



2021 Annual Report



The Company	1
Chairman's Letter	2
Business	3
Sources of Funds and Common Stock Matters	11
Management's Discussion and Analysis of Financial Condition and Results of Operations	12
Report of Independent Registered Public Accounting Firm (PCAOB ID No. 34)	21
Consolidated Financial Statements	23
Directors and Executive Officers	50
Corporate Information	50
Ben F. Cheek, Jr. Office of the Year	52

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, 2021, the business was operated through 119 branch offices in Georgia, 46 in Alabama, 43 in South Carolina, 39 in Mississippi, 36 in Louisiana, 36 in Tennessee and 6 in Texas. The Company had 1,442 employees as of December 31, 2021.

As of December 31, 2021, the resources of the Company were invested principally in loans, which comprised 67% of the Company's assets. The majority of the Company's revenues are derived from finance charges earned on loans and sales finance contracts. Our remaining revenues are derived from earnings on investment securities, insurance income and other miscellaneous income.

Our corporate website address is www.1FFC.com. The information posted on our website is not incorporated into this Annual Report.

To our Investors, Bankers, Co-workers, and Friends-

The year 2021 was 1st Franklin Financial's 80th year of operation and what an amazing year it was. The theme that was chosen in recognition of having reached this milestone in the life of our company was – Celebrating 80 Years Like Our 1st. From 1941 to 2021, 1st Franklin Financial has continuously strived to be our borrowing customers' and our investors' first choice for their financial services. We believe helping families with borrowing needs build for the future while offering other community members with a savings and investment opportunity has helped position 1st Franklin Financial as a leader in the consumer finance industry.

While 2021 was designated as a year of celebration, we began the year with a lot of uncertainty, again. We were in the second year of the COVID pandemic. Vaccines were on the horizon but still in development giving us hope that we could soon be returning to normalcy or at least provide for us a new normal. 1st Franklin communities were also challenged with tornadoes, hurricanes and floods bringing personal and professional obstacles. Overcoming difficulties like these, however, is what our team has proven time and time again they can do, all while remaining professional, safe and willing to serve those communities as only the "Friendly Franklin Folks" can.

We ended the year with 325 branch offices, 8 recovery centers and were represented in 7 states after welcoming our Texas acquisition in March of 2021. The future also looks exciting with opportunities in 2022 as we have a new office in Kentucky (Elizabethtown) and are licensed to do business in Virginia. Our continued growth is the result of great teamwork led by Gary McQuain, our Chief Operations Officer, and a host of collaborative efforts on our corporate campus and in our branch operations.

The following pages will detail a record setting year. A few noteworthy highlights include:

- Approximately \$45.8 million in Gross Pre-tax profit
- Our loan portfolio balance, net of unearned finance charges, increased \$98.6 million or 178% of our growth plan we had set for the year
- We ended the year with 6.04% of our principal loan balance more than 30 days past due and had recoveries in our recovery centers of \$20.5 million.
- Our Investment Center ended the year with approximately \$686.0 million in investments which was an increase of \$136.6 million over the previous year.

Goals in the coming year and beyond include continuing to live true to our core values. We intend to continue to have controlled and methodical expansion in the Southeast. Our products and services will be constantly reviewed for the ever changing wants and needs of our customers and the demanding regulatory requirements of our industry. We will aggressively develop and pursue talent and skill sets needed for the success of 1st Franklin Financial today and into the future. Technology will be in the limelight in 2022 with planned upgrades to our loan origination and servicing platforms. Cybersecurity and compliance continue to be important with respect to everything we do.

Our 80th year was one that all our team contributed to, making it a record year. My sincere appreciation to all of you for the faith and support you continue to show us by investing, borrowing and providing the support to allow us to continue doing what we do.

Sincerely yours,



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

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 direct cash 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, 2021, direct cash loans comprised 84%, real estate loans comprised 4% and sales finance contracts comprised 12% of our outstanding loans, respectively.

In connection with our business, we also offer optional single premium credit insurance products to our customers when making a loan. Such products may include credit life insurance, credit accident and health insurance, credit involuntary unemployment 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. In certain states where offered, customers may choose involuntary unemployment insurance for payment protection in the form of loan payment assistance due to an unexpected job loss. 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 by this non-affiliated insurance company.

Finance charges 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				
	2021	2020	2019	2018	2017
	(in thousands)				
Direct Cash Loans	\$213,527	\$192,976	\$185,631	\$161,337	\$142,072
Real Estate Loans	7,245	6,555	5,859	4,970	4,175
Sales Finance Contracts ..	<u>15,880</u>	<u>13,556</u>	<u>9,088</u>	<u>6,497</u>	<u>5,186</u>
Total Finance Charges ..	<u>\$236,652</u>	<u>\$213,087</u>	<u>\$200,578</u>	<u>\$172,804</u>	<u>\$151,433</u>

Our business consists mainly of making loans to individuals (consumer loans) 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 in amount financed. 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 secured by 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 \$75,000 and with maturities of 35 to 240 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 both a judgmental underwriting system which includes an analysis of the following factors (i) ability to pay, (ii) creditworthiness, (iii) income stability, (iv) willingness to pay and (v) as appropriate, collateral security, and a risk based

underwriting system that evaluates (i) credit score, (ii) annual income, (iii) payment history to other creditors and (iv) debt to income ratios. As part of our loan decision making process, we review each customer's credit report to verify income and total indebtedness, debt payment history and overall credit related performance to other creditors. The Company uses this information to evaluate a potential borrower's debt-to-income ratios and, depending on the result of the overall credit evaluation process, may require internal review and senior supervisory approval prior to originating the potential borrower's 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 \$25,000 in amount financed. We believe that the interest and fees 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, economic uncertainty or downturns in 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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Direct Cash Loans	31.22%	31.45%	32.03%	32.66%	34.56%
Real Estate Loans	17.33	17.16	17.36	17.55	16.82
Sales Finance Contracts	19.66	19.13	18.86	19.12	19.57

