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FIRST FARMERS AND MERCHANTS CORPORATION REPORTS
THIRD QUARTER RESULTS

Record Loans, Annualized Loan Growth of 16%

COLUMBIA, Tenn. (October 23, 2023) – First Farmers and Merchants Corporation (OTC Pink: FFMH), the holding company for First Farmers and Merchants Bank, today announced its results for the third quarter of 2023.

“First Farmers reported growth in loans during the third quarter based on continued demand from our customers and our favorable regional economy,” stated Brian K. Williams, Chairman and Chief Executive Officer of First Farmers. “We also experienced growth in deposits from the second quarter of this year as we faced strong competition from regional banks. We remained focused on protecting our deposit base as part of our long-term strategy to maintain an optimal balance sheet and strengthen our customer base.

“Our interest costs jumped in the third quarter due to the competition for deposits and to the substantially higher interest rate environment compared with last year. As a result, our net income was lower this quarter due primarily to the sharp rise in interest costs. Our net interest margin began to stabilize in September, and we remain positive about First Farmers’ outlook for the future. The result of this unprecedented spike in interest rates continues to cascade across the banking industry and certainly impacted our third quarter performance. However, we remain focused on optimizing our balance sheet to navigate the current challenges and more importantly, to propel the Company’s earnings performance as the interest rate environment stabilizes.

“Over the past year, we have repositioned our balance sheet to support our continued growth, our credit quality remains very strong, we are benefiting from solid growth from our trust services business line, and we continue to streamline our operations to enhance efficiency. We believe these fundamentals are critical to building long-term shareholder value.”

Key highlights of First Farmers’ results for the third quarter of 2023 include:

- Net income decreased 30.5% to \$3.3 million from \$4.8 million for the third quarter of 2022. Net income per common share decreased 29.2% to \$0.79 from \$1.12 for the year-earlier quarter. Net income decreased 33.8% from \$5.0 million, or \$1.19, per common share, reported in the second quarter of 2023. The decline in net income was primarily due to higher interest costs;
- Adjusted net income, which excludes special items, declined 30.5% to \$3.3 million, or \$0.79 per common share, compared with \$4.8 million, or \$1.12 per common share, for the third quarter of 2022. Third quarter adjusted net income decreased 35.1% from \$5.1 million, or \$1.21 per common share, reported in the second quarter of 2023 (see “Non-GAAP Financial Measures” section);
- Interest income increased 14.7% to \$15.2 million from \$13.3 million for the third quarter of 2022 and was up 1.4% from \$15.0 million for the second quarter of 2023;

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- Total interest expense increased 546.5% to \$5.2 million compared with the third quarter of 2022. Net interest income decreased 19.8% to \$10.0 million from \$12.5 million for the third quarter of 2022 and was down 17.3% from \$12.1 million for the second quarter of 2023 due to higher interest expense;
- Total loans increased \$39 million to a record \$1.004 billion, or 16.3% annualized, from the second quarter of 2023, and increased \$53 million, or 5.5%, compared to the third quarter of 2022;
- Total deposits increased \$17 million, or 4.1% annualized, from the second quarter of 2023; and
- Total stock repurchased increased to 44,930 shares, up 5.6%, from the second quarter of 2023, and increased 232.1% from the third quarter of 2022.

“We increased our stock repurchases in the third quarter to the highest quarterly amount since 2016,” continued Williams. “We believe our stock repurchase program highlights our confidence in the future of First Farmers. We also continued to invest in upgrading our digital technology to streamline our operations and improve the delivery of services to our customers.”

Commenting on the results, Robert E. Krimmel, Chief Financial Officer of First Farmers, said, “The sharp increase in interest rates reduced our net interest margin early in the third quarter as expected, but began to stabilize by quarter’s end. We expect margins to improve in the fourth quarter with a substantial amount of the deposit repricing for our customers behind us. We believe our balance sheet is positioned well to grow future earnings in this interest rate environment that is expected to stay higher through the coming year.

“We also expect our credit quality discipline to be an important part of protecting our future earnings. Our lending and credit teams remain focused on generating high quality loans and believe our solid liquidity levels will allow us to continue funding new loan activity. We experienced a \$2.3 million increase in nonperforming loans in the third quarter that was due to a single loan that was fully resolved at no loss early in the fourth quarter. Based on our ongoing stress tests of our loan portfolio, we believe our credit quality will remain strong despite the risks present in this higher interest rate environment.

