



1st Franklin Financial Corporation
2016 Annual Report

ABOUT THE COVER

SINCE 1941, 1st Franklin Financial Corporation has had one goal—to serve the financial needs of our friends and neighbors. While we are always looking ahead, we never forget our past. Even through our growth, we have aimed to remain true to the initial values and commitment to our customers established in the beginning.

In 2016, we celebrated where we have been and where we are going and are thankful for our co-workers, customers, investors and friends who have remained loyal along the way. It's because of this that we are 75 years strong!

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THE COMPANY

1st Franklin Financial Corporation, a Georgia corporation, has been engaged in the consumer finance business since 1941, particularly in making direct cash loans and real estate loans. As of December 31, 2016 the business was operated through 119 branch offices in Georgia, 40 in Alabama, 43 in South Carolina, 36 in Mississippi, 34 in Louisiana and 23 in Tennessee. Also on that date, the Company had 1,360 employees.

As of December 31, 2016, the resources of the Company were invested principally in loans, which comprised 57% of the Company's assets. The majority of the Company's revenues are derived from finance charges earned on loans and other outstanding receivables. Our remaining revenues are derived from earnings on investment securities, insurance income and other miscellaneous income.

To our Investors, Bankers, Co-Workers, Customers and Friends:

The year 2016 was a year filled with new challenges, new opportunities and big changes. There were ups and downs, highs and lows during the year as we encountered crippling natural disasters in Louisiana and South Carolina as well as economic down turns and job losses in the states in which we operate that rely heavily on the energy sector of the economy. In addition, it's important to mention that many of the ups and downs can be attributed to the numerous procedural and operational changes that we made which were necessitated by today's business and regulatory environment. Big changes and new directions are not easy to incorporate into a fast moving, on-going business. Fortunately, even with all of this going on around them, the 1300+ employees of 1st Franklin Financial Corporation continued to serve the communities in which we operate with the same "Friendly Franklin Folks" attitude and positive outlook. The cities and towns where we are located have come to expect that from us and we delivered. Just like we have for 75 years.

With all of that said, listed below are many of the great and exciting positive things that were accomplished during the 2016, all of which we are very proud to share with you.

In 2016 we:

- Opened 11 new offices and 2 recovery centers.
- Had over \$31.3 million in purchased receivables including the largest ever for our company totaling over \$18.7 million.
- Implemented adjustments to our collection policy.
- Increased our Investment Center funds by \$20+ million.
- Added over 275 new 1st Franklin co-workers
- Completed an intensive review of our Credit Reporting policy and procedures.
- Strengthened our loan underwriting to better serve our customers and meet their ever growing and changing borrowing needs.

I think you will agree that the list above is one to be proud of and one that all of us here at 1st Franklin Financial feel that we can build on for years to come.

Our outlook for 2017 is one of even greater expectations and opportunities. We will continue to serve the communities in which we operate in a professional and caring manner. We will strive to be the first choice for our customers borrowing needs. We will be compliant and comprehensive in our controlled growth goals both in operations and in the Investment Center. We will continue to be the "Friendly Franklin Folks", "Serving our Neighbors Since 1941". Our thanks to all of you for your continued confidence and support.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Buddy Cheek". The signature is fluid and cursive, with a large initial "B" and "C".

Ben F. "Buddy" Cheek, IV
Chairman of the Board

SELECTED CONSOLIDATED FINANCIAL INFORMATION

Set forth below is selected consolidated financial information of the Company. This information should be read in conjunction with “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and the more detailed consolidated financial statements and notes thereto included herein.

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Selected Income Statement Data:	(In 000's, except ratio data)				
Revenues:					
Interest and Finance Charges ...	\$ 158,229	\$ 152,590	\$ 144,569	\$ 132,579	\$ 122,805
Insurance	47,621	52,447	47,964	45,684	42,746
Other	5,266	3,325	7,167	7,709	7,084
Net Interest Income	144,797	139,636	132,617	121,108	111,410
Interest Expense	13,432	12,955	11,952	11,472	11,394
Provision for Loan Losses	67,563	36,887	32,623	27,623	22,485
Income Before Income Taxes	6,330	31,130	37,531	38,400	36,663
Net Income	1,044	25,866	33,334	34,408	32,749
Ratio of Earnings to Fixed Charges	1.41	3.08	3.70	3.89	3.79

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Selected Balance Sheet Data:	(In 000's, except ratio data)				
Net Loans	\$ 383,184	\$ 406,390	\$ 388,341	\$ 369,427	\$ 343,574
Total Assets	673,985	674,414	605,588	561,761	518,289
Senior Debt	409,792	388,489	335,186	308,015	275,894
Subordinated Debt	34,848	36,004	37,727	40,379	42,918
Stockholders’ Equity	211,738	224,490	208,447	192,353	176,534
Ratio of Total Liabilities to Stockholders’ Equity	2.18	2.00	1.91	1.92	1.94

BUSINESS

References in this Annual Report to “1st Franklin”, the “Company”, “we”, “our” and “us” refer to 1st Franklin Financial Corporation and its subsidiaries.

1st Franklin is engaged in the consumer finance business, primarily in making consumer loans to individuals in relatively small amounts for relatively short periods of time, and in making first and second mortgage loans on real estate in larger amounts and for longer periods of time. We also purchase sales finance contracts from various retail dealers. At December 31, 2016, direct cash loans comprised 89%, real estate loans comprised 5% and sales finance contracts comprised 6% of our outstanding loans, respectively.

In connection with our business, we also offer optional credit insurance products to our customers when making a loan. Such products may include credit life insurance, credit accident and health insurance, and/or credit property insurance. Customers may request credit life insurance coverage to help assure any outstanding loan balance is repaid if the customer dies before the loan is repaid or they may request accident and health insurance coverage to help continue loan payments if the customer becomes sick or disabled for an extended period of time. Customers may also choose property insurance coverage to protect the value of loan collateral against damage, theft or destruction. We write these various insurance products as an agent for a non-affiliated insurance company. Under various agreements, our wholly-owned insurance subsidiaries, Frandisco Life Insurance Company and Frandisco Property and Casualty Insurance Company, reinsure the insurance coverage on our customers written on behalf of this non-affiliated insurance company.

Earned finance charges generally account for the majority of our revenues. The following table shows the sources of our earned finance charges in each of the past five years:

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)				
Direct Cash Loans	\$143,864	\$139,945	\$132,974	\$121,848	\$112,522
Real Estate Loans	3,710	3,432	3,202	3,223	3,272
Sales Finance Contracts ..	<u>5,147</u>	<u>4,436</u>	<u>3,896</u>	<u>3,690</u>	<u>3,648</u>
Total Finance Charges ..	<u>\$152,721</u>	<u>\$147,813</u>	<u>\$140,072</u>	<u>\$128,761</u>	<u>\$119,442</u>

Our business consists mainly of making loans to individuals who depend primarily on their earnings to meet their repayment obligations. We make direct cash loans primarily to people who need money for some non-recurring or unforeseen expense, for debt consolidation, or to purchase household goods such as furniture and appliances. These loans are generally repayable in 6 to 60 monthly installments and generally do not exceed \$15,000 principal amount. The loans are generally secured by personal property (other than certain household goods), motor vehicles and/or real estate. We believe that the interest and fees we charge on these loans are in compliance with applicable federal and state laws.

First and second mortgage loans on real estate are made to homeowners who typically use funds to improve their property or who wish to restructure their financial obligations. We generally make such loans in amounts from \$3,000 to \$50,000 and with maturities of 35 to 180 months. We believe that the interest and fees we charge on these loans are in compliance with applicable federal and state laws.

Our decision making on loan originations is based on our analysis and reviews of a number of factors, including our expectations and assumptions regarding: (i) ability to pay, (ii) creditworthiness, (iii) income stability, (iv) willingness to pay and (v) collateral security. The Company does not utilize credit score modeling or risk based pricing in its loan decision making. Prior to the making of a loan,

we complete a relevant credit investigation on a potential customer. Such investigation primarily focuses on an evaluation of a potential borrower's income, existing total indebtedness, length and stability of employment, trade or other references, debt payment history (including related collections), existing credit and any other relationships such potential borrower may have with the Company. The Company considers and evaluates a potential borrower's debt-to-disposable income ratio after giving effect to the potential loan and may, in certain instances and depending upon the overall results of the credit evaluation process, require additional internal review and supervisory approvals prior to approving a proposed loan.

Sales finance contracts are contracts purchased from retail dealers. These contracts have maturities that generally range from 3 to 60 months and generally do not individually exceed \$10,000 in principal amount. Interest rates we charge on these contracts are in compliance with applicable federal and state laws.

1st Franklin competes with several national and regional finance companies, as well as a variety of local finance companies, in the communities we serve. Competition is based primarily on interest rates and terms offered and on customer service, as well as, to some extent, reputation. We believe that our emphasis on customer service helps us compete effectively in the markets we serve.

Because of our reliance on the continued income stream of most of our loan customers, our ability to continue the profitable operation of our business depends to a large extent on the continued employment of our customers and their ability to meet their obligations as they become due. Therefore, continued economic uncertainty or worsening economic conditions, increases in unemployment or continued increases in the number of personal bankruptcies within our typical customer base may have a material adverse effect on our collection ratios and profitability.

The average annual yield on loans we make (the percentage of finance charges earned to average net outstanding balance) has been as follows:

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Direct Cash Loans	35.29%	35.25%	35.50%	34.79%	34.36%
Real Estate Loans	16.45	16.50	16.49	16.38	15.65
Sales Finance Contracts	20.12	19.66	20.17	20.42	20.61

The following table contains certain information about our operations:

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Number of Branch Offices	295	285	282	275	266
Number of Employees	1,360	1,269	1,217	1,146	1,092
Average Total Loans Outstanding Per Branch (in 000's)	\$1,797	\$1,919	\$1,828	\$1,776	\$1,693
Average Number of Loans Outstanding Per Branch	922	930	882	843	800

DESCRIPTION OF LOANS

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
DIRECT CASH LOANS:					
Number of Loans Made to New Borrowers	91,383	73,371	67,140	64,709	60,610
Number of Loans Made to Former Borrowers	54,813	55,139	50,948	46,757	38,243
Number of Loans Made to Present Borrowers	182,763	190,211	192,564	187,962	171,505
Total Number of Loans Made	328,959	318,721	310,652	299,428	270,358
Total Volume of Loans Made (in 000's)	\$701,835	\$719,251	\$695,144	\$669,565	\$603,627
Average Size of Loan Made	\$2,134	\$2,257	\$2,238	\$2,236	\$2,233
Number of Loans Outstanding	254,315	248,627	233,965	217,352	198,202
Total Loans Outstanding (in 000's)	\$474,558	\$494,837	\$471,195	\$445,755	\$408,691
Percent of Total Loans Outstanding	89%	90%	91%	91%	91%
Average Balance on Outstanding Loans	\$1,866	\$1,990	\$2,014	\$2,051	\$2,062
REAL ESTATE LOANS:					
Total Number of Loans Made	477	515	402	463	462
Total Volume of Loans Made (in 000's) .	\$10,128	\$ 9,798	\$ 8,455	\$ 8,924	\$ 7,328
Average Size of Loan Made	\$21,232	\$19,025	\$21,031	\$19,274	\$15,863
Number of Loans Outstanding	1,503	1,468	1,439	1,508	1,622
Total Loans Outstanding (in 000's)	\$24,609	\$22,128	\$20,271	\$20,329	\$20,659
Percent of Total Loans Outstanding	5%	4%	4%	4%	4%
Average Balance on Outstanding Loans	\$16,373	\$15,074	\$14,087	\$13,481	\$12,736
SALES FINANCE CONTRACTS:					
Number of Contracts Purchased	15,725	14,973	13,488	13,751	14,143
Total Volume of Contracts Purchased (in 000's)	\$34,928	\$35,315	\$28,403	\$27,395	\$27,422
Average Size of Contract Purchased	\$2,221	\$2,359	\$2,106	\$1,992	\$1,939
Number of Contracts Outstanding	16,253	15,090	13,446	13,188	13,154
Total Contracts Outstanding (in 000's)	\$30,962	\$30,071	\$23,906	\$22,270	\$20,983
Percent of Total Loans Outstanding	6%	6%	5%	5%	5%
Average Balance on Outstanding Loans	\$1,905	\$1,993	\$1,778	\$1,689	\$1,595

LOANS ORIGINATED, ACQUIRED, LIQUIDATED AND OUTSTANDING

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands)				
LOANS ORIGINATED OR ACQUIRED					
Direct Cash Loans	\$ 672,670	\$ 718,834	\$ 695,144	\$ 669,331	\$ 603,467
Real Estate Loans	10,128	9,798	8,454	8,924	7,328
Sales Finance Contracts	32,705	34,444	28,055	26,745	26,279
Net Bulk Purchases	<u>31,388</u>	<u>1,288</u>	<u>348</u>	<u>884</u>	<u>1,303</u>
Total Loans Acquired	<u>\$ 746,891</u>	<u>\$ 764,364</u>	<u>\$ 732,001</u>	<u>\$ 705,884</u>	<u>\$ 638,377</u>
LOANS LIQUIDATED *					
Direct Cash Loans	\$ 722,114	\$ 695,608	\$ 669,704	\$ 632,501	\$ 571,504
Real Estate Loans	7,647	7,941	8,512	9,254	8,792
Sales Finance Contracts	<u>34,037</u>	<u>29,151</u>	<u>26,767</u>	<u>26,108</u>	<u>26,204</u>
Total Loans Liquidated	<u>\$ 763,798</u>	<u>\$ 732,700</u>	<u>\$ 704,983</u>	<u>\$ 667,863</u>	<u>\$ 606,500</u>
LOANS OUTSTANDING AT YEAR END					
Direct Cash Loans	\$ 474,558	\$ 494,837	\$ 471,195	\$ 445,755	\$ 408,691
Real Estate Loans	24,609	22,128	20,271	20,329	20,659
Sales Finance Contracts	<u>30,962</u>	<u>30,071</u>	<u>23,906</u>	<u>22,270</u>	<u>20,983</u>
Total Loans Outstanding	<u>\$ 530,129</u>	<u>\$ 547,036</u>	<u>\$ 515,372</u>	<u>\$ 488,354</u>	<u>\$ 450,333</u>
UNEARNED FINANCE CHARGES					
Direct Cash Loans	\$ 56,143	\$ 60,753	\$ 59,376	\$ 56,159	\$ 49,933
Real Estate Loans	105	159	244	390	335
Sales Finance Contracts	<u>4,603</u>	<u>4,787</u>	<u>3,460</u>	<u>3,101</u>	<u>2,768</u>
Total Unearned Finance Charges	<u>\$ 60,851</u>	<u>\$ 65,699</u>	<u>\$ 63,080</u>	<u>\$ 59,650</u>	<u>\$ 53,036</u>

* Liquidations include customer loan payments, refunds on precomputed finance charges, renewals and charge offs.

DELINQUENCIES

We classify delinquent accounts at the end of each month according to the number of installments past due at that time, based on the then-existing terms of the contract. Accounts are classified in delinquency categories based on the number of days past due. When three installments are past due, we classify the account as being 60-89 days past due; when four or more installments are past due, we classify the account as being 90 days or more past due. Once an account becomes greater than 149 days past due, our charge off policy governs when the account must be charged off. For more information on our charge off policy, see Note 2 "Loans" in the Notes to the Consolidated Financial Statements.

In connection with any bankruptcy court initiated repayment plan, the Company effectively resets the delinquency rating of each account to coincide with the court initiated repayment plan. Effectively, the account's delinquency rating is changed thereafter under normal grading parameters. The following table shows the number of loans in bankruptcy in which the delinquency rating was reset to coincide with a court initiated repayment plan.

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Number of Bankrupt Delinquency Resets	617	1,369	1,662	1,463	1,683

The Company tracks the dollar amount of loans in bankruptcy in which the delinquency rating was reset. During 2016 and 2015, the Company reset the delinquency rating to coincide with court initiated repayment plans on bankrupt accounts with principal balances totaling \$2.0 million and \$4.7 million, respectively. This represented approximately .38% and .92% of the average principal loan portfolios outstanding during 2016 and 2015, respectively.