The following table contains certain information about our operations:

	As of December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Number of Branch Offices	325	320	319	315	308
Number of Employees	1,442	1,476	1,513	1,488	1,439
Average Total Loans Outstanding Per Branch (in 000's)	\$3,176	\$2,860	\$2,647	\$2,328	\$1,953
Average Number of Loans Outstanding Per Branch	886	849	895	873	866

DESCRIPTION OF LOANS

	Year Ended December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
DIRECT CASH LOANS:					
Number of Loans Made to New Borrowers	71,300	49,942	62,336	59,739	68,162
Number of Loans Made to Former Borrowers	59,225	55,088	65,452	64,727	69,317
Number of Loans Made to Present Borrowers	147,893	147,228	186,601	187,163	193,601
Total Number of Loans Made	278,418	252,258	314,389	311,629	331,080
Total Volume of Loans Made (in 000's)	\$1,048,154	\$891,358	\$953,356	\$895,904	\$791,293
Average Size of Loan Made	\$3,765	\$3,534	\$3,032	\$2,875	\$2,390
Number of Loans Outstanding	266,028	249,880	263,181	255,132	249,793
Total Loans Outstanding (in 000's)	\$873,433	\$777,569	\$737,255	\$651,085	\$540,380
Percent of Total Loans Outstanding	84%	85%	87%	89%	90%
Average Balance on Outstanding Loans	\$3,283	\$3,112	\$2,801	\$2,552	\$2,163
REAL ESTATE LOANS:					
Total Number of Loans Made	622	480	553	538	517
Total Volume of Loans Made (in 000's) .	\$17,419	\$11,871	\$13,423	\$12,307	\$11,228
Average Size of Loan Made	\$28,005	\$24,731	\$24,273	\$22,876	\$21,717
Number of Loans Outstanding	2,034	1,880	1,812	1,666	1,580
Total Loans Outstanding (in 000's)	\$45,972	\$39,960	\$37,255	\$31,655	\$27,117
Percent of Total Loans Outstanding	4%	4%	5%	4%	4%
Average Balance on Outstanding Loans	\$22,602	\$21,256	\$20,560	\$19,001	\$17,163
SALES FINANCE CONTRACTS:					
Number of Contracts Purchased	11,515	14,556	18,081	17,185	13,777
Total Volume of Contracts Purchased (in 000's)	\$86,448	\$97,371	\$69,373	\$55,723	\$36,933
Average Size of Contract Purchased	\$7,507	\$6,689	\$3,837	\$3,243	\$2,261
Number of Contracts Outstanding	19,790	19,961	20,616	18,127	15,377
Total Contracts Outstanding (in 000's)	\$118,960	\$103,258	\$70,019	\$50,694	\$34,315
Percent of Total Loans Outstanding	12%	11%	8%	7%	6%
Average Balance on Outstanding Loans	\$6,011	\$5,173	\$3,396	\$2,797	\$2,232

LOANS ORIGINATED, ACQUIRED, LIQUIDATED AND OUTSTANDING

	Year Ended December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands)				
LOANS ORIGINATED OR ACQUIRED					
Direct Cash Loans	\$1,025,902	\$ 878,846	\$ 949,874	\$ 895,126	\$ 779,567
Real Estate Loans	17,345	11,846	13,423	12,307	11,228
Sales Finance Contracts	82,688	96,003	68,573	55,172	35,536
Net Bulk Purchases	<u>26,086</u>	<u>13,905</u>	<u>4,282</u>	<u>1,329</u>	<u>13,123</u>
Total Loans Originated / Acquired	<u>\$1,152,021</u>	<u>\$ 1,000,600</u>	<u>\$1,036,152</u>	<u>\$ 963,934</u>	<u>\$ 839,454</u>
LOANS LIQUIDATED *					
Direct Cash Loans	\$ 952,290	\$ 851,044	\$ 867,185	\$ 785,199	\$ 725,471
Real Estate Loans	11,407	9,166	7,823	7,769	8,720
Sales Finance Contracts	<u>70,746</u>	<u>64,132</u>	<u>50,048</u>	<u>39,344</u>	<u>33,580</u>
Total Loans Liquidated	<u>\$1,034,443</u>	<u>\$ 924,342</u>	<u>\$ 925,056</u>	<u>\$ 832,312</u>	<u>\$ 767,771</u>
LOANS OUTSTANDING AT YEAR END					
Direct Cash Loans	\$ 873,433	\$ 777,569	\$ 737,255	\$ 651,085	\$ 540,380
Real Estate Loans	45,972	39,960	37,255	31,655	27,117
Sales Finance Contracts	<u>118,960</u>	<u>103,258</u>	<u>70,019</u>	<u>50,694</u>	<u>34,315</u>
Total Loans Outstanding	<u>\$1,038,365</u>	<u>\$ 920,787</u>	<u>\$ 844,529</u>	<u>\$ 733,434</u>	<u>\$ 601,812</u>
UNEARNED FINANCE CHARGES					
Direct Cash Loans	\$ 122,455	\$ 107,850	\$ 103,810	\$ 88,660	\$ 68,771
Real Estate Loans	-	6	28	41	67
Sales Finance Contracts	<u>28,626</u>	<u>24,847</u>	<u>14,910</u>	<u>9,676</u>	<u>5,601</u>
Total Unearned Finance Charges	<u>\$ 151,081</u>	<u>\$ 132,703</u>	<u>\$ 118,748</u>	<u>\$ 98,377</u>	<u>\$ 74,439</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 some accounts that are secured by real estate, when the bankruptcy court confirms a repayment plan differing from the contractual obligation, the Company will change the delinquency rating of the account after receiving two consecutive full payments. Thereafter, the account falls under normal delinquency rating guidelines. For non-real estate secured accounts, delinquency categories are not altered unless the borrower had a pre-existing partial payment that exceeds any court-mandated new payment amount. In that case, the partial payment is applied at the new payment amount, which may advance the due date, thus causing the delinquency rating to change (lowering the delinquency rating). The following table shows the number of loans in bankruptcy on which the delinquency rating changed due to a court-initiated repayment plan.