“Our efficiency ratio declined in the third quarter primarily due to the sharp increase in deposit repricing. Without the decline in net interest income due to higher deposit costs, our operating efficiency continued to improve and benefited from our consistent growth in non-interest income over the past three quarters, including the excellent performance of trust services, and our seventh consecutive quarterly decline in noninterest expenses compared to the prior year due to our focus on expense management. We expect to leverage our continued investments in our digital platforms and operating software to improve our future operating efficiencies.”

Third Quarter 2023 Results of Operations

Net income decreased to \$3.3 million, down \$1.5 million, or 30.5% from the third quarter of 2022. The decline in earnings was due to a decrease in net interest income of \$2.5 million offset in part by lower non-interest expense of \$589,000 compared to the third quarter of 2022. The reduction in net-interest income was driven by deposit costs which were up \$4.4 million, offset in part by an increase in interest and fees on loans of \$2.3 million supported by net loan growth of \$53 million compared to the third quarter of 2022. The reduction in non-interest expense was due primarily to lower salaries and employee benefits expense of \$636,000 compared to the third quarter of 2022.

Net income for the third quarter of 2023 was down from the sequential second quarter by \$1.7 million, or 33.7%. The decrease in earnings was due primarily to a reduction in net interest income after provision of \$2.4 million compared to the second quarter of 2023. The decline in net-interest income after

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provision was driven by deposit costs which were up \$1.7 million and a lower provision credit for credit losses of \$260,000, offset in part by an increase in interest and fees on loans of \$458,000 supported by net loan growth of \$39 million compared to the second quarter of 2023.

For the third quarter of 2023, the balance of securities available-for-sale declined \$48 million from the sequential second quarter. Securities available-for-sale amortized cost decreased \$35 million and was used to fund loan growth while the unrealized loss adjustment for securities available-for-sale increased by \$13 million for the quarter driven by higher long-term market interest rates compared to the sequential quarter. The balance of securities available-for-sale amortized cost decreased \$134 million from the third quarter of 2022 with the decrease used to fund loan growth and liquidity needs of the Company.

For the third quarter of 2023, outstanding loan balances increased \$39 million, or 4.1%, from the sequential quarter to a record \$1.004 billion and increased \$53 million, or 5.5%, from the third quarter of 2022. Total deposits increased \$17 million, or 1.0%, from the sequential second quarter to \$1.675 billion, but decreased \$158 million, or 8.6%, from the third quarter of 2022. The decline in total deposits compared to 2022 was driven largely by one municipal customer that moved its banking relationship of \$113 million to a regional bank during the second quarter of 2023. Total shareholders' equity decreased \$9 million from the sequential quarter due to a \$10 million increase in the unrealized loss adjustment to the available-for-sale securities portfolio.

Nine Months Results

Net income available to common shareholders was \$12.4 million for the first nine months of 2023, down 4.9% compared with \$13.0 million in the first nine months of 2022. Net income per share declined 3.4% to \$2.92 for the first nine months of 2023 compared with \$3.02 for the same period in 2022. The decline in earnings was driven by decreases in non-interest income of \$1.1 million and net interest income of \$968,000, offset in part by a reduction in non-interest expense of \$1.3 million compared to the same period in 2022. Adjusted net income was \$12.9 million for the first nine months of 2023, down 1.6% compared with \$13.1 million in the first nine months of 2022. Adjusted net income per share declined 0.3% to \$3.03 for the first nine months of 2023 compared with \$3.04 for the same period in 2022.

The decline in adjusted net income was driven by decreases in net interest income of \$968,000 and non-interest income of \$361,000 offset in part by a reduction in non-interest expense of \$1.1 million compared to the same period in 2022. The reduction in net-interest income was driven by deposit costs which were up \$7.6 million, other borrowings expense which was up \$1.0 million, and interest on investment securities which declined \$420,000, offset in part by an increase in interest and fees on loans of \$8.1 million supported by net loan growth of \$53 million compared to the third quarter of 2022. The decline in non-interest income was attributable to revenue from mortgage banking activities which was down \$457,000 and service fees on deposit accounts which declined \$279,000, offset in part by increases in other non-interest income of \$220,000 and trust services fee income of \$161,000 compared to the first nine months of 2022. The decrease in adjusted non-interest expense was due to lower salaries and employee benefits of \$1.1 million compared to the first nine months of 2022.

