

**FIRST FARMERS FINANCIAL CORPORATION**

**CONSOLIDATED FINANCIAL STATEMENTS**

December 31, 2024 and 2023

FIRST FARMERS FINANCIAL CORPORATION  
Converse, Indiana

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023

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## Independent Auditor's Report

Board of Directors and Stockholders  
First Farmers Financial Corporation  
Converse, Indiana

### ***Opinion***

We have audited the consolidated financial statements of First Farmers Financial Corporation and subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years 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 First Farmers Financial Corporation and subsidiaries as of December 31, 2024 and 2023, and the results of their operations and their cash flows for the years 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, First Farmers Financial Corporation and subsidiaries' internal control over financial reporting as of December 31, 2024, based on criteria establish in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 28, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

### ***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 First Farmers Financial Corp and to meet our other 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 First Farmers Financial Corporation's ability to continue as a going concern within one year after the date that these consolidated financial statements are 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.

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.
- 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 First Farmers Financial 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.

**Forvis Mazars, LLP**

**Fort Wayne, Indiana  
February 28, 2025**

FIRST FARMERS FINANCIAL CORPORATION  
CONSOLIDATED BALANCE SHEETS  
December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	<u>2024</u>	<u>2023</u>
<b>ASSETS</b>		
Cash and due from financial institutions	\$ 111,865	\$ 51,727
Money market funds	7,821	6,582
Cash and cash equivalents	<u>119,686</u>	<u>58,309</u>
Interest-bearing deposits in other financial institutions	835	1,325
Securities available for sale, at fair value net of allowance for credit losses of \$0 in 2024 and 2023	602,454	569,412
Securities held to maturity, net of allowance for credit losses of \$0 in 2024 and 2023 (fair value \$118 in 2024 and \$140 in 2023)	110	130
Equity securities	5,296	4,898
Restricted stock, at cost	12,148	11,732
Loans held-for-sale	3,760	3,606
Loans, net of allowance for credit losses of \$33,458 in 2024 and \$34,893 in 2023	2,356,889	2,219,380
Premises and equipment, net	23,278	23,836
Goodwill	8,729	8,729
Bank-owned life insurance	27,511	26,614
Investments in affordable housing partnerships	9,468	11,015
Accrued interest receivable and other assets	70,133	67,156
	<u>\$ 3,240,297</u>	<u>\$ 3,006,142</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits		
Noninterest-bearing deposits	\$ 491,804	\$ 483,923
Interest-bearing deposits	2,328,004	2,116,930
Total deposits	<u>2,819,808</u>	<u>2,600,853</u>
Federal Reserve borrowings	-	25,000
Other borrowings	7,082	8,373
Federal Home Loan Bank (FHLB) advances	85,000	55,000
Notes payable	5,995	6,989
Subordinated debentures	18,558	18,558
Accrued interest payable and other liabilities	30,289	31,766
Total liabilities	<u>2,966,732</u>	<u>2,746,539</u>
Stockholders' equity		
Common stock, \$1 stated value, 30,000,000 shares authorized, 7,196,185 issued and 7,019,157 outstanding in 2024; 30,000,000 authorized, 7,197,469 issued and 7,024,977 outstanding in 2023	7,196	7,197
Additional paid-in capital	4,905	4,813
Retained earnings	303,204	281,366
Treasury stock (177,028 shares in 2024 and 172,492 shares in 2023)	(8,977)	(8,219)
Accumulated other comprehensive loss	(32,763)	(25,554)
Total stockholders' equity	<u>273,565</u>	<u>259,603</u>
	<u>\$ 3,240,297</u>	<u>\$ 3,006,142</u>

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	<u>2024</u>	<u>2023</u>
<b>Interest and dividend income</b>		
Loans, including fees	\$ 162,527	\$ 141,315
Securities		
Taxable	17,757	11,666
Non-taxable	5,426	6,136
Other	4,653	2,222
	<u>190,363</u>	<u>161,339</u>
<b>Interest expense</b>		
Deposits	74,776	51,259
Short-term borrowings	1,254	1,306
Notes payable and FHLB advances	4,395	5,177
Subordinated debentures	868	847
	<u>81,293</u>	<u>58,589</u>
<b>Net interest income</b>	<u>109,070</u>	<u>102,750</u>
Provision for credit losses - loans	22,184	6,776
Provision for credit losses - unfunded loan commitments	215	(1,726)
	<u>22,399</u>	<u>5,050</u>
<b>Net interest income after provision for credit losses</b>	86,671	97,700
<b>Other income</b>		
Investment product fees	976	851
Service charges on deposit accounts	4,614	4,502
Interchange income	4,984	5,303
Net loss on sale and redemption of securities	(227)	(684)
Unrealized losses recognized on equity securities	(147)	(7)
Realized gains recognized on equity securities	167	-
Loan sales and servicing income	4,127	3,504
Back to back swap fee income	379	-
Other income	2,253	2,681
	<u>17,126</u>	<u>16,150</u>
<b>Other expenses</b>		
Salaries and employee benefits	34,918	33,251
Occupancy and equipment expense	10,694	9,305
Data processing	2,472	2,676
Marketing and business development	2,366	2,198
Consulting and professional services	2,575	1,751
Amortization of intangible assets	-	114
Other operating expenses	7,825	7,644
	<u>60,850</u>	<u>56,939</u>
<b>Income before income taxes</b>	<u>42,947</u>	<u>56,911</u>
Provision for income taxes	7,519	10,728
<b>Net income</b>	<u>\$ 35,428</u>	<u>\$ 46,183</u>
Basic and diluted earnings per common share	<u>\$ 5.04</u>	<u>\$ 6.57</u>
Basic and diluted average common shares outstanding	<u>7,030,726</u>	<u>7,029,326</u>

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	<u>2024</u>	<u>2023</u>
Net income	\$ 35,428	\$ 46,183
Other comprehensive income (loss):		
Change in securities available for sale:		
Unrealized holding gains/(losses) on securities available for sale	(8,152)	10,746
Reclassification adjustment for losses later recognized in income	227	684
Net unrealized gains/(losses)	<u>(7,925)</u>	<u>11,430</u>
Tax effect	1,677	(2,414)
Net of tax amount	<u>(6,248)</u>	<u>9,016</u>
Cash flow hedges:		
Change in fair value of derivatives used for cash flow hedges	(1,110)	(4,044)
Reclassification adjustment for gains realized in income	(168)	(179)
Net unrealized losses	<u>(1,278)</u>	<u>(4,223)</u>
Tax effect	317	1,168
Net of tax amount	<u>(961)</u>	<u>(3,055)</u>
Other comprehensive income (loss), net of tax	<u>(7,209)</u>	<u>5,961</u>
Comprehensive income	<u>\$ 28,219</u>	<u>\$ 52,144</u>

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	Common <u>Stock</u>	Additional Paid-in <u>Capital</u>	Retained <u>Earnings</u>	Treasury <u>Stock</u>	Accumulated Other Comprehensive <u>Loss</u>	Total Stockholders' <u>Equity</u>
<b>Balance at January 1, 2023</b>	\$ 7,197	\$ 4,978	\$ 248,396	\$ (8,215)	\$ (31,515)	\$ 220,841
Net income	-	-	46,183	-	-	46,183
Other comprehensive income	-	-	-	-	5,961	5,961
Purchase of treasury stock, 16,435 shares	-	-	-	(1,021)	-	(1,021)
Sale of treasury stock, 3,200 shares	-	16	-	149	-	165
Long-term incentive compensation, 4,800 shares from treasury	-	54	-	194	-	248
Restricted stock awards, 15,375 shares from treasury	-	(674)	-	674	-	-
Stock-based compensation, net of 0 shares forfeited	-	439	-	-	-	439
Dividends declared (\$1.88 per share)	-	-	(13,213)	-	-	(13,213)
<b>Balance at December 31, 2023</b>	7,197	4,813	281,366	(8,219)	(25,554)	259,603
Net income	-	-	35,428	-	-	35,428
Other comprehensive loss	-	-	-	-	(7,209)	(7,209)
Purchase of treasury stock, 28,350 shares	-	-	-	(1,923)	-	(1,923)
Sale of treasury stock, 5,400 shares	-	55	-	258	-	313
Retirement of treasury stock, 1,284 shares	(1)	(43)	(24)	68	-	-
Long-term incentive compensation, 4,800 shares from treasury	-	50	-	228	-	278
Restricted stock awards, 13,614 shares from treasury, 0 issued	-	(613)	-	613	-	-
Stock-based compensation, net of 525 shares forfeited	-	643	-	(2)	-	641
Dividends declared (\$1.93 per share)	-	-	(13,566)	-	-	(13,566)
<b>Balance at December 31, 2024</b>	<u>\$ 7,196</u>	<u>\$ 4,905</u>	<u>\$ 303,204</u>	<u>\$ (8,977)</u>	<u>\$ (32,763)</u>	<u>\$ 273,565</u>

See accompanying notes.



**FIRST FARMERS FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
Years ended December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	<u>2024</u>	<u>2023</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 35,428	\$ 46,183
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	2,753	2,467
Amortization of intangible assets	-	114
Amortization of debt issuance costs	6	6
Net securities (accretion)/amortization	(209)	826
Unrealized loss of fair value equity securities	147	7
Realized gain on sale of fair value equity securities	(167)	-
Deferred income tax expense/(benefit)	(46)	22
Servicing rights amortization and impairment	1,232	1,189
Stock-based compensation	641	439
Provision for credit losses	22,399	5,050
Net gain on sale of loans	(1,704)	(1,370)
Loans originated for resale	(62,246)	(44,453)
Proceeds from sale of loans	63,796	44,653
Net loss on sale and redemption of securities available for sale	227	684
Net loss on sale and write-down of premises and equipment	628	36
Net gain on sale of other real estate	(1)	-
Earnings on bank-owned life insurance	(897)	(641)
Changes in assets and liabilities		
Interest receivable and other assets	(1,015)	(6,842)
Interest payable and other liabilities	779	(803)
Net cash from operating activities	<u>61,751</u>	<u>47,567</u>
<b>Cash flows from investing activities</b>		
Net change in interest bearing deposits in other financial institutions	490	490
Securities available for sale		
Proceeds from sales	14,133	37,749
Purchases	(130,721)	(180,587)
Proceeds from principal payments, calls and maturities	75,926	42,365
Securities held-to-maturity		
Proceeds from principal payments, calls and maturities	20	15
Equity securities		
Proceeds from sales	326	-
Purchases	(704)	(2,518)
Loans made to customers, net of payments received	(159,807)	(191,870)
Purchase of bank-owned life insurance	-	(4,732)
Premises and equipment expenditures	(2,976)	(4,341)
Proceeds from the disposal of premises and equipment	153	-
Investments in affordable housing partnerships	(3,483)	(1,800)
Proceeds from the sale of other real estate owned	109	10
Proceeds from the sale of repossessed assets	21	17
Redemptions of excess restricted stock	-	1,756
Purchase of restricted stock	(417)	(2,995)
Net cash from investing activities	<u>(206,930)</u>	<u>(306,441)</u>
<b>Cash flows from financing activities</b>		
Net change in deposit accounts	218,955	261,133
Net change in short-term borrowings	(26,291)	33,373
Payments on notes payable	(1,000)	(1,000)
Payments on short term FHLB advances	(339,000)	(2,070,500)
Proceeds from short term FHLB advances	359,000	2,009,000
Payments on long term FHLB advances	(110,000)	(35,000)
Proceeds from long term FHLB advances	120,000	35,000
Sale of treasury stock	313	165
Purchase of treasury stock	(1,923)	(1,021)
Dividends paid	(13,498)	(13,069)
Net cash from financing activities	<u>206,556</u>	<u>218,081</u>
Net change in cash and cash equivalents	61,377	(40,793)
Cash and cash equivalents at beginning of year	<u>58,309</u>	<u>99,102</u>
<b>Cash and cash equivalents at end of year</b>	<u><u>\$ 119,686</u></u>	<u><u>\$ 58,309</u></u>

See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

	<u>2024</u>	<u>2023</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for:		
Interest	\$ 81,751	\$ 56,810
Income taxes	5,325	8,825
<b>Supplemental non-cash disclosures</b>		
Real estate acquired in satisfaction of debts previously contracted	114	41
Right of use asset obtained in exchange for new operating lease liabilities	298	907
Dividends declared but unpaid	3,439	3,372

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See accompanying notes.

FIRST FARMERS FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation and Nature of Operations: The consolidated financial statements of First Farmers Financial Corporation ("Corporation") include its wholly-owned subsidiaries, First Farmers Bank & Trust ("Bank") and 46992 Holdings, LLC and the Bank's wholly-owned subsidiaries, Mark Tully Investments II, Inc. ("MTII"), Mark Tully Holdings II, Inc. ("MTHI"), Mark Tully II, LLC ("MTL"), and Mark Tully Properties, Inc. ("MTP"). MTII owns 100% of MTHI, and MTII and MTHI own 1% and 99% of MTL, which manages investment securities, and 100% of MTP which manages loans secured by real estate. On December 18, 2023, First Farmers Risk Management, Inc., a captive reinsurance subsidiary was dissolved. All significant intercompany transactions and balances have been eliminated in consolidation.

The Corporation and Bank operate primarily in the banking industry. The Bank makes commercial, installment and mortgage loans to and receives deposits from customers through its offices located in the Indiana counties of Carroll, Cass, Clay, Grant, Hamilton, Howard, Huntington, Madison, Marshall, Miami, Starke, Sullivan, Tippecanoe, Tipton, Vigo and Wabash; and Illinois counties of Coles, Edgar and Vermilion. Although the overall loan portfolio is diversified, a substantial portion of its debtors' ability to honor their contracts is dependent upon the commercial and agricultural industries. The majority of the Corporation's loans are secured by specific items of collateral including business assets, consumer assets and real property.

Use of Estimates: To prepare the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. Management has identified the allowance for credit losses, determining fair value and possible impairment of investment securities available for sale, determining fair value and possible impairment of mortgage and agricultural servicing rights, determining fair value of derivatives, and the possible impairment of goodwill to be material estimates. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and actual results could differ.

Interest-bearing Deposits in Other Financial Institutions: Interest-bearing deposits in other financial institutions are carried at cost.