	As of December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Number of Bankrupt Delinquency Resets	178	335	378	535	417

The Company tracks the dollar amount of loans in bankruptcy on which the delinquency rating was changed. During 2021 and 2020, the delinquency rating changed as a result of court-initiated repayment plans on bankrupt accounts with principal balances totaling \$1.3 million and \$2.4 million, respectively. This represented approximately 0.14% and 0.28% of the average principal loan portfolios outstanding during 2021 and 2020, 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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands, except % data)				
DIRECT CASH LOANS:					
60-89 Days Past Due	\$ 12,272	\$ 10,779	\$ 11,619	\$ 9,541	\$ 7,905
Percentage of Principal Outstanding ...	1.41%	1.39%	1.58%	1.47%	1.47%
90 Days or More Past Due	\$ 23,437	\$ 18,094	\$ 24,972	\$ 20,261	\$ 17,475
Percentage of Principal Outstanding ...	2.69%	2.33%	3.40%	3.12%	3.25%
REAL ESTATE LOANS:					
60-89 Days Past Due	\$ 440	\$ 223	\$ 340	\$ 330	\$ 321
Percentage of Principal Outstanding ...	.97%	.57%	.93%	1.06%	1.21%
90 Days or More Past Due	\$ 1,118	\$ 1,438	\$ 1,592	\$ 1,142	\$ 1,171
Percentage of Principal Outstanding ...	2.47%	3.66%	4.35%	3.68%	4.40%
SALES FINANCE CONTRACTS:					
60-89 Days Past Due	\$ 1,134	\$ 1,341	\$ 754	\$ 573	\$ 447
Percentage of Principal Outstanding ...	.96%	1.31%	1.09%	1.14%	1.31%
90 Days or More Past Due	\$ 2,385	\$ 2,261	\$ 1,755	\$ 1,193	\$ 843
Percentage of Principal Outstanding ...	2.02%	2.21%	2.53%	2.38%	2.47%

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
	(in thousands, except % data)				
DIRECT CASH LOANS					
Average Net Loans	\$691,635	\$577,978	\$586,765	\$500,754	\$416,969
Liquidations	\$952,290	\$851,044	\$867,185	\$785,199	\$725,471
Net Losses	\$ 37,635	\$ 42,143	\$ 47,228	\$ 37,131	\$ 36,968
Net Losses as % of Average					
Net Loans	5.44%	7.29%	8.05%	7.42%	8.87%
Net Losses as % of Liquidations	3.95%	4.95%	5.45%	4.73%	5.10%
REAL ESTATE LOANS					
Average Net Loans	\$ 42,593	\$ 36,128	\$ 34,438	\$ 28,924	\$ 25,365
Liquidations	\$ 11,407	\$ 9,166	\$ 7,823	\$ 7,769	\$ 8,720
Net Losses	\$ 26	\$ 42	\$ 40	\$ 27	\$ 62
Net Losses as a %					
of Average Net Loans .....	.06%	.12%	.12%	.09%	.24%
Net Losses as a %					
of Liquidations .....	.23%	.46%	.51%	.35%	.71%
SALES FINANCE CONTRACTS					
Average Net Loans	\$ 82,192	\$ 66,681	\$ 49,001	\$ 34,499	\$ 26,724
Liquidations	\$ 70,746	\$ 64,132	\$ 50,048	\$ 39,344	\$ 33,580
Net Losses	\$ 3,539	\$ 3,335	\$ 2,428	\$ 1,549	\$ 1,325
Net Losses as % of Average					
Net Loans	4.31%	5.00%	4.96%	4.49%	4.96%
Net Losses as % of Liquidations	5.00%	5.20%	4.85%	3.94%	3.95%

ALLOWANCE FOR CREDIT LOSSES

We determine the allowance for credit 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 expected credit losses in the current loan portfolio. For additional information about Management's approach to estimating and evaluating the allowance for credit losses, see Note 2 "Loans" in the Notes to the Consolidated Financial Statements.

SEGMENT FINANCIAL INFORMATION

For additional financial information about our segments and the divisions of our operations, see Note 13 "Segment Financial Information" in the Notes to Consolidated Financial Statements.

CREDIT INSURANCE

On consumer loans (excluding real estate and sales finance contracts), we offer optional single premium credit insurance products to our customers when making a loan. Such products may include credit life insurance, credit accident and health insurance, credit unemployment 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. In certain states where offered, Customers may request credit involuntary unemployment insurance for payment protection in the form of loan payment assistance due to an unexpected job loss. 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. State laws require each of our loan branch offices to be licensed by the state and to conduct business 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. 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. 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 Truth-in-Lending Act ("TILA"), the Equal Credit Opportunity Act ("ECOA"), the Fair Credit Reporting Act ("FCRA") and the Federal Real Estate Settlement Procedures Act ("RESPA"). 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 regulation 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-prohibited household goods such as automobiles, boats and other exempt items of personal property. We continually monitor our compliance with these regulatory requirements.

