



FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

2025 FINANCIAL REPORTS

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES

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Independent Auditor's Report

To the Board of Directors
First Farmers and Merchants Corporation

Opinion

We have audited the consolidated financial statements of First Farmers and Merchants Corporation (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2025 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2025 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

To the Board of Directors
First Farmers and Merchants Corporation

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the summary balance sheet and statement of income but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



March 3, 2026

Independent Auditor's Report

To the Board of Directors
First Farmers and Merchants Corporation

Opinion

We have audited the consolidated financial statements of First Farmers and Merchants Corporation (the "Corporation"), which comprise the consolidated balance sheet as of December 31, 2024 and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2024 and the results of its operations and its cash flows for the each of the years in the two-year period then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Corporation's internal control over financial reporting as of December 31, 2024 based on criteria established in *Internal Control - Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), relevant to internal reporting objectives for the express purpose of meeting the regulatory requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA) (the "COSO criteria"), and our report dated March 4, 2025 expressed an unmodified opinion.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

To the Board of Directors
First Farmers and Merchants Corporation

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the summary balance sheet and statement of income but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements do not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements or whether the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



March 4, 2025

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except per share data)

		December 31,	December 31,
		2025	2024
ASSETS	Cash and due from banks	\$ 22,903	\$ 26,034
	Interest-bearing deposits	79,477	20,493
	Federal funds sold	80	86
	Total cash and cash equivalents	<u>102,460</u>	<u>46,613</u>
	Securities available-for-sale	556,275	588,523
	Securities held-to-maturity, net (fair market value \$23,383 and \$23,382)	23,678	24,532
	Equity securities	2,314	2,178
	Loans held-for-sale	887	-
	Loans, net of deferred fees	1,005,688	998,818
	Allowance for credit losses	(8,037)	(7,952)
	Net loans	<u>997,651</u>	<u>990,866</u>
	Bank premises and equipment, net	28,803	29,094
	Bank-owned life insurance	36,129	36,672
	Goodwill	9,018	9,018
	Net deferred tax asset	14,691	22,795
	Other assets	16,067	15,020
	TOTAL ASSETS	<u>\$ 1,787,973</u>	<u>\$ 1,765,311</u>
LIABILITIES	Deposits:		
	Non-interest-bearing	\$ 484,552	\$ 482,398
	Interest-bearing	1,108,707	1,121,223
	Total deposits	<u>1,593,259</u>	<u>1,603,621</u>
	Accounts payable and other liabilities	23,091	24,017
	TOTAL LIABILITIES	<u>1,616,350</u>	<u>1,627,638</u>
SHAREHOLDERS' EQUITY	Commitments and contingencies (Note 10)		
	Common stock - \$10 par value per share, 8,000,000 shares authorized; 3,972,865 and 4,039,445 shares issued and outstanding as of the periods presented	39,729	40,394
	Additional paid-in capital	156	85
	Retained earnings	164,267	152,268
	Accumulated other comprehensive loss	(32,624)	(55,169)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	171,528	137,578
	Non-controlling interest – preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	<u>171,623</u>	<u>137,673</u>
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	<u>\$ 1,787,973</u>	<u>\$ 1,765,311</u>

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

		Years ended December 31,		
		<u>2025</u>	<u>2024</u>	<u>2023</u>
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	\$ 55,996	\$ 56,417	\$ 49,180
	Income on investment securities			
	Taxable interest	8,601	8,401	9,329
	Exempt from federal income tax	1,682	1,762	1,786
	Interest from federal funds sold and other	1,530	1,551	457
	Total interest income	<u>67,809</u>	<u>68,131</u>	<u>60,752</u>
INTEREST EXPENSE	Interest on deposits	14,100	17,037	14,362
	Interest on other borrowings	107	6,033	2,035
	Total interest expense	<u>14,207</u>	<u>23,070</u>	<u>16,397</u>
	Net interest income	53,602	45,061	44,355
	Provision for credit losses	325	(160)	(490)
	Net interest income after provision	<u>53,277</u>	<u>45,221</u>	<u>44,845</u>
NON-INTEREST INCOME	Mortgage banking activities	186	167	127
	Wealth management and trust service fees	4,794	4,707	4,331
	Service fees on deposit accounts	6,382	6,881	7,170
	Investment services fee income	487	393	366
	Earnings on bank-owned life insurance	677	670	558
	Gain on redemption of bank-owned life insurance	288	2	331
	Loss on sales of available-for-sale securities	-	(26)	(317)
	Gain (loss) on equity securities	136	55	(383)
	Gain on disposal of premises and equipment	225	149	8
	Other non-interest income	786	831	1,009
	Total non-interest income	<u>13,961</u>	<u>13,829</u>	<u>13,200</u>
NON-INTEREST EXPENSE	Salaries and employee benefits	26,192	22,312	21,581
	Net occupancy expense	2,696	2,318	2,571
	Depreciation expense	1,652	1,630	1,670
	Core provider expense	2,515	2,308	2,066
	Software support and other computer expense	4,939	4,598	4,275
	Legal and professional fees	910	862	874
	Audits and exams expense	775	706	706
	Advertising and promotions	891	946	1,001
	FDIC insurance premium expense	804	899	920
	Other non-interest expense	3,076	3,003	2,914
	Total non-interest expenses	<u>44,450</u>	<u>39,582</u>	<u>38,578</u>
	Income before provision for income taxes	22,788	19,468	19,467
	Provision for income taxes	4,151	3,417	3,402
	Net income	<u>18,637</u>	<u>16,051</u>	<u>16,065</u>
	Non-controlling interest – dividends on preferred stock of subsidiary	16	16	16
Net income available to common shareholders	<u>\$ 18,621</u>	<u>\$ 16,035</u>	<u>\$ 16,049</u>	
	Weighted average shares outstanding - basic	4,008,694	4,109,510	4,228,232
	Weighted average shares outstanding - diluted	4,016,039	4,121,831	4,228,232
	Earnings per share	<u>\$ 4.65</u>	<u>\$ 3.90</u>	<u>\$ 3.80</u>
	Diluted earnings per share	<u>\$ 4.64</u>	<u>\$ 3.89</u>	<u>\$ 3.80</u>

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Dollars in thousands)

	Years ended December 31,		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Net income	\$ 18,637	\$ 16,051	\$ 16,065
Other comprehensive income			
Unrealized holding gains on available-for-sale securities, net of taxes of \$7,970, \$2,023 and \$6,497, respectively	22,636	5,809	18,215
Reclassification adjustment for realized losses included in net income, net of taxes of \$0, \$7 and \$83, respectively	-	19	234
Adjustment for amortization of net actuarial gains, net of taxes of (\$30), (\$39) and (\$44), respectively	(87)	(110)	(123)
Adjustment for actuarial (losses) incurred in current year, net of taxes of (\$2), (\$15) and (\$28), respectively	(4)	(43)	(78)
Adjustment for amortization of prior year service costs, net of taxes of \$0, \$0 and (\$1), respectively	<u>-</u>	<u>-</u>	<u>(4)</u>
Other comprehensive income	<u>22,545</u>	<u>5,675</u>	<u>18,244</u>
Total comprehensive income	<u>\$ 41,182</u>	<u>\$ 21,726</u>	<u>\$ 34,309</u>

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Dollars in thousands, except per share data)

	Shares of	Non-controlling interest - Preferred stock of subsidiary	Common stock	Additional paid-in capital	Retained earnings	Accumulated other comprehensive income (loss)	Total
Balance at January 1, 2023	4,275,328	\$ 95	\$ 42,753	\$ -	\$ 132,905	\$ (79,088)	\$ 96,665
Net income					16,065		16,065
Implementation of ASU 2016-13					215		215
Other comprehensive income						18,244	18,244
Repurchase under stock repurchase plan	(101,186)		(1,012)		(1,923)		(2,935)
Cash dividends declared, \$0.95 per share					(3,997)		(3,997)
Preferred dividends paid					(16)		(16)
Balance at December 31, 2023	4,174,142	\$ 95	\$ 41,741	\$ -	\$ 143,249	\$ (60,844)	\$ 124,241
Net income					16,051		16,051
Other comprehensive income						5,675	5,675
Repurchase under stock repurchase plan	(135,040)		(1,350)		(2,847)		(4,197)
Issuance of common stock pursuant to stock-based compensation awards	343		3	(3)			-
Stock-based compensation				88			88
Cash dividends declared, \$1.02 per share					(4,169)		(4,169)
Preferred dividends paid					(16)		(16)
Balance at December 31, 2024	4,039,445	\$ 95	\$ 40,394	\$ 85	\$ 152,268	\$ (55,169)	\$ 137,673
Net income					18,637		18,637
Other comprehensive income						22,545	22,545
Repurchase under stock repurchase plan	(71,578)		(715)		(2,151)		(2,866)
Issuance of common stock pursuant to stock-based compensation awards	4,998		50	(50)			-
Stock-based compensation				121			121
Cash dividends declared, \$1.12 per share					(4,471)		(4,471)
Preferred dividends paid					(16)		(16)
Balance at December 31, 2025	3,972,865	\$ 95	\$ 39,729	\$ 156	\$ 164,267	\$ (32,624)	\$ 171,623

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

		Years ended December 31,		
		2025	2024	2023
OPERATING ACTIVITIES	Net income	\$ 18,637	\$ 16,051	\$ 16,065
	Adjustments to reconcile net income to net cash provided by operating activities			
	Provision for credit losses	325	(160)	(490)
	Depreciation of premises and equipment	1,652	1,630	1,670
	Stock-based compensation	121	88	-
	Deferred tax expense (benefit)	167	91	(489)
	Net losses on sales of securities	-	26	317
	Net change in fair value of equity securities	(136)	(55)	383
	Net gains on disposal of premises and equipment	(225)	(149)	(8)
	Gains on mortgage loans sold	(186)	(167)	(127)
	Gain on redemption of bank-owned life insurance	(288)	(2)	(331)
	Proceeds from sale of mortgage loans held-for-sale	7,571	7,179	4,843
	Funding of mortgage loans held-for-sale	(8,272)	(6,876)	(5,186)
	Amortization of investment security premiums, net of accretion of discounts	3,367	4,031	4,633
	Net increase in cash surrender value of bank-owned life insurance	(677)	(670)	(558)
	Changes in:			
	Other assets	(1,049)	6,860	(4,064)
Accounts payable and other liabilities	(728)	(571)	2,066	
Net cash provided by operating activities	<u>20,279</u>	<u>27,306</u>	<u>18,724</u>	
INVESTING ACTIVITIES	Activity related to available-for-sale securities:			
	Purchases of investment securities	(72,540)	(11,460)	(3,917)
	Proceeds from sales of securities	-	1,512	9,752
	Proceeds from maturities and calls of securities	132,086	117,988	132,111
	Activity related to held-to-maturity securities:			
	Purchases of investment securities	(1,148)	(10,285)	-
	Proceeds from maturities and calls of securities	1,943	792	-
	Net (increase) decrease in loans	(7,187)	20,828	(52,730)
	Proceeds from sale of premises and equipment	225	149	8
	Purchases of premises and equipment	(1,361)	(516)	(625)
	Purchase of bank-owned life insurance	-	(1,607)	(1,639)
	Redemption (purchase) of FHLB stock	223	3,979	(534)
	Proceeds from claims on bank-owned life insurance policies	1,508	209	3,755
Net cash provided by investing activities	<u>53,749</u>	<u>121,589</u>	<u>86,181</u>	
FINANCING ACTIVITIES	Net decrease in deposits	(10,362)	(14,943)	(180,064)
	Repayments of lease liabilities from finance leases	(527)	(507)	(456)
	Change in FHLB and other borrowings	-	-	(25,000)
	Change in Federal Reserve Bank BTFP borrowings	-	(104,000)	104,000
	Repurchase of common stock under stock repurchase plan	(2,866)	(4,197)	(2,935)
	Cash dividends paid on common stock	(4,410)	(4,079)	(3,978)
	Cash dividends paid on preferred stock of subsidiary	(16)	(16)	(16)
	Net cash used in financing activities	<u>(18,181)</u>	<u>(127,742)</u>	<u>(108,449)</u>
	Increase (decrease) in cash and cash equivalents	55,847	21,153	(3,544)
	Cash and cash equivalents at beginning of period	46,613	25,460	29,004
	Cash and cash equivalents at end of period	<u>\$ 102,460</u>	<u>\$ 46,613</u>	<u>\$ 25,460</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
(Dollars in thousands)

Supplemental disclosures of cash flow information:	Years ended December 31,		
	2025	2024	2023
Cash paid during the period for:			
Interest on deposits and borrowed funds	\$ 15,390	\$ 23,406	\$ 13,693
Income taxes	\$ 4,300	\$ 3,323	\$ 4,013
Noncash investing activities:			
Increase in fair value of securities			
available-for-sale, net of tax	\$ 22,636	\$ 5,828	\$ 18,449
Minimum pension liability adjustment, net of taxes	\$ 91	\$ 153	\$ 205
Common dividends declared	\$ 4,471	\$ 4,169	\$ 3,997
Assets in process transferred to prepaid assets	\$ -	\$ -	\$ 887
Loans foreclosed upon and transferred to other real estate owned	\$ 222	\$ -	\$ -
Noncash financing activities:			
Issuance of common stock pursuant to stock-based compensation awards	\$ 50	\$ 3	\$ -
Cash paid for amounts included in the measurement of lease liabilities:			
Operating cash flows related to operating leases	\$ 53	\$ 53	\$ 53
Operating cash flows related to finance leases	76	93	102

The accompanying notes are an integral part of the consolidated financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Accounting Policies

The accounting principles followed and the methods of applying those principles conform with accounting principles generally accepted in the United States (“GAAP”) and to general practices in the banking industry. The significant accounting policies applicable to First Farmers and Merchants Corporation and Subsidiaries (the “Company”) are summarized as follows.