Cash Flows: Cash and cash equivalents are defined as cash and deposits with other financial institutions with maturities of less than 90 days, money market funds, certificates of deposit and federal funds sold. Accounts at other financial institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250. At December 31, 2024 and 2023, the Corporation had \$110 and \$13 in excess of the FDIC insured limit. Net cash flows are reported for customer loan and deposit transactions and federal funds purchased.

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Debt securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. Equity securities are carried at fair value, with changes in fair value reported in net income.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Certain purchased callable debt securities held at a premium are amortized to the earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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(Continued)

FIRST FARMERS FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Credit Losses – Held to maturity securities:

Management measures expected credit losses on held-to-maturity debt securities on a collective basis by major security type. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. As of December 31, 2024 and 2023, the balance of held-to-maturity securities and the accrued interest associated with the securities is immaterial to the consolidated financial statements.

Allowance for Credit Losses – Available for sale securities:

For available for sale debt securities in an unrealized loss position, the Corporation first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available for sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Loans Held for Sale: The Corporation sells certain mortgage and guaranteed loans on the secondary market. Loans held for sale are carried at the lower of cost or estimated fair value, in aggregate. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings.

Loans held for sale are generally sold with servicing rights retained. The carrying value of loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at the principal balance outstanding, net of purchase premiums and discounts, deferred loan fees and costs and an allowance for credit losses. Interest income on loans is accrued over the term of the loans based on the principal outstanding. Loan fees, net of certain direct loan origination costs, are deferred and recognized as an element of interest income over the term of the loan using the level yield method.

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(Continued)

FIRST FARMERS FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

For all classes of loans, interest income is discontinued when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days. Past due status is based on the contractual terms of the loan. Loans are placed on non-accrual or charged off at an earlier date if collection of principal and interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. A loan is moved to non-accrual status in accordance with the Corporation's policy, typically after 90 days of non-payment.

For all classes of loans, all interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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 expected to be brought current and future payments are reasonably assured.

Allowance for Credit Losses (ACL) – Loans:

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, GDP, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Corporation has identified the following portfolio segments and measures the allowance for credit losses using the discounted cash flow method for all segments. The segments for purposes of determining the ACL, include commercial, agriculture, mortgage and other loans. These segments are further disaggregated into pools for purposes of monitoring and assessing credit quality based on certain risk characteristics.

As permitted by ASU 2019-04, Management elected to adjust the effective interest rate used to discount expected cash flows to incorporate expected prepayments. Management elected not to project changes in an independent factor, ie. index or rate for purposes of estimating expected future cash flows. Management also elected the practical expedient for amortized cost basis, which excludes accrued interest from the amortized cost calculation, since the accrued interest receivable balance is written off in a timely manner.

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FIRST FARMERS FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2024 and 2023  
(Dollar amounts in thousands except share and per share data)

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Each of these portfolio segments has different risk characteristics and the allowance for credit loss methodology addresses these risks as follows:

Commercial loans include those secured by pledged assets of the customer's business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Residential Mortgage loans are those that are secured by senior or junior liens on residential property. This portfolio segment includes fixed-and adjustable-rate mortgage loans that provide for the full amortization of principal. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Corporation seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Other portfolio segment includes consumer installment loans, home equity lines of credit and leases. Repayment of the consumer loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. Home equity lines are made at variable rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Leases are generally secured by commercial or agriculture-related equipment and repayment is expected to come primarily from the business or farm operations, and secondarily from the residual value of the equipment. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of collateral expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for estimated selling costs. For loans evaluated on an individual bases that are not determined to be collateral dependent, a discounted cash flow analysis is performed to determine expected credit losses.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures:

The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Direct Financing Leases: Direct financing leases are recorded at the aggregate future minimum lease payments plus estimated residual value of leased assets less unearned income. Income on direct financing leases is recognized by a method that approximates a level rate of return. Leases are included in Loans, net of the allowance on the consolidated balance sheets.

Servicing Assets: Servicing assets are recognized separately when they are acquired through sales of loans. For sales of mortgage and agricultural loans, servicing assets are initially recorded at fair value with the income statement effect recorded in loan sales and servicing income. Fair value is based on market prices for comparable mortgage and agricultural servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. All 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.

Servicing assets are evaluated for impairment based upon the fair value of the assets as compared to carrying amount. Impairment is determined by stratifying assets 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 Corporation 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 in loan sales and servicing income on the consolidated income statements. The fair values of servicing assets 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 consolidated income statements as loan sales and 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 and impairment of servicing assets is netted against loan servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Foreclosed Assets: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less estimated selling costs when acquired, establishing a new cost basis. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. The Corporation did not hold any foreclosed assets at December 31, 2024 and 2023. Foreclosed assets are included in accrued interest receivable and other assets in the consolidated balance sheets.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

At December 31, 2024 and 2023, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$486 and \$189, respectively.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Premises and equipment are depreciated primarily on the straight-line method over the estimated useful lives of the assets ranging from three to forty years. These assets are reviewed for impairment when events indicate the carrying amount may not be recoverable.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Federal Reserve Bank (FRB) Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as restricted stock on the consolidated balance sheets, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends, if any, are reported as income.

Bank-Owned Life Insurance: The Corporation acquired life insurance policies on certain key executives through acquisitions in 2009 and 2012. The Corporation purchased additional life insurance policies on certain key employees during 2022 and 2023. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets: Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually. The Corporation has selected June 30 as the date to perform the annual impairment test. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets.

Core deposit intangible assets arise from bank branch acquisitions. They are initially measured at fair value and then are amortized on a straight line or accelerated method over their estimated useful lives, which range from 8 to 10 years for core deposit intangibles. Intangible assets with definite useful lives are tested for impairment at least annually.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are now such matters that will have a material effect on the consolidated financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to stockholders. As of December 31, 2024, the amount available without prior regulatory approval for 2024 dividends from the bank to the holding company was \$53,884. Additionally, the Corporation may not declare dividends if it has deferred interest payments or is in default on its subordinated debentures.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Investment in Limited Partnership/Investments in Affordable Housing Partnerships

The investments in limited partnerships are recorded using the proportional amortization method of accounting. Under the proportional amortization method, the Corporation amortizes the initial cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance in the consolidated income statement as a component of income tax expense (benefit).

Derivatives: As part of the asset/liability management program, the Corporation may utilize interest rate floors, caps or swaps to reduce its sensitivity to interest rate fluctuations. These derivative instruments are recorded as assets or liabilities in the consolidated balance sheets at fair value. Changes in the fair values of derivatives are reported in the consolidated statements of income or accumulated other comprehensive income (loss) depending on the use of the derivative and whether the instrument qualifies for hedge accounting.

At the inception of a derivative contract, the Corporation designates the derivative as one of three types based on the Corporation's intentions and belief as to likely effectiveness as a hedge. These three types are (1) a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment ("fair value hedge"), (2) a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability ("cash flow hedge"), or (3) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item, are recognized in current earnings as fair values change. For a cash flow hedge, the gain or loss on the derivative is reported in other comprehensive income and is reclassified into earnings in the same periods during which the hedged transaction affects earnings. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as noninterest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income or interest expense, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in noninterest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the consolidated balance sheets or to specific firm commitments or forecasted transactions. The Corporation also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values or cash flows of the hedged items. The Corporation discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative is settled or terminates, a hedged forecasted transaction is no longer probable, a hedged firm commitment is no longer firm, or treatment of the derivative as a hedge is no longer appropriate or intended.

As part of the derivatives program the Corporation also offers qualifying commercial banking customers a derivative product that allows them to swap a variable rate loan to a fixed rate instrument. The product is designed to reduce or eliminate the risk of changes in the customers interest rate risk. The extension of credit to the qualifying commercial banking customers is subject to the same approvals and underwriting standards as would be applied for traditional credit products. The Corporation limits its risk exposure to these products with the simultaneous execution of a similar offsetting swap agreement with a separate, well capitalized and rated counterparty previously approved by the Corporation's Asset Liability Committee. By using these interest rate swap agreements, the Corporation can meet the needs of the customer while still limiting its interest rate risk exposure associated with the fixed rate loans.

These derivative contracts are not designated against specific assets or liabilities and do not qualify for hedge accounting treatment. The derivatives are recorded on the balance sheet at fair value and changes in the fair value of both the customers and the offsetting swap agreements are recorded in non-interest income for both the commercial banking customer swaps and the related offsetting swaps. The fair value of the derivative instruments incorporates a consideration of credit risk (in accordance with ASC 820), resulting in some potential volatility in earnings each period.

Mortgage Banking Derivatives: Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and forward commitments for future delivery of these mortgage loans are accounted for as free-standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment to fund the mortgage loan is executed and is adjusted for the expected exercise of the commitment before the loan is funded. The Corporation enters into forward commitments for the future delivery of mortgage loans when interest rate locks are entered into to hedge the change in interest rates resulting from its commitments to fund the loans. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in fair values of these derivatives are included in loan sales and servicing income.

Stock Based Compensation: Compensation cost is recognized for restricted stock awards issued to employees, based on the market price of the Corporation's common stock at the date of grant. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded.

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Common Share: Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the year. All outstanding unvested share-based payment awards contain rights to nonforfeitable dividends and are considered participating securities for this calculation so there is no difference between dilutive and basic earnings per share. All share and per share data are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale and unrealized gains and losses on cash flow hedges, which are also recognized as separate components of equity.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. 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 the estimates.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales, when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Corporation, 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 the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Operating Segments: While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a corporation-wide basis. Operating segments are aggregated into one as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

Adoption of New Accounting Standards

On November 27, 2023, FASB issued ASU 2023-07, “*Segment Reporting (Topic 280)*” to improve reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses. The amendments also require the following:

- On an annual and interim basis, significant segment expenses are regularly provided to the chief operating decision maker (CODM) and included within each reported measure of segment profit or loss.
- Disclose an amount for other segment items by reportable segment and a description of its composition.
- Provide all annual disclosures about a reportable segment’s profit or loss and assets currently required by Topic 280.
- Clarify that if the CODM uses more than one measure of a segment’s profit or loss in assessing segment performance and deciding how to allocate resources, a public entity may report one or more of those additional measures of segment profit.
- Disclose the title and position of the CODM and an explanation of how the CODM uses the reported measure(s) of segment profit or loss in assessing segment performance and deciding how to allocate resources.
- A single reportable segment provide all the disclosures by the amendments in the update and all existing segment disclosures in Topic 280.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. For public business entities, amendments in the update should be adopted retrospectively to all periods presented in the financial statements, and upon transition to the segment expense categories and amounts disclosed in prior periods should be based on the significant segment expense categories identified and disclosed in the period of adoption.

The Corporation adopted this accounting standard retrospectively to all prior periods presented in the consolidated financial statements effective January 1, 2024 and the Corporation’s consolidated financial statements were not impacted by this guidance. The Corporation has provided the required disclosures for its single reportable segment in Note 24 – Segment Information.

On March 29, 2023, FASB issued ASU 2023-02, “*Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*” to expand use of the proportional amortization method of accounting to equity investments in tax credit programs beyond those in low-income housing credit (LIHTC) programs.

For public business entities, the amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years.

The amendments in this update must be applied on either a modified retrospective or a retrospective basis (except for LIHTC investments not accounted for using the proportional amortization method.)

The adoption of this standard did not have a material effect on the Corporation’s consolidated financial statements.

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

On June 30, 2022, FASB issued ASU 2022-03, *Fair Value Measurement (Topic 820) – Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. The amendments also clarify that an entity cannot, as a separate unit of account, recognize and measure a contractual sale restriction. The amendments also require the following disclosure for equity securities subject to contractual sale restrictions:

- The fair value of equity securities subject to contractual sale restrictions reflected in the balance sheet.
- The nature and remaining duration of the restriction(s).
- The circumstances that could cause a lapse in the restriction(s).

The amendments in this Update are effective for fiscal years beginning after December 15, 2023. Early adoption is permitted.

The amendments in this Update should be applied prospectively with any adjustments from the adoption of the amendments recognized in earnings and disclosed on the date of adoption.

The adoption of this standard did not have a material effect on the Corporation's consolidated financial statements.

Newly Issued But Not Yet Effective Accounting Standards

On December 14, 2023, the FASB issued ASU 2023-09, *"Income Taxes (Topic 740): Improvements to Income Tax Disclosures"*, to enhance the transparency and decision usefulness of income tax disclosures. The amendments require that public business entities disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. All entities will be required to disclose:

- the amount of income taxes paid (net of refunds received) disaggregated by federal and state taxes
- the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions in which income taxes paid (net of refunds received) is equal to or greater than five percent of total income taxes paid (net of refunds received).

The amendments also require entities to disclose:

- income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign
- income tax expense (or benefit) from continuing operations disaggregated by federal and state

For public business entities, the amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted.

The adoption of this standard is not expected to have a material effect on the Corporation's consolidated financial statements.

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**NOTE 2 – SECURITIES**

The fair value of securities available for sale and the related unrealized gains and losses recognized in accumulated other comprehensive loss, net of tax, were as follows:

	2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. treasury and government agency securities	\$ 46,869	\$ -	\$ (2,374)	\$ -	\$ 44,495
Obligations of states and political subdivisions	218,100	265	(25,660)	-	192,705
Mortgage-backed securities, residential	383,236	869	(18,851)	-	365,254
	<u>\$ 648,205</u>	<u>\$ 1,134</u>	<u>\$ (46,885)</u>	<u>\$ -</u>	<u>\$ 602,454</u>
	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. treasury and government agency securities	\$ 77,765	\$ -	\$ (3,792)	\$ -	\$ 73,973
Obligations of states and political subdivisions	229,694	1,049	(21,039)	-	209,704
Mortgage-backed securities, residential	299,779	2,082	(16,126)	-	285,735
	<u>\$ 607,238</u>	<u>\$ 3,131</u>	<u>\$ (40,957)</u>	<u>\$ -</u>	<u>\$ 569,412</u>

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	2024				
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Obligations of states and political subdivisions	<u>\$ 110</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 118</u>	<u>\$ -</u>
	2023				
	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value	Allowance for Credit Losses
Obligations of states and political subdivisions	<u>\$ 130</u>	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ 140</u>	<u>\$ -</u>

The fair value of equity securities were \$5,296 and \$4,898 as of December 31, 2024 and 2023, respectively.