Changes in the current regulatory environment, or in the interpretation or application of current regulations, could impact our business. Significant additional regulation or costs of compliance could materially adversely affect our business and financial condition.

HUMAN CAPITAL RESOURCES

As of December 31, 2021, the Company had 1,442 employees, located in Alabama, Georgia, Louisiana, Mississippi, South Carolina, Tennessee, and Texas. The development, attraction and retention of employees is a strong focus of the Company, as is fostering and maintaining a strong, healthy corporate culture.

Our employees play an important role in the success of the Company. We are committed to attracting, retaining and promoting high quality talent regardless of sex, race, color, national origin, age or religion. The Company is dedicated to providing a place of work for employees that is supportive, free from discrimination and harassment, and rewarding for employees. Benefit programs offered to employees include competitive salaries, incentive awards and 401(k) retirement savings plans with company match. Various health insurance plans are also available for employees.

We are committed to advancing a safe work environment for our employees. We adhere, and expect all of our employees to adhere, to our Code of Business Conduct and Ethics, which, among other things, sets forth numerous policies designed to provide for a safe, ethical, respectful and compliant work environment. We expect our employees to follow our core values listed below:

- Team: Be Trustworthy
- Impact: Be Intentional
- People: Be Exceptional
- Service: Be Humble

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 were as follows:

	As of December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Bank Borrowings	5.39%	11.73%	11.86%	6.68%	--%
Senior Debt	58.69	51.19	51.08	56.15	59.41
Subordinated Debt	2.66	2.97	3.09	3.80	4.67
Other Liabilities	6.73	6.64	6.13	3.13	3.61
Stockholders' Equity	<u>26.53</u>	<u>27.47</u>	<u>27.84</u>	<u>30.24</u>	<u>32.31</u>
Total	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>	<u>100.00%</u>
Number of Investors	4,713	4,543	4,555	5,163	5,347

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>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Senior Borrowings	3.39%	3.42%	3.48%	2.92%	2.85%
Subordinated Borrowings	3.12	3.01	2.81	2.66	2.65
All Borrowings	3.38	3.40	3.44	2.90	2.84

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

	As of December 31				
	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total Liabilities to Stockholders' Equity	2.77	2.64	2.59	2.31	2.09
Unsubordinated Debt to Subordinated Debt plus Stockholders' Equity	2.43	2.29	2.23	1.94	1.70

As of March 31, 2022, 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 related 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 \$117.72 and \$2.59 per share were paid to shareholders in 2021 and 2020, 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 distributions 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 during 2021 and 2020. 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. Discussion of 2019 results and year-to-year comparisons between 2020 and 2019 can be found in the Company's 2020 Annual Report filed as Exhibit 13 to the Company's Annual Report on Form 10-K which was filed with the SEC on March 30, 2021.

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 expressed or implied by 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 325 branch locations at December 31, 2021. The Company and its operations are guided by a strategic plan which includes planned growth through strategic expansion of our branch office network. 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 increased \$104.6 million to \$1.1 billion as of December 31, 2021 compared to \$1.0 billion at December 31, 2020. The increase in assets was primarily due to growth in the Company's net loan portfolio, investment securities portfolio and increases in other assets.

Cash and cash equivalents decreased \$26.2 million at December 31, 2021 compared to December 31, 2020. Short term investments were sold to purchase higher yielding investment securities.

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, 2021, restricted cash was \$7.3 million compared to \$8.5 million at December 31, 2020. See Note 3, "Investment Securities" in the accompanying "Notes to Consolidated Financial Statements" for further discussion of amounts held in trust.

Loan originations increased \$151.4 million during 2021 compared to 2020. Our net loan portfolio increased \$90.1 million (14%) at December 31, 2021 compared to December 31, 2020. Our allowance for credit losses reflects Management's estimate of expected credit losses in the loan portfolio as of the date of the statement of financial position. See Note 2, "Allowance for Credit Losses," in the accompanying "Notes to Consolidated Financial Statements" for further discussion of the Company's allowance for credit losses. Management believes the current allowance for credit losses is adequate to cover expected losses in our existing portfolio as of December 31, 2021; however, changes in trends or deterioration in economic conditions could result in additional changes 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.

Our investment securities portfolio increased \$40.2 million (18%) to \$261.6 million at December 31, 2021 compared to \$221.4 million at December 31, 2020. The portfolio consists primarily of invested surplus funds generated by the Company's insurance subsidiaries. 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 similar activities. This investment portfolio consists mainly of U.S. Treasury bonds, government agency bonds, and various municipal bonds. Investment securities have been designated as "available for sale" at December 31, 2021 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 as well as the statement of comprehensive income.

Other assets increased \$1.6 million (3%) to \$65.4 million at December 31, 2021 compared to \$63.8 million at December 31, 2020. Increases in operating lease right-of-use assets, deferred acquisition costs, miscellaneous accounts receivables and prepaid expenses were main factors contributing to the increase in other assets. Offsetting a portion of the increase was a decline in fixed assets.

Our senior debt is comprised of a line of credit from three banks and the Company's senior demand notes and commercial paper debt securities. Our subordinated debt is comprised of the variable rate subordinated debentures sold by the Company. The aggregate amount of senior and subordinated debt outstanding at December 31, 2021 increased \$78.4 million (12%) to \$746.2 million compared to \$667.9 million outstanding at December 31, 2020. Higher sales of the Company's debt securities was the primary factor contributing to the increase. The line of credit was paid down \$58.6 million to \$60.3 million at December 31, 2021 from positive cash flow from operations and increases in commercial paper and senior demand notes.