The following table shows the amount of certain classifications of delinquencies and the ratio of such delinquencies to related outstanding loans:

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
(in thousands, except % data)					
DIRECT CASH LOANS:					
60-89 Days Past Due	\$ 9,233	\$ 8,073	\$ 7,218	\$ 6,542	\$ 5,929
Percentage of Principal Outstanding	1.94%	1.64%	1.54%	1.48%	1.46%
90 Days or More Past Due	\$ 17,290	\$ 15,895	\$ 14,283	\$ 13,438	\$ 12,985
Percentage of Principal Outstanding	3.63%	3.23%	3.05%	3.03%	3.21%
REAL ESTATE LOANS:					
60-89 Days Past Due	\$ 305	\$ 162	\$ 180	\$ 174	\$ 201
Percentage of Principal Outstanding	1.26%	.74%	.91%	.87%	.99%
90 Days or More Past Due	\$ 1,226	\$ 481	\$ 504	\$ 547	\$ 604
Percentage of Principal Outstanding	5.09%	2.21%	2.53%	2.73%	2.91%
SALES FINANCE CONTRACTS:					
60-89 Days Past Due	\$ 443	\$ 347	\$ 210	\$ 204	\$ 208
Percentage of Principal Outstanding	1.43%	1.16%	.88%	.92%	1.00%
90 Days or More Past Due	\$ 815	\$ 585	\$ 464	\$ 449	\$ 390
Percentage of Principal Outstanding	2.62%	1.96%	1.96%	2.03%	1.86%

LOSS EXPERIENCE

Net losses (charge-offs less recoveries) and the percent such net losses represent of average net loans (loans less unearned finance charges) and liquidations (loan payments, refunds on unearned finance charges, renewals and charge-offs of customers' loans) are shown in the following table:

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
	(in thousands, except % data)				
DIRECT CASH LOANS					
Average Net Loans	\$412,682	\$404,057	\$381,367	\$357,552	\$334,084
Liquidations	\$722,114	\$695,608	\$669,704	\$632,501	\$571,504
Net Losses	\$ 50,936	\$ 31,119	\$ 27,824	\$ 24,476	\$ 21,014
Net Losses as % of Average Net Loans	12.34%	7.70%	7.30%	6.85%	6.36%
Net Losses as % of Liquidations	7.05%	4.47%	4.15%	3.87%	3.72%
REAL ESTATE LOANS					
Average Net Loans	\$ 23,046	\$ 21,194	\$ 19,765	\$ 20,031	\$ 21,192
Liquidations	\$ 7,647	\$ 7,941	\$ 8,513	\$ 9,254	\$ 8,792
Net Losses.....	\$ (3)	\$ 11	\$ 72	\$ 6	\$ 63
Net Losses as a % of Average Net Loans	(.01%)	.05%	.36%	.03%	.30%
Net Losses as a % of Liquidations	(.04%)	.14%	.85%	.06%	.72%
SALES FINANCE CONTRACTS					
Average Net Loans	\$ 25,905	\$ 22,908	\$ 19,646	\$ 18,366	\$ 17,891
Liquidations	\$ 34,037	\$ 29,151	\$ 26,767	\$ 26,108	\$ 26,204
Net Losses	\$ 1,630	\$ 877	\$ 787	\$ 471	\$ 531
Net Losses as % of Average Net Loans	6.29%	3.83%	4.01%	2.56%	2.97%
Net Losses as % of Liquidations	4.79%	3.01%	2.94%	1.80%	2.03%

ALLOWANCE FOR LOAN LOSSES

We determine the allowance for loan losses by reviewing our previous loss experience, reviewing specifically identified loans where collection is believed to be doubtful and evaluating the inherent risks and changes in the composition of our loan portfolio. Such allowance is, in our opinion, sufficient to provide adequate protection against probable loan losses in the current loan portfolio. For additional information about Management's approach to estimating and evaluating the allowance for loan losses, see Note 2 "Loans" in the Notes to the Consolidated Financial Statements.

SEGMENT FINANCIAL INFORMATION

The Company operates in one reportable business segment. For additional financial information about our segment and the divisions of our operations, see Note 13 "Segment Financial Information" in the Notes to Consolidated Financial Statements.

CREDIT INSURANCE

We offer optional credit insurance products to our customers when making a loan. Such products may include credit life insurance, credit accident and health insurance and/or credit property insurance. Customers may request credit life insurance coverage to help assure any outstanding loan balance is repaid if the customer dies before the loan is repaid or they may request credit accident and health insurance coverage to help continue loan payments if the customer becomes sick or disabled for an extended period of time. Customers may also choose property insurance coverage to protect the value of loan collateral against damage, theft or destruction. We write these various insurance products as an agent for a non-affiliated insurance company. Under various agreements, our wholly-owned insurance subsidiaries, Frandisco Life Insurance Company and Frandisco Property and Casualty Insurance Company, reinsure the insurance coverage on our customers written on behalf of this non-affiliated insurance company.

REGULATION AND SUPERVISION

The Company is subject to regulation under numerous state and federal laws and regulations as enforced and interpreted by various state and federal governmental agencies. Generally, state laws require that each office in which a small loan business such as ours is conducted be licensed by the state and that the business be conducted according to the applicable statutes and regulations. The granting of a license depends on the financial responsibility, character and fitness of the applicant, and, where applicable, the applicant must show evidence of a need through convenience and advantage documentation. As a condition to obtaining such license, the applicant must consent to state regulation and examination and to the making of periodic reports to the appropriate governing agencies. Licenses are revocable for cause, and their continuance depends upon an applicant's continued compliance with applicable laws and in connection with its receipt of a license. We are also subject to state regulations governing insurance agents in the states in which we sell credit insurance. State insurance regulations require, among other things, that insurance agents be licensed and, in some cases, limit the premiums that insurance agents can charge. We believe we conduct our business in accordance with all applicable state statutes and regulations. The Company has never had any of its licenses revoked and has never been subject to an enforcement order or regulatory settlement.

We conduct our lending operations under the provisions of various federal laws and implementing regulations. These laws and regulations are interpreted, implemented, and enforced by the Bureau of Consumer Financial Protection (the "CFPB"). Chief among these federal laws with which the Company must comply are the Federal Consumer Credit Protection Act (the "Truth-in-Lending Act"), the Fair Credit Reporting Act and the Federal Real Estate Settlement Procedures Act. The Truth-in-Lending Act requires us, among other things, to disclose to our customers the finance charge, the annual percentage rate, the total number and amount of payments and other material information on all loans. A Federal Trade Commission ruling prevents consumer lenders such as the Company from using certain household goods as collateral on direct cash loans. As a result, we generally seek to collateralize such loans with non-household goods such as automobiles, boats and other exempt items. We continually monitor our compliance with these regulatory requirements.

Changes in the current regulatory environment, or the interpretation or application of current regulations, could impact our business. While we believe that we are currently in compliance with all regulatory requirements, no assurance can be made regarding our future compliance or the cost thereof. Significant additional regulation or costs of compliance could materially adversely affect our business and financial condition.

SOURCES OF FUNDS AND COMMON STOCK MATTERS

The Company is dependent upon the availability of funds from various sources in order to meet its ongoing financial obligations and to make new loans as a part of its business. Our various sources of funds as a percent of total liabilities and stockholders' equity and the number of persons investing in the Company's debt securities was as follows:

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Bank Borrowings	--%	--%	--%	--%	--%
Senior Debt	61	58	55	55	53
Subordinated Debt	5	5	6	7	8
Other Liabilities	3	4	4	4	5
Stockholders' Equity	<u>31</u>	<u>33</u>	<u>35</u>	<u>34</u>	<u>34</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>
Number of Investors	5,421	5,415	5,405	5,436	5,445

The average interest rates we pay on borrowings, computed by dividing the interest paid by the average indebtedness outstanding, have been as follows:

	Year Ended December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Senior Borrowings	3.11%	3.32%	3.31%	3.46%	3.75%
Subordinated Borrowings	2.79	2.82	2.92	3.25	3.33
All Borrowings	3.09	3.27	3.26	3.41	3.69

Certain financial ratios relating to our debt have been as follows:

	As of December 31				
	<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Total Liabilities to Stockholders' Equity	2.18	2.00	1.91	1.92	1.94
Unsubordinated Debt to Subordinated Debt plus Stockholders' Equity	1.73	1.59	1.46	1.41	1.36

As of March 30, 2017, all of our voting common stock was closely held by three related individuals and all of our non-voting common stock was held by thirteen shareholders. None of our common stock was listed on any securities exchange or traded on any established public trading market. The Company does not maintain any equity compensation plans, and did not repurchase any of its equity securities during any period represented. Cash distributions of \$50.88 and \$60.60 per share were paid to shareholders in 2016 and 2015, respectively, primarily in amounts to enable the Company's shareholders to pay their related income tax obligations which arise as a result of the Company's status as an S Corporation. No other cash dividends were paid during the applicable periods. For the foreseeable future, the Company expects to pay annual cash distributions equal to an amount sufficient to enable the Company's shareholders to pay their respective income tax obligations as a result of the Company's status as an S Corporation.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis provides a narrative of the Company's financial condition and performance. The narrative reviews the Company's results of operations, liquidity and capital resources, critical accounting policies and estimates, and certain other matters. It includes Management's interpretation of our financial results, the factors affecting these results and the significant factors that we currently believe may materially affect our future financial condition, operating results and liquidity. This discussion should be read in conjunction with the Company's consolidated financial statements and notes thereto contained elsewhere in this Annual Report.

Our significant accounting policies are disclosed in Note 1 "Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements. Certain information in this discussion and other statements contained in this Annual Report which are not historical facts are forward-looking statements within the meaning of the federal securities laws. These forward-looking statements involve risks and uncertainties. Actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein. Possible factors which could cause our actual future results to differ from any expectations within any forward-looking statements, or otherwise, include, but are not limited to, changes in our ability to manage liquidity and cash flow, the accuracy of Management's estimates and judgments, adverse developments in economic conditions including the interest rate environment, unforeseen changes in our net interest margin, federal and state regulatory changes, unfavorable outcomes of litigation and other factors referenced in the "Risk Factors" section of the Company's Annual Report and elsewhere herein, or otherwise contained in our filings with the Securities and Exchange Commission from time to time.

General:

The Company is a privately-held corporation that has been engaged in the consumer finance industry since 1941. Our operations focus primarily on making installment loans to individuals in relatively small amounts for short periods of time. Other lending-related activities include the purchase of sales finance contracts from various dealers and the making of first and second mortgage real estate loans. All of our loans are at fixed rates, and contain fixed terms and fixed payments. We operate branch offices in six southeastern states and had a total of 295 branch locations at December 31, 2016. The Company and its operations are guided by a strategic plan which includes planned growth through strategic expansion of our branch office network. The Company expanded its operations with the opening of seven new branch offices during the year just ended. The majority of our revenues are derived from finance charges earned on loans outstanding. Additional revenues are derived from earnings on investment securities, insurance income and other miscellaneous income.

Financial Condition:

The Company's total assets decreased \$.4 million to \$674.0 million as of December 31, 2016 compared to \$674.4 million at December 31, 2015. The decrease in assets was primarily due to a decline in our net loan portfolio.

As a result of the Company's in-depth review of our loan underwriting policies to ensure compliance with enhanced regulatory requirements and an increase in monitoring and auditing of the underwriting principles contained in our policies and procedures, we experienced a temporary credit tightening in certain areas of our operations. The review also resulted in certain changes in our collection practices. The foregoing was a primary factor in a \$23.2 million (6%) decline in our net loan portfolio at December 31, 2016 compared to December 31, 2015. Higher unemployment due to the economic downturn in the oil industry resulted in suppressed loan growth in certain operating areas, which also contributed to the decline. Loan originations were \$746.9 million during 2016 compared to \$764.4 million during the prior year. A \$15.0 million increase in the Company's allowance for loan losses (which is included in the net loan portfolio) was another factor contributing to the decline in the

portfolio. Our allowance for loan losses reflects Management's estimate of the level of allowance adequate to cover probable losses inherent in the loan portfolio as of the date of the statement of financial position. To evaluate the overall adequacy of our allowance for loan losses, we consider the level of loan receivables, historical loss trends, loan delinquency trends, bankruptcy trends and overall economic conditions. Management increased the allowance for loan losses at December 31, 2016 compared to December 31, 2015 mainly due to a higher level of charge offs during 2016. Management believes the current allowance for loan losses is adequate to cover probable losses in our existing portfolio; however, changes in trends or deterioration in economic conditions could result in a change in the allowance or an increase in actual losses. Any increase could have a material adverse impact on our results of operation or financial condition in the future.

The Company's liquidity position remained strong during 2016. Our cash and short-term investments increased \$7.0 million (14%) at December 31, 2016 compared to December 31, 2015. Surplus funds generated from increased sales of our debt securities during 2016 and funds generated from operations led to the growth in our cash and holdings of short-term investments.

The Company maintains an amount of funds in restricted accounts at its insurance subsidiaries in order to comply with certain requirements imposed on insurance companies by the State of Georgia and to meet the reserve requirements of its reinsurance agreements. Restricted cash also includes escrow deposits held by the Company on behalf of certain mortgage real estate customers. At December 31, 2016, restricted cash was approximately \$2.7 million compared to \$9.3 million at December 31, 2015. The decrease was mainly due to the transfer of a portion of previously restricted cash into trust accounts in the investment portfolios for the purpose of increasing yields. See Note 3, "Marketable Debt Securities" in the accompanying "Notes to Consolidated Financial Statements" for further discussion of amounts held in trust.

The Company has two investment portfolios on the Statement of Financial Position. One is titled "Marketable Debt Securities" which consists primarily of invested surplus funds generated by the Company's insurance subsidiaries. This investment portfolio increased \$18.3 million (11%) at December 31, 2016 compared to December 31, 2015 as a result of the investment of the aforementioned increase in surplus funds generated from sales of our debt securities and funds generated from operations. Management maintains what it believes to be a conservative approach when formulating its investment strategy. The Company does not participate in hedging programs, interest rate swaps or other activities involving the use of off-balance sheet derivative financial instruments. This investment portfolio consists mainly of U.S. Treasury bonds, government agency bonds and various municipal bonds. Approximately 93% of these investment securities have been designated as "available for sale" at December 31, 2016 with any unrealized gain or loss accounted for in the equity section of the Company's consolidated statement of financial position, net of deferred income taxes for those investments held by the insurance subsidiaries. The remainder of this investment portfolio represents securities that are designated "held to maturity", as Management has both the ability and intent to hold these securities to maturity, and are carried at amortized cost.

A second investment portfolio, captioned "Equity Method Investments", consists of invested surplus funds generated from operations and financing activities of the Parent Company. Management originally invested \$10.0 million of these funds on November 1, 2013 in Meritage Capital, Centennial Absolute Return Fund, L.P. in an attempt to increase yield. An additional \$15.0 million was invested on April 1, 2014. Total value of the fund was \$26.2 million at December 31, 2016 compared to \$25.0 million at December 31, 2015. The Company uses the equity method of accounting to account for this investment.

Other miscellaneous assets increased \$3.0 million (14%) at December 31, 2016 compared to December 31, 2015 mainly due to an increase in purchases of fixed assets. Increases in prepaid expenses and real estate foreclosure assets were also factors contributing the increase. Offsetting a portion of the increase in other miscellaneous assets were reductions in deferred acquisition costs and accounts receivables due from our credit insurance business.

A substantial portion of the Company's funding is generated from sales of the Company's various debt securities. Aggregate senior and subordinated debt of the Company increased \$20.1

million (5%) to \$444.6 million at December 31, 2016 compared to \$424.5 million at December 31, 2015. Higher sales of the Company's senior demand notes and commercial paper resulted in the increase.