Securities with a carrying value of \$197,616 and \$241,292 were pledged to secure other borrowings at December 31, 2024 and 2023, respectively.

At December 31, 2024 and 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of stockholders' equity.

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**NOTE 2 - SECURITIES** (Continued)

Proceeds from sales of securities available for sale during 2024 and 2023 were \$14,133 and \$37,749, respectively. There were no held to maturity securities sold in 2024 and 2023. Gross gains of \$6 and \$110 and gross losses of \$(233) and \$(792) were recognized on the sales of securities available for sale during 2024 and 2023, respectively. Gross gains of \$0 in 2024 and 2023 and gross losses of \$0 and \$(2), resulted from net redemption premiums on called securities.

Proceeds from the sales of equity securities during 2024 and 2023 were \$326 and \$0, respectively. Gross gains of \$167 and \$0 were recognized on the sales of equity securities during 2024 and 2023 respectively. Total unrealized losses that were recognized in income from equity securities during 2024 and 2023 were \$(147) and \$(7), respectively.

The amortized cost and fair value of investment securities by contractual maturity are shown below. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date or with no maturity date, primarily mortgage-backed securities are shown separately.

	2024			
	<u>Held to Maturity</u>		<u>Available for Sale</u>	
	<u>Carrying Value</u>	<u>Fair Value</u>	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in one year or less	\$ 20	\$ 21	\$ 25,355	\$ 24,979
Due after one year through five years	90	97	38,308	36,261
Due after five years through ten years	-	-	39,374	36,798
Due after ten years	-	-	161,932	139,162
Mortgage-backed securities	-	-	383,236	365,254
	<u>\$ 110</u>	<u>\$ 118</u>	<u>\$ 648,205</u>	<u>\$ 602,454</u>

Securities with unrealized losses at December 31, 2024 and 2023 are as follows, presented by length of the time the securities have been in an unrealized loss position.

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2024</u>						
U.S. treasury and government agency	\$ -	\$ -	\$ 44,495	\$ (2,374)	\$ 44,495	\$ (2,374)
Obligations of states and political subdivisions	39,482	(743)	138,288	(24,917)	\$ 177,770	\$ (25,660)
Mortgage-backed securities, residential	162,560	(2,270)	121,214	(16,581)	283,774	(18,851)
Total temporarily impaired	<u>\$ 202,042</u>	<u>\$ (3,013)</u>	<u>\$ 303,997</u>	<u>\$ (43,872)</u>	<u>\$ 506,039</u>	<u>\$ (46,885)</u>

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**NOTE 2 - SECURITIES** (Continued)

<u>Description of Securities</u>	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2023</u>						
U.S. treasury and government agency	\$ 2,998	\$ (10)	\$ 70,975	\$ (3,782)	\$ 73,973	\$ (3,792)
Obligations of states and political subdivisions	18,600	(323)	145,492	(20,716)	164,092	(21,039)
Mortgage-backed securities, residential	72,303	(967)	108,951	(15,159)	181,254	(16,126)
Total temporarily impaired	<u>\$ 93,901</u>	<u>\$ (1,300)</u>	<u>\$ 325,418</u>	<u>\$ (39,657)</u>	<u>\$ 419,319</u>	<u>\$ (40,957)</u>

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2024 and 2023, was \$506,039 and \$419,319, which is approximately 84% and 74%, respectively, of the Corporation's available for sale and held to maturity investment portfolio.

Unrealized losses on certain U.S. treasury and government agency, obligations of states and political subdivisions, and mortgage-backed securities have not been recognized into income because the issuers are insured or of high credit quality, management does not intend to sell and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to market interest rates and other economic factors. The fair value is expected to recover as the investments approach their maturity date and/or market rates change.

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Loans and leases are comprised of the following:

	<u>2024</u>	<u>2023</u>
Commercial		
Commercial real estate	\$ 676,888	\$ 649,026
Commercial & industrial	591,105	552,663
Construction & development	189,558	166,687
Agriculture		
Farm real estate	310,130	350,156
Other	331,853	281,655
Residential Mortgage		
Residential real estate	161,526	141,333
Other		
Leases	40,550	36,099
Consumer & other	88,737	76,654
Subtotal	<u>2,390,347</u>	<u>2,254,273</u>
Less: Allowance for credit losses	<u>(33,458)</u>	<u>(34,893)</u>
Loans, net	<u>\$ 2,356,889</u>	<u>\$ 2,219,380</u>

Lease financing consists of the following:

	<u>2024</u>	<u>2023</u>
Total minimum lease payments receivable	\$ 41,485	\$ 36,452
Total residual	8,725	7,814
Unearned income	<u>(9,660)</u>	<u>(8,167)</u>
Total lease financing	<u>\$ 40,550</u>	<u>\$ 36,099</u>

Minimum lease payments receivable are as follows:

<u>Year Ending December 31,</u>	
2025	\$ 10,939
2026	8,204
2027	6,668
2028	4,973
2029	3,535
Thereafter	<u>7,166</u>
	<u>\$ 41,485</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2024:

	<u>Commercial</u>	<u>Agriculture</u>	<u>Residential Mortgage</u>	<u>Other</u>	<u>Total</u>
<u>December 31, 2024</u>					
Allowance for loan losses					
Beginning balance	\$ 27,955	\$ 3,482	\$ 1,849	\$ 1,607	\$ 34,893
Credit loss expense	18,793	2,881	129	381	22,184
Loans charged-off	(21,704)	(3,422)	(80)	(261)	(25,467)
Recoveries	1,175	622	4	47	1,848
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Ending balance	<u>\$ 26,219</u>	<u>\$ 3,563</u>	<u>\$ 1,902</u>	<u>\$ 1,774</u>	<u>\$ 33,458</u>

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	<u>Commercial</u>	<u>Agriculture</u>	<u>Residential Mortgage</u>	<u>Other</u>	<u>Total</u>
<u>December 31, 2023</u>					
Allowance for loan losses					
Beginning balance	\$ 26,844	\$ 5,118	\$ 1,480	\$ 1,439	\$ 34,881
Credit loss expense	5,754	394	352	276	6,776
Loans charged-off	(6,285)	(2,225)	(21)	(133)	(8,664)
Recoveries	1,642	195	38	25	1,900
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Ending balance	<u>\$ 27,955</u>	<u>\$ 3,482</u>	<u>\$ 1,849</u>	<u>\$ 1,607</u>	<u>\$ 34,893</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

Non-accrual loans and loans past due over 89 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individual evaluated for impairment and deemed impaired. The sum of non-accrual loans and loans past due over 89 days still on accrual will differ from the total impaired loan amount.

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial				
Commercial real estate	\$ 2,058	\$ -	\$ 2,058	\$ -
Commercial & industrial	7,869	183	8,052	-
Agriculture				
Farm real estate	4,082	-	4,082	1,527
Other	-	89	89	-
Residential Mortgage				
Residential real estate	56	416	472	1,116
Other				
Consumer & other	-	55	55	198
Total	<u>\$ 14,065</u>	<u>\$ 743</u>	<u>\$ 14,808</u>	<u>\$ 2,841</u>

As of December 31, 2024, nonaccrual loans of \$968 are partially guaranteed by the U.S. Government.

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2023:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual With Allowance for Credit Loss	Total Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial				
Commercial real estate	\$ 821	\$ -	\$ 821	\$ 25
Commercial & industrial	9,861	-	9,861	-
Agriculture				
Farm real estate	2,728	-	2,728	335
Other	115	-	115	-
Residential Mortgage				
Residential real estate	340	-	340	155
Other				
Leases	-	-	-	12
Consumer & other	280	-	280	41
Total	<u>\$ 14,145</u>	<u>\$ -</u>	<u>\$ 14,145</u>	<u>\$ 568</u>

As of December 31, 2023, nonaccrual loans of \$144 are partially guaranteed by the U.S. Government.

Interest income recognized on nonaccrual loans was immaterial during the years ended December 31, 2024 and 2023.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024:

	Real Estate	General Business Assets	Other
Commercial			
Commercial real estate	\$ 2,058	\$ -	\$ -
Commercial & industrial	-	3,209	-
Agriculture			
Farm real estate	11,222	-	-
Other	-	89	-
Residential Mortgage			
Residential real estate	478	-	-
Other			
Consumer & other	39	-	16
Total	<u>\$ 13,797</u>	<u>\$ 3,298</u>	<u>\$ 16</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Real Estate	General Business Assets	Other
Commercial			
Commercial real estate	\$ 821	\$ -	\$ -
Commercial & industrial	-	4,414	-
Agriculture			
Farm real estate	10,217	-	-
Other	-	115	-
Residential Mortgage			
Residential real estate	343	-	-
Other			
Consumer & other	269	-	11
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 11,650</u>	<u>\$ 4,529</u>	<u>\$ 11</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following tables presents the aging of the recorded investment in past due loans as of December 31, 2024 and 2023 by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
<b>December 31, 2024</b>						
Commercial						
Commercial real estate	\$ 342	\$ 497	\$ 2,058	\$ 2,897	\$ 673,991	\$ 676,888
Commercial & industrial	587	1,503	1,617	3,707	587,398	591,105
Construction & development	50	-	-	50	189,508	189,558
Agriculture						
Farm real estate	1,371	7,772	3,806	12,949	297,181	310,130
Other	-	-	89	89	331,764	331,853
Residential Mortgage						
Residential real estate	6,951	877	1,535	9,363	152,163	161,526
Other						
Leases	217	-	-	217	40,333	40,550
Consumer & other	570	430	222	1,222	87,515	88,737
Total	<u>\$ 10,088</u>	<u>\$ 11,079</u>	<u>\$ 9,327</u>	<u>\$ 30,494</u>	<u>\$ 2,359,853</u>	<u>\$ 2,390,347</u>
<b>December 31, 2023</b>						
Commercial						
Commercial real estate	\$ 406	\$ -	\$ 846	\$ 1,252	\$ 647,774	\$ 649,026
Commercial & industrial	8,159	30	2,262	10,451	542,212	552,663
Construction & development	-	-	-	-	166,687	166,687
Agriculture						
Farm real estate	592	5,612	3,062	9,266	340,890	350,156
Other	952	-	-	952	280,703	281,655
Residential Mortgage						
Residential real estate	3,975	633	496	5,104	136,229	141,333
Other						
Leases	80	-	12	92	36,007	36,099
Consumer & other	494	166	275	935	75,719	76,654
Total	<u>\$ 14,658</u>	<u>\$ 6,441</u>	<u>\$ 6,953</u>	<u>\$ 28,052</u>	<u>\$ 2,226,221</u>	<u>\$ 2,254,273</u>

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Occasionally, the Corporation modifies loans to borrowers in financial distress by providing term extensions, interest rate reduction, payment delay or a combination of these modifications.

The following table presents the amortized cost basis of loans at December 31, 2024 that were both experiencing financial difficulty and modified during the year ended December 31, 2024, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Payment Delay</u>	<u>Combination Term Extension Interest Rate Reduction</u>	<u>Total Class of Financing Receivable</u>
<u>December 31, 2024</u>					
Commercial					
Commercial real estate	\$ -	\$ -	\$ 4,559	\$ -	0.7 %
Commercial & industrial	-	-	37,044	-	6.3
Agriculture					
Other	-	-	-	962	0.3
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,603</u>	<u>\$ 962</u>	<u>1.8 %</u>

The Corporation has a commitment to lend \$3,940 to the borrowers included in the previous table as of December 31, 2024.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The loans modified during 2024 were not in a past due status as of December 31, 2024. The loan modifications described above did not increase the allowance for credit losses in 2024 and resulted in charge offs of \$0 during the year ending December 31, 2024.

The following table shows the financial effect of loan modifications presented above to borrowers experiencing financial difficulty as of December 31, 2024.

	<u>Weighted Average Term Extension (in months)</u>	<u>Weighted Average Payment Delay (in months)</u>	<u>Weighted Average Interest Rate Reduction</u>
<u>December 31, 2024</u>			
Commercial			
Commercial real estate	-	21	- %
Commercial & industrial	-	19	-
Agriculture			
Other	51	-	1.0
Total	<u>51</u>	<u>19</u>	<u>1.0 %</u>

(Continued)

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table presents the amortized cost basis of loans at December 31, 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	<u>Term Extension</u>	<u>Interest Rate Reduction</u>	<u>Payment Delay</u>	<u>Combination Term Extension Interest Rate Reduction</u>	<u>Total Class of Financing Receivable</u>
<u>December 31, 2023</u>					
Commercial					
Commercial & industrial	\$ 2,610	\$ -	\$ -	\$ -	0.5 %
Agriculture					
Farm real estate	884	927	-	7,510	2.7
Other	-	-	485	-	0.2
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 3,494</u>	<u>\$ 927</u>	<u>\$ 485</u>	<u>\$ 7,510</u>	<u>0.6 %</u>

The Corporation has a commitment to lend \$289 to the borrowers included in the previous table as of December 31, 2023.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The loans modified during 2023 were not in a past due status as of December 31, 2023. The loan modifications described above did not increase the allowance for credit losses in 2023 but did result in charge offs of \$1,601 during the year ending December 31, 2023.

The following table shows the financial effect of loan modifications presented above to borrowers experiencing financial difficulty as of December 31, 2023.

	<u>Weighted Average Term Extension (in months)</u>	<u>Weighted Average Payment Delay (in months)</u>	<u>Weighted Average Interest Rate Reduction</u>
<u>December 31, 2023</u>			
Commercial			
Commercial & industrial	8	-	- %
Agriculture			
Farm real estate	161	-	1.0
Other	-	3	-
	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>124</u>	<u>3</u>	<u>1.0 %</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

In order to determine whether a borrower is experiencing financial difficulty, an evaluation is performed of the probability that the borrower will be in payment default on any of its debt in the foreseeable future without the modification. This evaluation is performed under the Corporation's internal underwriting policy.

**Credit Quality Indicators:**

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. All loans are graded at origination. On a quarterly basis, a sample of the Corporation's portfolio is reviewed using a selection methodology based on a variety of factors including risk grading, credit size, and business industry. Credits graded special mention, substandard, or doubtful are reviewed for potential grade changes on a quarterly basis.