Nature of Operations

First Farmers and Merchants Corporation’s (the “Corporation”) stock is traded on the Pink Open Market (OTCID) under ticker “FFMH”, and the Corporation has verified its profile and meets Rule 15c2-11 under the Securities and Exchange Act of 1934. The Corporation is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, First Farmers and Merchants Bank (the “Bank”). The Bank is primarily engaged in providing a full range of banking and financial services, including lending, investing of funds, obtaining deposits, trust and wealth management operations, and other financing activities to individual and corporate customers in the state of Tennessee. The Bank is subject to competition from other financial institutions. The Corporation and the Bank are subject to the regulation of certain federal and state agencies and undergo periodic examinations by those regulatory authorities.

As of December 31, 2025, the Company had 842 holders of record of its common stock and pursuant to Section 13 of the Exchange Act does not file financial reports with the Securities and Exchange Commission.

Basis of Presentation

The accompanying consolidated financial statements present the accounts of the Corporation and its wholly-owned subsidiary, the Bank. The preferred shares in Maury Tenn Properties, Inc., a subsidiary of the Bank, receive dividends, which are included in the consolidated statements of income shown as income to non-controlling interest. Intercompany accounts and transactions have been eliminated in consolidation.

Certain items in prior financial statements have been reclassified to conform to the current presentation. These reclassifications had no effect on net income or shareholders’ equity.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in conformity with GAAP requires management of the Corporation and the Bank to make estimates and assumptions that affect the reported amounts of assets and liabilities. Those estimates and assumptions also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses, the fair value of financial instruments, valuation of goodwill, valuation of deferred tax assets, the liability related to post-retirement benefits, and reserves for stop loss re-insurance and claims incurred but not reported under the self-insured employee health benefits plans.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Concentrations of Credit Risk

The Company's banking activities include granting commercial, residential, and consumer loans to customers primarily located in Tennessee and Alabama. The Company manages its portfolio and product mix in a manner to reduce economic risk. Concentrations of credit, as defined for regulatory purposes, are reviewed quarterly by management to ensure that internally established limits are not exceeded. As of December 31, 2025, our concentrations of commercial real estate loans were 157.8% of Tier 1 Capital plus the allowance for credit losses for loans while our construction loans were 54.3%. These percentages are within our internally established limits regarding concentrations of credit.

Cash and Due From Banks

Included in cash and due from banks are balances due from the Federal Reserve Bank and other banks. From time to time throughout the year, the Bank's balances due from other financial institutions exceeded Federal Deposit Insurance Corporation ("FDIC") insurance limits. The Bank had \$80,000 of federal funds sold as of December 31, 2025. Federal funds sold are essentially uncollateralized loans to other financial institutions.

Cash Equivalents

The Company considers all liquid investments with original maturities of three months or less to be cash equivalents. Cash equivalents include cash on hand, cash due from banks, and federal funds sold. Federal funds are sold for one-day periods.

Securities

Certain debt securities that management has the intent and ability to hold to maturity are classified as HTM and recorded at amortized cost. Securities not classified as HTM are classified as available-for-sale ("AFS") and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in accumulated other comprehensive income ("AOCI"), net of tax. Purchase premiums and discounts are amortized or accreted to interest income over the expected lives of the securities using the interest method with a constant effective yield. Callable debt securities held at a premium are amortized to the earliest call date instead of maturity. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities are accounted for at fair value with changes in fair value recognized in net income.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan and lease losses, any unamortized deferred fees or costs on originated loans, and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized on a level yield basis over the respective term of the loan.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Loans, (continued)

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of the contractual due date. The accrual of interest on retail and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has not missed a payment for six months, and future payments are reasonably assured.

Discounts and premiums on purchased commercial loans are amortized to income using the interest method over the remaining period to contractual maturity and adjusted for anticipated prepayments.

Allowance for Credit Losses

The Company maintains allowance for credit losses (“ACL”) on its AFS securities, HTM securities, loans, and off-balance sheet commitments, which include lines of credit, standby letters of credit, and any other commitments to extend credit that are unconditionally cancelable. The ACLs on loans, HTM securities, and off-balance sheet commitments are calculated using a current expected credit losses (“CECL”) methodology. The ACL on available-for-sale securities is provided when a credit loss is deemed to have occurred for securities which the Company does not intend to sell or is not required to sell.

Investment securities

The Company evaluates its AFS securities on a quarterly basis for indicators of credit loss. The Company assesses whether a credit loss has occurred when the fair value of a security is less than the amortized cost. Management reviews the amount of unrealized loss, the credit rating history, market trends of similar classes, time remaining to maturity, and the source of both interest and principal payments to identify securities which could potentially have a credit loss. For those available-for-sale securities that the Company intends to sell or is more likely than not required to sell, before the recovery of their amortized cost basis, the difference between fair value and amortized cost is considered a credit loss and is recognized through a provision for credit losses. For those AFS securities that the Company does not intend to sell or is not more likely than not required to sell, prior to expected recovery of amortized cost basis, the credit portion of the loss is recognized through an allowance for credit losses through a provision for credit losses while the noncredit portion is recognized in other comprehensive income, net of taxes.

The Company estimates potential losses for HTM securities using a historical loss methodology based on the type of security. The securities are segmented based on similar risk characteristics. If the Company’s internal historical information is insufficient to estimate potential losses, management may use third party or peer information. Any expected credit loss is provided through the allowance for credit loss on HTM securities and is deducted from the amortized cost basis of the security so that the balance sheet reflects the net amount the Company expects to collect.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Allowance for Credit Losses, (continued)

Loans and Off-balance sheet commitments

The ACL on loans is deducted from the amortized cost basis of a financial asset or a group of financial assets so that the balance sheet reflects the net amount the Company is to collect. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts, and deferred fees and costs. The ACL on loans is established through provisions for credit losses charged against income. Loan losses are charged against the allowance when management determines that the uncollectibility of a loan has been confirmed. Subsequent recoveries, if any, are credited to the ACL in the period received.

The ACL is measured on a collective basis for pools with similar risk characteristics for measuring expected credit losses. The segmentation is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the FDIC.

For the loan segments, management estimates the allowance by projecting probability-of-default and loss-given-default associated with the two-year period most closely aligned with the two-year forecasted national unemployment rate. The Company's reasonable and supportable forecast period of two years immediately reverts to an analysis of historical loss experience under the weighted average remaining maturity ("WARM") methodology. The reversion period is dependent on each loan segment's WARM, in which the contractual terms are adjusted for expected prepayments. Historical credit experience provides the basis for the estimation of expected credit losses, with adjustments made for differences in current loan-specific risk characteristics, such as differences in delinquency levels, industry concentration risks, and commercial loan policy exceptions.

The allowance for credit losses is measured on a collective basis when similar risk characteristics exist. Loans that are determined to have unique risk characteristics are evaluated on an individual basis by management. Individual evaluations are generally performed for loans greater than \$500,000 which have experienced significant credit deterioration. If a loan is determined to be collateral dependent or meets the criteria to apply the collateral dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate. Loans with unique risk characteristics that are not subject to collateral dependent accounting, are assessed using a discounted cash flows methodology.

In addition to the transactional reserve described above, the company also maintains a reserve that consists of qualitative measurements and assessments of the loan portfolios including levels of new loan growth, the quality of the Bank's credit review function, lending staffing experience and abilities, economic uncertainty, and potential credit risks associated with the interest rate environment.

The adequacy of the allowance for credit losses is evaluated quarterly, in which subjective inputs and assumptions are discussed in meetings with the CECL Committee and the Bank's Board of Directors. The Company's ACL methodology is intended to reflect all loan portfolio risk. This process is inherently subjective as it requires material estimates that are susceptible to significant change.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Allowance for Credit Losses, (continued)

The Company has elected to exclude accrued interest receivable from the measurement of its ACL given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest.

The Company has made a policy election to exclude accrued interest income from the amortized cost basis of available-for-sale debt securities and report accrued interest separately in other assets in the Consolidated Balance Sheets. A debt security is placed on nonaccrual status at the time we no longer expect to receive all contractual amounts due, which is generally at 90 days past due. Accrued interest for a security placed on nonaccrual is reversed against interest income. Accordingly, we do not recognize an allowance for credit loss against accrued interest receivable.

The estimate for off-balance sheet commitments is determined using the same procedures and methodologies as used for the loan portfolio supplemented by the information related to future draws and related credit loss expectations. The ACL on off-balance sheet commitments, which totaled \$665,000 and \$520,000 at December 31, 2025 and 2024, respectively, is recorded in accounts payable and other liabilities in the Consolidated Balance Sheets.

Loans Held-for-Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value. Net unrealized losses, if any, are recognized through a valuation allowance by charges to non-interest income. Gains and losses on loan sales are recorded in non-interest income.

In 2025, the Company became formally approved as a Freddie Mac Seller/Servicer and began retaining the rights to service residential mortgage loans in the secondary market. On December 18, 2025, the Company sold its first mortgage loan to Freddie Mac and retained the right to service the loan. The mortgage loans serviced for Freddie Mac are not reported as assets.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans. As of December 31, 2025, the fair value of mortgage servicing rights is \$3,000 and is reported as other assets on the balance sheet.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within non-interest income on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as mortgage servicing income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against servicing fee income.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Other Real Estate

Assets acquired through, or in lieu of, loan foreclosure are held-for-sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net income or expense from foreclosed assets.

When foreclosed properties are acquired current appraisals are obtained on the properties. Additionally, periodic updated appraisals are obtained on unsold foreclosed properties. When an updated appraisal reflects a market value below the current book value, a charge is booked to current earnings to reduce the property to its new market value less expected selling costs. Our policy for determining the frequency of periodic reviews is based upon consideration of the specific properties and the known or perceived market fluctuations in a particular market. Other real estate repossessed as of December 31, 2025 and 2024 was \$222,000 and \$0, respectively.

Premises and Equipment

Premises, equipment, and leasehold improvements are stated at cost, less accumulated depreciation and amortization. The provision for depreciation is computed principally on an accelerated method over the estimated useful life of an asset, which ranges from 15 to 39 years for buildings, from three to seven years for equipment, and the expected lease terms for leasehold improvements. Costs of major additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to operations as incurred. Gains or losses from the disposition of property are reflected in operations, and the asset accounts and related allowances for depreciation are reduced.

Right-of-use assets associated with financing leases are included in premises and equipment on the consolidated balance sheets and stated at the estimated present value of lease payments over the lease term. Disclosures about the Company's leasing activities are presented in Note 7 – Leases.

Federal Reserve and Federal Home Loan Bank Stock

Federal Reserve and Federal Home Loan Bank stock are required investments for institutions that are members of the Federal Reserve and Federal Home Loan Bank systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. As of December 31, 2025 and 2024 Federal Reserve and Federal Home Loan Bank stock totaled \$2.4 million and \$2.6 million, respectively, and is recorded in other assets on the consolidated balance sheet.

Bank-owned Life Insurance

The Bank has purchased life insurance policies on certain key officers. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized upon immediate liquidation.

Goodwill

Goodwill is evaluated annually for impairment. Quantitative and qualitative assessments are performed to determine whether the existence of events or circumstances leads to a determination that it is more-likely-than-not the fair value is less than the carrying amount, including goodwill. If, based on the evaluation, it is determined to be more-likely-than-not that the fair value is less than the carrying value, then goodwill is tested further for impairment. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the financial statements.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with FASB ASC Topic 606, Revenue from Contracts with Customers (“Topic 606”). Under Topic 606, we must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when, or as we satisfy a performance obligation.

Our primary sources of revenue are derived from financial instruments, namely loans, investment securities, and other financial instruments that are not within the scope of Topic 606. We have evaluated the nature of the Company’s contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgement involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

Leases

The Company leases certain properties and equipment under both finance and operating leases. Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company’s balance sheet.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company’s incremental borrowing rate is based on the FHLB advance rate.

