equity securities	(91)	351	31
Gain on redemption of bank-owned life insurance	–	–	(331)
Gain on sale of premises and equipment	–	(4)	(1)
Adjusted non-interest income	$ 3,392	$ 3,284	$ 3,384
Total non-interest expense	$ 9,853	$ 10,059	$ 9,669
Net income as reported	$ 3,419	$ 4,013	$ 3,659
Total adjustments, net of tax[1]	(67)	392	(309)
Adjusted net income	$ 3,352	$ 4,405	$ 3,350
Basic earnings per share	$ 0.82	$ 0.94	$ 0.88
Total adjustments, net of tax[1]	(0.02)	0.09	(0.08)
Adjusted basic earnings per share	$ 0.80	$ 1.03	$ 0.80

(1) The effective tax rate of 26.1% is used to determine net of tax amounts.

First Farmers and Merchants Corporation and Subsidiaries
Consolidated Financial Highlights

(unaudited)

(dollars in thousands, except per share data)	For the Three Months Ended March 31, 2024	December 31, 2023	September 30, 2023	June 30, 2023	March 31, 2023
Results of Operations:					
Interest income	$ 16,781	$ 16,091	$ 15,240	$ 15,020	$ 14,401
Interest expense	6,169	6,048	5,237	2,923	2,189
Net interest income	10,612	10,043	10,003	12,097	12,212
Provision (credit) for credit losses	65	(230)	–	(260)	–
Non-interest income	3,483	3,685	3,497	3,262	2,754
Non-interest expense	9,861	9,677	9,487	9,369	10,059
Income before income taxes	4,169	4,281	4,013	6,250	4,907
Income taxes	758	622	675	1,211	894
Net income for common shareholders	$ 3,411	$ 3,659	$ 3,338	$ 5,039	$ 4,013
Per Share Data:					
Basic earnings per share	$ 0.82	$ 0.88	$ 0.79	$ 1.19	$ 0.94
Book value per share	$ 29.92	$ 29.74	$ 23.61	$ 25.54	$ 25.72
Weighted average shares outstanding per quarter	4,166,834	4,174,283	4,206,805	4,244,359	4,273,571
Financial Condition Data:					
Total securities	$ 686,795	$ 709,924	$ 713,707	$ 762,175	$ 803,652
Available-for-sale securities, fair market value	$ 669,552	$ 692,763	$ 696,505	$ 744,963	$ 786,430
Available-for-sale securities, amortized cost	$ 755,162	$ 776,078	$ 810,959	$ 845,712	$ 880,890
Loans, net of deferred fees	$ 1,017,677	$ 1,018,866	$1,004,066	$ 964,822	$ 972,093
Allowance for credit losses	$ (7,803)	$ (7,666)	$ (7,871)	$ (8,200)	$ (8,497)
Total assets	$ 1,884,126	$ 1,871,603	$1,868,540	$ 1,878,675	$1,913,481
Total deposits	$ 1,567,083	$ 1,618,564	$ 1,674,673	$ 1,657,587	$1,776,987
Net interest income on a fully taxable-equivalent basis	$ 10,834	$ 10,268	$ 10,223	$ 12,298	$ 12,456
Net interest margin	2.39%	2.21%	2.22%	2.64%	2.67%
Efficiency	69.72%	62.84%	69.17%	58.04%	64.05%
Asset Quality Data and Ratios:					
Total non-performing assets	$ 945	$ 1,407	$ 3,109	$ 803	$ 873
Non-performing assets to total assets	0.05%	0.08%	0.17%	0.04%	0.05%
Allowance for credit losses to total loans	0.77%	0.75%	0.78%	0.85%	0.87%
Net charge-offs to average loans (annualized)	0.00%	0.00%	0.00%	0.00%	0.00%