Asset Quality

Nonperforming assets rose to \$3.1 million, or 0.17% of total assets, up from \$803,000, or 0.04% of total assets, from the sequential quarter of 2023 and up from \$711,000, or 0.04% of total assets, from the third quarter of 2022. The increase in nonperforming assets was related to one \$2.3 million commercial real estate loan that was resolved at no loss during the fourth quarter of 2023. Net recoveries to average loans were 0.00% for the third quarter of 2023 compared with net recoveries of 0.00% for the sequential quarter and net

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recoveries of 0.01% for the third quarter of 2022. No provision expense was recorded to provision for credit losses during the third quarter of 2023. The allowance for credit losses represented 0.78% of total loans outstanding for the third quarter of 2023 compared with 0.85% for the sequential quarter and 0.99% for the third quarter of 2022. The allowance for credit losses for unfunded commitments represented 0.29% of total unfunded commitments for the second quarter of 2023 compared with 0.19% for the sequential quarter. The allowance for credit losses for held-to-maturity (“HTM”) securities represented 0.06% of total HTM securities for the third quarter of 2023 compared with 0.06% for the sequential quarter.

Capital Management Initiatives

During the third quarter of 2023, First Farmers repurchased 44,930 shares of the Company’s common stock in the open market or privately negotiated transactions at an average price of \$30.28 per share with prices ranging from \$26.37 to \$31.83 per share in accordance with the Company’s stock repurchase program. Authorization to repurchase approximately 99,165 shares remains under the current program, which is set to expire in December 2023, unless extended or otherwise completed.

About First Farmers and Merchants Corporation and First Farmers and Merchants Bank

First Farmers and Merchants Corporation is the holding company for First Farmers and Merchants Bank, a community bank serving the Middle Tennessee area through 22 offices in seven Middle Tennessee counties. As of September 30, 2023, First Farmers reported total assets of approximately \$1.9 billion, total shareholders’ equity of approximately \$99 million, and administered trust assets of \$5.4 billion. For more information about First Farmers, visit us on the Web at www.myfirstfarmers.com under “Investor Relations.”

Cautionary Note Regarding Forward Looking Statements

This news release may contain certain “forward-looking statements” that represent First Farmers’ expectations or beliefs concerning future events and often use words or phrases such as “opportunities,” “prospects,” “will likely result,” “are expected to,” “will continue,” “is anticipated,” “estimate,” “project,” “intends” or similar expressions. Such forward-looking statements contained herein represent the current expectations, plans or forecast of First Farmers’ and are about matters that are inherently subject to risks and uncertainties. These statements are not guarantees of future results or performance and readers are cautioned to not place undue reliance on them, whether included in this news release or made elsewhere from time to time by First Farmers or on its behalf. First Farmers disclaims any obligation to update such forward-looking statements.

Non-GAAP Financial Measures

Statements included in this press release include non-GAAP financial measures and should be read along with the accompanying tables, which provide a reconciliation of non-GAAP financial measures to GAAP financial measures. First Farmers management uses non-GAAP financial measures, including: (i) adjusted net income and (ii) adjusted basic earnings per share, in its analysis of the Company's performance. These non-GAAP financial measures exclude the following from net income: securities losses, gain on sale of premises and equipment, one-time digital conversion fees, and the income tax effect of adjustments. Management believes that non-GAAP financial measures provide additional useful information that allows readers to evaluate the ongoing performance of the Company.

FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES UNAUDITED RECONCILIATION OF NON-GAAP MEASURES PRESENTED IN EARNINGS RELEASE

(Dollars in thousands, except per share data)

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

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

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**FIRST FARMERS AND MERCHANTS CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS**