Stock-Based Compensation

Compensation cost is recognized for restricted stock units granted to directors and employees based upon the fair value of the awards at the date of grant. The market price of the Corporation’s common stock at the date of grant is used. Compensation cost is recognized over the required service period, generally defined as the vesting period, reduced for estimated forfeitures.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Income Taxes

The Company files consolidated income tax returns with its subsidiaries. The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance requires two components of income tax expense which are current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability or balance sheet method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more-likely-than-not that some portion or all of a deferred tax asset will not be realized.

Tax positions are recognized if it is more-likely-than-not, based on the technical merits that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management’s judgment.

The Company recognizes interest and penalties on income taxes as a component of income tax expense. As of December 31, 2025, the Company has not accrued any interest or penalties related to uncertain tax positions.

Fair Value Measurements

Fair value of financial instruments is estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates. See Note 11 – Fair Value Measurement.

Earnings Per Share

Basic earnings per share (“EPS”) represents the income available to shareholders divided by the weighted average number of shares of the Corporation’s common stock outstanding during the period. Diluted EPS reflects the dilution that could occur if contracts to issue common stock were exercised or converted. The difference between basic and diluted weighted average common shares outstanding is attributable to restricted share unit awards. The dilutive effect of restricted share unit awards is reflected in diluted EPS by application of the treasury stock method.

The following is a summary of the basic earnings per share calculation for the periods presented:

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands, except per share data)		
Basic earnings per share calculation:			
Numerator – Net income available to common shareholders	\$ 18,621	\$ 16,035	\$ 16,049
Denominator – Weighted average common shares outstanding	4,008,694	4,109,510	4,228,232
Net income per common share available to common shareholders	<u>\$ 4.65</u>	<u>\$ 3.90</u>	<u>\$ 3.80</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Earnings Per Share, (continued)

The following is a summary of the diluted earnings per common share calculation for the periods presented:

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands, except per share data)		
Diluted earnings per share calculation:			
Numerator – Net income available to common shareholders	\$ 18,621	\$ 16,035	\$ 16,049
Denominator – Weighted average common shares outstanding	4,016,039	4,121,831	4,228,232
Net income per common share available to common shareholders	\$ 4.64	\$ 3.89	\$ 3.80

For the years ended December 31, 2025, 2024, and 2023, respectively, 7,345, 12,321, and 0 dilutive restricted share units were included in the diluted earnings per common share calculation under the treasury stock method.

Upon annual evaluation in 2025, the Company reauthorized a plan to repurchase up to 200,000 shares of its common stock. As of December 31, 2025, no shares had been repurchased under the reauthorized plan and all 200,000 shares were available for repurchase in 2026.

Other Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss), net of applicable income tax expenses or benefits. Other comprehensive income (loss) includes unrealized appreciation or depreciation on available-for-sale securities and changes in the net actuarial gain or loss of the post-retirement benefit obligation.

Segment Reporting

While the chief operating decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated, on a Company-wide basis. Discrete operating results are not received by senior management to make resource allocation or performance decisions. Accordingly, management analyzes the operations of the Company assuming one operating segment, banking and financial services. See Note 18 – Operating Segment.

Recent Accounting Pronouncements

In December of 2023, the FASB issued *ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. ASU 2023-09 requires public business entities to disclose in their income tax rate reconciliation table additional categories of information about federal, state and foreign income tax and to provide more details about the reconciling items in some categories if items meet a quantitative threshold. ASU 2023-09 also requires all entities to disclose income taxes paid, net of refunds, disaggregated by federal, state, and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative and qualitative threshold, among other things. For public business entities, the amendments in this update are effective for fiscal years beginning after December 15, 2024. The Company adopted this guidance as of December 31, 2025, on a prospective basis. See Note 8 – Income Taxes.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – GENERAL AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (CONTINUED)

Recent Accounting Pronouncements, (continued)

In November of 2024, the FASB issued ASU 2024-03, *Disaggregation of Income Statement Expenses (Topic 220)*. ASU 2024-03 requires disaggregated disclosure of income statement expenses for public business entities. The ASU does not change the expense captions an entity presents on the face of the income statement; rather, it requires disaggregation of certain expense captions into specified categories in disclosures within the footnotes to the financial statements. For public business entities, the update is effective for fiscal years beginning after December 15, 2026. The guidance is not expected to have a significant impact on the Company’s financial position or results of operations and the potential impact on disclosures is being assessed by the Company.

NOTE 2 – ACCUMULATED OTHER COMPREHENSIVE INCOME (“AOCI”)

The components of accumulated other comprehensive loss, included in shareholder’s equity, are as follows:

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands)		
Net unrealized losses			
on available-for-sale securities	\$ (44,851)	\$ (75,457)	\$ (83,316)
Net actuarial gain on unfunded portion of post-retirement benefit obligation	717	840	1,047
Total	(44,134)	(74,617)	(82,269)
Tax benefit	11,510	19,448	21,425
Accumulated other comprehensive loss	\$ (32,624)	\$ (55,169)	\$ (60,844)

Amounts reclassified from AOCI and the affected line items in the statements of income during the periods presented are as follows:

	Amounts reclassified from AOCI			Affected line item in the Statements of income
	Years ended December 31,			
	2025	2024	2023	
Realized losses on securities	\$ -	\$ (26)	\$ (317)	Loss on sales of available-for-sale securities
Tax benefit	-	7	83	Provision for income taxes
Net realized losses on securities	\$ -	\$ (19)	\$ (234)	Net reclassified amount
Amortization of defined benefit pension items	\$ 117	\$ 149	\$ 167	Other non-interest expense
Tax provision	(30)	(39)	(44)	Provision for income taxes
Net amortization of defined benefit pension	\$ 87	\$ 110	\$ 123	Net reclassified amount
Amortization of prior year service costs	\$ -	\$ -	\$ 5	Other non-interest expense
Tax provision	-	-	(1)	Provision for income taxes
Net amortization of prior year service costs	-	-	4	Net reclassified amount
Total reclassifications out of AOCI	\$ 87	\$ 91	\$ (107)	

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – SECURITIES

The amortized cost and fair value of securities available-for-sale and held-to-maturity at December 31, 2025 and 2024 are summarized as follows:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
(dollars in thousands)				
December 31, 2025				
Available-for-sale securities:				
U.S. treasuries securities	\$ 12,997	\$ -	\$ (155)	\$ 12,842
U.S. government sponsored agencies	159,936	-	(12,567)	147,369
U.S. government sponsored agency mortgage-backed securities	320,153	213	(25,219)	295,147
States and political subdivisions	91,665	7	(7,105)	84,567
Corporate bonds	16,375	22	(47)	16,350
Total	<u>\$ 601,126</u>	<u>\$ 242</u>	<u>\$ (45,093)</u>	<u>\$ 556,275</u>
Held-to-maturity securities:				
States and political subdivisions	\$ 14,667	\$ 2	\$ (432)	\$ 14,237
U.S. government sponsored agency mortgage-backed securities	9,020	126	-	9,146
Total	<u>\$ 23,687</u>	<u>\$ 128</u>	<u>\$ (432)</u>	<u>\$ 23,383</u>
December 31, 2024				
Available-for-sale securities:				
U.S. treasuries securities	\$ 19,983	\$ -	\$ (659)	\$ 19,324
U.S. government sponsored agencies	204,928	-	(21,730)	183,198
U.S. government sponsored agency mortgage-backed securities	320,562	-	(41,674)	278,888
States and political subdivisions	99,942	1	(11,165)	88,778
Corporate bonds	18,565	20	(250)	18,335
Total	<u>\$ 663,980</u>	<u>\$ 21</u>	<u>\$ (75,478)</u>	<u>\$ 588,523</u>
Held-to-maturity securities:				
States and political subdivisions	\$ 14,711	\$ -	\$ (1,062)	\$ 13,649
U.S. government sponsored agency mortgage-backed securities	9,830	-	(97)	9,733
Total	<u>\$ 24,541</u>	<u>\$ -</u>	<u>\$ (1,159)</u>	<u>\$ 23,382</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – SECURITIES, (CONTINUED)

The following table shows the Company’s investments’ gross unrealized losses and fair value of the Company’s investments with unrealized losses aggregated by investment class and length of time that individual securities had been in a continuous unrealized loss position at December 31, 2025 and 2024:

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>	<u>Fair value</u>	<u>Unrealized losses</u>
	(dollars in thousands)					
December 31, 2025						
Available-for-sale securities:						
U.S. treasuries securities	\$ -	\$ -	\$ 12,842	\$ (155)	\$ 12,842	\$ (155)
U.S. government sponsored agencies	-	-	147,369	(12,567)	147,369	(12,567)
U.S. government sponsored agency mortgage backed securities	13,255	(3)	243,328	(25,216)	256,583	(25,219)
States and political subdivisions	789	(1)	76,294	(7,104)	77,083	(7,105)
Corporate bonds	2,354	(1)	4,611	(46)	6,965	(47)
Total	<u>\$ 16,398</u>	<u>\$ (5)</u>	<u>\$ 484,444</u>	<u>\$ (45,088)</u>	<u>\$ 500,842</u>	<u>\$ (45,093)</u>
Held-to-maturity securities:						
States and political subdivisions	\$ 1,110	\$ (9)	\$ 12,067	\$ (423)	\$ 13,177	\$ (432)
U.S. government sponsored agency mortgage backed securities	-	-	-	-	-	-
Total	<u>\$ 1,110</u>	<u>\$ (9)</u>	<u>\$ 12,067</u>	<u>\$ (423)</u>	<u>\$ 13,177</u>	<u>\$ (432)</u>
December 31, 2024						
Available-for-sale securities:						
U.S. treasuries securities	\$ -	\$ -	\$ 19,324	\$ (659)	\$ 19,324	\$ (659)
U.S. government sponsored agencies	-	-	183,198	(21,730)	183,198	(21,730)
U.S. government sponsored agency mortgage backed securities	-	-	278,887	(41,674)	278,887	(41,674)
States and political subdivisions	3,378	(87)	83,939	(11,078)	87,317	(11,165)
Corporate bonds	3,481	(3)	7,733	(247)	11,214	(250)
Total	<u>\$ 6,859</u>	<u>\$ (90)</u>	<u>\$ 573,081</u>	<u>\$ (75,388)</u>	<u>\$ 579,940</u>	<u>\$ (75,478)</u>
Held-to-maturity securities:						
States and political subdivisions	\$ 1,077	\$ (50)	\$ 12,172	\$ (1,012)	\$ 13,249	\$ (1,062)
U.S. government sponsored agency mortgage backed securities	9,733	(97)	-	-	9,733	(97)
Total	<u>\$ 10,810</u>	<u>\$ (147)</u>	<u>\$ 12,172</u>	<u>\$ (1,012)</u>	<u>\$ 22,982</u>	<u>\$ (1,159)</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – SECURITIES, (CONTINUED)

The level of unrealized loss positions impacted all types of securities owned by the Company with the largest balance of unrealized losses recorded in U.S. government sponsored agency mortgage-backed securities. The mortgage-backed securities owned by the Company are issued by government agencies or government-sponsored enterprises which have an implied guarantee by the U.S. government. The unrealized losses associated with these investment securities are driven by changes in interest rates and the unrealized loss is recorded as a component of equity. Accordingly, no allowance for credit losses is considered necessary related to available-for-sale securities at December 31, 2025 and 2024. These securities will continue to be monitored as part of the Company’s ongoing evaluation of credit quality. Management evaluates the financial performance of the issuers on a quarterly basis to determine if it is probable that the issuers can make all contractual principal and interest payments.

The Company owns two types of held-to maturity securities which are state and municipal securities and U.S. government sponsored agency mortgage-backed securities. Third party loss given default rates are applied against the outstanding balances of held-to maturity securities to estimate an allowance for credit losses. At December 31, 2025 and 2024, the estimated allowance for credit losses on these held-to-maturity securities was \$8,919 and \$9,159, respectively.

The amortized cost and fair value of available-for-sale and held-to-maturity securities as of December 31, 2025 and 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair value	Amortized cost	Fair value
December 31, 2025	(dollars in thousands)			
Within one year	\$ 54,073	\$ 53,518	\$ 483	\$ 480
One to five years	137,701	127,706	2,675	2,635
Five to ten years	61,833	56,187	10,265	9,929
After ten years	27,366	23,717	1,244	1,193
Mortgage-backed securities	320,153	295,147	9,020	9,146
Total	\$ 601,126	\$ 556,275	\$ 23,687	\$ 23,383
December 31, 2024	(dollars in thousands)			
Within one year	\$ 69,759	\$ 68,697	\$ -	\$ -
One to five years	128,171	117,840	2,308	2,214
Five to ten years	107,076	91,372	9,529	8,827
After ten years	38,412	31,726	2,874	2,608
Mortgage-backed securities	320,562	278,888	9,830	9,733
Total	\$ 663,980	\$ 588,523	\$ 24,541	\$ 23,382

The carrying value of securities pledged as collateral to secure public deposits and for other purposes was \$174.8 million and \$186.4 million at December 31, 2025 and 2024, respectively.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 – SECURITIES, (CONTINUED)

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands)		
Gross gains recognized on sales of securities	\$ -	\$ -	\$ 4
Gross losses recognized on sales of securities	-	(26)	(321)
Net realized losses on sales of securities	\$ -	\$ (26)	\$ (317)

The Corporation held equity securities in the amount of \$2.3 and \$2.2 million at December 31, 2025 and 2024, respectively. There have been no sales of equity securities during 2025, 2024, and 2023.