Other loans outside of this scope are re-graded only as additional financial information is received or delinquency status changes. The Corporation uses the following definitions for risk ratings:

**Special Mention:** Loans which exhibit significant potential weaknesses or unsatisfactory characteristics that jeopardize future collection of the debt if not corrected. Typically, these loans exhibit more severe and sustained negative trends, or possess a larger potential loss upon default due to loan structure or exceptions of any type. Some conditions that typically warrant a "special mention" rating include:

- Adverse economic or market conditions which in the future may affect the borrower's ability to repay.
- An adverse trend in the borrower's financial condition that has not yet reached the point where the original payment terms are jeopardized, but where essentially no margin exists to handle uncertainties relating to future performance.
- Loans with collateral values such that there is little margin between liquidation value and the amount of the loan commitment.
- A business that is vulnerable to economic adversity due to technical obsolescence or from competitive pressures.
- Loans with loan policy, credit, or documentation exceptions that are material in nature and that may increase loss potential given a default scenario.

In essence this grade represents a "transitional" rating for a period (generally one business cycle or less) where the credit is expected to improve due to risk mitigation efforts or the relationship will be subject to further criticism and downgraded based on the risk characteristics of the situation at that time.

**Substandard:** Loans that are inadequately protected by the current sound net worth, paying capacity of the borrower, or pledged collateral. Substandard loans exhibit one or more well-defined credit weaknesses that jeopardize repayment of the debt.

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

**Doubtful:** Loans with all the weakness inherent in the substandard rating and where the repayment stream under the original contractual terms is in serious doubt. The possibility of loss is extremely high, but because of pending factors that may work to strengthen the credit, its classification as an estimated loss is deferred until its more exact status may be determined. Pending factors may include a proposed merger or acquisition, liquidation proceeding, capital injection, perfecting liens on additional collateral, or refinancing plans. Borrowers in this category usually exhibit multiple operating losses, minimal to no liquidity, negative cash flow and high leverage. The value of collateral and support of a guarantor may not be adequate to reasonably insure repayment in full of the borrower's loan. Deterioration has led to the possibility of a present or future loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2024 is as follows:

	Term Loans Amortized Cost Basis by Origination Year						Non-revolving	Revolving	Total
	2024	2023	2022	2021	Prior	Term Total			
Commercial									
Commercial real estate									
Risk rating									
Pass	\$ 69,194	\$ 73,363	\$ 117,282	\$ 153,492	\$ 202,942	\$ 616,273	\$ 48,594	\$ 5,551	\$ 670,418
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	2,058	-	4,412	6,470	-	-	6,470
Total commercial real estate loans	<u>\$ 69,194</u>	<u>\$ 73,363</u>	<u>\$ 119,340</u>	<u>\$ 153,492</u>	<u>\$ 207,354</u>	<u>\$ 622,743</u>	<u>\$ 48,594</u>	<u>\$ 5,551</u>	<u>\$ 676,888</u>
Current period gross write offs	\$ -	\$ 4	\$ -	\$ -	\$ 19	\$ 23	\$ -	\$ -	\$ 23
Commercial & industrial									
Risk rating									
Pass	\$ 70,118	\$ 37,931	\$ 62,094	\$ 46,765	\$ 54,202	\$ 271,110	\$ 91,311	\$ 187,508	\$ 549,929
Special Mention	-	-	2,622	2,934	-	5,556	-	13,395	18,951
Substandard	426	1,935	949	-	9,452	12,762	-	9,463	22,225
Total commercial & industrial loans	<u>\$ 70,544</u>	<u>\$ 39,866</u>	<u>\$ 65,665</u>	<u>\$ 49,699</u>	<u>\$ 63,654</u>	<u>\$ 289,428</u>	<u>\$ 91,311</u>	<u>\$ 210,366</u>	<u>\$ 591,105</u>
Current period gross write offs	\$ -	\$ 19,981	\$ 426	\$ -	\$ -	\$ 20,407	\$ -	\$ 1,274	\$ 21,681
Construction & development									
Risk rating									
Pass	\$ 5,956	\$ 3,535	\$ 6,621	\$ 11,127	\$ 1,836	\$ 29,075	\$ 157,247	\$ 3,236	\$ 189,558
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total construction & development loans	<u>\$ 5,956</u>	<u>\$ 3,535</u>	<u>\$ 6,621</u>	<u>\$ 11,127</u>	<u>\$ 1,836</u>	<u>\$ 29,075</u>	<u>\$ 157,247</u>	<u>\$ 3,236</u>	<u>\$ 189,558</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

		Term Loans Amortized Cost Basis by Origination Year																
		2024	2023	2022	2021	Prior	Term Total	Non-revolving	Revolving	Total								
Agriculture																		
Farm real estate																		
Risk rating																		
Pass	\$	30,749	\$	40,052	\$	51,932	\$	37,716	\$	93,432	\$	253,881	\$	2,371	\$	24,336	\$	280,588
Special Mention		-		-		6,626		166		6,792		-		-		-		6,792
Substandard		-		2,526		3,530		14,306		1,988		22,350		-		400		22,750
Total farm real estate loans	\$	30,749	\$	42,578	\$	55,462	\$	58,648	\$	95,586	\$	283,023	\$	2,371	\$	24,736	\$	310,130
Current period gross write offs																		
	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	222	\$	222
Other																		
Risk rating																		
Pass	\$	27,368	\$	16,552	\$	13,444	\$	6,066	\$	8,984	\$	72,414	\$	22,662	\$	234,356	\$	329,432
Special Mention		-		-		38		55		-		93		-		250		343
Substandard		-		1,162		-		316		89		1,567		232		279		2,078
Total other Ag loans	\$	27,368	\$	17,714	\$	13,482	\$	6,437	\$	9,073	\$	74,074	\$	22,894	\$	234,885	\$	331,853
Current period gross write offs																		
	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-	\$	3,200	\$	3,200
Residential Mortgage																		
Residential Real Estate																		
Risk rating																		
Pass	\$	30,878	\$	27,429	\$	27,219	\$	14,843	\$	28,187	\$	128,556	\$	29,778	\$	1,721	\$	160,055
Special Mention		-		-		-		-		-		-		-		999		999
Substandard		-		175		30		-		267		472		-		-		472
Total residential real estate loans	\$	30,878	\$	27,604	\$	27,249	\$	14,843	\$	28,454	\$	129,028	\$	29,778	\$	2,720	\$	161,526
Current period gross write offs																		
	\$	-	\$	-	\$	-	\$	-	\$	80	\$	80	\$	-	\$	-	\$	80

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

	Term Loans Amortized Cost Basis by Origination Year						Non-revolving	Revolving	Total
	2024	2023	2022	2021	Prior	Term Total			
Other									
Leases									
Risk rating									
Pass	\$ 13,270	\$ 11,590	\$ 6,332	\$ 4,848	\$ 4,205	\$ 40,245	\$ -	\$ -	\$ 40,245
Special Mention	-	160	73	-	40	273	-	-	273
Substandard	-	-	-	-	32	32	-	-	32
Total leases	<u>\$ 13,270</u>	<u>\$ 11,750</u>	<u>\$ 6,405</u>	<u>\$ 4,848</u>	<u>\$ 4,277</u>	<u>\$ 40,550</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,550</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer & Other									
Risk rating									
Pass	\$ 8,534	\$ 5,086	\$ 5,015	\$ 2,064	\$ 2,019	\$ 22,718	\$ 254	\$ 65,710	\$ 88,682
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	8	-	-	31	16	55	-	-	55
Total consumer & other loans	<u>\$ 8,542</u>	<u>\$ 5,086</u>	<u>\$ 5,015</u>	<u>\$ 2,095</u>	<u>\$ 2,035</u>	<u>\$ 22,773</u>	<u>\$ 254</u>	<u>\$ 65,710</u>	<u>\$ 88,737</u>
Current period gross write offs	\$ 33	\$ 41	\$ 138	\$ 26	\$ 23	\$ 261	\$ -	\$ -	\$ 261
Total loans	<u>\$ 256,501</u>	<u>\$ 221,496</u>	<u>\$ 299,239</u>	<u>\$ 301,189</u>	<u>\$ 412,269</u>	<u>\$ 1,490,694</u>	<u>\$ 352,449</u>	<u>\$ 547,204</u>	<u>\$ 2,390,347</u>
Total current period gross write offs	<u>\$ 33</u>	<u>\$ 20,026</u>	<u>\$ 564</u>	<u>\$ 26</u>	<u>\$ 122</u>	<u>\$ 20,771</u>	<u>\$ -</u>	<u>\$ 4,696</u>	<u>\$ 25,467</u>

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

Based on the most recent analysis performed, the risk category of loans by class of loans as of December 31, 2023 is as follows:

	Term Loans Amortized Cost Basis by Origination Year					Non-revolving	Revolving	Total
	2023	2022	2021	Prior	Term Total			
Commercial								
Commercial real estate								
Risk rating								
Pass	\$ 72,798	\$ 120,607	\$ 162,337	\$ 204,329	\$ 560,071	\$ 60,052	\$ 19,167	\$ 639,290
Special Mention	-	-	-	4,625	4,625	1,163	-	5,788
Substandard	-	-	-	3,948	3,948	-	-	3,948
Total commercial real estate loans	<u>\$ 72,798</u>	<u>\$ 120,607</u>	<u>\$ 162,337</u>	<u>\$ 212,902</u>	<u>\$ 568,644</u>	<u>\$ 61,215</u>	<u>\$ 19,167</u>	<u>\$ 649,026</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial & industrial								
Risk rating								
Pass	\$ 70,422	\$ 87,906	\$ 57,299	\$ 82,181	\$ 297,808	\$ 78,104	\$ 140,146	\$ 516,058
Special Mention	4,533	4,066	3,295	29	11,923	172	14,531	26,626
Substandard	-	-	19	6,951	6,970	-	3,009	9,979
Total commercial & industrial loans	<u>\$ 74,955</u>	<u>\$ 91,972</u>	<u>\$ 60,613</u>	<u>\$ 89,161</u>	<u>\$ 316,701</u>	<u>\$ 78,276</u>	<u>\$ 157,686</u>	<u>\$ 552,663</u>
Current period gross write offs	\$ -	\$ -	\$ 1,068	\$ 3,310	\$ 4,378	\$ 191	\$ 1,716	\$ 6,285
Construction & development								
Risk rating								
Pass	\$ 2,182	\$ 2,342	\$ 9,930	\$ 16,269	\$ 30,723	\$ 133,286	\$ 2,678	\$ 166,687
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total construction & development loans	<u>\$ 2,182</u>	<u>\$ 2,342</u>	<u>\$ 9,930</u>	<u>\$ 16,269</u>	<u>\$ 30,723</u>	<u>\$ 133,286</u>	<u>\$ 2,678</u>	<u>\$ 166,687</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

	Term Loans Amortized Cost Basis by Origination Year					Non-revolving	Revolving	Total
	2023	2022	2021	Prior	Term Total			
Agriculture								
Farm real estate								
Risk rating								
Pass	\$ 43,018	\$ 53,963	\$ 49,697	\$ 108,966	\$ 255,644	\$ 17,727	\$ 43,150	\$ 316,521
Special Mention	-	305	672	1,565	2,542	-	395	2,937
Substandard	7,749	7,197	12,016	1,280	28,242	2,456	-	30,698
Total farm real estate loans	<u>\$ 50,767</u>	<u>\$ 61,465</u>	<u>\$ 62,385</u>	<u>\$ 111,811</u>	<u>\$ 286,428</u>	<u>\$ 20,183</u>	<u>\$ 43,545</u>	<u>\$ 350,156</u>
Current period gross write offs	\$ -	\$ 2,225	\$ -	\$ -	\$ 2,225	\$ -	\$ -	\$ 2,225
Other								
Risk rating								
Pass	\$ 25,914	\$ 21,359	\$ 10,454	\$ 13,840	\$ 71,567	\$ 5,431	\$ 199,909	\$ 276,907
Special Mention	1,323	300	11	606	2,240	-	1,353	3,593
Substandard	485	-	547	123	1,155	-	-	1,155
Total other Ag loans	<u>\$ 27,722</u>	<u>\$ 21,659</u>	<u>\$ 11,012</u>	<u>\$ 14,569</u>	<u>\$ 74,962</u>	<u>\$ 5,431</u>	<u>\$ 201,262</u>	<u>\$ 281,655</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Residential Mortgage								
Residential Real Estate								
Risk rating								
Pass	\$ 29,185	\$ 30,829	\$ 15,778	\$ 39,243	\$ 115,035	\$ 22,640	\$ 1,824	\$ 139,499
Special Mention	-	-	-	107	107	-	999	1,106
Substandard	-	176	385	167	728	-	-	728
Total residential real estate loans	<u>\$ 29,185</u>	<u>\$ 31,005</u>	<u>\$ 16,163</u>	<u>\$ 39,517</u>	<u>\$ 115,870</u>	<u>\$ 22,640</u>	<u>\$ 2,823</u>	<u>\$ 141,333</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ 21	\$ 21	\$ -	\$ -	\$ 21

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**NOTE 3 - LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

	Term Loans Amortized Cost Basis by Origination Year					Non-revolving	Revolving	Total
	2023	2022	2021	Prior	Term Total			
Other								
Leases								
Risk rating								
Pass	\$ 14,450	\$ 8,396	\$ 6,421	\$ 6,548	\$ 35,815	\$ -	\$ -	\$ 35,815
Special Mention	-	-	-	284	284	-	-	284
Substandard	-	-	-	-	-	-	-	-
Total leases	<u>\$ 14,450</u>	<u>\$ 8,396</u>	<u>\$ 6,421</u>	<u>\$ 6,832</u>	<u>\$ 36,099</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 36,099</u>
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer & Other								
Risk rating								
Pass	\$ 8,190	\$ 7,013	\$ 3,593	\$ 3,095	\$ 21,891	\$ 954	\$ 53,528	\$ 76,373
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	133	41	107	281	-	-	281
Total consumer & other loans	<u>\$ 8,190</u>	<u>\$ 7,146</u>	<u>\$ 3,634</u>	<u>\$ 3,202</u>	<u>\$ 22,172</u>	<u>\$ 954</u>	<u>\$ 53,528</u>	<u>\$ 76,654</u>
Current period gross write offs	\$ 1	\$ 48	\$ 62	\$ 22	\$ 133	\$ -	\$ -	\$ 133
Total loans	<u>\$ 280,249</u>	<u>\$ 344,592</u>	<u>\$ 332,495</u>	<u>\$ 494,263</u>	<u>\$ 1,451,599</u>	<u>\$ 321,985</u>	<u>\$ 480,689</u>	<u>\$ 2,254,273</u>
Total current period gross write offs	<u>\$ 1</u>	<u>\$ 2,273</u>	<u>\$ 1,130</u>	<u>\$ 3,353</u>	<u>\$ 6,757</u>	<u>\$ 191</u>	<u>\$ 1,716</u>	<u>\$ 8,664</u>

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**NOTE 4 - PREMISES AND EQUIPMENT**

A summary of premises and equipment is detailed below as of December 31:

	<u>2024</u>	<u>2023</u>
Land	\$ 4,456	\$ 4,631
Building and improvements	22,499	22,697
Furniture and equipment	16,352	16,196
Total cost	<u>43,307</u>	<u>43,524</u>
Accumulated depreciation	<u>(21,152)</u>	<u>(21,162)</u>
	22,155	22,362
Buildings and equipment in process	<u>1,123</u>	<u>1,474</u>
	<u>\$ 23,278</u>	<u>\$ 23,836</u>

**NOTE 5 - GOODWILL AND INTANGIBLE ASSETS**

**Goodwill**

The balance in goodwill was \$8,729 at December 31, 2024 and 2023, respectively, and no impairment in either year was recognized.