Accounts payables and accrued expenses increased \$7.9 million (12%) at December 31, 2021 compared to the prior year. The Company's incentive bonus accrual and lease liability are the primary factors causing the increase in accrued expenses and other liabilities.

Results of Operations:

Total revenues, which include finance charge income, investment income, insurance income and miscellaneous other revenue, were \$304.3 million and \$275.2 million for 2021 and 2020, respectively. The aforementioned growth in our loan portfolio resulted in higher revenue across all categories. The provision for credit losses decreased \$14.5 million (26%) during 2021 compared to 2020 due to lower net charge offs.

Higher revenue and lower provision expense resulted in an increase in net income for the Company during the year just ended. Net income increased \$26.0 million (163%) to \$41.9 million during 2021 compared to \$15.9 million during 2020.

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.

Higher levels of average net receivables outstanding and the associated finance charge income during 2021 compared to 2020 resulted in an increase in net interest income during the year just ended. Average net receivables were \$806.6 million during 2021 compared to \$722.6 million during 2020. Net interest income was \$220.9 million during 2021, compared to \$198.8 million in 2020.

As previously mentioned, higher sales of the Company's debt securities and a decrease in borrowings on the Company's credit line resulted in an increase in senior and subordinated debt. The increase resulted in higher interest cost. Average borrowings were \$686.0 million during 2021 compared to \$624.5 million during 2020. Interest expense increased \$1.9 million (9%) during 2021 compared to 2020. A decrease in our weighted average borrowing rate to 3.38% during 2021 from 3.40% during 2020 offset a portion of the increase in interest expense.

Net Insurance Income:

The Company offers certain optional credit insurance products to loan customers when closing a loan. Net insurance income (insurance revenues less claims and expenses) was \$35.7 million during 2021 and \$34.3 million during 2020. Net insurance income increased 4% with premium and commission revenue growth at 7% while claims and expenses increased 13% during 2021.

Other Revenue:

Other revenue was \$6.9 million and \$5.4 million during 2021 and 2020. A significant component of other revenue is 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. An increase in sales of auto club memberships and an increase in the cash surrender value of executive life insurance policies during 2021 were the primary factors driving the growth in other revenue for the period just ended.

Provision for Credit Losses:

The Company's provision for credit losses is a charge against earnings to maintain the allowance for credit losses at a level that Management estimates is adequate to cover expected losses as of the date of the statement of financial position. See Note 2. "Allowance for Credit Losses," in the accompanying "Notes to Consolidated Financial Statements" for further discussion of the Company's provision for credit losses. The Company's provision for credit losses is a charge against earnings to maintain the allowance for credit losses at a level that Management estimates is adequate to cover expected losses as of the date of the statement of financial position.

The provision for credit losses decreased \$14.5 million (26%) during 2021 compared to 2020 due to lower net charge offs. Net charge offs impacting the provision for credit losses were \$41.2 million for 2021 and \$45.5 million for 2020, respectively.

Determining a proper allowance for credit 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, delinquency levels, bankruptcy trends and overall general and industry specific economic conditions. The percent of the loan portfolio greater than 30 days delinquent is 6.04% at December 31, 2021 compared to 5.91% at December 31, 2020. The ratio of

bankrupt accounts to the net principal balance was 1.27% and 1.48% at December 31, 2021 and December 31, 2020, respectively.

The Company considered factors such as rising energy, food and services prices and the potential for further oil and commodity market disruptions from the Ukraine crisis. Given increased wages, savings rates, spending on luxury goods, and remote work capability, management anticipates the direct impact from recent gas prices will not be a significant factor in estimating expected losses. The Company also considered the potential impact of increased central bank interest rates. 1st Franklin loans are contracted at a fixed rate; therefore, borrowers will not be affected by rising interest rates. Further, the Company's historical loss history indicates that changes in central bank interest rates do not have a material direct impact to future loss rates.

However, management determined that certain snapshot periods included in the estimation model benefited from government stimulus actions and the benefit to loss rates from those stimulus actions is expected to continue to decline over time. 1st Franklin's expected credit loss model uses loss history from periods prior to government stimulus actions and from periods that may include the effect of government stimulus in estimating the allowance for expected credit losses. Based on the increased impact of periods that include the benefit of government stimulus on loss rates and the aforementioned economic uncertainty, management concluded that an adjustment was required to sufficiently provide for expected credit losses. Management estimated an adjustment totaling \$6.9 million by incorporating pre-pandemic loss rates in the estimation model. The allowance for credit losses increased by \$1.0 million to \$67.3 million at December 31, 2021 compared to \$66.3 million at December 31, 2020.

Management believes that the allowance for credit losses, as calculated in accordance with the Company's current expected credit loss ("CECL") methodology, are appropriate to cover expected credit losses on loans at December 31, 2021; however, because the allowance for credit losses is based on estimates, there can be no assurance that the ultimate charge off amount will match such estimates. Management may determine it is appropriate to increase or decrease the allowance for expected credit losses in future periods, or actual losses in any period, either of which events could have a material impact on our results of operations in the future.

Operating Expenses:

Operating expenses of the Company were \$175.6 million during 2021 compared to \$162.5 million during 2020. Personnel expense, occupancy expense and miscellaneous other expenses are the components included in operating expenses.

Personnel expense increased \$9.3 million (9%) during 2021 compared to 2020 mainly due to merit salary increases, increases in employee incentive bonus expenses and higher payroll taxes.

Occupancy expense decreased \$0.2 million (1%) during 2021 compared to 2020. Lower maintenance expenses, office material expenses, telephone expenses, utilities expenses and depreciation expenses were factors contributing to the decline in occupancy expense. Higher rent expense offset a portion of the decrease.