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Company classifies its loan portfolio based on the underlying collateral utilized to secure each loan. This classification is consistent with those utilized in the Quarterly Report of Condition and Income filed by the Bank with the FDIC. The loan categories for presentation of loan balances and the related allowance for credit losses on loans are as follows:

- *Commercial real estate* – These loans represent owner occupied commercial real estate mortgage loans secured by commercial office buildings, industrial buildings, warehouses, or retail buildings where the owner of the building occupies the property, in addition to non-owner occupied commercial real estate loans secured by office buildings, industrial buildings warehouses, or retail buildings where repayment is primarily dependent on lease income generated from the underlying collateral.
- *Construction and land development* – Construction and land development loans include loans where the repayment is dependent on the successful completion and eventual sale, refinance or operation of the related real estate project. Construction and land development loans include commercial construction endeavors such as warehouses, apartments, office and retail space and land acquisition and development.
- *Commercial and industrial* – These loans represent loans to business enterprises issued for commercial, industrial and /or other professional purposes. These loans are generally secured by equipment, inventory, and accounts receivable of the borrower and repayment is primarily dependent on business cash flows.
- *Multifamily and other commercial* – Multifamily loans include loans on nonfarm properties with five or more dwelling units in structures such as apartment buildings or commercial units combined with five or more residential units. Repayment is primarily dependent on lease income generated from the underlying collateral. This loan segment also includes other commercial loans, such as loans made to state and political subdivisions.
- *Single family residential* – Single family residential loans include closed-end loans and revolving open-end lines of credit such as HELOCs secured by real estate. These loans are typically secured by nonfarm property containing one to four dwelling units or more than four dwelling units and repayment is primarily dependent on the personal cash flow of the borrower.
- *Loans to individuals and other* – These loans include loans issued to individuals such as automobile loans and consumer loans and exclude consumer real estate loans or loans to individuals secured by 1-4 family residential properties. Many of these loans to individuals are unsecured and repayment is primarily dependent on the personal cash flow of the borrower.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

Loans at December 31, 2025 and 2024 were as follows:

	December 31, 2025	December 31, 2024
	(dollars in thousands)	
Commercial real estate	\$ 372,804	\$ 351,524
Construction and land development	110,863	121,596
Commercial and industrial	92,945	75,451
Multifamily and other commercial	74,990	80,980
Single family residential	319,852	333,934
Loans to individuals and other	34,234	35,333
Total loans, net of deferred fees	\$ 1,005,688	\$ 998,818
Less:		
Allowance for credit losses	(8,037)	(7,952)
Total net loans	\$ 997,651	\$ 990,866

The amount of net capitalized fees, calculated in accordance with accounting guidance included in the above loan totals were \$1.4 million and \$1.4 million as of December 31, 2025 and 2024, respectively.

The Company has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies, non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The goal of the Bank is to diversify loans to avoid a concentration of credit in a specific industry, person, entity, product, service, or any area vulnerable to a tax law change or an economic event. A concentration of credit occurs when obligations, direct or indirect, of the same or affiliated interests represent 25% or more of the Bank's capital structure. Owner-occupied and non-owner occupied commercial real estate represented the highest concentration at 256% of tier 1 capital. The Board of Directors recognizes that the Bank's geographic trade area imposes some limitations regarding loan diversification if the Bank is to perform the function for which it has been chartered. Specifically, lending to qualified borrowers within the Bank's trade area will naturally cause concentrations of real estate loans in the primary communities served by the Bank and loans to employees of major employers in the area.

Commercial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Once it is determined that the borrower's management possesses sound ethics and solid business acumen, the Company's management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee; however, some short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The Company originates residential and consumer loans utilizing a computer-based credit scoring analysis to supplement the underwriting process. To monitor and manage consumer loan risk, policies and procedures are developed and modified, as needed, jointly by line and staff personnel. This activity, coupled with relatively small loan amounts that are spread across many individual borrowers, minimizes risk. Additionally, trend and outlook reports are reviewed by management on a regular basis. Underwriting standards for home equity loans are heavily influenced by statutory requirements, which include, but are not limited to, a maximum loan-to-value percentage of 80%, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Company engages a third-party vendor to perform loan reviews. The Company reviews and validates the credit risk program on an annual basis. Results of these reviews are presented to management and the Company's Audit Committee. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Company's policies and procedures.

As part of the on-going monitoring of the credit quality of the Company's loan portfolio, management tracks certain credit quality indicators including trends related to (i) the weighted-average risk grade of commercial loans, (ii) the level of classified commercial loans, (iii) net charge-offs, (iv) non-performing loans, and (v) the general economic conditions in the State of Tennessee. The Company uses a risk grading matrix to assign a risk grade to each of its commercial loans. Loans are graded on a scale of 1 through 8. The credit risk profile of the retail loan portfolio is based on delinquency status classification. Retail loans that are not past due are considered performing and are classified as Acceptable Risk. If a retail loan reaches 90 days past due, the loan is considered nonperforming and is placed on non-accrual status. A description of the general characteristics of the eight risk grades is as follows:

Risk Rating 1 – Minimal Risk – Loans in this category are secured by a cash deposit or fully guaranteed by the SBA and are substantially risk free.

Risk Rating 2 – Modest Risk – Loans in this category have borrowers that show profitability, liquidity, and capitalization better than industry norms and a strong market position in the region. The borrower of these loans have a proven history of profitability and financial stability, along with an abundance of financeable assets available to protect the Bank's position.

Risk Rating 3 – Average Risk – Loans in this category have borrowers that show a stable earnings history and financial condition in line with industry norms. The borrower's liquidity and leverage are in line with industry norms. The credit extension is considered sound; however, elements may be present which suggest the borrower may not be free from temporary impairments in the future.

Risk Rating 4 – Acceptable Risk – Loans in this category have sound risk profiles, in which the borrower shows satisfactory asset quality and liquidity, good debt capacity and coverage, and good management in critical positions. Performing retail loans are considered acceptable risk unless otherwise assigned a specific risk rating.

Risk Rating 5 – Pass/Watch – Loans in this category require a heightened level of supervision. The borrower may exhibit declining earnings, strained cash flow, increasing leverage, or weakening market positions that indicate a trend toward an unacceptable risk. The borrowers liquidity, leverage, and earnings performance is below or trending below industry norms.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

Risk Rating 6 – Special Mention – Loans in this category are not currently adequate. These loans have potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution’s credit position at some future date. Special mention loans are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification.

Risk Rating 7 – Substandard – Loans in this category are inadequately protected by the current sound worth and paying capacity of the obligor or the collateral pledged, if any. These loans must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Risk Rating 8 – Doubtful – Loans in this category have all the weaknesses inherent in a loan classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The following table presents loan balances classified within each risk rating category by primary loan type and based on year of origination as of December 31, 2025:

	<u>Term loans amortized cost basis by origination year</u>							
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>Prior</u>	<u>Revolving Loans</u>	<u>Total</u>
	(dollars in thousands)							
Commercial real estate								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	9,655	-	9,402	11,842	6,509	16,287	467	54,162
Acceptable risk	36,258	39,058	39,595	60,530	33,230	79,983	947	289,601
Watch	3,355	-	-	11,998	-	46	-	15,399
Special mention	1,975	-	-	4,313	4,210	-	2,044	12,542
Substandard	-	-	-	537	-	563	-	1,100
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 51,243</u>	<u>\$ 39,058</u>	<u>\$ 48,997</u>	<u>\$ 89,220</u>	<u>\$ 43,949</u>	<u>\$ 96,879</u>	<u>\$ 3,458</u>	<u>\$ 372,804</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Construction and land development								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	6,697	350	530	176	-	868	-	8,621
Acceptable risk	27,245	30,287	19,898	2,181	2,727	2,580	-	84,918
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	51	-	17,228	-	-	45	-	17,324
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 33,993</u>	<u>\$ 30,637</u>	<u>\$ 37,656</u>	<u>\$ 2,357</u>	<u>\$ 2,727</u>	<u>\$ 3,493</u>	<u>\$ -</u>	<u>\$ 110,863</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commercial and industrial								
Minimal risk	\$ 2,032	\$ -	\$ -	\$ -	\$ 199	\$ 98	\$ -	\$ 2,329
Modest risk	-	-	-	-	-	277	52	329
Average risk	1,095	302	1,031	2,875	884	5,636	499	12,322
Acceptable risk	25,994	1,840	9,828	6,609	4,071	18,548	6,523	73,413
Watch	3,027	-	-	-	994	-	237	4,258
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	294	-	294
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 32,148</u>	<u>\$ 2,142</u>	<u>\$ 10,859</u>	<u>\$ 9,484</u>	<u>\$ 6,148</u>	<u>\$ 24,853</u>	<u>\$ 7,311</u>	<u>\$ 92,945</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

	Term loans amortized cost basis by origination year						Revolving Loans	Total
	2025	2024	2023	2022	2021	Prior		
	(dollars in thousands)							
Multifamily and other commercial								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	4,163	-	9,535	1,517	10,845	5,539	-	31,599
Average risk	-	-	-	1,980	4,902	4,063	-	10,945
Acceptable risk	-	-	-	16,874	1,596	13,976	-	32,446
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 4,163</u>	<u>\$ -</u>	<u>\$ 9,535</u>	<u>\$ 20,371</u>	<u>\$ 17,343</u>	<u>\$ 23,578</u>	<u>\$ -</u>	<u>\$ 74,990</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Single family residential								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	-	-	-	-	-	486	-	486
Acceptable risk	15,668	20,623	31,063	38,001	33,560	102,032	73,911	314,858
Watch	-	-	596	-	228	2,173	159	3,156
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	36	-	782	534	1,352
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 15,668</u>	<u>\$ 20,623</u>	<u>\$ 31,659</u>	<u>\$ 38,037</u>	<u>\$ 33,788</u>	<u>\$ 105,473</u>	<u>\$ 74,604</u>	<u>\$ 319,852</u>
Gross charge-offs	<u>-</u>	<u>30</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>30</u>
Loans to individuals and other								
Minimal risk	\$ 818	\$ 278	\$ 98	\$ 67	\$ 1	\$ -	\$ -	\$ 1,262
Modest risk	2,583	-	-	11,783	-	6,425	-	20,791
Average risk	-	-	-	-	-	74	-	74
Acceptable risk	3,632	2,173	1,245	1,004	242	3,453	258	12,007
Watch	14	-	-	-	-	-	-	14
Special mention	18	-	-	-	-	-	-	18
Substandard	27	30	1	-	-	3	7	68
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 7,092</u>	<u>\$ 2,481</u>	<u>\$ 1,344</u>	<u>\$ 12,854</u>	<u>\$ 243</u>	<u>\$ 9,955</u>	<u>\$ 265</u>	<u>\$ 34,234</u>
Gross charge-offs	<u>-</u>	<u>56</u>	<u>19</u>	<u>1</u>	<u>-</u>	<u>-</u>	<u>9</u>	<u>85</u>
Total loans	<u>\$ 144,307</u>	<u>\$ 94,941</u>	<u>\$ 140,050</u>	<u>\$ 172,323</u>	<u>\$ 104,198</u>	<u>\$ 264,231</u>	<u>\$ 85,638</u>	<u>\$ 1,005,688</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The following table presents loan balances classified within each risk rating category by primary loan type and based on year of origination as of December 31, 2024:

	<u>Term loans amortized cost basis by origination year</u>						<u>Revolving Loans</u>	<u>Total</u>
	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Prior</u>		
	(dollars in thousands)							
Commercial real estate								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	8,021	8,458	15,813	7,112	7,364	21,617	485	68,870
Acceptable risk	28,449	26,056	55,392	39,635	45,285	46,031	11,117	251,965
Watch	-	-	12,097	-	196	6,789	11	19,093
Special mention	-	-	-	-	-	-	4,239	4,239
Substandard	-	-	402	-	-	6,905	50	7,357
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 36,470</u>	<u>\$ 34,514</u>	<u>\$ 83,704</u>	<u>\$ 46,747</u>	<u>\$ 52,845</u>	<u>\$ 81,342</u>	<u>\$ 15,902</u>	<u>\$ 351,524</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Construction and land development								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	-	-	-	-	-	-	-	-
Average risk	8,184	1,891	194	-	-	933	-	11,202
Acceptable risk	30,182	39,079	14,196	3,387	1,430	966	-	89,240
Watch	-	19,947	-	-	-	572	-	20,519
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	582	-	-	53	-	635
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 38,366</u>	<u>\$ 60,917</u>	<u>\$ 14,972</u>	<u>\$ 3,387</u>	<u>\$ 1,430</u>	<u>\$ 2,524</u>	<u>\$ -</u>	<u>\$ 121,596</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Commercial and industrial								
Minimal risk	\$ -	\$ -	\$ -	\$ 306	\$ -	\$ -	\$ 106	\$ 412
Modest risk	-	-	-	-	-	277	1	278
Average risk	586	1,415	4,219	2,441	248	609	3,804	13,322
Acceptable risk	10,857	16,384	8,378	8,208	2,929	9,549	2,043	58,348
Watch	18	-	-	-	-	54	216	288
Special mention	-	-	-	-	-	-	-	-
Substandard	257	-	4	-	-	2,542	-	2,803
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 11,718</u>	<u>\$ 17,799</u>	<u>\$ 12,601</u>	<u>\$ 10,955</u>	<u>\$ 3,177</u>	<u>\$ 13,031</u>	<u>\$ 6,170</u>	<u>\$ 75,451</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>6</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

	Term loans amortized cost basis by origination year						Revolving Loans	Total
	2024	2023	2022	2021	2020	Prior		
	(dollars in thousands)							
Multifamily and other commercial								
Minimal risk	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Modest risk	8,129	8,490	1,719	11,208	-	8,020	-	37,566
Average risk	-	-	3,521	5,064	-	1,134	-	9,719
Acceptable risk	-	-	12,497	1,642	8,664	10,892	-	33,695
Watch	-	-	-	-	-	-	-	-
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 8,129</u>	<u>\$ 8,490</u>	<u>\$ 17,737</u>	<u>\$ 17,914</u>	<u>\$ 8,664</u>	<u>\$ 20,046</u>	<u>\$ 15,902</u>	<u>\$ 80,980</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Single family residential								
Minimal risk	\$ 497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 497
Modest risk	-	-	-	-	-	-	-	-
Average risk	-	-	-	-	-	572	-	572
Acceptable risk	23,236	33,933	41,178	36,687	35,246	85,796	69,023	325,099
Watch	-	622	20	1,137	3,312	682	338	6,111
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	43	91	730	574	217	1,655
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 23,733</u>	<u>\$ 34,555</u>	<u>\$ 41,241</u>	<u>\$ 37,915</u>	<u>\$ 39,288</u>	<u>\$ 87,624</u>	<u>\$ 69,578</u>	<u>\$ 333,934</u>
Gross charge-offs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Loans to individuals and other								
Minimal risk	\$ 605	\$ 234	\$ 273	\$ 6	\$ 18	\$ -	\$ 106	\$ 1,136
Modest risk	-	-	12,657	-	-	7,955	-	20,612
Average risk	-	-	-	-	-	246	-	246
Acceptable risk	4,047	2,451	1,623	603	117	4,013	455	13,309
Watch	4	4	4	-	-	-	-	12
Special mention	5	-	-	-	-	-	-	5
Substandard	-	7	-	-	5	-	1	13
Doubtful	-	-	-	-	-	-	-	-
Total	<u>\$ 4,661</u>	<u>\$ 2,696</u>	<u>\$ 14,557</u>	<u>\$ 609</u>	<u>\$ 140</u>	<u>\$ 12,214</u>	<u>\$ 456</u>	<u>\$ 35,333</u>
Gross charge-offs	<u>-</u>	<u>5</u>	<u>27</u>	<u>5</u>	<u>-</u>	<u>-</u>	<u>14</u>	<u>51</u>
Total loans	<u>\$ 123,077</u>	<u>\$ 158,971</u>	<u>\$ 184,812</u>	<u>\$ 117,527</u>	<u>\$ 105,544</u>	<u>\$ 216,781</u>	<u>\$ 92,106</u>	<u>\$ 998,818</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The table below presents revolving loans that were converted to term loans at December 31, 2025 and 2024:

(dollars in thousands) December 31, 2025	Acceptable Risk	Pass/Watch Risk	Total
Commercial and industrial	\$ -	\$ 10	\$ 10
Single family residential	201	-	201
Loans to individuals and other	8	6	14
Total	<u>\$ 209</u>	<u>\$ 16</u>	<u>\$ 225</u>

(dollars in thousands) December 31, 2024	Acceptable Risk	Pass/Watch Risk	Total
Single family residential	\$ 393	\$ -	\$ 393
Total	<u>\$ 393</u>	<u>\$ -</u>	<u>\$ 393</u>

The table below presents the aging of past due balances by class of financing receivable at December 31, 2025 and 2024:

December 31, 2025	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current	Total loans
	(dollars in thousands)					
Commercial real estate	\$ -	\$ 537	\$ -	\$ 537	\$ 372,267	\$ 372,804
Construction and land development	204	11,650	45	11,899	98,964	110,863
Commercial and industrial	-	-	-	-	92,945	92,945
Multifamily and other commercial	-	-	-	-	74,990	74,990
Single family residential	1,332	-	536	1,868	317,984	319,852
Loans to individuals and other	29	31	3	63	34,171	34,234
Total	<u>\$ 1,565</u>	<u>\$ 12,218</u>	<u>\$ 584</u>	<u>\$ 14,367</u>	<u>\$ 991,321</u>	<u>\$ 1,005,688</u>
	(dollars in thousands)					
December 31, 2024	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Current	Total loans
Commercial real estate	\$ -	\$ -	\$ 452	\$ 452	\$ 351,072	\$ 351,524
Construction and land development	-	-	-	-	121,596	121,596
Commercial and industrial	-	-	-	-	75,451	75,451
Multifamily and other commercial	-	-	-	-	80,980	80,980
Single family residential	513	359	357	1,229	332,705	333,934
Loans to individuals and other	52	4	6	62	35,271	35,333
Total	<u>\$ 565</u>	<u>\$ 363</u>	<u>\$ 815</u>	<u>\$ 1,743</u>	<u>\$ 997,075</u>	<u>\$ 998,818</u>

There were no loans past due 90 or more days and still accruing as of December 31, 2025 and 2024.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

The following table details the changes in allowance for credit losses for each of the three years ending December 31, 2025, 2024, and 2023 by loan classification and the allocation of allowance for credit losses:

(dollars in thousands)	Commercial real estate	Construction and land development	Commercial and industrial	Multifamily and other commercial	Single family residential	Loans to individuals and other	Total
Balance at January 1, 2023	\$ 4,276	\$ 1,298	\$ 1,076	\$ 812	\$ 1,390	\$ 530	\$ 9,382
Implementation of ASU 2016-13	(239)	(80)	(62)	(60)	(238)	(32)	(711)
Charge-offs	-	-	(9)	-	-	(46)	(55)
Recoveries	-	-	14	-	1	10	25
Provision for credit losses	(351)	(486)	(327)	(244)	689	(256)	(975)
Balance at December 31, 2023	\$ 3,686	\$ 732	\$ 692	\$ 508	\$ 1,842	\$ 206	\$ 7,666
Charge-offs	-	-	(6)	-	-	(51)	(57)
Recoveries	-	-	113	-	2	13	128
Provision for credit losses	1,374	63	(504)	(140)	(528)	(50)	215
Balance at December 31, 2024	\$ 5,060	\$ 795	\$ 295	\$ 368	\$ 1,316	\$ 118	\$ 7,952
Charge-offs	-	-	-	-	(30)	(85)	(115)
Recoveries	-	-	-	-	1	19	20
Provision for credit losses	(283)	(85)	614	-	(112)	46	180
Balance at December 31, 2025	\$ 4,777	\$ 710	\$ 909	\$ 368	\$ 1,175	\$ 98	\$ 8,037

The following tables present information about the amortized cost basis of loans on nonaccrual status on December 31, 2025, 2024 and 2023:

December 31, 2025	Nonaccrual loans with no allowance for credit losses	Interest income recognized during the period on nonaccrual loans
Commercial real estate	\$ 537	\$ -
Construction and land development	-	-
Commercial and industrial	-	-
Multifamily and other commercial	-	-
Single family residential	-	-
Loans to individuals and other	-	-
Total	\$ 537	\$ -

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

December 31, 2024	<u>Nonaccrual loans with no allowance for credit losses</u>	<u>Interest income recognized during the period on nonaccrual loans</u>
Commercial real estate	\$ -	\$ -
Construction and land development	-	-
Commercial and industrial	-	-
Multifamily and other commercial	-	-
Single family residential	-	-
Loans to individuals and other	-	-
Total	<u>\$ -</u>	<u>\$ -</u>

	Years ended December 31,		
	<u>2025</u>	<u>2024</u>	<u>2023</u>
Nonaccrual loans by class:		(dollars in thousands)	
Commercial real estate	\$ 537	\$ 452	\$ 313
Construction and land development	45	53	63
Commercial and industrial	-	-	2
Multifamily and other commercial	-	-	-
Single family residential	961	833	1,021
Loans to individuals and other	30	6	8
Total	<u>\$ 1,573</u>	<u>\$ 1,344</u>	<u>\$ 1,407</u>

The Company had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process according to location requirement of the applicable jurisdiction.

A loan is considered collateral dependent when the borrower is experiencing financial difficulty, and the loan is expected to be repaid substantially through the operation or sale of the collateral. The class of loan represents the primary collateral type associated with the loan. The following table presents the amortized cost basis of collateral dependent loans by class of loan as of December 31, 2025:

	<u>Real Estate</u>
Class of loan:	
Commercial real estate	\$ 537
Construction and land development	5,579
Total	<u>\$ 6,116</u>

There were no collateral-dependent loans as of December 31, 2024.

The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 – LOANS AND ALLOWANCE FOR CREDIT LOSSES, (CONTINUED)

In some cases, a loan restructuring will result in providing multiple types of modifications. Typically, one type of modification, such as a payment delay or term extension, is granted initially. If the borrower continues to experience financial difficulty, another modification, such as principal forgiveness, an interest rate reduction, or a reduction in payments through an increased balloon payment at maturity may be granted. Additionally, multiple types of modifications may be made on the same loan within the current reporting period. Such a combination of at least two of the following: a payment delay, term extension, principal forgiveness, and interest rate reduction meets the definition of a loan modification. Upon determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The following table presents the amortized cost basis of financial difficulty modifications that were modified by class of loans and type of modification:

(dollars in thousands) December 31, 2025	<u>Term Extension</u>	<u>Payment Reduction</u>	<u>Total Class of Loans</u>
Commercial real estate	\$ 537	\$ -	0.1%
Single family residential	10	-	0.0%
Loans to individuals and others	-	4	0.0%
Total	<u>\$ 547</u>	<u>\$ 4</u>	<u>0.0%</u>

(dollars in thousands) December 31, 2024	<u>Term Extension</u>	<u>Payment Reduction</u>	<u>Total Class of Loans</u>
Single family residential	\$ 38	\$ -	0.0%
Total	<u>\$ 38</u>	<u>\$ -</u>	<u>0.0%</u>

The loans to individuals and others and commercial real estate were subsequently past due in the months following modification and were in payment default at December 31, 2025.

NOTE 5 – PREMISES AND EQUIPMENT

The following table presents the Company's fixed assets by category:

	<u>2025</u>	<u>2024</u>
	(dollars in thousands)	
Land	\$ 12,966	\$ 12,869
Premises	26,912	26,522
Furniture and equipment	14,092	13,540
Leasehold improvements	2,158	2,158
Right-of-use assets	4,712	4,712
Construction in progress	<u>14</u>	<u>66</u>
Bank premises and equipment	60,854	59,867
Less accumulated depreciation	<u>(32,051)</u>	<u>(30,773)</u>
Bank premises and equipment, net	<u>\$ 28,803</u>	<u>\$ 29,094</u>

Depreciation expense was \$1.7 million, \$1.6 million, and \$1.7 million for 2025, 2024, and 2023, respectively.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 – RELATED PARTY TRANSACTIONS

Certain related parties as identified under the guidance in *ASC 850-05 Related Party Disclosures* were customers of, and had loans and other transactions with, the Bank in the ordinary course of business. An analysis of the activity with respect to such loans is shown in the table below. These totals exclude loans made in the ordinary course of business to other companies with which neither the Company nor the Bank had a relationship other than the association of one of its directors in the capacity of officer or director.