**Acquired Intangible Assets**

The gross carrying amount of the core deposit intangible was fully amortized in 2023.

Aggregate amortization expense for 2024 and 2023 was \$0 and \$114.

**NOTE 6 – INVESTMENTS IN AFFORDABLE HOUSING PARTNERSHIPS**

The Corporation invests in qualified affordable housing projects. At December 31, 2024 and 2023, the balance of the investment for qualified affordable housing projects was \$9,468 and \$11,015, respectively. These balances are reflected in the investments in affordable housing partnerships line on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled \$1,201 and \$4,685 at December 31, 2024 and 2023 and are included in accrued interest payable and other liabilities on the consolidated balance sheets. The Corporation expects to fulfill these commitments during the year ending 2035.

During the years ended December 31, 2024 and 2023, the Corporation recognized amortization expense of \$1,547 and \$1,561, respectively, which was included within income tax expense on the consolidated statements of income.

During the years ended December 31, 2024 and 2023, the Corporation recognized tax credits and other benefits from its investment in affordable housing tax credits of \$1,836 and \$1,841, respectively. During the years ending December 31, 2024 and 2023, the Corporation did not incur impairment losses.

During 2023, the Corporation sold its interest in one of the qualified affordable housing projects, which resulted in a loss of \$21 on the sale of the partnership. This loss is included in other operating expenses on the consolidated income statement.

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 7 - SERVICING ASSETS**

Loans and leases serviced for others are not reported as assets of the Corporation and total \$880,621 and \$876,734 at December 31, 2024 and 2023.

Mortgage servicing rights are included in accrued interest receivable and other assets on the consolidated balance sheets. The following table summarizes the changes in capitalized mortgage servicing rights for the years ended December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Servicing assets		
Beginning of year	\$ 3,698	\$ 4,273
Additions	461	338
Amortized to expense	<u>(851)</u>	<u>(913)</u>
End of year	<u>\$ 3,308</u>	<u>\$ 3,698</u>
Valuation allowance		
Beginning of the year	\$ -	\$ 14
Net impairment allowance recovered	<u>-</u>	<u>(14)</u>
End of year	<u>\$ -</u>	<u>\$ -</u>
Net mortgage servicing assets	<u>\$ 3,308</u>	<u>\$ 3,698</u>
Fair value disclosures:		
Fair value of mortgage servicing assets, beginning of period	\$ 4,660	\$ 4,361
Fair value of mortgage servicing assets, end of period	\$ 4,432	\$ 4,660

Fair value at December 31, 2024 and 2023 was primarily determined based on a valuation model that calculates the present value of estimated net servicing income. Fair value at year-end 2024 was determined using a weighted average discount rate of 10.07% and an average prepayment speed of 8.77%. Fair value at year-end 2023 was determined using a weighted average discount rate of 9.72% and an average prepayment speed of 6.51%.

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**NOTE 7 – SERVICING ASSETS** (Continued)

Agricultural servicing rights are included in accrued interest receivable and other assets on the consolidated balance sheets. The following table summarizes the changes in capitalized agricultural servicing rights for the years ended December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Servicing assets		
Beginning of year	\$ 2,880	\$ 2,923
Additions	358	268
Amortized to expense	<u>(370)</u>	<u>(311)</u>
End of year	<u>\$ 2,868</u>	<u>\$ 2,880</u>
Valuation allowance		
Beginning of the year	\$ 72	\$ 93
Net impairment allowance expensed/(recovered)	<u>11</u>	<u>(21)</u>
End of year	<u>\$ 83</u>	<u>\$ 72</u>
Net agricultural servicing assets	<u>\$ 2,785</u>	<u>\$ 2,808</u>
Fair value disclosures:		
Fair value of agricultural servicing assets, beginning of period	\$ 2,853	\$ 2,865
Fair value of agricultural servicing assets, end of period	\$ 2,819	\$ 2,853

Fair value at December 31, 2024 and 2023 was primarily determined based on a valuation model that calculates the present value of estimated net servicing income. Fair value at year-end 2024 and 2023 was determined using a weighted average discount rate of 10% and conditional prepayment rate of 15%.

**NOTE 8 - INTEREST-BEARING DEPOSITS**

Interest-bearing deposits consisted of the following as of December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Interest-bearing demand deposits	\$ 995,689	\$ 950,935
Savings	343,421	348,471
Time deposits over \$250,000	215,291	134,274
Other time deposits	<u>773,603</u>	<u>683,250</u>
	<u>\$ 2,328,004</u>	<u>\$ 2,116,930</u>

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**NOTE 8 - INTEREST-BEARING DEPOSITS (Continued)**

At December 31, 2024, stated maturities of time deposits were:

2025	\$ 766,507
2026	212,062
2027	5,430
2028	3,666
2029	818
Thereafter	411
	<u>\$ 988,894</u>

The Corporation used brokered deposits to fund part of its loan growth, reduce short-term borrowings, and to help maintain its desired interest rate risk position. The Corporation had \$436,867 and \$391,357 in brokered deposits as of December 31, 2024 and 2023, respectively.

**NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES**

At year-end, advances from the Federal Home Loan Bank were as follows:

	<u>2024</u>	<u>2023</u>
Maturity of May 2034, with a fixed rate of 4.04%. The Federal Home Loan Bank controls the option to put this advance in May 2029.	\$ 5,000	\$ -
Maturities of June 2031, with a fixed rate of 3.43%. The Federal Home Loan Bank controls the option to put these advances in September 2024 and quarterly thereafter.	15,000	-
Maturity of May 2029, with a fixed rate of 4.15%. The Federal Home Loan Bank controls the option to put these advances in May 2025 and quarterly thereafter.	10,000	-
Maturity of May 2029, with a fixed rate of 1.95%. The Federal Home Loan Bank exercised the option to put this advance in May 2024.	-	5,000
Maturity of May 2028, with a fixed rate of 3.40%. The Federal Home Loan Bank exercised the option to put this advance in May 2024.	-	10,000
Maturity of October 2026, with a fixed rate of 1.18%. The Federal Home Loan Bank controlled the option to put this advance in October 2021 and did not exercise the option.	5,000	5,000
Maturity of January 2025, with a fixed rate of 5.33% at December 31, 2024; Maturities of January 2024, with fixed rates from 5.53% to 5.37%, with a weighted average fixed rate of 5.55% at December 31, 2023.	25,000	30,000
Maturity of January 2025, with a variable rate of 4.67% at December 31, 2024.	25,000	-
Maturity of January 2024, symmetrical advance with a fixed rate of 2.73%.	<u>-</u>	<u>5,000</u>
Total	<u>\$ 85,000</u>	<u>\$ 55,000</u>

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**NOTE 9 - FEDERAL HOME LOAN BANK ADVANCES** (Continued)

Maturities and scheduled principal reductions are as follows:

2025	\$ 50,000
2026	5,000
2027	-
2028	-
2029	10,000
Thereafter	20,000
	<u>\$ 85,000</u>

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances and the floating advances except for those payments made on various contractual prepayment dates. The advances were collateralized by \$374,819 and \$365,998 under a blanket lien arrangement at December 31, 2024 and 2023. At December 31, 2024 outstanding advances are secured by specific securities totaling \$92,169 and a blanket pledge of all qualifying one-to-four family real estate loans totaling \$65,790, qualifying multifamily loans totaling \$67,113 and qualifying commercial real estate loans totaling \$149,916. Based on this collateral and the Corporation's holdings of FHLB stock, the Corporation is eligible to borrow up to an additional of \$164,178 December 31, 2024.

**NOTE 10 – NOTES PAYABLE AND OTHER BORROWINGS**

On September 29, 2020, the Corporation entered into a term loan agreement for \$10,000 with a variable interest rate, adjustable quarterly, at 3.25% over 3-month LIBOR with a floor of 0.50%. The payments for the \$10,000 loan were based on a five-year amortization schedule with quarterly principal payments of \$250 including a balloon payment of \$5,250 to be paid in full by September 29, 2025. A portion of the proceeds from this loan of \$7,000 were invested directly into the Bank. Legal and commitment fees of \$30 were recognized as a direct reduction to the debt liability and will be amortized to interest expense over the term of the agreement. Effective April 1, 2023, the term note was amended to be adjustable quarterly, at 3.43% over 3-month CME Term SOFR with a floor of 0.50%. As of December 31, 2024 and 2023, the balance on the term loan totaled \$5,995 and \$6,989, respectively.

On January 25, 2021, the Corporation executed an amortizing interest rate cap designated as a cash flow hedge on the term loan. The interest rate cap is effective from January 25, 2021 through September 29, 2025. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

As of December 31, 2023, the Corporation had borrowed \$25,000 through the Federal Reserve's Bank Term Funding Program at a rate of 4.84%. This borrowing was paid off in 2024.

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**NOTE 11 - SUBORDINATED DEBENTURES**

In December 2004, a trust formed by the Corporation issued \$5,155 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2009 at face value. The subordinated debentures must be redeemed no later than 2034. On December 15, 2009 the fixed rate period expired and the floating rate commenced based on 3-month LIBOR plus 2.10%. Effective September 15, 2023, the floating rate converted to 3-month CME Term SOFR plus 2.10% plus a spread adjustment of 0.26%. As of December 31, 2024 and 2023, the variable rate of the debentures was 6.72% and 7.75%, respectively. Interest payments are payable quarterly in arrears, and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

On January 7, 2019, the Corporation executed an interest rate cap designated as a cash flow hedge on the \$5,000 subordinated debentures. The interest rate cap was effective from December 15, 2019 through December 15, 2024. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

In May 2007, a second trust formed by the Corporation issued \$13,403 of fixed to floating rate trust preferred securities as part of a pooled offering of such securities. The Corporation issued subordinated debentures to the trust in exchange for the proceeds of the offering, which debentures represent the sole asset of the trust. The Corporation may redeem the subordinated debentures, in whole but not in part, any time after 2012 at face value. The subordinated debentures must be redeemed no later than 2037. On June 15, 2012, the fixed rate period expired and the floating rate period commenced based on 3-month LIBOR plus 1.48%. Effective September 15, 2023, the floating rate converted to 3-month CME Term SOFR plus 1.48% plus a spread adjustment of 0.26%. As of December 31, 2024 and 2023 the variable rate of the debentures was 6.10% and 7.13%. Interest payments are payable quarterly in arrears, and the Corporation has the option to defer interest payments from time to time for a period not to exceed 20 consecutive quarters.

On December 14, 2017, the Corporation entered into an interest rate swap designated as a cash flow hedge to convert the floating interest payments to a fixed rate on the \$13,000 subordinated debentures with an effective date of December 16, 2019 until December 15, 2029. See Note 15, Derivatives and Hedging Activities, for additional information on this transaction.

**NOTE 12 - EMPLOYEE BENEFIT PLANS**

The Corporation maintains a 401(k) profit sharing plan, covering employees who have completed six months of service. Employer contributions to the plan are at the discretion of the board of directors. In addition, the plan provides for the Corporation to match employee 401(k) contributions at a percentage determined annually by the board of directors. Employer contributions charged to operations were \$1,375 and \$1,358 for 2024 and 2023.

Under employment agreements with certain executives, certain events leading to separation from the Corporation could result in cash payments equal to 2 times the average of the employee's base pay plus any cash bonuses for the last 3 complete calendar years preceding the employee's termination of employment. The President will receive 2.99 times the average base pay plus any cash bonuses.

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**NOTE 12 - EMPLOYEE BENEFIT PLANS (Continued)**

On April 1, 2018, the Corporation adopted Salary Continuation and Retention Plans for certain officers. Under the provisions of the Salary Continuation Plan each participant will receive at retirement an annual benefit for a ten-year period as stated in the agreement. Under the Retention Plan, each participant will receive distributions from the plan based on the provisions of the participant agreement. Total expense of \$132 and \$151 was recorded during 2024 and 2023, respectively, for both plans. As of December 31, 2024 and 2023, accrued benefits payable totaled \$1,016 and \$937, respectively.

As a result of the May 1, 2012 acquisition of First Citizens of Paris, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Citizens National Bank of Paris. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a fifteen-year period as stated in the agreement. Participants who were not yet fully vested as of May 1, 2012 fully vested based on the terms of their SERP agreement. Total expense of \$7 and \$7 was recorded during 2024 and 2023, respectively. As of December 31, 2024 and 2023, accrued benefits payable totaled \$107 and \$149, respectively.