Other operating expenses increased \$3.9 million (9%) during 2021 compared to 2020. Increases in credit bureau dues, dues and subscription expenses, insurance premiums paid, consultant fees, computer expenses, and taxes and licenses contributed to the growth in other operating expenses. Lower travel expenses due to travel restrictions imposed due to the COVID-19 pandemic, lower telephone and postage expenses offset a portion of the increase in miscellaneous other operating expenses during 2021 compared to 2020.

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 certain states, which do 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.

Effective income tax rates for the years ended December 31, 2021 and 2020 were 8.6% and 17.6%, respectively. The tax rates of the Company's insurance subsidiaries were also below statutory rates due to investments in tax exempt bonds.

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 bank borrowings and debt securities. Changes in interest rates have 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, 2021. Rates associated with the investment 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
	2022	2023	2024	2025	2026	2027 & Beyond	Total	
Assets:	(Dollars in millions)							
Investment Securities	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 243	\$ 249	\$ 262
Average Interest Rate	2.0%	2.7%	2.3%	3.3%	3.5%	3.0%	2.9%	
Liabilities:								
Senior Debt:								
Note Payable to Bank	—	—	\$ 60	—	—	—	\$ 60	\$ 60
Average Interest Rate	—	—	3.5%	—	—	—	3.5%	
Senior Demand Notes	\$ 104	—	—	—	—	—	\$ 104	\$ 104
Average Interest Rate	1.9%	—	—	—	—	—	1.9%	
Commercial Paper	\$ 552	—	—	—	—	—	\$ 552	\$ 552
Average Interest Rate	3.5%	—	—	—	—	—	3.5%	
Subordinated Debentures	\$ 5	\$ 7	\$ 8	\$ 10	—	—	\$ 30	\$ 30
Average Interest Rate	3.0%	3.2%	3.2%	3.1%	—	—	3.1%	

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.

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 credit losses, liquidity, compliance with our debt covenants, and relationships with our customers.

As of December 31, 2021 and December 31, 2020, the Company had \$33.1 million and \$59.2 million, respectively, invested in cash and short-term investments readily convertible into cash with original maturities of three months or less. 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 investment securities can be converted into cash, if necessary. As of December 31, 2021 and 2020, 99% and 97%, 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 life insurance subsidiary are subject to annual limitations and are restricted to the lesser of 10% of policyholder's statutory surplus or the net statutory gain from operations before recognizing realized investment gains of the individual insurance subsidiary during the prior year. Dividend payments to a parent company by its wholly-owned property and casualty subsidiary are subject to annual limitations and are restricted to the lesser of 10% of policyholder's surplus or the net statutory income before recognizing realized investment gains of the individual insurance subsidiary during the prior two years. 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 2021, without prior approval of the Georgia Insurance Commissioner, was approximately \$38.7 million.

At December 31, 2020, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$121.8 million and \$91.6 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company in 2021 without prior approval of the Georgia Insurance Commissioner is approximately \$38.7 million. On November 30, 2020, Management submitted a request for approval of two separate transactions involving dividends and/or lines of credit with maximum amounts of \$70.0 million from Frandisco Life Insurance Company and \$90.0 million from Frandisco Property and Casualty Insurance Company. The request

was approved by the Georgia Insurance Department on February 10, 2021 for transactions on or before December 31, 2021. Effective April 1, 2021, Frandisco Life Insurance Company amended its previous unsecured revolving line of credit available to the Company for a maximum amount up to \$60.0 million. Frandisco Property and Casualty Insurance Company also amended an unsecured revolving line of credit available to the Company for a maximum amount up to \$60.0 million. No borrowings have been utilized on either of these lines as of December 31, 2021.

At December 31, 2021, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$132.0 million and \$96.2 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company during 2022, without prior approval of the Georgia Insurance Commissioner, is approximately \$40.8 million. On November 30, 2021, Management submitted a request for approval of two separate transactions involving dividends and/or lines of credit with maximum amounts of \$75.0 million from Frandisco Life Insurance Company and \$95.0 million from Frandisco Property and Casualty Insurance Company. The request was approved by the Georgia Insurance Department on January 20, 2022 for transactions on or before December 31, 2022. Effective February 1, 2022, Frandisco Life Insurance Company amended its previous unsecured revolving line of credit available to the Company extending the term to December 31, 2025 and defining the interest rate as the rate of interest on outstanding balances as the prime rate of interest as published in the Wall Street Journal. Effective February 1, 2022, Frandisco Property and Casualty Insurance Company amended its previous unsecured revolving line of credit available to the Company extending the term to December 31, 2025 and defining the interest rate as the rate of interest on outstanding balances as the prime rate of interest as published in the Wall Street Journal.

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, N.A. This credit agreement (as amended, the "credit agreement") provides for borrowings or re-borrowings of up to \$230.0 million or 70% of the Company's net finance receivables (as defined in the credit agreement), whichever is less, subject to certain limitations, and all borrowings are secured by the finance receivables of the Company. At December 31, 2021 and 2020, \$60.3 million and \$118.9 million, respectively, were outstanding under the credit line. The credit agreement has a commitment termination date of February 28, 2024. 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 0.50%. The interest rate under the credit agreement is equivalent to the greater of (a) 0.75% per annum plus the Applicable Margin or (b) the one-month London Interbank Offered Rate (the "LIBOR Rate") plus the Applicable Margin. The Applicable Margin is 2.75%. 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 interest rate on the credit agreement at December 31, 2021 and 2020 was 3.50% and 3.50%, respectively.

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, 2021, 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 increase in the Company's allowance for credit 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 materially impact the Company's liquidity in the future.