The Bank has granted loans to certain related parties including directors and their related interests. These loan transactions were made in the ordinary course of business on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable loans to persons not related to the Bank and did not involve more than the normal risk of collectability or present other unfavorable features. None of these loans to directors and their related interests are individually evaluated at December 31, 2025 and 2024. Changes in related party loans for the years ended December 31, 2025 and 2024 are as follows:

	2025	2024
	(dollars in thousands)	
Related party extensions of credit, beginning of period	\$ 3,261	\$ 3,116
New loans	669	288
Repayments or reductions	(262)	(143)
Related party extension of credit, end of period	\$ 3,668	\$ 3,261

The aggregate balances of related party deposits at December 31, 2025 and 2024 were \$70.8 million and \$65.3 million, respectively. The aggregate balances of related party insured cash sweep accounts at December 31, 2025 and 2024 were \$42.2 million and \$44.2 million, respectively.

The aggregate managed asset balances of certain related parties that receive trust and wealth management services at December 31, 2025 and 2024 were \$1.3 billion and \$1.2 billion, respectively. The aggregate non-managed asset balances of certain related parties that receive trust and wealth management services at December 31, 2025 and 2024 were \$4.2 billion and \$3.8 billion, respectively. Trust service fees earned from trust accounts held by related parties during 2025, 2024, and 2023 were \$998,000, \$907,000 and \$811,000, respectively.

The Company and Bank utilize various services and purchased goods provided by certain related parties, in which some are governed by contractual agreements. Payments to related parties for services provided during 2025, 2024, and 2023 totaled \$72,000, \$134,000 and \$144,000, respectively.

The Company's equity securities at December 31, 2025 and 2024 reflect investment in the stock of a related party.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – LEASES

The Bank has entered into various operating and finance leases primarily for office space and branch facilities. The Bank recognizes right-of-use assets and lease liabilities related to its operating and finance leases. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease.

Right-of-use assets and lease liabilities related to the Bank’s operating and finance leases are as follows:

Balance sheet location		(dollars in thousands)	
		2025	2024
Right-of-use assets			
Operating leases	Other assets	\$ 48	\$ 99
Finance leases	Bank premises and equipment, net	1,598	2,072
Total right-of-use assets		<u>\$ 1,646</u>	<u>\$ 2,171</u>
Leases liabilities			
Operating leases	Accounts payable and accrued liabilities	\$ 48	99
Finance leases	Accounts payable and accrued liabilities	1,897	2,424
Total lease liabilities		<u>\$ 1,945</u>	<u>\$ 2,523</u>

The following table presents lease costs related to these leases:

	December 31, 2025	December 31, 2024
	(dollars in thousands)	
Operating lease cost	\$ 51	\$ 49
Finance lease cost:		
Interest on lease liabilities	69	93
Amortization of right-of-use asset	474	474
Net lease cost	<u>\$ 594</u>	<u>\$ 616</u>

The following table presents the weighted average remaining lease term and weighted average discount rate used to determine lease liabilities:

	December 31, 2025	December 31, 2024
Weighted average remaining lease term (years):		
Operating leases	0.9	1.9
Finance leases	5.7	6.1
Weighted average discount rate:		
Operating leases	3.09%	3.09%
Finance leases	3.53%	3.48%

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 – LEASES (CONTINUED)

The following table presents a maturity analysis of undiscounted cash flows due under operating leases and finance leases and a reconciliation to total operating lease liabilities and finance lease liabilities:

	December 31, 2025	
	Operating leases	Finance leases
	(dollars in thousands)	
2026	\$ 49	\$ 603
2027	-	386
2028	-	331
2029	-	137
2030	-	140
Thereafter	-	513
Total	49	2,110
Less: Imputed interest	(1)	(213)
Total lease liabilities	<u>\$ 48</u>	<u>\$ 1,897</u>

NOTE 8 – FEDERAL AND STATE INCOME TAXES

The following table presents components of income tax expense (benefit) attributable to continuing operations for 2024 and 2023:

	(dollars in thousands)	
	2024	2023
Current	\$ 3,326	\$ 3,891
Deferred	91	(489)
Total provision for income taxes	<u>\$ 3,417</u>	<u>\$ 3,402</u>

The following table presents components of income tax expense (benefit) attributable to continuing operations for 2025:

	(dollars in thousands)	
	2025	
Current		
Federal	\$ 3,976	
State	8	
Deferred		
Federal	115	
State	52	
Total provision for income taxes	<u>\$ 4,151</u>	

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – FEDERAL AND STATE INCOME TAXES, (CONTINUED)

A reconciliation for 2024 and 2023 between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% to income before income taxes is presented in the following table:

	(dollars in thousands)	
	<u>2024</u>	<u>2023</u>
Tax expense at statutory rate	\$ 4,085	\$ 4,085
Increase (decrease) in taxes resulting from:		
Tax-exempt interest	(605)	(511)
Nondeductible interest expense	182	124
Employee benefits	(157)	(220)
Other nondeductible expenses	13	9
State income taxes net of federal tax benefit	(99)	(80)
Other	(2)	(5)
Total provision for income taxes	<u>\$ 3,417</u>	<u>\$ 3,402</u>
	<u>17.6%</u>	<u>17.5%</u>

A reconciliation for 2025 between reported income tax expense and the amounts computed by applying the U.S. federal statutory income tax rate of 21% to income before income taxes is presented in the following table:

	December 31, 2025	
(dollars in thousands)	<u>Amount</u>	<u>Percentage</u>
Tax expense at statutory rate	\$ 4,782	21%
State income taxes, net of federal benefit ⁽¹⁾	47	0.2%
Nontaxable and nondeductible items		
Tax-exempt interest	(643)	(2.8%)
Other	(29)	(0.1%)
Other	(6)	(0.1%)
Total provision for income taxes	<u>\$ 4,151</u>	<u>18.2%</u>

⁽¹⁾ State of Tennessee makes up the majority (more than 50%) of the total of state income taxes.

The following table presents income taxes paid (net of refunds received):

	(dollars in thousands)	
	<u>2025</u>	
U.S. Federal	\$	4,300
U.S. State and local		-
Total income taxes paid	<u>\$</u>	<u>4,300</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 – FEDERAL AND STATE INCOME TAXES, (CONTINUED)

Year-end net deferred taxes included on the Company’s balance sheets are presented in the table below.

	(dollars in thousands)	
	<u>2025</u>	<u>2024</u>
Deferred tax effects of principal temporary differences		
Allowance for loan and lease losses	\$ 2,099	\$ 2,077
Deferred compensation	2,756	2,902
Amortization of intangibles	(2,099)	(2,100)
Recognition of nonaccrual loan income	61	83
Unrealized losses on available-for-sale securities	11,698	19,667
Post-retirement benefit obligation	333	358
Accelerated depreciation	(756)	(710)
Prepaid expenses	(43)	(36)
REIT dividends	(446)	(453)
Loan fees	364	367
Right-of-use asset	(430)	(567)
Lease liability	508	659
Accrued expenses	506	359
State net operating loss carryforward	89	123
Other	51	66
Net deferred tax asset	<u>\$ 14,691</u>	<u>\$ 22,795</u>

The Company has a state net operating loss carryforward of \$1.7 million and \$2.4 million as of December 31, 2025 and 2024, respectively. The net operating losses may be carried forward 15 years and expire beginning 2039.

No valuation allowance for deferred tax assets was recorded at December 31, 2025 and 2024 as management believes it is more likely than not that all of the deferred tax assets will be realized against deferred tax liabilities and projected future taxable income. There were no unrecognized tax benefits during any of the reported periods.

The Company and its subsidiaries file income tax returns with the Internal Revenue Service, State of Tennessee and State of Alabama. The Company is not subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years prior to 2022.

NOTE 9 – BORROWED FUNDS

The Bank is a party to the Blanket Agreement for Advances and Security Agreement (the “Blanket Agreement”) with the Federal Home Loan Bank of Cincinnati (the “FHLB”). Advances made to the Bank under the Blanket Agreement are collateralized by qualifying residential mortgage loans totaling 150% of the outstanding amount borrowed. These collateralization matters are outlined in the Blanket Agreement between the Bank and FHLB. There were no outstanding FHLB advances as of December 31, 2025 and 2024. The advances were collateralized by \$410.6 million and \$418.5 million of qualifying residential mortgage loans and commercial real estate loans under a blanket lien arrangement at December 31, 2025 and 2024, respectively. Based on this collateral, the Bank was eligible to borrow up to a total of \$262.5 million in additional advances at December 31, 2025.

Stock held in the FHLB totaling \$1.6 million and \$1.8 million at December 31, 2025 and 2024, respectively, is carried at cost. The stock is restricted, can only be sold back to the FHLB at par, and is included in other assets on the consolidated balance sheet.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 – BORROWED FUNDS (CONTINUED)

At December 31, 2025, the Bank had accommodations which allow it to borrow from the Federal Reserve Bank of Atlanta's discount window and purchase Federal funds from correspondent banks on an overnight basis at prevailing overnight market rates. These accommodations are subject to various restrictions as to their term and availability, and in most cases, must be repaid within less than a month. At December 31, 2025, the Bank had approximately \$79.7 million with the Federal Reserve Bank discount window, and approximately \$75.0 million with other correspondent banks with whom the Bank has arranged lines of credit. Loans pledged to the Federal Reserve Bank had a carrying value of \$94.5 million as of December 31, 2025. At December 31, 2025, the Bank was not carrying any balances with the Federal Reserve Bank discount window or correspondent banks under these arrangements.

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES

GAAP requires disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for credit losses are reflected in the Note 4 – Loans and Allowance for Credit Losses. Other significant estimates and concentrations not discussed in those footnotes include:

General Litigation

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations, cash flows and disclosures of the Company.

Pension and Other Post-Retirement Benefit Obligations

The Company has a noncontributory defined benefit post-retirement health care plan whereby it agrees to provide certain post-retirement benefits to eligible employees. The benefit obligation is the actuarial present value of all benefit attributed to service rendered prior to the valuation date based on the projected unit credit cost method. It is reasonably possible that events could occur that would change the estimated amount of this liability materially in the near term.

Self-Insurance Reserves

The Company is self-insured for its employees' health benefit programs, which include medical, dental, and prescription drug benefits. The costs of the Company's employee health insurance benefits, including paid claims, an estimate of incurred but not reported ("IBNR") claims, stop loss premiums and administrative fees are included in salaries and employee benefits on the consolidated statements of income.

The accrual for stop loss premiums and employee health insurance benefits is based on analysis performed internally by management. There was no receivable for stop loss insurance at December 31, 2025. The receivable for stop loss premiums at December 31, 2024 was \$440,000. The liability for employee health insurance benefits at December 31, 2025 and 2024 was \$442,000 and \$807,000, respectively. The Company analyzes the liability on a regular basis for the IBNR claims and believes the reserves are adequate. However, judgement is involved in assessing these reserves, such as assessing historical claims paid, average lag times between claims incurred dates, reported dates and paid dates, and the frequency and severity of claims. There may be differences between actual settlement amounts and recorded reserves and any resulting adjustment is included in expense once a probable amount is known. Any significant increase in the number of employee health insurance claims or costs of those claims above our recorded reserve could have a material impact to our financial results. The Company mitigates the risk of potential claims for both individual participants and in the aggregate by carrying stop loss insurance coverage.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES (CONTINUED)

Current Economic Conditions

The accompanying financial statements have been prepared using values and information currently available to the Company. Given the potential for volatility of economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in asset values, the ACL and capital that could negatively impact the Company's ability to meet regulatory capital requirements and maintain sufficient liquidity. Furthermore, the Company's regulators could require material adjustments to asset values or the allowance for credit losses for regulatory capital purposes that could affect the Company's measurement of regulatory capital and compliance with the capital adequacy guidelines under the regulatory framework for prompt corrective action.

Commitments and Credit Risk

The Company grants commercial, consumer, and residential loans to customers primarily throughout the States of Tennessee and Alabama. The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Bank has in those particular financial instruments.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate.

Commitments to Originate Loans, (continued)

Mortgage loans in the process of origination represent amounts that the Company plans to fund within a normal period of 30 to 90 days, and which are intended for sale to investors in the secondary market. Total mortgage loans in process of origination were \$1,843,000 at December 31, 2025. There were no mortgage loans in process of origination at December 31, 2024.

Standby Letters of Credit

Standby letters of credit are irrevocable conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Financial standby letters of credit are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. Performance standby letters of credit are issued to guarantee performance of certain customers under nonfinancial contractual obligations. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loans to customers. Should the Company be obligated to perform under the standby letters of credit, the Company may seek recourse from the customer for reimbursement of amounts paid. The Company had total outstanding standby letters of credit amounting to \$9.3 million and \$8.8 million, at December 31, 2025 and 2024, respectively, with terms ranging from seven days to 24 months.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10 – SIGNIFICANT ESTIMATES, COMMITMENTS, AND CONTINGENCIES (CONTINUED)

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate, and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2025, unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregated \$171.4 million and \$84.4 million, respectively. At December 31, 2024, the Company had granted unused lines of credit to borrowers for commercial lines and open-end consumer lines aggregating \$169.4 million and \$88.2 million, respectively.