Other liabilities decreased \$7.8 million (31%) at December 31, 2016 compared to the prior year- end mainly due to a decrease in the Company's accrual for incentive compensation. Operating results did not meet the goals established for payment of bonuses under the Executive Bonus Plan, therefore no amount was accrued at December 31, 2016. Lower accruals for salary expenses, employee health insurance claims and legal and audit expenses also contributed to the decrease in other liabilities.

Results of Operations:

Total revenues were \$211.1 million, \$208.4 million and \$199.7 million during 2016, 2015 and 2014, respectively. The increases during 2016 compared to 2015 were mainly due to higher finance charge earnings and investment income. Revenue growth slowed during 2016 partially as a result of the previously mentioned review of our underwriting policies and a resulting credit tightening in certain regions of the Company. Although our net loan portfolio declined during 2016, average net loans outstanding were higher than 2015, resulting in higher finance charge income. Growth in earning assets (loans and investments) during 2015 compared to 2014 led to higher finance charge earnings, insurance earnings and investment income, which led to higher revenues during the comparable periods.

Higher expenses during 2016 and 2015 offset the increases in revenues during the same respective periods resulting in declines in net income. Net income for each of the three years ended December 31, 2016 was \$1.0 million, \$25.9 million and \$33.3 million, respectively.

Net Interest Income:

Net interest income is a principal component of the Company's operating performance and resulting net income. It represents the difference between income on earning assets and the cost of funds on interest bearing liabilities. Debt securities represent a majority of our interest bearing liabilities. Factors affecting our net interest income include the level of average net receivables and the interest income associated therewith, capitalized loan origination costs and our average outstanding debt, as well as the general interest rate environment. Volatility in interest rates generally has more impact on the income earned on investments and the Company's borrowing costs than on interest income earned on loans. Management does not normally change the rates charged on loans originated solely as a result of changes in the interest rate environment.

Net interest income was \$144.8 million during 2016, compared to \$139.6 million in 2015 and \$132.6 million during 2014. The higher margins during 2016 and 2015 were due to higher levels of average net receivables outstanding and the associated finance charge income thereon. Average net receivables were \$455.8 million during 2016 compared to \$440.3 million during 2015 and \$413.3 million during 2014. Interest income grew \$5.6 million (4%) during 2016 compared to 2015, and \$8.0 million (6%) during 2015 compared to 2014 as a result of the higher average net receivables outstanding.

Interest expense was \$13.4 million, \$13.0 million and \$12.0 million during 2016, 2015 and 2014, respectively, mainly due to increases in average borrowings outstanding. Average borrowings were \$437.5 million during 2016 compared to \$395.5 during 2015 and \$363.9 during 2014. Although average borrowings increased, the continued low interest rate environment has enabled the Company to minimize increases in interest expense. Our weighted average borrowing rate was 3.07%, 3.28% and 3.28% during 2016, 2015 and 2014, respectively.

Net Insurance Income:

The Company offers certain optional credit insurance products to loan customers. The aforementioned decrease in loan originations during 2016 resulted in lower sales of credit insurance products which was a factor contributing to the \$3.8 million (9%) decrease in net insurance income (insurance revenues less claims and expenses) compared to 2015.

In-force insurance was higher during 2015 compared to 2014 resulting in an increase in customers electing the optional credit insurance products. Net insurance income increased \$2.8 million (7%) 2015 compared to 2014.

Other Revenue:

A significant component of other revenue are earnings from the sale of auto club memberships. The

Company, as an agent for a third party, offers auto club memberships to loan customers during the closing of a loan. Another significant component are earnings from the aforementioned \$26.2 equity fund investment held by the Company.

During 2016 other revenue increased \$1.9 million (58%) compared to 2015. The increase was mainly due to higher earnings on the equity fund investment. During 2016, the Company earned \$1.2 million on the investment compared to a \$1.0 million loss during 2015. Lower sales of auto club memberships offset a portion of the increase during 2016.

During fourth quarter of 2014, the Company elected to begin offering customers an enhanced auto club product with expanded coverage. Commission rates earned by the Company on the enhanced product are lower than those earned on the original product offered. The lower commission rates were one of the primary causes of the \$3.8 million (54%) decline in other revenue during 2015 compared to 2014. Another factor contributing to the decrease in other revenue during 2015 compared to 2014 was the aforementioned \$1.0 million loss in income on the equity method investment held by the Company. Volatility in the bond and equity markets resulted in a loss on this investment during 2015. During 2014, the investment earned \$1.0 million.

Provision for Loan Losses:

The Company's provision for loan losses represents net charge offs and adjustments to the allowance for loan losses to cover credit losses inherent in the outstanding loan portfolio at the balance sheet date. Determining the proper allowance for loan losses is a critical accounting estimate which involves Management's judgment with respect to certain relevant factors, such as historical and expected loss trends, unemployment rates in various locales, current and expected net charge offs, delinquency levels, bankruptcy trends and overall general economic conditions. See Note 2, "Loans", in the accompanying "Notes to Consolidated Financial Statements" for additional discussion regarding the allowance for loan losses.

The Company's recent review of its credit underwriting policies and related review of the policies and procedures has resulted in, among other things, certain changes in our collection practices. This change in collection practices had a negative impact on the level of charge offs in 2016 compared to the prior two years. During 2016 net charge offs were \$52.6 million compared to \$32.0 during 2015 and \$28.7 million during 2014. Higher than expected credit losses associated with a bulk purchase of receivables from another lending company was another factor contributing to the increase in net charge offs during 2016. Natural disasters such as the flooding from storms in Louisiana and damage from storms in Georgia and South Carolina also contributed to higher credit losses during 2016. Higher unemployment in certain areas of Louisiana due to the oil industry downturn was a factor contributing to higher credit losses in both 2016 and 2015. During 2016 and 2015, the Company increased the allowance for loan losses by \$15.0 million and \$4.9 million, respectively. As a result of the foregoing, our provision for loan losses increased \$30.7 million (83%) and \$4.3 million (13%) during 2016 and 2015, respectively.

We believe that the allowance for loan losses is adequate to cover probable losses inherent in our portfolio; however, because the allowance for loan losses is based on estimates, there can be no assurance that the ultimate charge off amount will not exceed such estimates or that our loss assumptions will not increase.

Operating Expenses:

Operating expenses include personnel expense, occupancy expense and miscellaneous other expenses. During 2016 other operating expenses declined \$2.5 million (2%) compared to 2015. The decline was mainly due to reductions in personnel expense and miscellaneous other operating expenses. During 2015 other operating expenses increased \$8.1 million (8%) compared to 2014 primarily due to higher personnel cost and higher other miscellaneous operating expenses.

Personnel expense decreased \$2.0 million (3%) during 2016 compared to 2015 primarily due to a lower accrual for the Company's 2016 incentive bonus. The Company did not meet goals established under the Executive Bonus Plan for payment of bonuses to employees under the plan. Higher salary expenses offset a portion of the decrease in personnel expense for 2016. During 2015, personnel expense increased \$4.4 million (7%) compared to 2014. The increase was primarily due to increases in the employee base, merit salary increases, higher contributions to the Company's 401(k) plan, higher claims expense associated with the Company's self insured employee medical program and higher payroll taxes.

Occupancy expense increased \$.8 million (6%) during 2016 compared to 2015 and \$.5 million (4%) during 2015 compared to 2014. Higher utilities expense, telephone expense, depreciation expense and increased rent expense due to additional office openings were the primary factors responsible for the increases in occupancy expense each year over year.

Other operating expenses decreased \$1.3 million (5%) during 2016 compared to 2015. The decrease was primarily due to lower marketing expenses, charitable contributions, computation errors, legal and audit expenses, consultant fees, computer expenses, and taxes and license expenses. During 2015 other operating expenses increased \$3.1 million (12%) compared to 2014. During 2015, increased marketing efforts resulted in increases in advertising expense and postage, both of which were significant factors in the increase in other operating expenses compared to 2014. Increases in charitable contributions, computation errors, computer expenses, consultant fees and travel expenses were other categories contributing to the increase in other operating expenses during 2015.

Income Taxes:

The Company has elected to be treated as an S Corporation for income tax reporting purposes. Taxable income or loss of an S Corporation is treated as income of, and is reportable in the individual tax returns of, the shareholders of the Company. However, income taxes continue to be reported for the Company's insurance subsidiaries, as they are not allowed to be treated as S Corporations, and for the Company's state income tax purposes in Louisiana, which does not recognize S Corporation status. Deferred income tax assets and liabilities are recognized and provisions for current and deferred income taxes continue to be recorded by the Company's subsidiaries. The deferred income tax assets and liabilities are due to certain temporary differences between reported income and expenses for financial statement and income tax purposes.

Effective income tax rates for the years ended December 31, 2016, 2015 and 2014 were 83.5%, 16.9% and 11.2%, respectively. During 2016, the S Corporation incurred a loss, which lowered the overall pre-tax income of the Company resulting in a higher effective tax rate for 2016. Any tax benefit from the loss was passed on to the shareholders. During 2015 and 2014, the S Corporation earned a profit, which was reported as taxable income of the shareholders. Since this tax liability is passed on to the shareholders, the profit of the S Corporation had the effect of lowering the Company's overall consolidated effective tax rates for those years. The increase in the rate during the 2015 was due to a decrease in the ratio of taxable income of the Parent Company compared to the insurance subsidiaries. Beginning in 2015, the Company's life insurance subsidiary no longer qualified for the small life insurance company tax deduction, which also contributed to the increase in rates.

Quantitative and Qualitative Disclosures About Market Risk:

Volatility in market interest rates can impact the Company's investment portfolio and the interest rates paid on its debt securities. Changes in interest rates has more impact on the income earned on investments and the Company's borrowing costs than on interest income earned on loans, as Management does not normally change the rates charged on loans originated solely as a result of changes in the interest rate environment. These exposures are monitored and managed by the Company as an integral part of its overall cash management program. It is Management's goal to minimize any adverse effect that movements in interest rates may have on the financial condition and operations of the Company. The information in the table below summarizes the Company's risk associated with marketable debt securities and debt obligations as of December 31, 2016. Rates associated with the marketable debt securities represent weighted averages based on the tax effected yield to maturity of each individual security. No adjustment has been made to yield, even though many of the investments are tax-exempt and, as a result, actual yield will be higher than that disclosed. For debt obligations, the table presents principal cash flows and related weighted average interest rates by contractual maturity dates. The Company's subordinated debt securities are sold with various interest adjustment periods, which is the time from sale until the interest rate adjusts, and which allows the holder to redeem that security prior to the contractual maturity without penalty. It is expected that actual maturities on a portion of the Company's subordinated debentures will occur prior to the contractual maturity as a result of interest rate adjustments. Management estimates the carrying value of senior and subordinated debt approximates their fair values when compared to instruments of similar type, terms and maturity.

Loans originated by the Company are excluded from the table below since interest rates charged on loans are based on rates allowable in compliance with any applicable regulatory guidelines. Management does not believe that changes in market interest rates will significantly impact rates charged on loans. The Company has no exposure to foreign currency risk.

	Expected Year of Maturity							Fair Value
	2017	2018	2019	2020	2021	2022 & Beyond	Total	
Assets:	(Dollars in millions)							
Marketable Debt Securities	\$ 5	\$ 7	\$ 4	\$ 2	\$ 6	\$ 155	\$179	\$179
Average Interest Rate	2.7%	2.4%	2.1%	3.0%	3.0%	3.4%	3.2%	
Liabilities:								
Senior Debt:								
Senior Demand Notes	\$73	—	—	—	—	—	\$ 73	\$ 73
Average Interest Rate	1.5%	—	—	—	—	—	1.5%	
Commercial Paper	\$337	—	—	—	—	—	\$337	\$337
Average Interest Rate	3.3%	—	—	—	—	—	3.3%	
Subordinated Debentures	\$ 7	\$ 7	\$10	\$11	—	—	\$ 35	\$ 35
Average Interest Rate	2.7%	2.7%	2.8%	2.6%	—	—	2.8%	

Liquidity and Capital Resources:

Liquidity is the ability of the Company to meet its ongoing financial obligations, either through the collection of receivables or by generating additional funds through liability management. The Company's liquidity is therefore dependent on the collection of its receivables, the sale of debt securities and the continued availability of funds under the Company's revolving credit agreement.

In light of continued economic uncertainty, we continue to monitor and review current economic conditions and the related potential implications on us, including with respect to, among other things, changes in loan losses, liquidity, compliance with our debt covenants, and relationships with our customers.

As of December 31, 2016 and December 31, 2015, the Company had \$58.4 million and \$51.4 million, respectively, invested in cash and short-term investments readily convertible into cash with original maturities of three months or less. As previously discussed, the Company uses cash reserves to fund its operations, including providing funds for any increase in redemptions of debt securities by investors which may occur.

The Company's investments in marketable securities can be converted into cash, if necessary. As of December 31, 2016 and 2015, 69% and 79%, respectively, of the Company's cash and cash equivalents and investment securities were maintained in Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company, the Company's insurance subsidiaries. Georgia state insurance regulations limit the use an insurance company can make of its assets. Ordinary dividend payments to the Company by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to the lesser of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries. Any dividends above these state limitations are termed "extraordinary dividends" and must be approved in advance by the Georgia Insurance Commissioner. The maximum aggregate amount of dividends these subsidiaries could have paid to the Company during 2016, without prior approval of the Georgia Insurance Commissioner, was approximately \$12.5 million. The Company elected not to pay any dividends from the insurance subsidiaries during 2016.

At December 31, 2016, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$82.0 million and \$71.9 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company in 2017 without prior approval of the Georgia Insurance Commissioner is approximately \$12.6 million. The Company does not currently believe that any statutory limitations on the payment of cash dividends by the Company's subsidiaries will materially affect the Company's liquidity.

Most of the Company's loan portfolio is financed through sales of its various debt securities, which, because of certain redemption features contained therein, have shorter average maturities than the loan portfolio as a whole. The difference in maturities may adversely affect liquidity if the Company is not able to continue to sell debt securities at interest rates and on terms that are responsive to the demands of the marketplace or maintain sufficient borrowing availability under our credit facility.

The Company's continued liquidity is therefore also dependent on the collection of its receivables and

the sale of debt securities that meet the investment requirements of the public. In addition to its receivables and securities sales, the Company has an external source of funds available under a revolving credit facility with Wells Fargo Bank, NA. This credit agreement provides for borrowings or reborrowings of up to \$100.0 million, subject to certain limitations, and all borrowings are secured by the finance receivables of the Company. There were no borrowings outstanding against the credit line at December 31, 2016 or 2015. The credit agreement has a commitment termination date of September 11, 2019. Management believes the current credit facility, when considered with funds expected to be available from operations, should provide sufficient liquidity for the Company.

Available but unborrowed amounts under the credit agreement are subject to a periodic unused line fee of .50%. The interest rate under the credit agreement is equivalent to the greater of (a) .75% per annum plus 300 basis points or (b) the three month London Interbank Offered Rate (the "LIBOR Rate") plus 300 basis points. The LIBOR Rate is adjusted on the first day of each calendar month based upon the LIBOR Rate as of the last day of the preceding calendar month.

The credit agreement requires the Company to comply with certain covenants customary for financing transactions of this nature, including, among others, maintaining a minimum interest coverage ratio, a minimum loss reserve ratio, a minimum ratio of earnings to interest, taxes and depreciation and amortization to interest expense, a minimum asset quality ratio, a minimum consolidated tangible net worth ratio, and a maximum debt to tangible net worth ratio, each as defined. The Company must also comply with certain restrictions on its activities consistent with credit facilities of this type, including limitations on: (a) restricted payments; (b) additional debt obligations (other than specified debt obligations); (c) investments (other than specified investments); (d) mergers, acquisitions, or a liquidation or winding up; (e) modifying its organizational documents or changing lines of business; (f) modifying certain contracts; (g) certain affiliate transactions; (h) sale-leaseback, synthetic lease, or similar transactions; (i) guaranteeing additional indebtedness (other than specified indebtedness); (j) capital expenditures; or (k) speculative transactions. The credit agreement also restricts the Company or any of its subsidiaries from creating or allowing certain liens on their assets, entering into agreements that restrict their ability to grant liens (other than specified agreements), or creating or allowing restrictions on any of their ability to make dividends, distributions, inter-company loans or guaranties, or other inter-company payments, or inter-company asset transfers. At December 31, 2016, the Company was in compliance with all covenants. The Company has no reason to believe that it will not remain in compliance with these covenants and obligations for the foreseeable future.