During the first quarter of 2020 there was global outbreak of a new strain of coronavirus, COVID-19. Management created a COVID-19 Task Force to identify and manage potential impact to the Company. The Company will continue to adhere to mandates from federal, state, and/or local authorities regarding COVID-19 protocols. On March 11, 2021 the President signed the American Rescue Plan into law. Federal economic stimulus in the form of direct payments has been discontinued; however, the American Rescue Plan was designed to continue supporting Americans, businesses, and state and local governments. Federal stimulus programs provided to support an economy struggling to recover from the ongoing pandemic contributed to the decreased net charge offs.

The Company considered factors such as rising energy, food and services prices and the potential for further oil and commodity market disruptions from the Ukraine crisis. Given increased wages, savings rates, spending on luxury goods, and remote work capability, management anticipates the direct impact from recent gas prices will not be a significant factor in estimating expected losses. The Company also considered the potential impact of increased central bank interest rates. 1st Franklin loans are contracted at a fixed rate; therefore, borrowers will not be affected by rising interest rates. Further, the Company's historical loss history indicates that changes in central bank interest rates do not have a material direct impact to future loss rates.

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 credit losses, revenue recognition and insurance claims reserves.

Allowance for Credit Losses:

Effective January 1, 2020 the Company adopted ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") using the modified retrospective method for all financial assets measured at amortized cost. Provisions for credit losses are charged to operations in amounts sufficient to maintain the allowance for credit losses at a level considered adequate to cover expected credit losses in our loan portfolio.

The allowance for credit losses is established based on the determination of the amount of expected losses inherent in the loan portfolio as of the reporting date. Loans outstanding with similar risk characteristics are collectively evaluated in pools utilizing an open pool loss rate method, whereby a historical loss rate is calculated and applied to the balance of loans outstanding in the portfolio at each reporting period. This historical loss rate is then adjusted by a macroeconomic forecast and other qualitative factors, as appropriate, to fully reflect the expected losses in the loan portfolio.

product types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. However, to consider the impact of a hypothetical alternate economic forecast, Management estimated the allowance for credit losses using a scenario that increased forecasted loss rates by 1%. This unfavorable scenario resulted in an allowance for credit losses approximately \$8.3 million (12%) higher than the allowance using the expected scenario.

Assumptions regarding expected credit losses are reviewed periodically and may be impacted by the Company's 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 interest 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 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 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 interest method, depending on whether the amount of insurance coverage generally remains level or declines.

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: +1 404 631 2000
www.deloitte.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of 1st Franklin Financial Corporation:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated statements of financial position of 1st Franklin Financial Corporation and subsidiaries (the "Company") as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows, for each of the three years in the period ended December 31, 2021, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2021, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current-period audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses — Refer to Note 2 to the consolidated financial statements

Critical Audit Matter Description

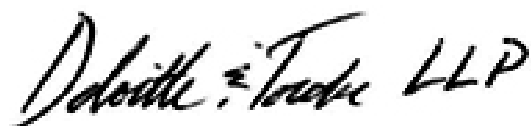
The Company estimates and records an allowance for credit losses based on the determination of the amount of expected losses inherent in the loan portfolio as of the reporting date. The Company calculates a snapshot of each specific loan segment at a point in history and tracks that loan segment's performance in the subsequent periods until losses are substantially exhausted to derive an unadjusted lifetime historical charge-off rate by loan segment. The Company performs a correlation analysis between macroeconomic factors and prior charge-offs and evaluates if the economic environment affecting their customer base has changed from historical levels. This includes considerations of historical loss trends, loan delinquency trends, bankruptcy trends and overall economic conditions.

We identified the allowance for credit losses estimate as a critical audit matter because of the significant amount of complexity and judgment required by management to develop the model and evaluate whether adjustments are necessary based on internal, external and macroenvironment trends. Performing audit procedures to evaluate the appropriateness of this model and whether adjustments are necessary required a high degree of auditor judgment and an increased extent of effort, specifically due to the effect of government stimulus on historical charge-off rates.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the allowance for credit losses included the following, among others:

- We tested the completeness and accuracy of selected data utilized to determine the unadjusted lifetime historical charge-off rate by segment of the loan portfolio.
- We evaluated the reasonableness of the Company's allowance for credit loss model and tested the model's computational accuracy by segment of the loan portfolio.
- We evaluated the reliability of the Company's internal and external data and forecasts.
- We also evaluated the reasonableness of any associated quantitative or qualitative adjustments by segment of the loan portfolio, including assessing the basis for the adjustments.
- We performed a retrospective review using charge-offs recorded during the year to create an expected allowance for credit losses and compared our expectation to the allowance for credit losses recorded as of the beginning of the year.



Atlanta, Georgia
March 31, 2022

We have served as the Company's auditor since 2002.

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020

ASSETS

	<u>2021</u>	<u>2020</u>
CASH AND CASH EQUIVALENTS (Note 1)	\$ 33,060,390	\$ 59,213,703
RESTRICTED CASH (Note 1)	<u>7,306,430</u>	<u>8,464,719</u>
LOANS (Note 2):		
Direct Cash Loans	873,432,972	777,568,737
Real Estate Loans	45,972,414	39,960,390
Sales Finance Contracts	<u>118,959,994</u>	<u>103,258,326</u>
	1,038,365,380	920,787,453
Less: Unearned Finance Charges	151,081,033	132,703,130
Unearned Insurance Premiums	69,124,817	61,018,635
Allowance for Credit Losses	<u>67,311,208</u>	<u>66,327,674</u>
	<u>750,848,322</u>	<u>660,738,014</u>
INVESTMENT SECURITIES (Note 3):		
Available for Sale, at fair value	261,601,925	221,054,418
Held to Maturity, at amortized cost	<u>-</u>	<u>379,002</u>
	<u>261,601,925</u>	<u>221,433,420</u>
OTHER ASSETS:		
Land, Buildings, Equipment and Leasehold Improvements, less accumulated depreciation and amortization of \$46,347,589 and \$42,447,600 in 2021 and 2020, respectively	12,265,626	13,577,945
Operating Lease Right-of-Use Assets (Note 8)	34,768,208	33,610,067
Deferred Acquisition Costs	4,221,480	3,625,611
Due from Non-affiliated Insurance Company	2,912,499	2,970,476
Other Miscellaneous	<u>11,237,055</u>	<u>10,022,417</u>
	<u>65,404,868</u>	<u>63,806,516</u>
TOTAL ASSETS	<u>\$1,118,221,935</u>	<u>\$1,013,656,372</u>