		(unaudited) September 30, 2023	December 31, 2022 ⁽¹⁾
<i>(dollars in thousands, except per share data)</i>			
ASSETS	Cash and due from banks	\$ 25,693	\$ 27,193
	Interest-bearing deposits	4,998	1,754
	Federal funds sold	116	57
	Total cash and cash equivalents	30,807	29,004
	Securities:		
	Available-for-sale	696,505	810,591
	Held-to-maturity (fair market value \$13,202 and \$14,162, net of allowance for credit losses of \$9 and \$0 for the periods presented)	15,048	15,087
	Equity securities	2,154	2,505
	Loans, net of deferred fees	1,004,066	966,167
	Allowance for credit losses	(7,871)	(9,382)
	Net loans	996,195	956,785
	Bank premises and equipment, net	30,359	32,140
	Bank-owned life insurance	37,870	35,829
	Goodwill	9,018	9,018
	Deferred tax asset	32,708	30,511
	Other assets	17,876	20,819
	TOTAL ASSETS	\$ 1,868,540	\$ 1,942,289
LIABILITIES	Deposits:		
	Noninterest-bearing	\$ 483,357	\$ 534,474
	Interest-bearing	1,191,316	1,264,154
	Total deposits	1,674,673	1,798,628
	Accounts payable and accrued liabilities	24,203	21,996
	FHLB borrowings	71,000	25,000
	TOTAL LIABILITIES	1,769,876	1,845,624
SHAREHOLDERS' EQUITY	Common stock - \$10 par value per share, 8,000,000 shares authorized; 4,174,493 and 4,275,328 shares issued and outstanding as of the periods presented	41,745	42,753
	Retained earnings	140,595	132,905
	Accumulated other comprehensive loss	(83,771)	(79,088)
	Total shareholders' equity attributable to First Farmers and Merchants Corporation	98,569	96,570
	Noncontrolling interest - preferred stock of subsidiary	95	95
	TOTAL SHAREHOLDERS' EQUITY	98,664	96,665
	TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 1,868,540	\$ 1,942,289

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

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2023	2022	2023	2022
<i>(dollars in thousands, except per share data)</i>					
INTEREST AND DIVIDEND INCOME	Interest and fees on loans	\$ 12,417	\$ 10,140	\$ 35,826	\$ 27,712
	Income on investment securities				
	Taxable interest	2,291	2,559	7,107	7,538
	Exempt from federal income tax	442	504	1,353	1,525
	Interest from federal funds sold and other	90	76	375	192
	Total interest income	15,240	13,279	44,661	36,967
INTEREST EXPENSE	Interest on deposits	4,568	803	9,308	1,680
	Interest on other borrowings	669	7	1,041	7
	Total interest expense	5,237	810	10,349	1,687
	Net interest income	10,003	12,469	34,312	35,280
	Provision credit for credit losses	-	-	(260)	(320)
	Net interest income after provision	10,003	12,469	34,572	35,600
NON-INTEREST INCOME	Mortgage banking activities	26	118	101	558
	Trust services fee income	1,103	1,013	3,267	3,106
	Service fees on deposit accounts	1,817	1,974	5,389	5,668
	Investment services fee income	90	113	279	333
	Earnings on bank-owned life insurance	158	119	402	356
	Loss on sale of available-for-sale securities	-	-	(317)	-
	Gain on sale of premises and equipment	3	-	7	91
	(Loss) gain on equity securities	-	-	(351)	25
	Other non-interest income	300	189	737	515
	Total non-interest income	3,497	3,526	9,514	10,652
NON-INTEREST EXPENSE	Salaries and employee benefits	5,288	5,924	16,245	17,419
	Net occupancy expense	545	575	1,647	1,716
	Depreciation expense	407	433	1,229	1,365
	Data processing expense	536	459	1,535	2,003
	Software support and other computer expense	1,086	980	3,156	2,792
	Legal and professional fees	202	204	643	723
	Audits and exams expense	158	157	525	519
	Advertising and promotions	255	355	749	797
	FDIC insurance premium expense	188	198	681	528
	Other non-interest expense	822	791	2,498	2,394
	Total non-interest expense	9,487	10,076	28,908	30,256
	Income before provision for income taxes	4,013	5,919	15,178	15,996
	Provision for income taxes	675	1,116	2,780	2,965
	Net income	3,338	4,803	12,398	13,031
	Noncontrolling interest - dividends on preferred stock subsidiary	-	-	8	8
	Net income available to common shareholders	\$ 3,338	\$ 4,803	\$ 12,390	\$ 13,023
	Weighted average shares outstanding	4,206,805	4,301,056	4,246,412	4,310,501
	Earnings per share	\$ 0.79	\$ 1.12	\$ 2.92	\$ 3.02

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

For the Three Months Ended

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

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

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