We are not aware of any additional restrictions placed on us, or being considered to be placed on us, related to our ability to access capital, such as borrowings under our credit agreement prior to its maturity.

Any decrease in the Company's allowance for loan losses would not directly affect the Company's liquidity, as any adjustment to the allowance has no impact on cash; however, an increase in the actual loss rate may have a material adverse effect on the Company's liquidity. The inability to collect loans could eventually impact the Company's liquidity in the future.

The Company was subject to the following contractual obligations and commitments at December 31, 2016:

Contractual Obligations	Payment due by period				
	Total	Less Than 1 Year	1 to 2 Years	3 to 5 Years	More than 5 Years
(in millions)					
Bank Commitment Fee **	\$ 1.5	\$.6	\$.9	\$ -	\$ -
Senior Demand Notes *	74.2	74.2	-	-	-
Commercial Paper *	346.0	346.0	-	-	-
Subordinated Debt *	38.6	7.6	19.3	11.7	-
Human resource insurance and support contracts **	1.0	1.0	-	-	-
Marketing Database	.2	.1	.1	-	-
Operating Leases (offices)	17.0	6.0	7.9	3.1	-
Communication lines contract **	6.2	2.9	3.2	.1	-
Software service contract **	7.0	3.5	3.5	-	-
Total	\$491.7	\$441.9	\$34.9	\$14.9	\$ -

* Includes estimated interest at current rates.

** Based on current usage.

Critical Accounting Policies:

The accounting and reporting policies of 1st Franklin and its subsidiaries are in accordance with

accounting principles generally accepted in the United States of America and conform to general practices within the financial services industry. The more critical accounting and reporting policies include the allowance for loan losses, revenue recognition and insurance claims reserves.

Allowance for Loan Losses:

Provisions for loan losses are charged to operations in amounts sufficient to maintain the allowance for loan losses at a level considered adequate to cover probable losses inherent in our loan portfolio.

The allowance for loan losses is established based on the estimate of the amount of probable losses inherent in the loan portfolio as of the reporting date. We review charge off experience factors, delinquency reports, historical collection rates, estimates of the value of the underlying collateral, economic trends such as unemployment rates and bankruptcy filings and other information in order to make the necessary judgments as to probable losses. Assumptions regarding probable losses are reviewed periodically and may be impacted by our actual loss experience and changes in any of the factors discussed above.

Revenue Recognition:

Accounting principles generally accepted in the United States of America require that an interest yield method be used to calculate the income recognized on accounts which have precomputed charges. An interest yield method is used by the Company on each individual account with precomputed charges to calculate income for those on-going accounts; however, state regulations often allow interest refunds to be made according to the "Rule of 78's" method for payoffs and renewals. Since the majority of the Company's accounts which have precomputed charges are paid off or renewed prior to maturity, the result is that most of the accounts effectively yield on a Rule of 78's basis.

Precomputed finance charges are included in the gross amount of certain direct cash loans, sales finance contracts and certain real estate loans. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method. Some other cash loans and real estate loans, which do not have precomputed charges, have income recognized on a simple interest accrual basis. Income is not accrued on a loan that is more than 60 days past due.

Loan fees and origination costs are deferred and recognized as an adjustment to the loan yield over the contractual life of the related loan.

The property and casualty credit insurance policies written by the Company, as agent for a non-affiliated insurance company, are reinsured by the Company's property and casualty insurance subsidiary. The premiums are deferred and earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

The credit life and accident and health policies written by the Company, as agent for a non-affiliated insurance company, are also reinsured by the Company's life insurance subsidiary. The premiums are deferred and earned using the pro-rata method for level-term life policies and the effective yield method for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method.

Insurance Claims Reserves:

Included in unearned insurance premiums and commissions on the consolidated statements of financial position are reserves for incurred but unpaid credit insurance claims for policies written by the Company and reinsured by the Company's wholly-owned insurance subsidiaries. These reserves are established based on accepted actuarial methods. In the event that the Company's actual reported losses for any given period are materially in excess of the previously estimated amounts, such losses could have a material adverse effect on the Company's results of operations.

Different assumptions in the application of these policies could result in material changes in the Company's consolidated financial position or consolidated results of operations.

New Accounting Pronouncements:

See Note 1, "Summary of Significant Accounting Policies - Recent Accounting Pronouncements," in the accompanying "Notes to Consolidated Financial Statements" for a discussion of new accounting standards and the expected impact of accounting standards recently issued but not yet required to be adopted. For pronouncements already adopted, any material impacts on the Company's consolidated financial statements are discussed in the applicable section(s) of this Management's Discussion and Analysis of Financial Condition and Results of Operations and Notes to the Company's Consolidated Financial Statements included elsewhere in this annual report.



Deloitte & Touche LLP
191 Peachtree Street NE
Suite 2000
Atlanta, GA 30303-1943
USA

Tel: +1 404 220 1500
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders
1st Franklin Financial Corporation
Toccoa, Georgia

We have audited the accompanying consolidated statements of financial position of 1st Franklin Financial Corporation and subsidiaries (the "Company") as of December 31, 2016 and 2015, and the related consolidated statements of income, comprehensive (loss), income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of 1st Franklin Financial Corporation and subsidiaries as of December 31, 2016 and 2015, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2016, in conformity with accounting principles generally accepted in the United States of America.

March 30, 2017

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2016 AND 2015

ASSETS

	<u>2016</u>	<u>2015</u>
CASH AND CASH EQUIVALENTS (Note 6):		
Cash and Due From Banks	\$ 5,772,389	\$ 5,531,687
Short-term Investments	<u>52,668,278</u>	<u>45,917,730</u>
	<u>58,440,667</u>	<u>51,449,417</u>
RESTRICTED CASH (Note 1)	<u>2,671,957</u>	<u>9,335,466</u>
LOANS (Note 2):		
Direct Cash Loans	474,557,932	494,836,733
Real Estate Loans	24,609,094	22,128,090
Sales Finance Contracts	<u>30,961,811</u>	<u>30,071,077</u>
	<u>530,128,837</u>	<u>547,035,900</u>
Less: Unearned Finance Charges	60,850,936	65,699,425
Unearned Insurance Premiums	37,593,775	41,446,393
Allowance for Loan Losses	<u>48,500,000</u>	<u>33,500,000</u>
	<u>383,184,126</u>	<u>406,390,082</u>
MARKETABLE DEBT SECURITIES (Note 3):		
Available for Sale, at fair value	167,190,644	143,862,165
Held to Maturity, at amortized cost	<u>12,003,446</u>	<u>17,058,181</u>
	<u>179,194,090</u>	<u>160,920,346</u>
EQUITY METHOD INVESTMENTS (Note 5)	<u>26,201,949</u>	<u>24,989,505</u>
OTHER ASSETS:		
Land, Buildings, Equipment and Leasehold Improvements, less accumulated depreciation and amortization of \$29,595,087 and \$26,780,217 in 2016 and 2015, respectively	13,948,249	9,918,857
Deferred Acquisition Costs	2,226,977	2,483,781
Due from Non-affiliated Insurance Company	1,668,092	2,886,086
Other Miscellaneous	<u>6,448,607</u>	<u>6,040,269</u>
	<u>24,291,925</u>	<u>21,328,993</u>
TOTAL ASSETS	<u>\$673,984,714</u>	<u>\$674,413,809</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND 2015

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2016</u>	<u>2015</u>
SENIOR DEBT (Note 7):		
Senior Demand Notes, including accrued interest	\$ 73,167,157	\$ 71,001,087
Commercial Paper	<u>336,624,491</u>	<u>317,488,208</u>
	<u>409,791,648</u>	<u>388,489,295</u>
 ACCOUNTS PAYABLE AND ACCRUED EXPENSES	 <u>17,606,851</u>	 <u>25,430,137</u>
 SUBORDINATED DEBT (Note 8)	 <u>34,847,845</u>	 <u>36,004,009</u>
 Total Liabilities	 <u>462,246,344</u>	 <u>449,923,441</u>
 COMMITMENTS AND CONTINGENCIES (Note 9)		
 STOCKHOLDERS' EQUITY:		
Preferred Stock; \$100 par value		
6,000 shares authorized; no shares outstanding	--	--
Common Stock:		
Voting Shares; \$100 par value;		
2,000 shares authorized; 1,700 shares		
outstanding as of December 31, 2016 and 2015	170,000	170,000
Non-Voting Shares; no par value;		
198,000 shares authorized; 168,300 shares		
outstanding as of December 31, 2016 and 2015	--	--
Accumulated Other Comprehensive (Loss) Income	(1,002,183)	4,142,986
Retained Earnings	<u>212,570,553</u>	<u>220,177,382</u>
Total Stockholders' Equity	<u>211,738,370</u>	<u>224,490,368</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$673,984,714</u>	 <u>\$674,413,809</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
INTEREST INCOME:			
Finance Charges	\$152,721,480	\$147,813,018	\$140,071,693
Net Investment Income	<u>5,507,531</u>	<u>4,777,467</u>	<u>4,497,090</u>
	<u>158,229,011</u>	<u>152,590,485</u>	<u>144,568,783</u>
INTEREST EXPENSE:			
Senior Debt	12,407,735	11,868,927	10,755,834
Subordinated Debt	<u>1,024,328</u>	<u>1,086,012</u>	<u>1,195,676</u>
	<u>13,432,063</u>	<u>12,954,939</u>	<u>11,951,510</u>
NET INTEREST INCOME	144,796,948	139,635,546	132,617,273
PROVISION FOR LOAN LOSSES (Note 2)	<u>67,562,543</u>	<u>36,887,285</u>	<u>32,622,546</u>
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	<u>77,234,405</u>	<u>102,748,261</u>	<u>99,994,727</u>
NET INSURANCE INCOME:			
Premiums	47,621,294	52,446,561	47,964,294
Insurance Claims and Expense	<u>(11,488,547)</u>	<u>(12,559,411)</u>	<u>(10,836,029)</u>
	<u>36,132,747</u>	<u>39,887,150</u>	<u>37,128,265</u>
OTHER REVENUE	<u>5,265,500</u>	<u>3,325,389</u>	<u>7,166,666</u>
OPERATING EXPENSES:			
Personnel Expense	69,814,320	71,834,872	67,419,267
Occupancy Expense	14,520,134	13,707,326	13,188,162
Other Expense	<u>27,968,671</u>	<u>29,288,935</u>	<u>26,150,789</u>
	<u>112,303,125</u>	<u>114,831,133</u>	<u>106,758,218</u>
INCOME BEFORE INCOME TAXES	6,329,527	31,129,667	37,531,440
PROVISION FOR INCOME TAXES (Note 12)	<u>5,285,926</u>	<u>5,263,994</u>	<u>4,197,694</u>
NET INCOME	<u>\$ 1,043,601</u>	<u>\$ 25,865,673</u>	<u>\$ 33,333,746</u>
BASIC EARNINGS PER SHARE:			
170,000 Shares Outstanding for All Periods (1,700 voting, 168,300 non-voting).....	<u>\$6.14</u>	<u>\$152.15</u>	<u>\$196.08</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Net Income	\$ 1,043,601	\$ 25,865,673	\$ 33,333,746
Other Comprehensive (Loss) / Income:			
Net changes related to available-for-sale			
Securities:			
Unrealized (losses) gains.....	(7,247,688)	862,930	8,297,119
Income tax benefit (provision)	<u>2,111,649</u>	<u>(332,201)</u>	<u>(2,160,903)</u>
Net unrealized (losses) gains.....	<u>(5,136,039)</u>	<u>530,729</u>	<u>6,136,216</u>
Less reclassification of gains to			
net income	<u>9,130</u>	<u>51,218</u>	<u>7</u>
Total Other Comprehensive			
(Loss) Income	<u>(5,145,169)</u>	<u>479,511</u>	<u>6,136,209</u>
Total Comprehensive (Loss) Income	<u>\$ (4,101,568)</u>	<u>\$ 26,345,184</u>	<u>\$ 39,469,955</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015, AND 2014

	<u>Common Stock</u>		<u>Retained</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u>	<u>Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2013	170,000	\$170,000	\$ 194,655,367	\$(2,472,734)	\$192,352,633
Comprehensive Income:					
Net Income for 2014	—	—	33,333,746	—	
Other Comprehensive Income	—	—	—	6,136,209	
Total Comprehensive Income	—	—	—	—	39,469,955
Cash Distributions Paid	—	—	(23,375,402)	—	(23,375,402)
Balance at December 31, 2014	170,000	170,000	204,613,711	3,663,475	208,447,186
Comprehensive Income:					
Net Income for 2015	—	—	25,865,673	—	
Other Comprehensive Income	—	—	—	479,511	
Total Comprehensive Income	—	—	—	—	26,345,184
Cash Distributions Paid	—	—	(10,302,002)	—	(10,302,002)
Balance at December 31, 2015	170,000	170,000	220,177,382	4,142,986	224,490,368
Comprehensive Income:					
Net Income for 2016	—	—	1,043,601	—	
Other Comprehensive Loss	—	—	—	(5,145,169)	
Total Comprehensive Loss	—	—	—	—	(4,101,568)
Cash Distributions Paid	—	—	(8,650,430)	—	(8,650,430)
Balance at December 31, 2016	<u>170,000</u>	<u>\$170,000</u>	<u>\$212,570,553</u>	<u>\$ (1,002,183)</u>	<u>\$211,738,370</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

	2016	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 1,043,601	\$ 25,865,673	\$ 33,333,746
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for loan losses	67,562,543	36,887,285	32,622,546
Depreciation and amortization	3,709,687	3,318,710	3,156,828
Provision for (prepaid) deferred taxes	(650,641)	1,037,993	41,211
(Earnings) loss in equity method investment	(1,212,444)	1,070,074	(847,943)
Losses due to called redemptions on marketable securities, loss on sales of equipment and amortization on securities	591,868	768,903	1,101,092
Decrease (increase) in miscellaneous assets and other	1,066,458	(1,836,742)	421,877
(Decrease) increase in other liabilities	<u>(5,056,292)</u>	<u>(149,424)</u>	<u>1,011,240</u>
Net Cash Provided	<u>67,054,780</u>	<u>66,962,472</u>	<u>70,840,597</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans originated or purchased	(384,978,358)	(387,639,565)	(351,600,837)
Loan payments	340,621,771	332,703,123	300,064,326
(Increase) decrease in restricted cash	6,663,509	(8,262,309)	(98,705)
Purchases of securities, available for sale	(40,361,497)	(20,649,356)	(30,969,513)
Purchase of equity fund investment	-	-	(15,000,000)
Sales of securities, available for sale	344,000	797,246	-
Redemptions of securities, available for sale	9,140,000	9,200,000	11,895,000
Redemptions of securities, held to maturity	4,715,000	5,340,000	6,455,000
Capital expenditures	(7,824,494)	(3,045,037)	(4,487,073)
Proceeds from sale of equipment	120,780	37,737	84,231
Net Cash Used	<u>(71,559,289)</u>	<u>(71,518,161)</u>	<u>(83,657,571)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in Senior Demand Notes	2,166,070	12,470,939	4,475,141
Advances on credit line	532,501	531,641	531,475
Payments on credit line	(532,501)	(531,641)	(531,475)
Commercial paper issued	54,659,072	67,964,535	65,587,144
Commercial paper redeemed	(35,522,789)	(27,132,379)	(42,891,237)
Subordinated debt issued	6,495,971	8,164,215	7,210,193
Subordinated debt redeemed	(7,652,135)	(9,886,744)	(9,862,162)
Dividends / distributions paid	<u>(8,650,430)</u>	<u>(10,302,002)</u>	<u>(23,375,402)</u>
Net Cash Provided	<u>11,495,759</u>	<u>41,278,564</u>	<u>1,143,677</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	6,991,250	36,722,875	(11,673,297)
CASH AND CASH EQUIVALENTS, beginning	<u>51,449,417</u>	<u>14,726,542</u>	<u>26,399,839</u>
CASH AND CASH EQUIVALENTS, ending	<u>\$ 58,440,667</u>	<u>\$ 51,449,417</u>	<u>\$ 14,726,542</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	\$ 13,513,578	\$ 12,874,565	\$ 11,881,150
Income Taxes	6,134,000	3,768,000	4,304,000
Non-cash Exchange of Investment Securities	723,310	533,859	-

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2016, 2015 AND 2014

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business:

1st Franklin Financial Corporation (the "Company") is a consumer finance company which originates and services direct cash loans, real estate loans and sales finance contracts through 295 branch offices located throughout the southeastern United States. In addition to this business, the Company writes credit insurance when requested by its loan customers as an agent for a non-affiliated insurance company specializing in such insurance. Two of the Company's wholly owned subsidiaries, Frandisco Life Insurance Company and Frandisco Property and Casualty Insurance Company, reinsure the credit life, the credit accident and health and the credit property insurance so written.