As a result of the December 4, 2009 acquisition of C.B. Bankshares, Inc., the Corporation has assumed obligations under a Supplemental Executive Retirement Plan (SERP) for certain senior officers of Central Bank. Under the provisions of the SERP, each participant will receive at retirement an annual benefit for a ten-year period as stated in the agreement. Participants fully vested upon the acquisition date. Total expense of \$12 and \$15 was recorded during 2024 and 2023, respectively. As of December 31, 2024 and 2023, accrued benefits payable totaled \$231 and \$339, respectively.

**NOTE 13 - STOCK-BASED COMPENSATION**

The Corporation has adopted a Restricted Stock Plan ("RSP") which provides for the issuance of shares to officers and employees. Compensation expense is recognized over the vesting period of the shares based on the fair value of the shares at issue date. The fair value of the stock was determined using an independent appraisal, which is performed at least annually. Annually, the Corporation may issue up to 15,000 shares, although shares not issued during the year are not available to be granted in future periods. The shares granted in 2024 and 2023 cliff vest over a 6-year period. 13,114 and 15,375 shares were granted during 2024 and 2023 with a fair value per share of \$58.00 and \$51.50, respectively. 500 additional shares were granted in 2024 that did not have vesting restrictions. The Board of Directors approved a policy exception for the shares granted in 2024 and 2023. Compensation expense of \$641 and \$439 was recorded during 2024 and 2023 for shares granted.

A summary of changes in the Corporation's nonvested shares for the year follows:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted Average Grant-Date Fair Value</u>
Nonvested at January 1, 2024	62,750	\$ 44.22
Granted	13,114	58.00
Vested	(13,300)	39.82
Forfeited	(525)	47.39
	62,039	\$ 48.05
Nonvested at December 31, 2024	62,039	\$ 48.05

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**NOTE 13 - STOCK-BASED COMPENSATION** (Continued)

As of December 31, 2024 and 2023, there was \$1,684 and \$1,560, respectively of total unrecognized compensation cost related to non-vested shares granted under the Plan. The cost is expected to be recognized over a weighted-average period of 3.4 years.

**NOTE 14 - INCOME TAXES**

The provision for income taxes consists of the following:

	<u>2024</u>	<u>2023</u>
Current payable	\$ 7,565	\$ 10,706
Deferred income tax (benefit)	<u>(46)</u>	<u>22</u>
	<u>\$ 7,519</u>	<u>\$ 10,728</u>
	<u>2024</u>	<u>2023</u>
Income tax provision computed at statutory federal rate of 21%	\$ 9,019	\$ 11,951
Tax effect of:		
Income from tax exempt securities and loans	(1,131)	(1,292)
State income tax (net of federal tax effect)	83	798
Tax credits and other benefits net of amortization	(289)	(280)
Other	<u>(163)</u>	<u>(449)</u>
	<u>\$ 7,519</u>	<u>\$ 10,728</u>

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**NOTE 14 - INCOME TAXES** (Continued)

The tax effects of temporary differences related to deferred taxes shown on the consolidated balance sheets were:

	<u>2024</u>	<u>2023</u>
Deferred tax asset		
Allowance for credit losses	\$ 8,658	\$ 8,919
Net unrealized loss on available for sale securities and derivatives	8,521	6,526
Deferred loan fees	848	916
Nonaccrual loan interest income	608	299
Capital loss carryforward	460	435
SERP liabilities	332	349
Stock based compensation	315	295
Other	146	38
Deferred tax liabilities		
Lease activity	(4,520)	(4,530)
Depreciation	(1,217)	(1,276)
Amortization of intangibles	(969)	(910)
Mortgage servicing rights	(810)	(905)
Prepaid expenses	(596)	(439)
Other	(211)	(192)
Net deferred tax asset	<u>\$ 11,565</u>	<u>\$ 9,525</u>

The Corporation had a state deferred tax asset of \$1,112 and \$1,001 which is included in accrued interest receivable and other assets on the consolidated balance sheets for the years ended December 31, 2024 and 2023, respectively. The Corporation had a federal deferred tax asset of \$10,454 and \$8,524 which is carried in accrued interest receivable and other assets on the consolidated balance sheets for the years ended December 31, 2024 and 2023, respectively.

The Corporation did not recognize interest and penalties during the years ended December 31, 2024 and 2023.

The Corporation and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana, Illinois and Florida. The Corporation is no longer subject to examination by federal or state taxing authorities for years before 2021.

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**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES**

The Corporation utilizes various derivative instruments as part of its asset liability management strategy to help manage exposure to risk arising from both its business operations and economic conditions. The Corporation uses derivative financial instruments to manage differences in the amount, timing, and duration of the Corporation's known or expected cash payments principally related to certain variable-rate liabilities. The Corporation utilizes derivatives as a means to offer qualified borrowers credit-based products that meet their needs and, therefore, are not used to manage interest rate risk in the Corporation's assets or liabilities. Additionally, the Corporation enters into forward commitments for the future delivery of mortgage loans to third party investors and enters into interest rate lock commitments (IRLC) with potential borrowers to fund specific mortgage loans that will be sold into the secondary market. Furthermore, the Corporation utilizes derivatives as fair value hedges related to certain pools of securities. The Corporation does not use derivatives for speculative purposes.

The Corporation had various interest rate swap, interest rate floor, and interest rate cap agreements designated and qualifying as accounting hedges as of December 31, 2024 and 2023. Designating derivative instruments as a fair value hedge allows the Corporation to recognize gains and losses, less any ineffectiveness, in the consolidated statements of income within the same period that the hedged item affects earnings. The Corporation includes the gain or loss on the hedged items in the same line items the offsetting gain or loss on the related interest rate swap. For derivative instruments that are designated and qualify as cash flow hedges, any gains or losses related to changes in fair value are recorded in accumulated other comprehensive income (loss), net of tax. The fair value of derivative instruments designated as accounting hedges, are reported in accrued interest receivable and other assets for instruments with a positive fair value, while instruments with a negative fair value are reported in accrued interest payable and other liabilities on the consolidated balance sheets.

The Corporation has various interest rate swaps that are not designated as accounting hedges; therefore, the changes in fair value are recognized directly in earnings. Certain interest rate swaps offset matched terms with prepayment penalties on an associated customer loan. Certain other interest rate swaps are used to provide an opportunity for qualifying commercial banking customers to manage their interest rate exposure by entering into an agreement with the Corporation swapping a variable rate loan to a fixed rate. The interest rate swaps are simultaneously hedged by the Corporation as they enter into a similar, offsetting swap agreement with an approved third party. The Corporation also manages market risk on IRLCs and mortgage loans held for sale by using corresponding forward sale commitments. The fair value of the interest rate swaps that offset matched terms with prepayment penalties with a positive fair value are reported in loans while the other non-designated hedge instruments with a positive fair value are reported in accrued interest receivable and other assets on the consolidated balance sheets. Non-designated hedge instruments with a negative fair value are reported in accrued interest payable and other liabilities on the consolidated balance sheets.

The interest rate swap agreement establishes the basis on which interest rate payments are exchanged with counterparties, referred to as the notional amount. The notional amount of the interest rate swaps and caps do not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the derivative instruments. Derivative instruments are recognized on the balance sheet at their fair value and are not reported on a net basis.

All swaps are determined to be fully effective at inception and are expected to remain effective at December 31, 2024 and 2023.

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**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

*Summary of Derivative Instruments*

Fair Value Hedge Instruments

The following table presents amounts that were recorded on the consolidated balance sheets related to cumulative basis adjustments for interest rate swap derivatives designated as fair value accounting hedges as of December 31, 2024 and 2023.

Line item in the consolidated balance sheet in which the hedged item is included	Carrying amount of the hedged asset		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged assets	
	December 31, 2024	December 31, 2023	December 31, 2024	December 31, 2023
Securities available for sale (1)	\$ 25,797	\$ 9,125	\$ 41	\$ (293)

(1) These amounts include the amortized cost basis of closed portfolios used to designate hedging relationships in which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. At December 31, 2024 and 2023, the amounts of the designated hedged items were \$20,000 and \$5,000.

The following table presents a summary of interest rate swap derivatives designated as fair value accounting hedges of fixed-rate receivables used in the Corporation's asset liability management strategy as of December 31, 2024 and 2023, identified by the underlying interest rate-sensitive instruments.

December 31, 2024

Fair Value Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	Weighted-Average Ratio	
				Receive	Pay
Securities available for sale	\$ 5,000	0.45	\$ 90	3-month DWA SOFR + 26bs	0.48%
Securities available for sale	\$ 15,000	1.45	\$ (131)	1-month DWA SOFR	4.69%
Total	<u>\$ 20,000</u>		<u>\$ (41)</u>		

December 31, 2023

Fair Value Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	Weighted-Average Ratio	
				Receive	Pay
Securities available for sale	\$ 5,000	1.46	\$ 293	3-Month DWA SOFR + 26bps	0.48%
Total	<u>\$ 5,000</u>		<u>\$ 293</u>		

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**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

Cash Flow Hedge Instruments

The following table presents amounts that were recorded on the consolidated balance sheets, consolidated statements of income, and consolidated statements of comprehensive income (loss) related to the derivative instruments designated as cash flow hedges at December 31, 2024 and 2023.

December 31, 2024

Cash Flow Hedges	Notional Value	Weighted-Average Remaining Maturity (years)	Fair Value	YTD OCI	Interest Expense		Weighted-Average Ratio		Reference Index	Strike Rate
							Receive	Pay		
Interest rate caps tied to municipal deposits	\$ 25,000	0.45	\$ 323	\$ 789	\$ (1,272)	(a)(d)	N/A	N/A	1-Month DWA SOFF	1.41%
Interest rate floor tied to municipal deposits	25,000	0.71	-	(28)	46	(a)	N/A	N/A	FFE	1.00%
Interest rate floor tied to back-to-back swaps	25,000	1.20	13	50	76	(e)	N/A	N/A	1-Month Term SOFF	3.00%
Interest rate cap tied to subordinated debt	-	0.00	-	53	(101)	(b)	N/A	N/A	3-Month Term SOFF	2.80%
							3-Month Term SOFR			
Interest rate swap tied to subordinated debt	13,000	4.96	994	(150)	(374)	(b)	+ 174bps	4.07%	N/A	N/A
Interest rate cap tied to holding company debt	6,000	0.75	126	203	(257)	(c)	N/A	N/A	3-Month Term SOFF	1.07%
							3-month DWA SOFR			
Interest rate swaps tied to FHLB advances	-	0.00	-	-	(383)	(c)	+ 1bp	N/A	N/A	N/A
							3-Month DWA SOFR			
Interest rate swaps tied to brokered deposits	150,000	2.17	3,007	44	(2,879)	(a)	+ 8bps	2.80%	N/A	N/A
Total	<u>\$ 244,000</u>		<u>\$ 4,463</u>	<u>\$ 961</u>	<u>\$ (5,144)</u>					

(a) - Expense included in deposit interest expense on the consolidated statements of income

(b) - Expense included in subordinated debentures interest expense on the consolidated statements of income

(c) - Expense included in notes payable and FHLB advances interest expense on the consolidated statements of income

(d) - Interest expense includes \$349 in gains from early termination recognized in 2024

(e) - Expense included in loans, including fees on the consolidated statements of income

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**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

December 31, 2023

Cash Flow Hedges	Notional Value	Weighted- Average Remaining Maturity (years)	Fair Value	YTD OCI	Interest Expense	Weighted-Average Ratio		Reference Index	Strike Rate
						Receive	Pay		
Interest rate caps tied to municipal deposits	\$ 25,000	1.46	\$ 1,053	\$ 718	\$ (1,221)	(a)(d)	N/A	1-Month DWA SOFR	1.41%
Interest rate floor tied to municipal deposits	25,000	1.71	8	6	46	(a)	N/A	FFE	1.00%
Interest rate floor tied to back-to-back swaps	25,000	2.21	156	7	63	(e)	N/A	1-Month Term SOFR	3.00%
Interest rate cap tied to subordinated debt	5,000	0.96	91	45	(92)	(b)	N/A	3-Month Term SOFR	2.80%
						3-Month Term SOFR			
Interest rate swap tied to subordinated debt	13,000	5.96	795	174	(356)	(b)	+ 174bps	N/A	N/A
Interest rate cap tied to holding company debt	7,000	1.75	403	101	(285)	(c)	N/A	3-Month Term SOFR	1.07%
Interest rate swaps tied to FHLB advances	-	0.00	-	110	(172)	(c)	3-Month LIBOR	N/A	N/A
						3-Month DWA SOFR			
Interest rate swaps tied to brokered deposits	145,000	2.76	3,067	1,894	(3,038)	(a)	+ 11bps	N/A	N/A
Total	<u>\$ 245,000</u>		<u>\$ 5,573</u>	<u>\$ 3,055</u>	<u>\$ (5,055)</u>				

(a) - Expense included in deposit interest expense on the consolidated statements of income

(b) - Expense included in subordinated debentures interest expense on the consolidated statements of income

(c) - Expense included in notes payable and FHLB advances interest expense on the consolidated statements of income

(d) - Interest expense includes \$349 in gains from early termination recognized in 2023

(e) - Expense included in loans, including fees on the consolidated statements of income

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**NOTE 15 - DERIVATIVES AND HEDGING ACTIVITIES (Continued)**

Non-Designated Hedge Instruments

The following table presents amounts that were recorded on the consolidated balance sheets and consolidated statements of income related to the derivative instruments not designated as accounting hedges at December 31, 2024 and 2023.

	December 31, 2024			December 31, 2023		
	Notional Value	Fair Value	YTD Gain/(Loss)	Notional Value	Fair Value	YTD Gain/(Loss)
<b>Non-Designated Hedge Instruments</b>						
<b>Asset Derivatives</b>						
Interest rate swaps - prepayment penalty	\$ 1,574	\$ 158	\$ -	\$ 1,658	\$ 131	\$ -
Interest rate swaps - assets (back to back swaps)	150,937	11,093	-	115,044	9,140	-
Interest rate lock commitment (IRLC)	4,062	72	(20)	5,071	91	54 (a)
Forward contracts	1,319	3	3	-	-	- (a)
<b>Liability Derivatives</b>						
Interest rate swaps - prepayment penalty	-	(158)	-	-	(131)	-
Interest rate swaps - liabilities (back to back swaps)	150,937	(11,093)	-	115,044	(9,140)	-
Forward contracts	-	-	3	512	(3)	(15) (a)
<b>Total</b>	<b>\$ 308,829</b>	<b>\$ 75</b>	<b>\$ (14)</b>	<b>\$237,329</b>	<b>\$ 88</b>	<b>\$ 39</b>

(a) - Income included in loan sales and servicing income on the consolidated statements of income.