NOTE 11 – FAIR VALUE MEASUREMENT

The fair value of an asset or liability is the exchange price that would be received for an asset or paid to transfer a liability or exit price in an orderly transaction between market participants on the measurement date. Fair value measurement must maximize the use of observable inputs and minimize the use of unobservable inputs. In estimating fair value, the Company utilizes valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Such valuation techniques are consistently applied. Inputs to valuation techniques include the assumptions that market participants would use in pricing an asset or liability. The three levels of inputs that may be used to measure fair values are as follows:

- *Level 1 Inputs* - Unadjusted quoted prices in active markets for identical assets or liabilities.
- *Level 2 Inputs* - Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These might include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable for the asset or liability (such as interest rates, volatilities, market consensus, prepayment speeds, credit risks, etc.) or inputs that are derived principally from or corroborated by market data by correlation or other means.
- *Level 3 Inputs* - Unobservable inputs for determining the fair values of assets or liabilities that reflect an entity's own assumptions that market participants would use in pricing the assets or liabilities.

Transfers between levels of the fair value hierarchy are recognized on the actual date of the event or circumstances that caused the transfer, which generally coincides with the Company's monthly and/or quarterly valuation process. There were no transfers between levels during 2025 or 2024.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Recurring Measurements

The following table summarizes financial assets measured at fair value on a recurring basis by the level within the fair value hierarchy utilized to measure fair value:

	Recurring fair value measurements at December 31, 2025			
	Total carrying value	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets				
Available-for-sale investment securities:				
U.S. treasuries securities	\$ 12,842	\$ -	\$ 12,842	\$ -
U.S. government sponsored agencies	147,369	-	147,369	-
U.S. government sponsored agency mortgage-backed securities	295,147	-	295,147	-
State and political subdivision	84,567	-	84,567	-
Corporate bonds	16,350	-	16,350	-
Equity securities	2,314	-	-	2,314
Total assets at fair value	\$ 558,589	\$ -	\$ 556,275	\$ 2,314

	Recurring fair value measurements at December 31, 2024			
	Total carrying value	Level 1	Level 2	Level 3
	(dollars in thousands)			
Assets				
Available-for-sale investment securities:				
U.S. treasuries securities	\$ 19,324	\$ -	\$ 19,324	\$ -
U.S. government sponsored agencies	183,198	-	183,198	-
U.S. government sponsored agency mortgage-backed securities	278,888	-	278,888	-
State and political subdivision	88,778	-	88,778	-
Corporate bonds	18,335	-	18,335	-
Equity securities	2,178	-	-	2,178
Total assets at fair value	\$ 590,701	\$ -	\$ 588,523	\$ 2,178

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2025.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service, such as ICE Data Pricing & Reference Data, LLC, which utilizes pricing models to determine fair value measurement. The Company reviews the pricing quarterly to verify the reasonableness of the pricing. The fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, the U.S. Treasury yield

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

curve, live trading levels, trade execution data, market consensus prepayment speeds, credit information and the bond's terms and conditions, among other factors. U.S. government agencies, state and political subdivisions, U.S. government sponsored agency mortgage-backed securities and corporate bonds are classified as Level 2 inputs.

Equity Securities

Equity securities held by the Company are common shares in a private company. The common shares held are not freely tradeable on any market exchange. The investment is held at fair value on the consolidated balance sheets. A semi-annual appraisal is conducted and communicated to shareholders. Upon receipt of the semi-annual appraisal, the investment is adjusted to fair value with changes in fair value recognized in income.

Nonrecurring Measurements

Assets measured at fair value on a non-recurring basis at December 31, 2025 are summarized below:

Fair value measurements at December 31, 2025 Using

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Collateral dependent individually evaluated construction and development loans	\$ 5,528	\$ -	\$ -	\$ 5,528

There were no financial assets measured at fair value on a nonrecurring basis as of December 31, 2024.

Collateral dependent individually evaluated loans represent loans with partial write-downs or specific reserves that are based on the observable market price or current estimated value of the collateral. The fair values are determined using either the sales comparison approach or income approach. Respective observable inputs for the approaches consist of adjustments for differences between comparable sales and the utilization of appropriate capitalization rates.

Unobservable (Level 3) Inputs

ASC Topic 825, "Financial Instruments," requires disclosure of the fair value of financial assets and liabilities, including those financial assets and liabilities that are not measured and reported at fair value on a recurring basis or non-recurring basis.

The following tables present the assets and liabilities that are measured at fair value on a non-recurring basis by level within the fair value hierarchy as reported on the consolidated statements of financial position:

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 – FAIR VALUE MEASUREMENT, (CONTINUED)

Fair value measurements at December 31, 2025

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Financial assets				
Cash and due from banks	\$ 22,903	\$ 22,903	\$ -	-
Interest-bearing deposits in other banks	79,477	79,477	-	-
Federal funds sold	80	80	-	-
Securities available-for-sale	556,275	-	556,275	-
Securities held-to-maturity	23,678	-	23,383	-
Equity securities	2,314	-	-	2,314
Loans held-for-sale	887	-	-	887
Loans, net	1,005,688	-	-	988,468
Federal Home Loan Bank and Federal Reserve Bank stock	2,426	-	2,426	-
Accrued interest receivable	6,304	-	6,304	-
Financial liabilities				
Non-interest-bearing deposits	484,552	484,552	-	-
Interest-bearing deposits	1,108,707	-	1,027,561	-
Accrued interest payable	1,591	-	1,591	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

Fair value measurements at December 31, 2024

	Carrying amount	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
	(dollars in thousands)			
Financial assets				
Cash and due from banks	\$ 26,034	\$ 22,034	\$ -	-
Interest-bearing deposits in other banks	20,493	20,493	-	-
Federal funds sold	86	86	-	-
Securities available-for-sale	588,523	-	588,523	-
Securities held-to-maturity	24,532	-	23,382	-
Equity securities	2,178	-	-	2,178
Loans, net	998,818	-	-	956,611
Federal Home Loan Bank and Federal Reserve Bank stock	2,649	-	2,649	-
Accrued interest receivable	6,059	-	6,059	-
Financial liabilities				
Non-interest-bearing deposits	482,398	482,398	-	-
Interest-bearing deposits	1,121,223	-	1,026,707	-
Accrued interest payable	2,773	-	2,773	-
Off-balance sheet credit related instruments:				
Commitments to extend credit and letters of credit	-	-	-	-

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12 – DEPOSITS

At December 31, 2025 and 2024, approximately \$36.6 million and \$72.1 million, respectively, of time deposits had been issued in denominations of \$250,000 or greater.

At December 31, 2025 and 2024, the Bank had \$354,000 and \$1,277,000, respectively, of deposit accounts in overdraft status and thus have been reclassified to loans in the accompanying consolidated balance sheets.

The following table presents maturities of interest-bearing time deposits as of December 31, 2025:

	(dollars in thousands)	
2026	\$	181,283
2027		9,728
2028		4,060
2029		2,418
2030		2,522
Thereafter		<u>-</u>
Total	\$	<u>200,011</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY

The following tables present the condensed balance sheet, statements of income, and cash flows of the Parent Company:

CONDENSED BALANCE SHEET

	As of December 31,	
	2025	2024
	(dollars in thousands)	
Cash	\$ 45	\$ 3
Investment in bank subsidiary	171,992	138,288
Investment in credit life insurance company	-	54
Dividends receivable from bank subsidiary	1,152	1,091
Equity securities	2,314	2,178
Other assets	-	-
Total assets	\$ 175,503	\$ 141,614
Liabilities		
Accrued liabilities	\$ 2,813	\$ 2,928
Due to bank	10	17
Dividends payable	1,152	1,091
Total liabilities	3,975	4,036
Shareholders' equity		
Common stock - \$10 par value, 8,000,000 shares authorized; 3,972,865 and 4,039,445 shares issued and outstanding as of the periods presented	39,729	40,394
Additional paid-in capital	156	85
Retained earnings	164,267	152,268
Accumulated other comprehensive loss	(32,624)	(55,169)
Total shareholders' equity	171,528	137,578
Total liabilities and shareholders' equity	\$ 175,503	\$ 141,614

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF INCOME

	Years ended December 31,		
	2025	2024	2023
Operating income		(dollars in thousands)	
Dividends from bank subsidiary	\$ 7,837	\$ 8,742	\$ 7,306
Other	136	55	(383)
Operating expenses	(528)	(559)	(547)
Income before equity in undistributed net income of bank subsidiary	7,445	8,238	6,376
Equity in undistributed net income of bank subsidiary	11,192	7,813	9,689
Net income	\$ 18,637	\$ 16,051	\$ 16,065
Non-controlling interest – dividends on preferred stock of subsidiary	(16)	(16)	(16)
Net income available to common shareholders	\$ 18,621	\$ 16,035	\$ 16,049

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 – CONDENSED FINANCIAL INFORMATION OF THE PARENT COMPANY, (CONTINUED)

CONDENSED STATEMENTS OF CASH FLOWS

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands)		
Operating activities			
Net income	\$ 18,637	\$ 16,051	\$ 16,065
Adjustments to reconcile net income to net cash provided by operating activities			
Equity in undistributed net income of bank subsidiary	(11,192)	(7,813)	(9,689)
(Gain) loss on equity securities	(136)	(55)	383
Changes in other assets	114	(101)	(21)
Changes in other liabilities	(116)	169	163
Total adjustments	(11,330)	(7,800)	(9,164)
Net cash provided by operating activities	7,307	8,251	6,901
Investing activities			
Net cash used in investing activities	-	-	-
Financing activities			
Payment to repurchase common stock	(2,839)	(4,156)	(2,907)
Common stock dividends paid	(4,410)	(4,079)	(3,978)
Preferred stock of subsidiary dividends paid	(16)	(16)	(16)
Net cash used in financing activities	(7,265)	(8,251)	(6,901)
Decrease in cash	42	-	-
Cash at beginning of year	3	3	3
Cash at end of year	\$ 45	\$ 3	\$ 3

NOTE 14 – EMPLOYEE BENEFIT PLANS

The Bank contributes to a qualified profit-sharing plan covering employees who meet participation requirements. To be eligible to participate, employees must complete 1,000 hours of service within the twelve-month time period following their date of hire. Employees must be age 20 or older. The amount of the contribution is at the discretion of the Bank's Board of Directors, up to the maximum deduction allowed for federal income tax purposes. Contributions to the plan, which amounted to \$1.1 million, \$669,000, and \$694,000 in 2025, 2024 and 2023, respectively, are included in salaries and employee benefits expense.

Effective July 1, 2025, the Bank established a defined contribution retirement plan (the "401(k) Plan") under the Internal Revenue Code Section 401(k) in which employees may participate. Employees are eligible to participate and make elective deferrals to the 401(k) Plan after completing six months of service. Participants may become eligible for the 401(k) Plan following the SECURE Act Long-Term Part-Time Employee Eligibility ("LTPTEE") provision rules. The Bank has elected a safe harbor 401(k) plan and as such is required to make an annual contribution of 3% of the employees' salaries annually. An employee does not have to contribute to receive the employer contribution. Participants may contribute a percentage of their compensation, subject to annual limits established by the Internal Revenue Service ("IRS"). For the year ended December 31, 2025, the Bank contributed \$305,000 to the 401(k) Plan.

The Bank has SERP agreements for certain key officers, and the principal cost of these agreements is accrued over the anticipated remaining period of active employment, based on the present value of the expected retirement benefit. At December 31, 2025 and 2024, the related liability totaled \$2.9 million and \$3.0 million, respectively, and was included in other liabilities.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 – EMPLOYEE BENEFIT PLANS, (CONTINUED)

The Company and the Bank have deferred compensation plans that permit directors to defer their director’s fees and earn interest on the deferred amount at the wall street journal prime rate plus three percent, with an interest rate cap of 9.75% on most plans. The agreements provide for a lump sum payment or 120 monthly payments of deferred fees plus accrued interest after retirement, separation from service, or death. At December 31, 2025 and 2024, the liability accrued for this plan totaled \$7.2 million and \$7.6 million, respectively. The charge to expense for the agreements was \$1.1 million, \$1.2 million, and \$1.1 million for the years ended December 31, 2025, 2024 and 2023, respectively.

On December 1, 2023, the Company established a 2023 Omnibus Stock Incentive Plan (“the Plan”) to provide a performance incentive and to encourage stock ownership by directors, officers, employees, and other persons providing services to the Company and its affiliates. The Plan provides for incentive awards of the Company’s common stock in the form of restricted stock units, restricted stock, stock options, performance units or stock appreciation rights. The Plan authorizes a total of 250,000 shares for issuance.