Basis of Consolidation:

The accompanying consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. Inter-company accounts and transactions have been eliminated.

Fair Values of Financial Instruments:

The following methods and assumptions are used by the Company in estimating fair values for financial instruments.

Cash and Cash Equivalents. Cash includes cash on hand and with banks. Cash equivalents are short-term highly liquid investments with original maturities of three months or less. The carrying value of cash and cash equivalents approximates fair value due to the relatively short period of time between the origination of the instruments and their expected realization. Cash and cash equivalents are classified as a Level 1 financial asset.

Loans. The fair value of the Company's direct cash loans and sales finance contracts approximate the carrying value since the estimated life, assuming prepayments, is short-term in nature. The fair value of the Company's real estate loans approximate the carrying value since the interest rate charged by the Company approximates market rates. Loans are classified as a Level 3 financial asset.

Marketable Debt Securities. The fair value of marketable debt securities is based on quoted market prices. If a quoted market price is not available, fair value is estimated using market prices for similar securities. Held-to-maturity marketable debt securities are classified as Level 2 financial assets. See additional information below regarding fair value under Accounting Standards Codification ("ASC") No. 820, *Fair Value Measurements*. See Note 4 for fair value measurement of available-for-sale marketable debt securities and for information related to how these securities are valued.

Equity Method Investment. The fair value of our equity method investment is estimated based on the Company's allocable share of the investee's net asset value as of the reporting date.

Senior Debt. The carrying value of the Company's senior debt securities approximates fair value due to the relatively short period of time between the origination of the instruments and their expected payment. Senior debt securities are classified as a Level 2 financial liability.

Subordinated Debt. The carrying value of the Company's subordinated debt securities approximates fair value due to the re-pricing frequency of the securities. Subordinated debt securities are classified as a Level 2 financial liability.

Use of Estimates:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary materially from these estimates.

Income Recognition:

Accounting principles generally accepted in the United States of America require that an interest yield method be used to calculate the income recognized on accounts which have precomputed charges. An interest yield method is used by the Company on each individual account with precomputed charges to calculate income for those on-going accounts, however, state regulations often allow interest refunds to be made according to the "Rule of 78's" method for payoffs and renewals. Since the majority of the Company's accounts with precomputed charges are repaid or renewed prior to maturity, the result is that most of the accounts with precomputed charges effectively yield on a Rule of 78's basis.

Precomputed finance charges are included in the gross amount of certain direct cash loans, sales finance contracts and certain real estate loans. These precomputed charges are deferred and recognized as income on an accrual basis using the effective interest method. Some other cash loans and real estate loans, which do not have precomputed charges, have income recognized on a simple interest accrual basis. Any loan which becomes 60 days or more past due, based on original contractual term, is placed in a non-accrual status. When a loan is placed in non-accrual status, income accruals are discontinued. Accrued income prior to the date an account becomes 60 days or more past due is not reversed. Income on loans in non-accrual status is earned only if payments are received. A loan in nonaccrual status is restored to accrual status when it becomes less than 60 days past due.

Loan fees and origination costs are deferred and recognized as an adjustment to the loan yield over the contractual life of the related loan.

The property and casualty credit insurance policies written by the Company, as agent for an unrelated insurance company, are reinsured by the Company's property and casualty insurance subsidiary. The premiums are deferred and earned over the period of insurance coverage using the pro-rata method or the effective yield method, depending on whether the amount of insurance coverage generally remains level or declines.

The credit life and accident and health policies written by the Company, as agent for an unrelated insurance company, are reinsured by the Company's life insurance subsidiary. The premiums are deferred and earned using the pro-rata method for level-term life policies and the effective yield method for decreasing-term life policies. Premiums on accident and health policies are earned based on an average of the pro-rata method and the effective yield method.

Claims of the insurance subsidiaries are expensed as incurred and reserves are established for incurred but not reported claims. Reserves for claims totaled \$3,683,900 and \$3,028,970 at December 31, 2016 and 2015, respectively, and are included in unearned insurance premiums on the consolidated statements of financial position.

Policy acquisition costs of the insurance subsidiaries are deferred and amortized to expense over the life of the policies on the same methods used to recognize premium income.

The primary revenue category included in other revenue relates to commissions earned by the Company on sales of auto club memberships. Commissions received from the sale of auto club memberships are earned at the time the membership is sold. The Company sells the memberships as an agent for a third party. The Company has no further obligations after the date of sale as all claims for benefits are paid and administered by the third party.

Depreciation and Amortization:

Office machines, equipment and Company automobiles are recorded at cost and depreciated on a straight-line basis over a period of three to ten years. Leasehold improvements are amortized on a straight-line basis over five years or less depending on the term of the applicable lease. Depreciation and amortization expense for each of the three years ended December 31, 2016 was \$3,709,687, \$3,318,710 and \$3,156,828, respectively.

Restricted Cash:

At December 31, 2016 and 2015, the Company had cash of \$2,671,957 and \$9,335,466, respectively, held in restricted accounts at its insurance subsidiaries in order to comply with certain requirements imposed on insurance companies by the State of Georgia and to meet the reserve requirements of its reinsurance agreements. During 2016 and 2015, restricted cash also included escrow deposits held by the Company on behalf of certain mortgage real estate customers.

Equity Method Investment:

The Company evaluates its unconsolidated equity investment to determine whether it should be recorded on a consolidated basis. The percentage ownership interest in the equity investment, an evaluation of control and whether a variable interest entity ("VIE") exists are all considered in the Company's consolidation assessment.

The Company accounts for its equity investment where it owns a non-controlling interest or where it is not the primary beneficiary of a VIE using the equity method of accounting. Under the equity method, the Company's cost of an investment is adjusted for its share of equity in the earnings or losses of the unconsolidated investment and reduced by distributions received. There is no difference between the cost of the Company's equity investment and the value of the underlying equity as reflected in the unconsolidated equity investment's financial statements.

The Company assesses the carrying value of its equity method investment for impairment in accordance with ASC 323-10, *Investments - Equity Method and Joint Ventures*. The Company assesses whether there are any indicators that the fair value of the Company's equity method investment might be impaired. An investment is deemed impaired if the Company's estimate of the fair value of the investment is less than the carrying value of the investment and such decline in value is deemed to be other than temporary. During the years ended December 31, 2016, 2015 and 2014, no impairment of the Company's equity method investment was recognized.

Impairment of Long-Lived Assets:

The Company annually evaluates whether events and circumstances have occurred or triggering events have occurred that indicate the carrying amount of property and equipment may warrant revision or may not be recoverable. When factors indicate that these long-lived assets should be evaluated for possible impairment, the Company assesses the recoverability by determining whether the carrying value of such long-lived assets will be recovered through the future undiscounted cash flows expected from use of the asset and its eventual disposition. Based on Management's evaluation, there has been no impairment of carrying value of the long-lived assets, including property and equipment at December 31, 2016 or 2015.

Income Taxes:

The Financial Accounting Standards Board ("FASB") issued ASC 740-10. FASB ASC 740-10 provides that a tax benefit from an uncertain tax position may be recognized when it is more likely than not that the position will be sustained upon examination, including resolutions of any related appeals or litigation processes, based on the technical merits. Income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized. FASB ASC 740-10 also provides guidance on measurement, de-recognition, classification, interest and penalties, accounting in interim periods, disclosure and transition. At December 31, 2016 and December 31, 2015, the Company had no uncertain tax positions.

The Company's insurance subsidiaries are treated as taxable entities and income taxes are provided for where applicable (Note 12). No provision for income taxes has been made by the Company since it has elected to be treated as an S Corporation for income tax reporting purposes. However, the state of Louisiana does not recognize S Corporation status, and the Company has accrued amounts necessary to pay the required income taxes in such state.

Collateral Held for Resale:

When the Company takes possession of collateral which secures a loan, the collateral is recorded at the lower of its estimated resale value or the loan balance. Any losses incurred at that time are charged against the Allowance for Loan Losses.

Marketable Debt Securities:

Management has designated a significant portion of the Company's marketable debt securities held in the Company's investment portfolio at December 31, 2016 and 2015 as being available-for-sale. This portion of the investment portfolio is reported at fair value with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss) included in the consolidated statements of comprehensive income/(loss). Gains and losses on sales of securities designated as available-for-sale are determined based on the specific identification method. The remainder of the investment portfolio is carried at amortized cost and designated as held-to-maturity as Management has both the ability and intent to hold these securities to maturity.

Earnings per Share Information:

The Company has no contingently issuable common shares, thus basic and diluted earnings per share amounts are the same.

Recent Accounting Pronouncements:

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers." This update supersedes revenue recognition requirements in Topic 605, "Revenue Recognition," including most industry-specific revenue guidance in the FASB Accounting Standards Codification. The new guidance stipulates that an entity should recognize revenue to depict the transfer of promised goods or services to customers is an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance provides specific steps that entities should apply in order to achieve this principle. The amendments are effective for interim and annual periods beginning after December 15, 2017. Adoption is allowed by either the full retrospective or modified retrospective approach. The Company is in the process of evaluating the expected impact of the ASU's adoption on the Company's consolidated financial statements.

In February 2016, FASB issued ASU 2016-01, "Leases." The ASU requires all lessees to recognize lease assets and lease liabilities on the balance sheet. Lessor accounting is largely unchanged by the ASU, however disclosures about cash flows arising from leases are required of both lessees and lessors. The disclosures include qualitative and quantitative requirements, providing information about the amounts recorded in the financial statements. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. The Company is currently evaluating the impact this new accounting standard on the consolidated financial statements.

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses". This ASU amends existing guidance to replace current generally accepted accounting principles used to measure a reporting company's credit losses. The objective of the update is to provide financial statement users with more information regarding the expected credit losses on commitments to extend credit held by a reporting company at each reporting date. Amendments in the update replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of information that supports credit loss estimates. The ASU is effective for annual and interim periods beginning after December 15, 2019. The Company is currently evaluating the impact this new accounting standard on the consolidated financial statements.

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash". This update requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years. The Company is currently evaluating the impact this new accounting standard on the consolidated financial statements.

2. LOANS

The Company's consumer loans are made to individuals in relatively small amounts for relatively short periods of time. First and second mortgage loans on real estate are made in larger amounts and for longer periods of time. The Company also purchases sales finance contracts from various dealers. All loans and sales contracts are held for investment.

Contractual Maturities of Loans:

An estimate of contractual maturities stated as a percentage of the loan balances based upon an analysis of the Company's portfolio as of December 31, 2016 is as follows:

<u>Due In Calendar Year</u>	<u>Direct Cash Loans</u>	<u>Real Estate Loans</u>	<u>Sales Finance Contracts</u>
2017	70.82%	13.13%	58.24%
2018	24.26	13.30	28.18
2019	4.08	12.80	10.07
2020 .....	.63	11.55	2.83
2021 .....	.10	10.09	.62
2022 & beyond .....	.11	39.13	.06
	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>

Historically, a majority of the Company's loans have been renewed many months prior to their final contractual maturity dates, and the Company expects this trend to continue in the future. Accordingly, the above contractual maturities should not be regarded as a forecast of future cash collections.

Cash Collections on Principal:

During the years ended December 31, 2016 and 2015, cash collections applied to the principal of loans totaled \$340,621,771 and \$332,703,123, respectively, and the ratios of these cash collections to principal average net receivables were 74.72% and 75.56%, respectively.

Allowance for Loan Losses:

The Allowance for Loan Losses is based on Management's evaluation of the inherent risks and changes in the composition of the Company's loan portfolio. Management's approach to estimating and evaluating the allowance for loan losses is on a total portfolio level based on historical loss trends, bankruptcy trends, the level of receivables at the statement of financial position date, payment patterns and economic conditions primarily including, but not limited to, unemployment levels and gasoline prices. Historical loss trends are tracked on an on going basis. The trend analysis includes statistical analysis of the correlation between loan date and charge off date, charge off statistics by the total loan portfolio, and charge off statistics by branch, division and state. If trends indicate credit losses are increasing or decreasing, Management will evaluate to ensure the allowance for loan losses remains at proper levels. Delinquency and bankruptcy filing trends are also tracked. If these trends indicate an adjustment to the allowance for loan losses is warranted, Management will make what it considers to be appropriate adjustments. The level of receivables at the statement of financial position date is reviewed and adjustments to the allowance for loan losses are made, if Management determines increases or decreases in the level of receivables warrants an adjustment. The Company uses monthly unemployment statistics, and various other monthly or periodic economic statistics, published by departments of the U.S. government and other economic statistics providers to determine the economic component of the allowance for loan losses. Such allowance is, in the opinion of Management, sufficiently adequate for probable losses in the current loan portfolio. As the estimates used in determining the allowance for loan losses are influenced by outside factors, such as consumer payment patterns and general economic conditions, there is uncertainty inherent in these estimates. Actual results could vary based on future changes in significant assumptions.

Management does not disaggregate the Company's loan portfolio by loan class when evaluating loan performance. The total portfolio is evaluated for credit losses based on contractual delinquency, and other economic conditions. The Company classifies delinquent accounts at the end of each month according to the number of installments past due at that time, based on the then-existing terms of the contract. Accounts are classified in delinquency categories based on the number of days past due. When three installments are past due, we classify the account as being 60-89 days past due; when four or more installments are past due, we classify the account as being 90 days or more past due. When a loan becomes five installments past due, it is charged off unless Management directs that it be retained as an active loan. In making this charge off evaluation, Management considers factors such as pending insurance, bankruptcy status and/or other indicators of collectability. In addition, no installment is counted as being past due if at least 80% of the contractual payment has been paid. The amount charged off is the unpaid balance less the unearned finance charges and the unearned insurance premiums, if applicable.