The Corporation's estimated exposure to credit loss, in the event of nonperformance by a borrower or counterparty, is limited to the fair value of the derivative instrument associated with that borrower or counterparty as provided in regulatory guidance as calculated by the Remaining Maturity Method. The Corporation monitors its derivative credit exposure to borrowers by monitoring the creditworthiness of the related loan customers through the normal credit review process the Corporation performs on all borrowers. The Corporation monitors the fair value credit risk of the institutional counterparties as they may be required to post credit support; the process includes a review of the financial statements which is part of the quarterly derivative review.

In connection with its use of derivative instruments, the Corporation is required from time to time to post collateral with its counterparties to offset its market position. The Corporation had pledged short-term certificates of deposit, cash, and securities with a carrying value of \$100 and \$100 at December 31, 2024 and 2023, respectively, in satisfaction of credit support agreements with derivative counterparties. Similarly, the Corporation's counterparties may be required to post collateral with the Corporation to offset the market position. The counterparties had pledged cash with a carrying value of \$7,082 and \$8,373 as of December 31, 2024 and 2023, respectively, in satisfaction of credit support agreements.

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**NOTE 16 – COMMITMENTS**

	<u>2024</u>	<u>2023</u>
Unused lines of credit	\$ 538,122	\$ 512,955
Commercial letters of credit	9,512	4,892
Commitment to sell loans	3,760	3,606

Some financial instruments, such as loan commitments, credit lines and letters of credit, are issued to meet customer financing needs. These are arrangements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make commitments as are used for loans, including obtaining collateral at exercise of the commitment.

As of December 31, 2024 and 2023, the Bank was not required to hold a reserve on deposit with the Federal Reserve. These reserves earned interest at a rate of 4.40% and 5.40% at December 31, 2024 and 2023, respectively.

**NOTE 17 - REGULATORY MATTERS**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet various capital requirements can initiate regulatory action. Management believes as of December 31, 2024, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and plans for capital restoration are required.

At December 31, 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notifications that management believes changed the institution's category.

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**NOTE 17 - REGULATORY MATTERS (Continued)**

Actual capital levels and minimum required levels were as follows:

	<u>Actual</u>		<u>Required For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2024</u>						
Total capital to risk weighted assets						
Consolidated	\$ 350,346	13.5 %	\$ 272,253	10.5 %	N/A	N/A
Bank	347,102	13.4	271,007	10.5	\$ 258,102	10.0 %
Tier 1 capital to risk weighted assets						
Consolidated	320,916	12.4	\$ 220,396	8.5	N/A	N/A
Bank	317,673	12.3	219,387	8.5	206,482	8.0
Common Tier 1 (CET 1)						
Consolidated	302,916	11.7	181,502	7.0	N/A	N/A
Bank	317,673	12.3	180,672	7.0	167,767	6.5
Tier 1 capital to average assets						
Consolidated	320,916	9.7	132,109	4.0	N/A	N/A
Bank	317,673	9.6	131,807	4.0	164,759	5.0
<u>2023</u>						
Total capital to risk weighted assets						
Consolidated	\$ 330,372	13.5 %	\$ 256,826	10.5 %	N/A	N/A
Bank	323,054	13.3	255,576	10.5	\$ 243,406	10.0 %
Tier 1 capital to risk weighted assets						
Consolidated	302,783	12.4	207,907	8.5	N/A	N/A
Bank	295,465	12.1	206,895	8.5	194,725	8.0
Common Tier 1 (CET 1)						
Consolidated	284,783	11.6	171,218	7.0	N/A	N/A
Bank	295,465	12.1	170,384	7.0	158,214	6.5
Tier 1 capital to average assets						
Consolidated	302,783	10.0	120,822	4.0	N/A	N/A
Bank	295,465	9.8	120,364	4.0	150,455	5.0

**NOTE 18 - FAIR VALUES**

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2: Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3: Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

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**NOTE 18 - FAIR VALUES** (Continued)

The Corporation used the following methods and significant assumptions to estimate the fair value of each type of asset or liability carried at fair value:

The fair values for investment securities are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Designated derivative instruments consist of interest rate swaps, interest rate caps and interest rate floors. The Corporation obtains fair values from financial institutions that use internal models with observable market inputs to estimate the values of these instruments (Level 2 inputs)

Non-designated derivative instruments consist of interest rate swaps, interest rate lock commitments (IRLC) and forward contracts. The Corporation offers interest rate swaps to certain loan customers to allow them to hedge the risk of rising interest rates on their variable rate loans. The Corporation originates a variable rate loan and enters into a variable-to-fixed interest rate contract with the customer. The Corporation also enters into an offsetting interest rate swap with a correspondent bank. These back-to-back swap agreements are intended to offset each other and allow the Company to originate a variable rate loan, while providing a contract for fixed interest payments for the customer. The net cash flow for the Corporation is equal to the interest income received from a variable rate loan originated with the customer. The fair value of these derivatives is based on a discounted cash flow approach. The fair value assets and liabilities of centrally cleared interest rate swaps are net of variation margin settled-to-market (Level 2). The fair values of IRLCs are determined using the projected sale price of individual loans based on changes in market interest rates, projected pull-through rates (the probability that an IRLC will ultimately result in an originated loan), the reduction in the value of the applicant's option due to the passage of time, and the remaining origination costs to be incurred based on management's estimate of market costs (Level 3 inputs). The fair values of forward contracts are determined by obtaining quoted prices from third party investors (Level 2 inputs).

The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income. The Corporation is able to compare the valuation model inputs and results to widely available published industry data for reasonableness (Level 2 inputs).

The fair value of agricultural servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. Inputs utilized include discount rates, prepayment speeds and delinquency rates (Level 3 inputs).

Nonrecurring adjustments to certain commercial and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

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**NOTE 18 - FAIR VALUES** (Continued)

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Corporation has elected the fair value option, are summarized below:

	<u>Fair Value Measurements at December 31, 2024 Using</u>		
	<u>Quoted Prices in</u>	<u>Significant</u>	<u>Significant</u>
	<u>Active Markets</u>	<u>Other</u>	<u>Unobservable</u>
	<u>for Identical</u>	<u>Observable</u>	<u>Inputs</u>
	<u>Assets</u>	<u>Inputs</u>	<u>Inputs</u>
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Financial Assets:			
Investment securities available for sale:			
U.S. treasury and government agency securities	\$ -	\$ 44,495	\$ -
Obligations of states and political subdivisions	-	187,057	5,648
Mortgage-backed securities, residential	-	365,254	-
Total investment securities available for sale	-	596,806	5,648
Equity securities	5,296	-	-
Designated hedge derivatives	-	4,553	-
Non-designated hedge derivatives:			
Interest rate swaps	-	11,251	-
Interest rate lock commitment (IRLC)	-	-	72
Forward contracts	-	3	-
Total non-designated hedge derivatives	-	11,254	72
Total derivatives	-	15,807	72
Total financial assets	<u>\$ 5,296</u>	<u>\$ 612,613</u>	<u>\$ 5,720</u>
Financial Liabilities			
Designated hedge derivatives	-	131	-
Non-designated hedge derivatives:			
Interest rate swaps	-	11,251	-
Total non-designated hedge derivatives	-	11,251	-
Total derivatives	-	11,382	-
Total financial liabilities	<u>\$ -</u>	<u>\$ 11,382</u>	<u>\$ -</u>

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**NOTE 18 - FAIR VALUES** (Continued)

	Fair Value Measurements at December 31, 2023 Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial Assets:</b>			
Investment securities available for sale:			
U.S. treasury and government agency securities	\$ -	\$ 73,973	\$ -
Obligations of states and political subdivisions	-	203,937	5,767
Mortgage-backed securities, residential	-	285,735	-
Total investment securities available for sale	-	563,645	5,767
Equity securities	4,898	-	-
Designated hedge derivatives	-	5,866	-
Non-designated hedge derivatives:			
Interest rate swaps	-	9,271	-
Interest rate lock commitment (IRLC)	-	-	91
Total non-designated hedge derivatives	-	9,271	91
Total derivatives	-	15,137	91
Total financial assets	\$ 4,898	\$ 578,782	\$ 5,858
<b>Financial Liabilities</b>			
Designated hedge derivatives	-	-	-
Non-designated hedge derivatives:			
Interest rate swaps	-	9,271	-
Forward contracts	-	3	-
Total non-designated hedge derivatives	-	9,274	-
Total derivatives	-	9,274	-
Total financial liabilities	\$ -	\$ 9,274	\$ -

The tables below present a reconciliation of all assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2024 and 2023:

	Obligations of States and Political Subdivisions	
	2024	2023
Balance of recurring Level 3 assets at January 1	\$ 5,767	\$ 6,765
Included in earnings	-	(2)
Total losses included in other comprehensive income loss	(249)	(676)
Purchases	500	940
Maturities/calls	(2,135)	(1,260)
Transfers into Level 3	1,765	-
Balance of recurring Level 3 assets at December 31	\$ 5,648	\$ 5,767

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**NOTE 18 - FAIR VALUES** (Continued)

Two local market obligations of states and political subdivisions issues with a fair value of \$837 as of December 31, 2024 were transferred from Level 2 to Level 3 because of a lack of observable market data for these investments due to a decrease in the market activity for these securities. There were no transfers into or out of Level 3 during 2023.

	Interest Rate Lock Commitments	
	2024	2023
Balance of recurring Level 3 assets at January 1	\$ 91	\$ 37
Total realized gains/(losses)		
Included in net income	(19)	54
Balance of recurring Level 3 assets at December 31	<u>\$ 72</u>	<u>\$ 91</u>

There were no transfers into or out of Level 3 during 2024 or 2023.

The following table presents quantitative information about recurring Level 3 fair value measurements at December 31, 2024 and 2023.

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range</u>
<u>December 31, 2024</u>				
Obligations of states and political subdivisions	\$ 5,648	Discounted Cash Flow	Discount Rate	2.80% - 3.69%
Interest rate lock commitments	\$ 72	Discounted Cash Flow	Loan closing rates	74% - 100%
<u>December 31, 2023</u>				
Obligations of states and political subdivisions	\$ 5,767	Discounted Cash Flow	Discount Rate	2.78% - 3.72%
Interest rate lock commitments	\$ 91	Discounted Cash Flow	Loan closing rates	72% - 100%

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**NOTE 18 - FAIR VALUES** (Continued)

Assets and Liabilities Measured on a Non-Recurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below:

	<u>Fair Value Measurements at December 31, 2024 Using</u>		
	Quoted Prices in	Significant	
	Active Markets	Other	Significant
	for Identical	Observable	Unobservable
	Assets	Inputs	Inputs
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:			
Agricultural servicing rights	\$ -	\$ -	\$ 2,647
	<u>Fair Value Measurements at December 31, 2023 Using</u>		
	Quoted Prices in	Significant	
	Active Markets	Other	Significant
	for Identical	Observable	Unobservable
	Assets	Inputs	Inputs
	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Assets:			
Agricultural servicing rights	\$ -	\$ -	\$ 1,850

Appraisals or brokers-price-opinions for collateral-dependent loans and other real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, a member of the Loan Department reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. After the review of the appraisal, the Corporation typically applies a discount for liquidation and other considerations. For collateral dependent loans this discount ranges from 0-20% for Agriculture and 10%-35% for Commercial and Residential Mortgage. For other real estate owned this discount ranges from 0-25%.

At December 31, 2024 and 2023, there were no collateral-dependent loans measured at fair value.

At December 31, 2024 and 2023, there was no other real estate owned measured at fair value less costs to sell. There were no write downs for the year ended December 31, 2024 and 2023.

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**NOTE 18 - FAIR VALUES** (Continued)

The following tables present fair values of the Corporation's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall as of December 31, 2024 and 2023.

Fair Value Measurements at December 31, 2024				
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	Carrying Amount			
<b>Financial assets</b>				
Cash and cash equivalents and interest bearing deposits in other financial institutions	\$ 120,521	\$ 120,521	\$ -	\$ -
Securities held to maturity	110	-	118	-
Restricted stock	12,148	-	12,148	-
Loans held-for-sale	3,760	-	-	3,933
Loans, net	2,356,889	-	-	2,306,927
Accrued interest receivable	23,909	-	23,909	-
<b>Financial liabilities</b>				
Noninterest-bearing deposits	(491,804)	(491,804)	-	-
Interest-bearing deposits	(2,328,004)	-	(2,141,246)	-
FHLB advances	(85,000)	-	(84,827)	-
Notes payable	(5,995)	-	(6,121)	-
Subordinated debentures	(18,558)	-	-	(14,967)
Accrued interest payable	(3,159)	-	(3,159)	-

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**NOTE 18 - FAIR VALUES** (Continued)

Fair Value Measurements at December 31, 2023				
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Financial assets</b>				
Cash and cash equivalents and interest bearing deposits in other financial institutions	\$ 59,634	\$ 59,634	\$ -	\$ -
Securities held to maturity	130	-	140	-
Restricted stock	11,732	-	11,732	-
Loans held-for-sale	3,606	-	-	3,699
Loans, net	2,219,380	-	-	2,158,459
Accrued interest receivable	23,419	-	23,419	-
<b>Financial liabilities</b>				
Noninterest-bearing deposits	(483,923)	(483,923)	-	-
Interest-bearing deposits	(2,116,930)	-	(2,097,163)	-
FHLB advances	(55,000)	-	(54,522)	-
Notes payable	(6,989)	-	(8,298)	-
Subordinated debentures	(18,558)	-	-	(15,249)
Accrued interest payable	(3,617)	-	(3,617)	-

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents and interest-bearing deposits in other financial institutions, accrued interest receivable and payable, demand deposits, short-term debt, and deposits that reprice frequently and fully. The methods for determining the fair values for securities held to maturity is consistent with the methods for securities available for sale and equity securities, which was described previously. For time deposits and deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. Fair value of loans held for sale is based on market quotes. Fair value of loans is based on market interest rates, with a credit mark based on historical charge offs and recoveries. Fair value of debt is based on current rates for similar financing. It was not practicable to determine the fair value of restricted stock due to restrictions placed on its transferability. Fair value of derivatives are determined using quantitative models that utilize multiple market inputs. Fair values for off-balance-sheet, credit related financial instruments are based on fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreement and the counterparties' credit standing. The fair value of off-balance-sheet items is not significant. The fair values as of December 31, 2024 and 2023, utilize exit pricing, including factors for yield, credit, and liquidity.