A summary of restricted stock unit awards activity for the twelve months ended December 31, 2025 and 2024 is as follows:

	Shares		Weighted Average Grant-Date Fair Value
January 1, 2025	12,321	\$	27.07
Granted	1,216		38.00
Vested	(4,998)		27.52
Forfeited	(1,194)		27.04
Outstanding at December 31, 2025	7,345	\$	28.57
	Shares		Weighted Average Grant-Date Fair Value
January 1, 2024	-	\$	-
Granted	12,664		27.01
Vested	(343)		25.00
Forfeited	-		-
Outstanding at December 31, 2024	12,321	\$	27.07

The restricted stock units vest over various time periods. As of December 31, 2025, there was \$147,000 of unrecognized compensation cost related to non-vested restricted stock units. The cost is expected to be expensed over a weighted-average period of 1.8 years.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – POST-RETIREMENT BENEFIT PLAN

Effective July 1, 2013, the Company revised its retiree medical benefit plan for employees who were hired before March 20, 2007. Newly retiring employees will no longer be offered medical, dental or life insurance coverage. Instead, qualified retirees will receive a post-retirement bonus. The Company will pay a post-retirement bonus equal to \$20,000 to employees who: (i) were hired prior to March 20, 2007; (ii) retire on or after July 1, 2013; (iii) are at least age 59 ½ at the time of retirement; and (iv) have at least 25 years of service to the Company as of retirement. The bonus will be paid in a lump sum cash payment (subject to applicable tax withholding requirements) within 60 days after the employee’s retirement, provided such retirement constitutes a “separation from service” under section 409A of the Internal Revenue Code. The Company still sponsors a defined benefit post-retirement health care plan for retirees who retired prior to July 1, 2007. Under this plan, premiums paid by retirees and spouses depend on date of retirement, age and coverage election.

The Company funding policy is to make the minimal annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time. The Company expects to contribute \$255,000 to the plan in 2026.

The following table provides further information about the plan:

	Post-retirement benefits	
	2025	2024
	(dollars in thousands)	
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 1,367	\$ 1,517
Service cost	15	17
Interest cost	67	73
Expected benefits paid	(182)	(298)
Actuarial loss	6	58
Benefit obligation at end of year	<u>\$ 1,273</u>	<u>\$ 1,367</u>
Change in fair value of assets		
Fair value of plans assets at beginning of year	\$ -	\$ -
Employer contribution	182	298
Benefits paid	(182)	(298)
Fair value of plan assets at end of year	<u>\$ -</u>	<u>\$ -</u>
Reconciliation of funded status to benefit costs recognized		
Projected benefit obligation, end of year	\$ (1,273)	\$ (1,367)
Fair value of assets, end of year	-	-
Funded status, end of year	<u>\$ (1,273)</u>	<u>\$ (1,367)</u>

Amounts recognized in accumulated other comprehensive income not yet recognized as components of net periodic benefit cost consist of:

	2025	2024
	(dollars in thousands)	
Unrecognized net actuarial gain	\$ (717)	\$ (839)
Unrecognized prior service cost	-	-
	<u>\$ (717)</u>	<u>\$ (839)</u>

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

Amounts recognized in statement of financial position are as follows:

	2025	2024
	(dollars in thousands)	
Accounts payable and other liabilities	\$ 1,273	\$ 1,367

A reconciliation of other comprehensive loss is as follows:

	Post-retirement benefits	
	2025	2024
	(dollars in thousands)	
Accumulated other comprehensive loss beginning of year	\$ (840)	\$ (1,047)
Amortization of net actuarial gain	117	149
Loss incurred in current year	6	58
Prior service cost established in current year	-	-
Other comprehensive income	123	207
Ending balance (before tax effects)	\$ (717)	\$ (840)

	Post-retirement benefits	
	2025	2024
	(dollars in thousands)	
Components of net periodic benefit cost		
Service cost	\$ 15	\$ 17
Interest cost	67	73
Amortization of prior service cost	-	-
Recognized net actuarial gain	(117)	(149)
Net periodic benefit cost	\$ (35)	\$ (59)

The components of net periodic benefit cost other than the service cost component are included in other non-interest expense in the consolidated income statement. The estimated net gain for the defined benefits post-retirement plan that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year is \$98,000.

	Post-retirement benefits	
	2025	2024
Weighted-average assumption used to determine benefit obligation:		
Discount rate	5.35%	5.25%
Rate of compensation increase	NA	NA

	Post-retirement benefits	
	2025	2024
Weighted-average assumptions used to determine benefit costs:		
Discount rate	5.35%	5.25%

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15 – POST-RETIREMENT BENEFIT PLAN, (CONTINUED)

The following table gives the health care cost trend, which is applied to gross charges, net claims and retiree paid premiums to reflect the Company’s past practice and stated ongoing intention to maintain relatively constant cost sharing between the Company and retirees:

Health care trend rate	<u>2025</u>	<u>2024</u>
Initial		
Pre-65	8.00%	8.00%
Post-65	6.50%	6.50%
Ultimate (pre and post-65)	4.50%	4.50%
Years to ultimate		
Pre-65	14	7
Post-65	8	8

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid, net of participant contributions:

FYE	Company benefits (dollars in thousands)
2026	\$ 255
2027	153
2028	139
2029	120
2030	137
2031-2035	<u>514</u>
	<u>\$ 1,318</u>

NOTE 16 – REGULATORY CAPITAL

The Company and Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions, by regulators that, if undertaken, could have a direct material effect on the financial statements.

In May of 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act was signed into law. The new law makes a variety of changes aimed to simplify regulatory reporting requirements on community banks and scale down requirements previously required by Dodd-Frank Act. The new law contains a Small Bank Holding Company Policy statement which provides a capital requirement exemption for holding companies with total consolidated assets under \$3 billion. The Company, which was previously subject to similar regulatory capital requirements as the Bank, is now subject to the Federal Reserve’s “Small Bank Holding Company and Savings and Loan Policy Statement.” As such, the Company is no longer subject to certain capital adequacy guidelines and regulatory reporting.

To be considered well capitalized under applicable banking regulations, the Bank must maintain the following minimum capital ratios and not be subject to a written agreement, order or directive to maintain a higher capital level:

- (1) a common equity Tier 1 capital ratio of 6.5%;
- (2) a Tier 1 risk based capital ratio of 8%;
- (3) a Total risk based capital ratio of 10%; and
- (4) a Tier 1 leverage ratio of 5%.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 – REGULATORY CAPITAL, (CONTINUED)

Under capital level requirements, common equity Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings plus limited amounts of minority interest in the form of common stock, less goodwill and other specified intangible assets and other regulatory deductions. Tier 1 capital generally consists of common stock (plus related surplus) and retained earnings, limited amounts of minority interest in the form of additional Tier 1 capital instruments, and non-cumulative preferred stock and related surplus, subject to certain eligibility standards, less goodwill and other specified intangible assets and other regulatory deductions. Tier 2 capital generally consists of subordinated debt (including that portion of subordinated debentures associated with trust preferred securities in excess of the amount that is treated as Tier 1 capital), types of preferred stock that do not qualify as Tier 1 capital and a limited amount of loan loss reserves, subject to certain eligibility criteria.

The current capital level requirements allow banks and their holding companies with less than \$250 billion in assets a one-time opportunity to opt out of a requirement to include unrealized gains and losses in accumulated other comprehensive income in their capital calculation. The Bank has opted out of this requirement.

Actual capital amounts and ratios are presented in the table below. Management believes, as of December 31, 2025, that the Bank met the guidelines to which it was subject.

(Dollars in thousands) As of December 31, 2025	Actual		Minimum capital requirement		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 (to risk weighted assets)	\$ 195,598	17.5%	\$ 50,321	4.5%	\$ 72,686	6.5%
Total capital (to risk weighted assets)	204,309	18.3%	89,460	8.0%	111,825	10.0%
Tier 1 capital (to risk weighted assets)	195,598	17.5%	67,095	6.0%	89,460	8.0%
Tier 1 capital (to average assets)	195,598	10.9%	72,059	4.0%	90,073	5.0%

(Dollars in thousands) As of December 31, 2024	Actual		Minimum capital requirement		Minimum to be well capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common equity Tier 1 (to risk weighted assets)	\$ 184,439	16.4%	\$ 50,572	4.5%	\$ 73,048	6.5%
Total capital (to risk weighted assets)	192,920	17.2%	89,906	8.0%	112,382	10.0%
Tier 1 capital (to risk weighted assets)	184,439	16.4%	67,429	6.0%	89,906	8.0%
Tier 1 capital (to average assets)	184,439	9.9%	74,481	4.0%	93,101	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2025, approximately \$28.7 million of retained earnings were available for dividend declaration without prior approval.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 17 – REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Company’s revenue from contracts with customers in the scope of ASC 606 is recognized within non-interest income. The following table presents the Company’s sources of non-interest income for the periods presented. Items outside the scope of ASC Topic 606 are noted as such.

	Years ended December 31,		
	2025	2024	2023
	(dollars in thousands)		
Mortgage banking activities ⁽¹⁾	\$ 186	\$ 167	\$ 127
Trust service fees income	4,794	4,707	4,331
Service fees on deposit accounts:			
Overdraft fees	1,379	1,406	1,429
Interchange income	3,324	3,407	3,408
Maintenance fees and charges	1,265	1,532	1,636
Other	414	536	697
Investment service fees income	487	393	366
Earnings on bank-owned life insurance ⁽¹⁾	677	670	558
Gain on redemption of bank-owned life insurance ⁽¹⁾	288	2	331
(Loss) gain on sales of investments ⁽¹⁾	-	(26)	(317)
Gain (loss) on equity securities ⁽¹⁾	136	55	(383)
Gain on disposal of premises and equipment	225	149	8
Other non-interest income	786	831	1,009
Total non-interest income	<u>\$ 13,961</u>	<u>\$ 13,829</u>	<u>\$ 13,200</u>

⁽¹⁾Not within the scope of ASC Topic 606.

A description of the Company’s revenue streams accounted for under ASC Topic 606 follows:

Trust service fees - The Company earns wealth management fees from its contracts with trust customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Company provides the contracted monthly services and are generally assessed based on a tiered scale of the market value of assets under management at month-end. The fees are recognized monthly when the Company satisfies the performance obligation. Other services provided include third party benefit plan administration and estate management. Fees for third party benefit plan administration are billed quarterly or annually and accrued for over the period the performance obligation of administrating the third party plan is being performed. Executor fees earned for estate management are a source of nonrecurring revenue and are recorded upon the satisfaction of the performance obligation, which is determined to be when the estate is closed and/or in some instances when the court has approved the executor’s billing to the estate.

Service fees on deposit accounts - The Company earns fees on its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM usage fees, stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed and the Company fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Account maintenance fees are recognized in the same month the Company earns and satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

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NOTE 17 – REVENUE FROM CONTRACTS WITH CUSTOMERS, (CONTINUED)

The Company earns interchange fees from debit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and is concurrent with the transaction processing services provided to the cardholder. Revenue activity associated with cardholder transactions is recognized on the business day the Company satisfies the performance obligation. Additionally, the Company is acting as an agent in providing cardholder services to customers, thus costs associated with cardholder transactions are netted against the fee income from such transactions.

Investment service fees income - The Company earns fees from investment brokerage services provided to its customers by a third-party service provider. The Company receives commissions from the third-party service provider on a bi-monthly basis based upon customer activity for the month. The fees are recognized monthly when the Company satisfies the performance obligation. Because the Company (1) acts as an agent in arranging the relationship between the customer and third-party service provider and (2) does not control the services rendered to the customer, investment brokerage fees are presented net of related servicing and administration costs.

NOTE 18 – OPERATING SEGMENT

The Company's reportable segment is determined by the Chief Financial Officer, who is the designated chief operating decision maker, based upon information provided about the Company's products and services offered. Our Company's operations consist of one reportable segment, which is banking and financial services. Our Company's banking and financial services include lending, investing of funds, obtaining deposits, wealth management and trust operations, and other financing activities to individual and corporate customers in the state of Tennessee. Loans, investments, and deposits provide the revenues in the banking and financial services segment. Interest expense, provisions for credit losses, employee salaries and benefits provide the significant expenses in the banking and financial services segment.

The Company's segment is distinguished by information provided to the chief operating decision maker, who uses such information to review the performance of various components of the business, which are then aggregated if operating performance, products, services, and customers are similar. The chief operating decision maker will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget-to-actual results in assessing the Company's banking and financial services segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance.

NOTE 19 – SUBSEQUENT EVENTS

In February of 2026, the Company opened a production office in Chattanooga, Tennessee to expand its presence into Hamilton County, Tennessee. A one-year lease agreement was executed on February 1, 2026, for the production office space.

The Company evaluated all events or transactions that occurred after December 31, 2025, through March 3, 2026 and no other subsequent events requiring recognition or disclosure in the December 31, 2025 consolidated financial statements were identified.