When a loan becomes 60 days or more past due based on its original terms, it is placed in non-accrual status. At this time, the accrual of any additional finance charges is discontinued. Finance charges are then only recognized to the extent there is a loan payment received or until the account qualifies for return to accrual status. Non-accrual loans return to accrual status when the loan becomes less than 60 days past due. There were no loans past due 60 days or more and still accruing interest at December 31, 2016 or December 31, 2015. The Company's principal balances on non-accrual loans by loan class at December 31, 2016 and 2015 are as follows:

<u>Loan Class</u>	<u>December 31,</u> <u>2016</u>	<u>December 31,</u> <u>2015</u>
Consumer Loans	\$ 24,658,842	\$ 25,070,209
Real Estate Loans	1,374,941	846,894
Sales Finance Contracts	<u>1,036,697</u>	<u>1,009,475</u>
Total	<u>\$ 27,070,480</u>	<u>\$ 26,926,578</u>

An age analysis of principal balances past due, segregated by loan class, as of December 31, 2016 and 2015 is as follows:

<u>December 31, 2016</u>	<u>30-59 Days</u> <u>Past Due</u>	<u>60-89 Days</u> <u>Past Due</u>	<u>90 Days or</u> <u>More</u> <u>Past Due</u>	<u>Total</u> <u>Past Due</u> <u>Loans</u>
Consumer Loans	\$ 16,447,739	\$ 9,233,306	\$ 17,290,149	\$ 42,971,194
Real Estate Loans	902,437	304,578	1,225,805	2,432,820
Sales Finance Contracts	<u>714,202</u>	<u>443,464</u>	<u>814,561</u>	<u>1,972,227</u>
Total	<u>\$ 18,064,378</u>	<u>\$ 9,981,348</u>	<u>\$ 19,330,515</u>	<u>\$ 47,376,241</u>

<u>December 31, 2015</u>	<u>30-59 Days</u> <u>Past Due</u>	<u>60-89 Days</u> <u>Past Due</u>	<u>90 Days or</u> <u>More</u> <u>Past Due</u>	<u>Total</u> <u>Past Due</u> <u>Loans</u>
Consumer Loans	\$ 13,836,033	\$ 8,073,384	\$ 15,895,050	\$ 37,804,467
Real Estate Loans	321,249	161,974	480,929	964,152
Sales Finance Contracts	<u>498,374</u>	<u>346,930</u>	<u>584,919</u>	<u>1,430,223</u>
Total	<u>\$ 14,655,656</u>	<u>\$ 8,582,288</u>	<u>\$ 16,960,898</u>	<u>\$ 40,198,842</u>

In addition to the delinquency rating analysis, the ratio of bankrupt accounts to our total loan portfolio is also used as a credit quality indicator. The ratio of bankrupt accounts to total principal loan balances outstanding at December 31, 2016 and December 31, 2015 was 2.37% and 2.40%, respectively.

Nearly our entire loan portfolio consists of small homogeneous consumer loans (of the product types set forth in the table below).

	Principal Balance	% Portfolio	Net Charge Offs	% Net Charge Offs
<u>December 31, 2016</u>				
Consumer Loans	\$ 475,739,992	89.6%	\$50,936,066	96.9%
Real Estate Loans	24,104,551	4.5	(3,378)	.0
Sales Finance Contracts ..	<u>31,071,064</u>	<u>5.9</u>	<u>1,629,855</u>	<u>3.1</u>
Total	<u>\$ 530,915,607</u>	<u>100.0%</u>	<u>\$ 52,562,543</u>	<u>100.0%</u>
<u>December 31, 2015</u>				
Consumer Loans	\$ 492,742,657	90.5%	\$ 31,119,348	97.2%
Real Estate Loans	21,754,111	4.0	10,699	.0
Sales Finance Contracts ..	<u>29,908,790</u>	<u>5.5</u>	<u>877,238</u>	<u>2.8</u>
Total	<u>\$ 544,405,558</u>	<u>100.0%</u>	<u>\$ 32,007,285</u>	<u>100.0%</u>

Sales finance contracts are similar to consumer loans in nature of loan product, terms, customer base to whom these products are marketed, factors contributing to risk of loss and historical payment performance, and together with consumer loans, represented approximately 95% and 96% of the Company's loan portfolio at December 31, 2016 and 2015, respectively. As a result of these similarities, which have resulted in similar historical performance, consumer loans and sales finance contracts represent substantially all loan losses. Real estate loans and related losses have historically been insignificant, and, as a result, we do not stratify the loan portfolio for purposes of determining and evaluating our loan loss allowance. Due to the composition of the loan portfolio, the Company determines and monitors the allowance for loan losses on a collectively evaluated, single portfolio segment basis. Therefore, a roll forward of the allowance for loan loss activity at the portfolio segment level is the same as at the total portfolio level. We have not acquired any loans that we believed were impaired at time of acquisition with deteriorating quality during any period reported. The following table provides additional information on our allowance for loan losses based on a collective evaluation:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Allowance For Credit Losses:			
Beginning Balance	\$ 33,500,000	\$ 28,620,000	\$ 24,680,789
Provision for Loan Losses	67,562,543	36,887,285	32,622,546
Charge-Offs	(63,673,242)	(42,017,880)	(38,024,773)
Recoveries	<u>11,110,699</u>	<u>10,010,595</u>	<u>9,341,438</u>
Ending Balance	<u>\$ 48,500,000</u>	<u>\$ 33,500,000</u>	<u>\$ 28,620,000</u>
	<u>2016</u>	<u>2015</u>	<u>2014</u>
Finance Receivables:			
Ending Balance	<u>\$530,915,607</u>	<u>\$544,405,558</u>	<u>\$512,592,704</u>
Ending Balance; collectively evaluated for impairment	<u>\$530,915,607</u>	<u>\$544,405,558</u>	<u>\$512,592,704</u>

Troubled debt restructurings (“TDRs”) represent loans on which the original terms have been modified as a result of the following conditions: (i) the restructuring constitutes a concession and (ii) the borrower is experiencing financial difficulties. Loan modifications by the Company involve payment alterations, interest rate concessions and/ or reductions in the amount owed by the customer. The following table presents a summary of loans that were restructured during the year ended December 31, 2016.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Consumer Loans	12,405	\$ 27,273,566	\$ 25,836,012
Real Estate Loans	32	361,376	358,567
Sales Finance Contracts	<u>532</u>	<u>1,044,547</u>	<u>985,799</u>
Total	<u>12,969</u>	<u>\$ 28,679,489</u>	<u>\$ 27,180,378</u>

TDRs that subsequently defaulted during the year ended December 31, 2016 are listed below.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>
Consumer Loans	4,442	\$ 6,379,753
Real Estate Loans	-	-
Sales Finance Contracts	<u>131</u>	<u>217,236</u>
Total	<u>4,573</u>	<u>\$ 6,596,989</u>

The following table presents a summary of loans that were restructured during the year ended December 31, 2015.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Consumer Loans	6,975	\$ 15,593,924	\$ 14,501,969
Real Estate Loans	44	379,550	372,984
Sales Finance Contracts	<u>251</u>	<u>500,839</u>	<u>464,498</u>
Total	<u>7,270</u>	<u>\$ 16,474,313</u>	<u>\$ 15,339,451</u>

TDRs that subsequently defaulted during the year ended December 31, 2015 are listed below.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>
Consumer Loans	2,147	\$ 2,996,600
Real Estate Loans	2	8,045
Sales Finance Contracts	<u>64</u>	<u>93,051</u>
Total	<u>2,213</u>	<u>\$ 3,097,696</u>

The following table presents a summary of loans that were restructured during the year ended December 31, 2014.

	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Consumer Loans	3,745	\$ 11,810,926	\$ 10,827,585
Real Estate Loans	57	519,530	505,474
Sales Finance Contracts	190	450,156	421,242
Total	<u>3,992</u>	<u>\$ 12,780,612</u>	<u>\$ 11,754,301</u>

TDRs that subsequently defaulted during the year ended December 31, 2014 are listed below.

	Number of Loans	Pre-Modification Recorded Investment
Consumer Loans	587	\$ 1,163,067
Real Estate Loans	4	23,040
Sales Finance Contracts	27	54,574
Total	<u>618</u>	<u>\$ 1,240,681</u>

The level of TDRs, including those which have experienced a subsequent default, is considered in the determination of an appropriate level of allowance for loan losses.

3. MARKETABLE DEBT SECURITIES

Debt securities available for sale are carried at estimated fair market value. The amortized cost and estimated fair values of these debt securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2016</u>				
Obligations of states and political subdivisions	\$ 168,713,137	\$ 3,190,182	\$(5,103,788)	\$ 166,799,531
Corporate securities	130,316	260,797	--	391,113
	<u>\$ 168,843,453</u>	<u>\$ 3,450,979</u>	<u>\$(5,103,788)</u>	<u>\$ 167,190,644</u>
<u>December 31, 2015</u>				
Obligations of states and political subdivisions	\$ 138,123,137	\$ 5,622,609	\$ (212,362)	\$ 143,533,384
Corporate securities	130,316	198,465	--	328,781
	<u>\$ 138,253,453</u>	<u>\$ 5,821,074</u>	<u>\$ (212,362)</u>	<u>\$ 143,862,165</u>

Debt securities designated as "Held to Maturity" are carried at amortized cost based on Management's intent and ability to hold such securities to maturity. The amortized cost and estimated fair values of these debt securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2016</u>				
Obligations of states and political subdivisions	\$ 12,003,446	\$ 81,586	\$ (151,205)	\$ 11,933,827
<u>December 31, 2015</u>				
Obligations of states and political subdivisions	\$ 17,058,181	\$ 243,377	\$ (130,505)	\$ 17,171,053

The amortized cost and estimated fair values of marketable debt securities at December 31, 2016, by contractual maturity, are shown below:

	Available for Sale		Held to Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 2,757,965	\$ 3,045,322	\$ 1,746,682	\$ 1,747,937
Due after one year through five years ..	9,109,251	9,225,824	9,666,167	9,578,287
Due after five years through ten years .	17,602,646	17,863,694	590,597	607,603
Due after ten years	139,373,591	137,055,804	--	--
	<u>\$ 168,843,453</u>	<u>\$ 167,190,644</u>	<u>\$ 12,003,446</u>	<u>\$ 11,933,827</u>

The following table presents an analysis of investment securities in an unrealized loss position for which other-than-temporary impairments have not been recognized as of December 31, 2016:

	Less than 12 Months		12 Months or Longer		Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available for Sale:						
Obligations of states and political subdivisions	<u>\$ 72,316,572</u>	<u>\$(5,071,255)</u>	<u>\$ 871,317</u>	<u>\$(32,533)</u>	<u>\$73,187,889</u>	<u>\$(5,103,788)</u>
Held to Maturity:						
Obligations of states and political subdivisions	<u>2,191,448</u>	<u>(24,323)</u>	<u>3,099,489</u>	<u>(126,882)</u>	<u>5,290,937</u>	<u>(151,205)</u>
Overall Total	<u>\$ 74,508,020</u>	<u>\$(5,095,578)</u>	<u>\$ 3,970,806</u>	<u>\$(159,415)</u>	<u>\$78,478,826</u>	<u>\$(5,254,993)</u>

The following table presents an analysis of investment securities in an unrealized loss position for which other-than-temporary impairments have not been recognized as of December 31, 2015:

	Less than 12 Months		12 Months or Longer		Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Available for Sale:						
Obligations of states and political subdivisions	<u>\$ 7,154,930</u>	<u>\$(75,054)</u>	<u>\$4,287,447</u>	<u>\$(137,308)</u>	<u>\$11,442,377</u>	<u>\$(212,362)</u>
Held to Maturity:						
Obligations of states and political subdivisions	<u>4,471,673</u>	<u>(61,813)</u>	<u>1,406,089</u>	<u>(68,692)</u>	<u>5,877,762</u>	<u>(130,505)</u>
Overall Total	<u>\$ 11,626,603</u>	<u>\$(136,867)</u>	<u>\$5,693,536</u>	<u>\$(206,000)</u>	<u>\$17,320,139</u>	<u>\$(342,867)</u>

The previous two tables represent 107 investments and 25 investments held by the Company at December 31, 2016 and 2015, respectively, the majority of which were rated "A+" or higher. The unrealized losses on the Company's investments were the result of interest rate increases over the previous years. Based on the credit ratings of these investments, along with the consideration of whether the Company has the intent to sell or will be more likely than not required to sell the applicable investment before recovery of amortized cost basis, the Company did not consider the impairment of these investments to be other-than-temporary at December 31, 2016 or 2015.

Proceeds from sales of securities during 2016 were \$344,000. Gross gains of \$24,000 were realized on these sales. Proceeds from redemptions of investment securities due to the exercise of call provisions by the issuers thereof and regularly scheduled maturities during 2016 were \$13,855,000. Gross gains of \$1,016 and gross losses of \$11,182 were realized from these redemptions.

Proceeds from sales of securities during 2015 were \$797,246. Gross gains of \$56,113 were realized on these sales. Proceeds from redemptions of investment securities due to the exercise of call provisions by the issuers thereof and regularly scheduled maturities during 2015 were \$14,540,000. Gross gains of \$13,859 were realized from these redemptions.

4. FAIR VALUE

FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an 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. The following fair value hierarchy is used in selecting inputs used to determine the fair value of an asset or liability, with the highest priority given to Level 1, as these are the most transparent or reliable. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations in which all significant inputs are observable in active markets.

Level 3 - Valuations derived from valuation techniques in which one or more significant inputs are unobservable.

The Company is responsible for the valuation process and as part of this process may use data from outside sources in establishing fair value. The Company performs due diligence to understand the inputs or how the data was calculated or derived. The Company employs a market approach in the valuation of its obligations of states, political subdivisions and municipal revenue bonds that are available-for-sale. These investments are valued on the basis of current market quotations provided by independent pricing services selected by Management based on the advice of an investment manager. To determine the value of a particular investment, these independent pricing services may use certain information with respect to market transactions in such investment or comparable investments, various relationships observed in the market between investments, quotations from dealers, and pricing metrics and calculated yield measures based on valuation methodologies commonly employed in the market for such investments. Quoted prices are subject to our internal price verification procedures. We validate prices received using a variety of methods, including, but not limited to comparison to other pricing services or corroboration of pricing by reference to independent market data such as a secondary broker. There was no change in this methodology during any period reported.

Assets measured at fair value as of December 31, 2016 and 2015 are available-for-sale investment securities which are summarized below:

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices</u>		
		<u>In Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Assets</u>	<u>Inputs</u>	<u>(Level 3)</u>
<u>Description</u>	<u>12/31/2016</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	
Corporate securities	\$ 391,113	\$ 391,113	\$ --	\$ --
Obligations of states and political subdivisions	<u>166,799,531</u>	<u>--</u>	<u>166,799,531</u>	<u>--</u>
Available-for-sale investment securities	<u>\$167,190,644</u>	<u>\$ 391,113</u>	<u>\$166,799,531</u>	<u>\$ --</u>

		<u>Fair Value Measurements at Reporting Date Using</u>		
		<u>Quoted Prices</u>		
		<u>In Active</u>	<u>Significant</u>	<u>Significant</u>
		<u>Markets for</u>	<u>Other</u>	<u>Unobservable</u>
		<u>Identical</u>	<u>Observable</u>	<u>Inputs</u>
		<u>Assets</u>	<u>Inputs</u>	<u>(Level 3)</u>
<u>Description</u>	<u>12/31/2015</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	
Corporate securities	\$ 328,781	\$ 328,781	\$ --	\$ --
Obligations of states and political subdivisions	<u>143,533,384</u>	<u>--</u>	<u>143,533,384</u>	<u>--</u>
Available-for-sale investment securities	<u>\$143,862,165</u>	<u>\$ 328,781</u>	<u>\$143,533,384</u>	<u>\$ --</u>

5. EQUITY METHOD INVESTMENT:

The Company has one investment accounted for using the equity method of accounting. On November 1, 2013, the Company invested \$10.0 million in Meritage Capital, Centennial Absolute Return

Fund, L.P. (the "Fund"). An additional \$15.0 was invested in the same fund on April 1, 2014. The carrying value of this investment was \$26.2 million as of December 31, 2016, which represents a 20.48% ownership interest in the Fund. The carrying value of this investment was \$25.0 million as of December 31, 2015, which represented a 25.85% ownership interest in the Fund. The Company recorded earnings of \$1.2 million on this investment during 2016. During 2015, the Company recorded a loss of \$1.0 million on this investment due to the volatile market conditions. The earnings during 2016 and the loss during 2015 were recorded in other revenue on the Company's consolidated statement of income. With at least 60 days notice, the Company has the ability to redeem its investment in the Fund at the end of any calendar quarter.