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**NOTE 19 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS**

CONDENSED BALANCE SHEETS  
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Assets</b>		
Cash and cash equivalents	\$ 7,115	\$ 11,459
Interest-bearing deposits with unaffiliated depository institutions	735	1,225
Investment in subsidiaries	287,484	269,390
Equity securities	5,097	4,751
Dividend receivable	2	2
Other assets	2,115	3,044
	<u>\$ 302,548</u>	<u>\$ 289,871</u>
<b>Liabilities</b>		
Notes payable	\$ 5,995	\$ 6,989
Other borrowings	695	953
Dividend payable and other liabilities	3,735	3,768
Subordinate debentures payable to:		
First Farmers Statutory Trust II	5,155	5,155
First Farmers Statutory Trust III	13,403	13,403
	<u>28,983</u>	<u>30,268</u>
Stockholders' equity	<u>273,565</u>	<u>259,603</u>
	<u>\$ 302,548</u>	<u>\$ 289,871</u>

CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME  
Years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Dividends from subsidiaries	\$ 11,500	\$ 18,600
Other income	340	271
Unrealized losses recognized on equity securities	(199)	(59)
Realized gains recognized on equity securities	167	-
Interest expense	(1,215)	(1,245)
Other operating expenses	(928)	(780)
Income tax benefit	518	494
Equity in undistributed income of subsidiaries	25,245	28,902
Net Income	<u>\$ 35,428</u>	<u>\$ 46,183</u>
Comprehensive income	<u>\$ 28,219</u>	<u>\$ 52,144</u>

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 19 - PARENT COMPANY CONDENSED FINANCIAL STATEMENTS (Continued)**

**CONDENSED STATEMENTS OF CASH FLOWS**

Years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net income	\$ 35,428	\$ 46,183
Adjustments to reconcile net income to net cash from operating activities		
Equity in undistributed income of subsidiaries	(25,245)	(28,902)
Amortization of debt issuance costs	6	6
Stock-based compensation	641	439
Deferred income tax benefit	(118)	(80)
Unrealized losses of fair value equity securities	199	59
Realized gain on sale of fair value equity securities	(167)	-
Change in other assets and liabilities	1,166	(633)
Net cash from operating activities	<u>11,910</u>	<u>17,072</u>
Cash flows from investing activities		
Net change in interest bearing deposits	490	-
Distributions from subsidiary	-	3,799
Purchase of equity securities	(704)	(2,518)
Proceeds from sale of equity securities	326	-
Net cash from investing activities	<u>112</u>	<u>1,281</u>
Cash flows from financing activities		
Payments on notes payable	(1,000)	(1,000)
Net change in short term borrowings	(258)	953
Dividends paid	(13,498)	(13,069)
Sale of treasury stock	313	165
Purchase of treasury stock	(1,923)	(1,021)
Net cash from financing activities	<u>(16,366)</u>	<u>(13,972)</u>
Net change in cash and cash equivalents	(4,344)	4,381
Beginning cash and cash equivalents	11,459	7,078
Ending cash and cash equivalents	<u>\$ 7,115</u>	<u>\$ 11,459</u>
Supplemental non-cash disclosures		
Dividends declared but unpaid	\$ 3,439	\$ 3,372

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE LOSS**

The tables below present changes in accumulated other comprehensive loss by component, net of tax, for the years ending December 31, 2024 and 2023:

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses On Available for Sale Securities	Total
<u>December 31, 2024</u>			
Beginning Balance	\$ 4,318	\$ (29,872)	\$ (25,554)
Other comprehensive loss before reclassification	(835)	(6,419)	(7,254)
Amounts reclassified from accumulated other comprehensive loss	<u>(126)</u>	<u>171</u>	<u>45</u>
Net current period other comprehensive loss	<u>(961)</u>	<u>(6,248)</u>	<u>(7,209)</u>
Ending balance	<u><u>\$ 3,357</u></u>	<u><u>\$ (36,120)</u></u>	<u><u>\$ (32,763)</u></u>

	Gains and Losses on Cash Flow Hedges	Unrealized Gains and Losses On Available for Sale Securities	Total
<u>December 31, 2023</u>			
Beginning Balance	\$ 7,373	\$ (38,888)	\$ (31,515)
Other comprehensive income/(loss) before reclassification	(2,921)	8,502	5,581
Amounts reclassified from accumulated other comprehensive loss	<u>(134)</u>	<u>514</u>	<u>380</u>
Net current period other comprehensive income/(loss)	<u>(3,055)</u>	<u>9,016</u>	<u>5,961</u>
Ending balance	<u><u>\$ 4,318</u></u>	<u><u>\$ (29,872)</u></u>	<u><u>\$ (25,554)</u></u>

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FIRST FARMERS FINANCIAL CORPORATION  
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**NOTE 20 – ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)** (Continued)

The tables below present significant amounts reclassified out of each component of accumulated other comprehensive income (loss) for the years ending December 31, 2024 and 2023:

<u>December 31, 2024</u>		
<u>Details about Accumulated other Comprehensive Income (Loss) Components</u>	<u>Amount Reclassified From Accumulated Other Comprehensive Income (Loss)</u>	<u>Affected Line Item in the Statement Where Net Income is Presented</u>
Gains on cash flow hedges		
Interest rate contracts	\$ 168	Interest income
	168	Total before tax
	(42)	Tax expense
	126	
Realized losses on		
available for sale securities	(227)	Realized loss on sale and
	(227)	redemption of securities
	56	Total before tax
	(171)	Tax benefit
	\$ (45)	Net of tax
<u>December 31, 2023</u>		
<u>Details about Accumulated other Comprehensive Income (Loss) Components</u>	<u>Amount Reclassified From Accumulated Other Comprehensive Income (Loss)</u>	<u>Affected Line Item in the Statement Where Net Income is Presented</u>
Gains on cash flow hedges		
Interest rate contracts	\$ 179	Interest income
	179	Total before tax
	(45)	Tax expense
	134	
Realized losses on		
available for sale securities	(684)	Realized loss on sale and
	(684)	redemption of securities
	170	Total before tax
	(514)	Tax benefit
	\$ (380)	Net of tax

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**NOTE 21 – LEASES**

*Lessee Arrangements*

The Corporation leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2028 and contain renewal options. Two of these leases requires the payment of property taxes and insurance premiums, and two require the payment of maintenance and other costs. In some cases, rentals are subject to escalation based upon changes in a consumer price index. The Corporation accounts for lease and non-lease components together as a single lease component and determines if an arrangement is a lease at inception.

Right-of-use (“ROU”) lease assets represent the Corporation’s right to use an underlying asset for the lease term and lease obligations represent the Corporation’s obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Corporation’s lease terms may include options to extend or terminate the lease when it is reasonably certain that the Corporation will exercise that option.

The Corporation 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 Corporation’s incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

During 2024, the Corporation entered into a new lease agreement, which resulted in a net increase in the ROU lease asset of \$298 and increase in the lease liability of \$298. During 2023, the Corporation entered into a new lease agreement, which resulted in a net increase in the ROU lease asset of \$907 and increase in the lease liability of \$907.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Corporation recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as practical expedient of the standard.

The Corporation entered into a new lease agreement in 2024, with a commencement date in 2025. It is expected that the annual rent amount will be \$67, with a 2.95 percent escalator each year. The Corporation entered into a new lease agreement in 2023, with a commencement date in 2025. It is expected that the annual rent amount will be \$126, with a 2 percent escalator each year.

*Lease Classification*

ROU assets and lease liabilities and the associated balance sheet classifications are as follows at December 31, 2024 and 2023:

	<u>Balance Sheet Classification</u>	<u>2024</u>	<u>2023</u>
ROU assets	Accrued interest receivable and other assets	\$ 1,692	\$ 1,578
Lease liabilities	Accrued interest payable and other liabilities	1,690	1,576

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**NOTE 21 – LEASES** (Continued)

*Lease Expense*

The components of total lease cost were as follows for the period ending December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Operating lease cost	\$ 202	\$ 135
Short-term lease cost	66	-
Total lease costs	<u>\$ 268</u>	<u>\$ 135</u>

*Lease Obligations*

The following is a maturity analysis of the operating leases with initial terms of one year or more as of December 31, 2024:

2025	\$ 216
2026	216
2027	218
2028	219
2029	221
Thereafter	<u>1,117</u>
Total undiscounted lease payments	2,207
Less: imputed interest	<u>(517)</u>
Net lease liabilities	<u>\$ 1,690</u>

*Supplemental Lease Information*

	<u>2024</u>	<u>2023</u>
Operating lease weighted-average remaining lease term (years)	10.96	12.88
Operating lease weighted average discount rate (percentage)	4.07	3.87
Operating cash flows from operating leases	\$ 202	\$ 135

See Note 3, Loans, for additional information on leases where the Corporation is the lessor.

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**NOTE 22 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 is recognized within Non-interest income. The following table presents the Corporation's sources of Non-interest income for the years ended December 31, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

	<u>2024</u>	<u>2023</u>
Non-interest income		
Service charges on deposit accounts		
Overdraft fees	\$ 3,139	\$ 2,961
Maintenance fees	1,475	1,541
Investment product fees	976	851
Interchange income	4,984	5,303
Net loss on sale and redemption of securities (1)	(227)	(684)
Unrealized loss recognized on equity securities (1)	(147)	(7)
Realized gains recognized on equity securities (1)	167	-
Loan sales and servicing income (1)	4,127	3,504
Back to back swap fee income (1)	379	-
Other income (2)	<u>2,253</u>	<u>2,681</u>
Total non interest income	<u>\$ 17,126</u>	<u>\$ 16,150</u>

(1) Not within the scope of ASC 606

(2) The Other income category includes losses on the sale of premises and equipment totaling \$(628) and gain on the sale of other real estate owned of \$1 in 2024 and losses on the sale of equipment of \$(36) in 2023, which is within the scope of ASC 606; the remaining balance of \$2,880 in 2024 and \$2,717 in 2023 is outside the scope of ASC 606.

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

Investment Brokerage Fees (Net): The Corporation earns fees from investment brokerage services provided to its customers by a third-party service provider. The Corporation receives commissions from the third-party service provider on a monthly basis based upon customer activity for the month. The gross commission fees are recognized monthly. Because the Corporation (i) acts as an agent in arranging the relationship between the customer and the third-party service provider and (ii) does not control the services rendered to the customers, investment brokerage fees are presented net of related costs.

Interchange Income: The Corporation earns interchange fees from debit cardholder transactions conducted through the Mastercard and NYCE payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

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**NOTE 22 – REVENUE FROM CONTRACTS WITH CUSTOMERS** (Continued)

Gains/Losses on Sales of OREO and Premises and Equipment: The Corporation records a gain or loss from the sale of OREO or premises and equipment when control of the property transfers to the buyer, which generally occurs at the time of an executed deed or purchase agreement. When the Corporation finances the sale of OREO or premises and equipment to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once this criterion are met, the OREO or premises and equipment asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and unrelated gain (loss) on sale if a significant financing component is present.

**NOTE 23 – RELATED-PARTY TRANSACTIONS**

Loans to executive officers, directors, and their affiliates during 2024 and 2023 were as follows.

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 7,881	\$ 7,748
New loans	1,175	582
Effect of changes in composition of related parties	(122)	-
Repayments	<u>(616)</u>	<u>(449)</u>
Ending balance	<u>\$ 8,318</u>	<u>\$ 7,881</u>

Certain directors, executive officers and principal stockholders of the Corporation, including their immediate families and companies in which they are principal owners, were deposit customers of the Bank. At December 31, 2024 and 2023, deposits held for these individuals totaled approximately \$15,121 and \$14,892.

**NOTE 24 – SEGMENT INFORMATION**

The Corporation's reportable segment is determined by the Executive Management team, who is designated as the chief operating decision maker (CODM), based upon information provided about the Corporation's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the CODM, who uses such information to review performance of various components of the business, which are then aggregated if operating performance, products/services, and customers are similar. The CODM will evaluate the financial performance of the Corporation's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Corporation's segment and in the determination of allocating resources. The CODM uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The CODM uses consolidated net income to benchmark the Corporation against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessment of performance and in establishing compensation. Loans, investments, and deposits provide the revenues in the banking operation. Interest expense, provision for credit losses, and payroll provide the significant expenses in the banking operation. All operations are domestic.

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**NOTE 24 – SEGMENT INFORMATION** (Continued)

Accounting policies for segments are the same as those described in Note 1. Segment performance is evaluated using consolidated net income. Information reported internally for performance assessment by the CODM follows:

	Banking Segment	
	<u>2024</u>	<u>2023</u>
Interest income	\$ 190,363	\$ 161,339
Other income	17,126	16,150
Total consolidated revenues	\$ 207,489	\$ 177,489
Less:		
Interest expense	81,293	58,589
Segment net interest income and noninterest income	126,196	118,900
Less:		
Provision for credit losses	22,399	5,050
Salaries and employee benefits	34,918	33,251
Other segment items (a)	25,932	23,688
Provision for income taxes	7,519	10,728
Segment consolidated net income	35,428	46,183
 Total assets for reportable segment and consolidated assets	 \$ 3,240,297	 \$ 3,006,142

(a) - Other segment items include expenses for occupancy and equipment, data processing, marketing and business development, consulting and professional services, overhead and amortization of intangible assets in 2023.

**NOTE 25 – SUBSEQUENT EVENT**

Subsequent events have been evaluated through February 28, 2025, which is the date the consolidated financial statements were issued. The Corporation paid \$50,000 in January 2025 for the maturity of Federal Home Loan Bank advances. The Corporation has determined that there have been no other events that require disclosure.