Condensed financial information of the equity method investment is as follows:

	<u>December 31, 2016</u>	<u>December 31, 2015</u>
Company's equity method investment	\$ 26,201,949	\$ 24,989,505
Partnership assets	\$ 128,721,905	\$ 97,456,613
Partnership liabilities	\$ 258,881	\$ 148,566
Partnership net (loss) income	\$ 6,583,183	\$ (3,344,462)

6. INSURANCE SUBSIDIARY RESTRICTIONS

As of December 31, 2016 and 2015, respectively, 69% and 79% the Company's cash and cash equivalents and investment securities were maintained in the Company's insurance subsidiaries. State insurance regulations limit the types of investments an insurance company may hold in its portfolio. These limitations specify types of eligible investments, quality of investments and the percentage a particular investment may constitute of an insurance company's portfolio.

Dividend payments to the Company by its wholly owned insurance subsidiaries are subject to annual limitations and are restricted to the lesser of 10% of statutory surplus or statutory earnings before recognizing realized investment gains of the individual insurance subsidiaries, unless prior approval is obtained from the Georgia Insurance Commissioner. At December 31, 2016, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$82.0 million and \$71.9 million, respectively. The maximum aggregate amount of dividends these subsidiaries could pay to the Company during 2016, without prior approval of the Georgia Insurance Commissioner, was approximately \$12.5 million. The Company elected not to pay any dividends from the insurance subsidiaries during the year ended December 31, 2016.

7. SENIOR DEBT

Effective September 11, 2009, the Company entered into a credit facility with Wells Fargo Preferred Capital, Inc. As amended to date, the credit agreement provides for borrowings and reborrowings of up to \$100.0 million, subject to certain limitations, and all borrowings are secured by the finance receivables of the Company. The credit agreement contains covenants customary for financing transactions of this type. Available borrowings under the credit agreement were \$100.0 million at December 31, 2016 and 2015, at an interest rate of 3.93% and 3.75%, respectively. At December 31, 2016 and 2015, the Company had no borrowings under the credit agreement.

Available but unborrowed amounts under the credit agreement are subject to a periodic unused line fee of .50%. The interest rate under the credit agreement is equivalent to the greater of (a) .75% per annum plus 300 basis points or (b) the three month London Interbank Offered Rate (the "LIBOR Rate") plus 300 basis points. The LIBOR Rate is adjusted on the first day of each calendar month based upon the LIBOR Rate as of the last day of the preceding calendar month.

The credit agreement has a commitment termination date of September 11, 2019. Any then-outstanding balance under the Credit Agreement would be due and payable on such date. The lender also may terminate the agreement upon the violation of any of the financial ratio requirements or covenants contained in the credit agreement or if the financial condition of the Company becomes unsatisfactory to the lender, according to standards set forth in the credit agreement. Such financial ratio requirements include a minimum equity requirement, an interest expense coverage ratio and a minimum debt to equity ratio, among others. At December 31, 2016, the Company was in compliance with all financial covenants.

The Company's Senior Demand Notes are unsecured obligations which are payable on demand. The interest rate payable on any Senior Demand Note is a variable rate, compounded daily, established from time to time by the Company.

Commercial paper is issued by the Company only to qualified investors, in amounts in excess of \$50,000, with maturities of less than 270 days and at interest rates that the Company believes are competitive in its market.

Additional data related to the Company's senior debt is as follows:

<u>Year Ended December 31</u>	<u>Weighted Average Interest Rate at End of Year</u>	<u>Maximum Amount Outstanding During Year</u>	<u>Average Amount Outstanding During Year</u>	<u>Weighted Average Interest Rate During Year</u>
(In thousands, except % data)				
<u>2016:</u>				
Bank Borrowings	3.93%	\$ 45	\$ 1	3.75%
Senior Demand Notes	1.48	73,167	68,918	1.53
Commercial Paper	2.96	339,330	331,589	3.26
All Categories	2.69	409,792	400,508	3.10
<u>2015:</u>				
Bank Borrowings	3.75%	\$ 45	\$ 1	3.75%
Senior Demand Notes	1.73	71,001	61,713	1.72
Commercial Paper	3.47	317,488	295,263	3.48
All Categories	3.15	388,489	356,980	3.32

<u>Year Ended December 31</u>	<u>Weighted Average Interest Rate at End of Year</u>	<u>Maximum Amount Outstanding During Year</u>	<u>Average Amount Outstanding During Year</u>	<u>Weighted Average Interest Rate During Year</u>
(In thousands, except % data)				
<u>2014:</u>				
Bank Borrowings	3.75%	\$ 45	\$ 1	3.75%
Senior Demand Notes	1.73	60,561	58,328	1.72
Commercial Paper	3.48	276,656	264,479	3.49
All Categories	3.17	335,186	322,808	3.33

8. SUBORDINATED DEBT

The payment of the principal and interest on the Company's subordinated debt is subordinate and junior in right of payment to all unsubordinated indebtedness of the Company.

Subordinated debt consists of Variable Rate Subordinated Debentures issued from time to time by the Company, and which mature four years after their date of issue. The maturity date is automatically extended for an additional four year term unless the holder or the Company redeems the debenture on its original maturity date or within any applicable grace period thereafter. The debentures are offered and sold in various minimum purchase amounts with varying interest rates as established from time to time by the Company and interest adjustment periods for each respective minimum purchase amount. Interest rates on the debentures automatically adjust at the end of each adjustment period. The debentures may also be redeemed by the holder at the applicable interest adjustment date or within any applicable grace period thereafter without penalty. Redemptions at any other time are at the discretion of the Company and are subject to a penalty. The Company may redeem the debentures for a price equal to 100% of the principal plus accrued but unpaid interest upon 30 days' notice to the holder.

Interest rate information on the Company's subordinated debt at December 31 is as follows:

<u>Weighted Average Interest Rate at End of Year</u>			<u>Weighted Average Interest Rate During Year</u>		
<u>2016</u>	<u>2015</u>	<u>2014</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
2.75%	2.86%	2.90%	2.77%	2.82%	2.91%

Maturity and redemption information relating to the Company's subordinated debt at December 31, 2016 is as follows:

	Amount Maturing or Redeemable at Option of Holder	
	Based on Maturity Date	Based on Interest Adjustment Period
2017	\$ 6,912,514	\$ 21,653,885
2018	7,286,225	8,308,298
2019	10,131,689	2,959,170
2020	10,517,417	1,926,492
	<u>\$ 34,847,845</u>	<u>\$ 34,847,845</u>

9. COMMITMENTS AND CONTINGENCIES

The Company's operations are carried on in locations which are occupied under operating lease agreements. These lease agreements usually provide for a lease term of five years with the Company holding a renewal option for an additional five years. Total operating lease expense was \$6,394,406, \$6,042,567 and \$5,818,043 for the years ended December 31, 2016, 2015 and 2014, respectively. The Company's minimum aggregate future lease commitments at December 31, 2016 are shown in the table below.

<u>Year</u>	<u>Operating Leases</u>
2017	\$ 6,046,270
2018	4,674,442
2019	3,176,988
2020	2,234,808
2021	882,838
2022 and beyond	16,348
Total	<u>\$ 17,031,694</u>

We conduct our lending operations under the provisions of various federal and state laws and implementing regulations. Changes in the current regulatory environment, or the interpretation or application of current regulations, could impact our business. While we believe that we are currently in compliance with all regulatory requirements, no assurance can be made regarding our future compliance or the cost thereof.

10. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan, which was qualified under Section 401(a) and Section 401(k) of the Internal Revenue Code of 1986 (the "Code"), as amended, to cover employees of the Company.

Any employee who is 18 years of age or older is eligible to participate in the 401(k) plan on the first day of the month following the completion of one complete calendar month of continuous employment and the Company begins matching up to 4.50% of an employee's deferred contribution, up to 6.00% of their total compensation. During 2016, 2015 and 2014, the Company contributed \$1,963,772, \$1,834,138 and \$1,744,475, respectively, in matching funds for employee 401(k) deferred accounts.

The Company also maintains a non-qualified deferred compensation plan for employees who receive compensation in excess of the amount provided in Section 401(a)(17) of the Code, as such amount may be adjusted from time to time in accordance with the Code.

11. RELATED PARTY TRANSACTIONS

The Company leases a portion of its properties (see Note 9) for an aggregate of \$156,600 per year from certain officers or stockholders.

The Company has an outstanding loan to a real estate development partnership of which one of the Company's beneficial owners (David W. Cheek) is a partner. David Cheek (son of Ben F. Cheek, III) owns 24.24% of the Company's voting stock. The balance on this commercial loan (including principal and accrued interest) was \$1,374,398 at December 31, 2016. During 2016, the maximum amount outstanding (including accrued interest) on this loan was \$1,374,398. The loan is a variable-rate loan

with the interest based on the prime rate plus 1%. The interest rate adjusts whenever the prime rate changes.

Effective September 23, 1995, the Company entered into a Split-Dollar Life Insurance Agreement with the Trustee of an executive officer's irrevocable life insurance trust. The life insurance policy insures one of the Company's executive officers. As a result of certain changes in tax regulations relating to split-dollar life insurance policies, the agreement was amended effectively making the premium payments a loan to the Trust. The interest on the loan is a variable rate adjusting monthly based on the federal mid-term Applicable Federal Rate. A payment of \$5,092 for interest accrued during 2016 was applied to the loan on December 31, 2016. No principal payments on this loan were made in 2016. The balance on this loan at December 31, 2016 was \$366,806. This was the maximum loan amount outstanding during the year.

12. INCOME TAXES

The Company has elected to be treated as an S corporation for income tax reporting purposes. The taxable income or loss of an S corporation is treated as income of and is reportable in the individual tax returns of the shareholders of the Company in an appropriate allocation. Accordingly, deferred income tax assets and liabilities have been eliminated and no provisions for current and deferred income taxes were made by the Company except for amounts attributable to state income taxes for the state of Louisiana, which does not recognize S corporation status for income tax reporting purposes. Deferred income tax assets and liabilities will continue to be recognized and provisions for current and deferred income taxes will be made by the Company's subsidiaries as they are not permitted to be treated as S Corporations.

The provision for income taxes for the years ended December 31, 2016, 2015 and 2014 is made up of the following components:

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Current – Federal	\$ 5,955,098	\$ 4,220,841	\$4,143,983
Current – State	(18,531)	5,160	12,500
Total Current	<u>5,936,567</u>	<u>4,226,001</u>	<u>4,156,483</u>
Deferred – Federal	(650,641)	1,037,993	41,211
Total Provision	<u>\$ 5,285,926</u>	<u>\$ 5,263,994</u>	<u>\$4,197,694</u>

Temporary differences create deferred federal tax assets and liabilities, which are detailed below as of December 31, 2016 and 2015. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

	<u>Deferred Tax Assets (Liabilities)</u>	
	<u>2016</u>	<u>2015</u>
Insurance Commissions	\$ (5,399,148)	\$ (6,043,688)
Unearned Premium Reserves	2,126,996	1,656,106
Deferred Acquisition Cost Amortization	(1,115,119)	(320,224)
SPA Capitalization	277,418	213,308
STAT & Tax Reserve	314,412	87,787
GAAP/STAT Premium Tax	(242,583)	(283,457)
Unrealized (Gain) Loss on Marketable Debt Securities	650,626	(1,465,727)
Other	(31,132)	(29,629)
	<u>\$ (3,418,530)</u>	<u>\$ (6,185,524)</u>

The Company's effective tax rate for the years ended December 31, 2016, 2015 and 2014 is analyzed as follows. During 2016, the S Corporation incurred a loss, which lowered the overall pre-tax income of the Company resulting in a higher effective tax rate for 2016. Any tax benefit from the loss was passed on to the shareholders. During 2015 and 2014, rates were lower than statutory federal income tax rates mainly due to taxable income at the S corporation level being passed to the shareholders of the Company for tax reporting, whereas income earned by the insurance subsidiaries was taxed at the corporate level.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Statutory Federal income tax rate	34.0%	34.0%	34.0%
Tax effect of S corporation status	74.6	(12.6)	(19.3)
Tax exempt income	(24.2)	(4.5)	(3.5)
Miscellaneous	(.9)	-	-
Effective Tax Rate	<u>83.5%</u>	<u>16.9%</u>	<u>11.2%</u>

13. SEGMENT FINANCIAL INFORMATION:

The Company discloses segment information in accordance with FASB ASC 280. FASB ASC 280 requires companies to determine segments based on how management makes decisions about allocating resources to segments and measuring their performance. The Company operates in one reportable business segment.

The Company has five operating divisions which comprise its operations: Division I through Division V. Each division is comprised of a number of branch offices that are aggregated based on vice president responsibility and geographical location. Division I is comprised of offices located in South Carolina. Division II is comprised of offices in North Georgia and Division III is comprised of South Georgia offices. Division IV represents our Alabama and Tennessee offices, and our offices in Louisiana and Mississippi encompass Division V.

Accounting policies of the divisions are the same as those of the Company described in the summary of significant accounting policies. Performance of each division is measured based on objectives set at the beginning of each year and include various factors such as division profit, growth in earning assets and delinquency and loan loss management. All division revenues result from transactions with third parties. The Company does not allocate income taxes or corporate headquarter expenses to the any division.

Below is a performance recap of each of the Company's divisions for the year ended December 31, 2016 followed by a reconciliation to consolidated Company data.

Year 2016	Division I	Division II	Division III	Division IV	Division V	Total
Revenues:				(In Millions)		
Finance Charges Earned	\$ 22.8	\$ 35.8	\$ 32.8	\$ 34.2	\$ 27.0	\$ 152.6
Insurance Income	3.9	12.0	12.0	6.2	6.1	40.2
Other .....	.1	1.1	.9	.9	.9	3.9
	<u>26.8</u>	<u>48.9</u>	<u>45.7</u>	<u>41.3</u>	<u>34.0</u>	<u>196.7</u>
Expenses:						
Interest Cost	1.7	3.2	3.0	3.1	2.2	13.2
Provision for Loan Losses .	7.8	13.5	12.5	9.9	8.9	52.6
Depreciation .....	.5	.6	.4	.6	.6	2.7
Other	11.6	16.6	15.5	15.9	15.9	75.5
	<u>21.6</u>	<u>33.3</u>	<u>31.4</u>	<u>29.5</u>	<u>27.6</u>	<u>144.0</u>
Division Profit	<u>\$ 5.2</u>	<u>\$ 15.0</u>	<u>\$ 14.3</u>	<u>\$ 11.8</u>	<u>\$ 6.4</u>	<u>\$ 52.7</u>
Division Assets:						
Net Receivables	\$ 55.0	\$107.9	\$105.0	\$108.3	\$ 72.3	\$448.5
Cash .....	.4	.8	1.0	.7	.8	3.6
Net Fixed Assets .....	.8	1.9	1.0	1.5	1.4	6.6
Other Assets .....	.0	.0	.0	.4	.0	.6
Total Division Assets	<u>\$ 56.2</u>	<u>\$110.6</u>	<u>\$107.0</u>	<u>\$110.9</u>	<u>\$ 74.5</u>	<u>\$459.3</u>

RECONCILIATION:

	2016
Revenues:	(In Millions)
Total revenues from reportable divisions	\$ 196.7
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	5.5
Timing difference of insurance income allocation to divisions	7.4
Other revenues not allocated to divisions	1.4
Consolidated Revenues	<u>\$211.1</u>
Net Income:	
Total profit or loss for reportable divisions	\$ 52.7
Corporate earnings not allocated	14.4
Corporate expenses not allocated	(60.8)
Income taxes not allocated	(5.3)
Consolidated Net Income	<u>\$ 1.0</u>
Assets:	
Total assets for reportable divisions	\$459.2
Loans held at corporate level	2.3
Unearned insurance at corporate level	(19.2)
Allowance for loan losses at corporate level	(48.5)
Cash and cash equivalents held at corporate level	57.5
Investment securities at corporate level	179.2
Equity method investment at corporate level	26.2
Fixed assets at corporate level	7.4
Other assets at corporate level	9.8
Consolidated Assets	<u>\$673.9</u>

Below is a performance recap of each of the Company's divisions for the year ended December 31, 2015 followed by a reconciliation to consolidated Company data.

Year 2015	Division I	Division II	Division III	Division IV	Division V	Total
Revenues:				(In Millions)		
Finance Charges Earned ..	\$ 23.0	\$ 33.4	\$ 30.6	\$ 33.0	\$ 27.7	\$ 147.7
Insurance Income	4.1	13.0	11.7	5.1	6.5	40.4
Other .....	.1	1.0	.9	2.4	1.1	5.5
	<u>27.2</u>	<u>47.4</u>	<u>43.2</u>	<u>40.5</u>	<u>35.3</u>	<u>193.6</u>
Expenses:						
Interest Cost	1.7	3.1	2.9	3.0	2.2	12.9
Provision for Loan Losses	4.6	7.2	6.6	7.3	6.3	32.0
Depreciation .....	.5	.6	.5	.5	.6	2.7
Other	11.6	15.4	15.1	14.9	15.0	72.0
	<u>18.4</u>	<u>26.3</u>	<u>25.1</u>	<u>25.7</u>	<u>24.1</u>	<u>119.6</u>
Division Profit	<u>\$ 8.8</u>	<u>\$ 21.1</u>	<u>\$ 18.1</u>	<u>\$ 14.8</u>	<u>\$ 11.2</u>	<u>\$ 74.0</u>
Division Assets:						
Net Receivables	\$ 63.3	\$107.9	\$101.0	\$107.0	\$ 79.3	\$458.5
Cash .....	.5	1.1	1.2	1.0	1.0	4.8
Net Fixed Assets	1.2	1.5	.8	1.3	1.5	6.3
Other Assets .....	.0	.0	.0	.2	.2	.4
Total Division Assets ...	<u>\$ 65.0</u>	<u>\$110.5</u>	<u>\$103.0</u>	<u>\$109.5</u>	<u>\$ 82.0</u>	<u>\$470.0</u>

RECONCILIATION:

	2015
Revenues:	(In Millions)
Total revenues from reportable divisions	\$ 193.7
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	4.8
Timing difference of insurance income allocation to divisions	12.0
Other revenues not allocated to divisions	(2.2)
Consolidated Revenues	<u>\$208.4</u>
Net Income:	
Total profit or loss for reportable divisions	\$ 74.0
Corporate earnings not allocated	14.7
Corporate expenses not allocated	(57.5)
Income taxes not allocated	(5.3)
Consolidated Net Income	<u>\$ 25.9</u>
Assets:	
Total assets for reportable divisions	\$470.0
Loans held at corporate level	2.0
Unearned insurance at corporate level	(20.5)
Allowance for loan losses at corporate level	(33.5)
Cash and cash equivalents held at corporate level	55.9
Investment securities at corporate level	160.9
Equity method investment at corporate level	25.0
Fixed assets at corporate level	3.6
Other assets at corporate level	11.0
Consolidated Assets	<u>\$674.4</u>

Below is a performance recap of each of the Company's divisions for the year ended December 31, 2014 followed by a reconciliation to consolidated Company data.

Year 2014	Division I	Division II	Division III	Division IV	Division V	Total
Revenues:	(In Millions)					
Finance Charges Earned ..	\$ 22.0	\$ 31.5	\$ 29.9	\$ 30.8	\$ 25.8	\$ 140.0
Insurance Income	4.1	12.4	11.2	6.2	6.3	40.2
Other .....	.1	1.6	1.4	1.5	1.5	6.1
	<u>26.2</u>	<u>45.5</u>	<u>42.5</u>	<u>38.5</u>	<u>33.6</u>	<u>186.3</u>
Expenses:						
Interest Cost	1.5	2.9	2.8	2.7	2.0	11.9
Provision for Loan Losses .	3.8	6.2	6.8	6.6	5.4	28.8
Depreciation .....	.5	.6	.5	.5	.5	2.6
Other	11.1	14.3	14.5	14.0	13.9	67.8
	<u>16.9</u>	<u>24.0</u>	<u>24.6</u>	<u>23.8</u>	<u>21.8</u>	<u>111.1</u>
Division Profit	<u>\$ 9.3</u>	<u>\$ 21.5</u>	<u>\$ 17.9</u>	<u>\$ 14.7</u>	<u>\$ 11.8</u>	<u>\$ 75.2</u>
Division Assets:						
Net Receivables	\$ 56.4	\$104.1	\$ 96.9	\$101.3	\$ 74.4	\$433.1
Cash .....	.3	.6	.6	.5	.5	2.5
Net Fixed Assets	1.2	1.7	1.1	1.1	1.2	6.3
Other Assets .....	.0	.0	.0	.2	.1	.3
Total Division Assets	<u>\$ 57.9</u>	<u>\$106.4</u>	<u>\$ 98.6</u>	<u>\$103.1</u>	<u>\$ 76.2</u>	<u>\$442.2</u>

RECONCILIATION:

	2014
Revenues:	(In Millions)
Total revenues from reportable divisions	\$ 186.3
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	4.5
Timing difference of insurance income allocation to divisions	7.8
Other revenues not allocated to divisions	1.0
Consolidated Revenues	<u>\$199.7</u>
Net Income:	
Total profit or loss for reportable divisions	\$ 75.2
Corporate earnings not allocated	13.4
Corporate expenses not allocated	(51.1)
Income taxes not allocated	(4.2)
Consolidated Net Income	<u>\$ 33.3</u>
Assets:	
Total assets for reportable divisions	\$442.2
Loans held at corporate level	1.9
Unearned insurance at corporate level	(18.1)
Allowance for loan losses at corporate level	(28.6)
Cash and cash equivalents held at corporate level	13.4
Investment securities at corporate level	155.6
Equity method investment at corporate level	26.1
Fixed assets at corporate level	3.9
Other assets at corporate level	9.2
Consolidated Assets	<u>\$605.6</u>

DIRECTORS AND EXECUTIVE OFFICERS

Directors

Name	Principal Occupation, Title and Company	Has Served as a Director Since
Ben F. Cheek, III	Vice Chairman of Board, 1 st Franklin Financial Corporation	1967
Ben F. Cheek, IV	Chairman of Board, 1 st Franklin Financial Corporation	2001
A. Roger Guimond	Executive Vice President and Chief Financial Officer, 1 st Franklin Financial Corporation	2004
James H. Harris, III	Co-owner and Vice President Unichem Technologies, Inc. President, Moonrise Distillery	2014
John G. Sample, Jr.	Senior Vice President and Chief Financial Officer, Atlantic American Corporation	2004
C. Dean Scarborough	Real Estate Agent	2004
Keith D. Watson	Vice President and Corporate Secretary, Bowen & Watson, Inc.	2004

Executive Officers

Name	Position with Company	Served in this Position Since
Ben F. Cheek, III	Vice Chairman of Board	2015
Ben F. Cheek, IV	Chairman of Board	2015
Virginia C. Herring	President and Chief Executive Officer	2015
A. Roger Guimond	Executive Vice President and Chief Financial Officer	1991
C. Michael Haynie	Executive Vice President - Human Resources	2006
Karen S. O'Shields	Executive Vice President - Strategic and Organization Development	2006
Charles E. Vercelli, Jr.	Executive Vice President - General Counsel	2008
Daniel E. Clevenger, II	Executive Vice President - Compliance	2015
Lynn E. Cox	Vice President / Secretary & Treasurer	1989

Corporate Information

Corporate Offices	Legal Counsel	Independent Registered Public Accounting Firm
P.O. Box 880 135 East Tugalo Street Toccoa, Georgia 30577 (706) 886-7571	Jones Day Atlanta, Georgia	Deloitte & Touche LLP Atlanta, Georgia

Requests for Additional Information

Informational inquiries, including requests for a copy of the Company's most recent annual report on Form 10-K, and any subsequent quarterly reports on Form 10-Q, as filed with the Securities and Exchange Commission, should be addressed to the Company's Secretary at the corporate offices listed above.

BRANCH OPERATIONS

(As of March 30, 2017)

Division I - South Carolina

Virginia K. Palmer Vice President

Regional Operations Directors

William D. Ashley	Gerald D. Rhoden
Richard F. Corirossi	M. Summer Rhodes
Becki B. Lawhon	Gregory A. Shealy
Richard D. Poole, III	

Division II - North Georgia

Ronald F. Morrow Vice President

Ronald E. Byerly Area Vice President

Shelia H. Garrett Area Vice President

Regional Operations Directors

J. Derrick Blalock	Diana L. Lewis
A. Keith Chavis	John R. Massey
Kimberly L. Golka	Faye A. Page
Janee G. Huff	Harriet H. Welch
Sharon S. Langford	

Division III – South Georgia

Marcus C. Thomas Vice President

Regional Operations Directors

Michelle R. Benton	Jeffrey C. Lee
Bertrand P. Brown	James A. Mahaffey
William J. Daniel	Jennifer C. Purser
Deirdre A. Dunnam	Robert D. Whitlock
Judy A. Landon	

Division IV - Alabama and Tennessee

Michael J. Whitaker Vice President

Joseph R. Cherry Area Vice President - TN

Regional Operations Directors

M. Payton Givens	William N. Murillo
Brian M. Hill	Joshua C. Nickerson
Tammy R. Hood	Johnny M. Olive
Jerry H. Hughes	Joseph M. Pickens
J. Steven Knotts	Hilda L. Phillips
Jeffrey A. Lindberg	Michael E. Shankles

Division V – Louisiana and Mississippi

James P. Smith, III Vice President

John B. Gray Area Vice President - LA

Regional Operations Directors

Sonya L. Acosta	Carla A. Eldridge
Maurice J. Bize, Jr.	Jimmy R. Fairbanks, Jr.
Bryan W. Cook	Chad H. Frederick
T. Loy Davis	Tabatha A. Green
L. Christopher Deakle	Marty B. Miskelly

Administration

Brent R. Cooler	Vice President Internal Audit	Cindy H. Mullin	Vice President Information Technology
Lynn E. Cox	Vice President Investment Center	R. Darryl Parker	Vice President Employee Development
Brian D. Lingle	Vice President Controller	Beth Rusnack	Vice President Marketing
Mark J. Scarpitti	Deputy General Counsel		



SYLVANIA, GEORGIA

2016 Ben F. Cheek, Jr. Office Of The Year



Ceadre Jenkins, Angela Watkins (*Front row, left to right*)

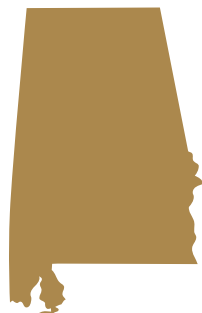
Marc Thomas, Vice President, Kathy Cordell, Branch Manager, Brandy Douglas, Joe Daniel, Regional Operations Director (*Back row, left to right*)

This award is presented annually in recognition of the office that represents the highest overall performance within the Company. Congratulations to the entire Sylvania, Georgia staff for this significant achievement. The Friendly Franklin Folks salute you!

The Friendly Franklin Folks salute you!

1ST FRANKLIN FINANCIAL CORPORATION BRANCH OFFICES

ALABAMA



Adamsville	Decatur	Moody	Saraland *
Albertville	Dothan (2)	Moulton	Scottsboro
Alexander City	Enterprise	Muscle Shoals	Selma
Andalusia	Fayette	Opelika	Sylacauga
Arab	Florence	Opp	Tallassee*
Athens	Fort Payne	Oxford	Troy
Bay Minette *	Gadsden	Ozark	Tuscaloosa
Bessemer	Hamilton	Pelham	Wetumpka
Center Point	Huntsville (2)	Prattville	
Clanton	Jasper	Robertsdale *	
Cullman	Mobile	Russellville (2)	

GEORGIA



Acworth	Colquitt	Griffin	Richmond Hill
Adel	Columbus (2)	Hartwell	Rome
Albany (2)	Commerce	Hawkinsville	Royston
Alma	Conyers	Hazlehurst	Sandersville
Americus	Cordele	Helena	Sandy Springs
Athens (2)	Cornelia	Hinesville (2)	Savannah
Augusta	Covington	Hiram	Statesboro
Bainbridge	Cumming	Hogansville	Stockbridge
Barnesville	Dahlonega	Jackson	Swainsboro
Baxley	Dalton	Jasper	Sylvania
Blairsville	Dawson	Jefferson	Sylvester
Blakely	Douglas (2)	Jesup	Thomaston
Blue Ridge	Douglasville	Kennesaw	Thomasville
Bremen	Dublin	LaGrange	Thomson
Brunswick	East Ellijay	Lavonia	Tifton
Buford	Eastman	Lawrenceville	Toccoa
Butler	Eatonton	Macon (2)	Tucker
Cairo	Elberton	Madison	Valdosta
Calhoun	Fayetteville	Manchester	Vidalia
Canton	Fitzgerald	McDonough	Villa Rica
Carrollton	Flowery Branch	Milledgeville	Warner Robins (2)
Cartersville	Forest Park	Monroe	Washington
Cedartown	Forsyth	Montezuma	Waycross
Chatsworth	Fort Valley	Monticello	Waynesboro
Clarksville	Fort Oglethorpe	Moultrie	Winder
Claxton	Gainesville	Nashville	
Clayton	Garden City	Newnan	
Cleveland	Georgetown	Perry	
Cochran	Greensboro	Pooler	

1ST FRANKLIN FINANCIAL CORPORATION BRANCH OFFICES

LOUISIANA



Abbeville	DeRidder	Leesville	Prairieville
Alexandria	Eunice	Marksville	Ruston
Baker	Franklin	Minden	Slidell
Bastrop	Hammond	Monroe	Springhill
Bossier City	Houma	Morgan City	Sulphur
Covington	Jena	Natchitoches	Thibodaux
Crowley	Lafayette	New Iberia	West Monroe
Denham Springs	Lake Charles	Opelousas	Winnsboro
	LaPlace	Pineville	

MISSISSIPPI



Amory	Forest	Jackson	Pearl
Batesville	Greenwood	Kosciusko	Philadelphia
Bay St. Louis	Grenada	Magee	Picayune
Booneville	Gulfport	McComb	Pontotoc
Brookhaven	Hattiesburg	Meridian	Ripley
Carthage	Hazlehurst	New Albany	Senatobia
Columbia	Hernando	Newton	Starkville
Columbus	Houston	Olive Branch	Tupelo
Corinth	Iuka	Oxford	Winona

SOUTH CAROLINA



Aiken	Conway	Lancaster	Orangeburg
Anderson	Dillon	Laurens	Rock Hill
Batesburg-Leesville	Easley	Lexington	Seneca
Beaufort	Florence	Manning	Simpsonville
Camden	Gaffney	Marion	Spartanburg
Cayce	Georgetown	Moncks Corner	Summerville
Charleston	Greenwood	Myrtle Beach	Sumter
Cheraw	Greer	Newberry	Union
Chester	Hartsville	North Charleston	Walterboro
Columbia	Irmo	North Greenville	Winnsboro
	Lake City	North Myrtle Beach	York

TENNESSEE



Athens	Fayetteville*	Lebanon*	Sevierville
Bristol	Gallatin	Lenoir City	Sparta
Clarksville*	Greeneville	Madisonville	Tazewell*
Cleveland	Hixson	Maryville*	Tullahoma
Cookeville	Johnson City	Morristown	Winchester
Crossville	Kingsport	Murfreesboro	
Dayton	Lafayette*	Newport	
Elizabethton	LaFollette	Powell	

*Opened March 2017

Our Mission Statement

1st Franklin Financial is a major provider of financial and consumer services to individuals and families.

Our business will be managed according to best practices that will allow us to maintain a healthy financial position.

Our Core Values

- Integrity Without Compromise
- Open Honest Communication
- Respect all Customers and Employees
- Teamwork and Collaboration
- Personal Accountability
- Run It Like You Own It

Years

Strong

1941-2016





1ST Franklin Financial Corporation
P.O. Box 880 • 135 E. Tugalo Street
Toccoa, GA 30577 • 706-886-7571

www.1ffc.com