See Notes to Consolidated Financial Statements

DECEMBER 31, 2021 AND 2020

LIABILITIES AND STOCKHOLDERS' EQUITY

	<u>2021</u>	<u>2020</u>
SENIOR DEBT (Note 6):		
Bank Borrowings	\$ 60,300,000	\$ 118,900,000
Senior Demand Notes, including accrued interest	104,043,479	86,622,503
Commercial Paper	<u>552,192,882</u>	<u>432,273,538</u>
	<u>716,536,361</u>	<u>637,796,041</u>
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
Operating Lease Liabilities (Note 8).....	35,439,377	34,163,153
Other Accounts Payable and Accrued Expenses	<u>39,796,100</u>	<u>33,182,451</u>
	<u>75,235,477</u>	<u>67,345,604</u>
SUBORDINATED DEBT (Note 7)	<u>29,692,344</u>	<u>30,075,399</u>
 Total Liabilities	 <u>821,464,182</u>	 <u>735,217,044</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, 2021 and 2020	170,000	170,000
Non-Voting Shares; no par value;		
198,000 shares authorized; 168,300 shares		
outstanding as of December 31, 2021 and 2020	--	--
Accumulated Other Comprehensive Income	9,736,651	13,266,927
Retained Earnings	<u>286,851,102</u>	<u>265,002,401</u>
Total Stockholders' Equity	<u>296,757,753</u>	<u>278,439,328</u>
 TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	 <u>\$1,118,221,935</u>	 <u>\$1,013,656,372</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

	2021	2020	2019
INTEREST INCOME:			
Finance Charges	\$236,651,728	\$213,087,060	\$200,577,584
Net Investment Income	<u>7,457,734</u>	<u>6,882,483</u>	<u>7,353,236</u>
	<u>244,109,462</u>	<u>219,969,543</u>	<u>207,930,820</u>
INTEREST EXPENSE:			
Senior Debt	22,213,128	20,281,290	18,663,910
Subordinated Debt	<u>977,093</u>	<u>922,083</u>	<u>849,174</u>
	<u>23,190,221</u>	<u>21,203,373</u>	<u>19,513,084</u>
NET INTEREST INCOME	220,919,241	198,766,170	188,417,736
PROVISION FOR CREDIT LOSSES (Note 2)	<u>42,183,163</u>	<u>56,689,484</u>	<u>59,695,888</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>178,736,078</u>	<u>142,076,686</u>	<u>128,721,848</u>
NET INSURANCE INCOME:			
Premiums	53,231,581	49,780,940	49,355,186
Insurance Claims and Expense	<u>(17,516,066)</u>	<u>(15,489,876)</u>	<u>(13,451,858)</u>
	<u>35,715,515</u>	<u>34,291,064</u>	<u>35,903,328</u>
OTHER REVENUE	<u>6,921,120</u>	<u>5,419,562</u>	<u>6,046,716</u>
OPERATING EXPENSES:			
Personnel Expense	109,011,575	99,684,473	93,820,162
Occupancy Expense	17,382,787	17,568,423	18,167,252
Other Expense	<u>49,173,951</u>	<u>45,257,347</u>	<u>41,556,893</u>
	<u>175,568,313</u>	<u>162,510,243</u>	<u>153,544,307</u>
INCOME BEFORE INCOME TAXES	45,804,400	19,277,069	17,127,585
PROVISION FOR INCOME TAXES (Note 12)	<u>3,943,393</u>	<u>3,386,807</u>	<u>3,779,212</u>
NET INCOME	<u>\$ 41,861,007</u>	<u>\$ 15,890,262</u>	<u>\$ 13,348,373</u>
BASIC AND DILUTED EARNINGS PER SHARE:			
170,000 Shares Outstanding for All Periods (1,700 voting, 168,300 non-voting).....	<u>\$246.24</u>	<u>\$93.47</u>	<u>\$78.52</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Net Income	\$ 41,861,007	\$ 15,890,262	\$ 13,348,373
Other Comprehensive Income / (Loss):			
Net changes related to available-for-sale			
Securities:			
Unrealized (losses) gains	(3,858,538)	4,658,116	12,972,947
Income tax benefit (provision)	<u>816,053</u>	<u>(989,588)</u>	<u>(2,696,204)</u>
Net unrealized (losses) gains.....	<u>(3,042,485)</u>	<u>3,668,528</u>	<u>10,276,743</u>
Less reclassification of gains to			
net income	<u>487,791</u>	<u>16,447</u>	<u>269,918</u>
Total Other Comprehensive			
(Loss) Income	<u>(3,530,276)</u>	<u>3,652,081</u>	<u>10,006,825</u>
Total Comprehensive Income.....	<u>\$ 38,330,731</u>	<u>\$ 19,542,343</u>	<u>\$ 23,355,198</u>

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021, 2020, AND 2019

	<u>Common Stock</u> <u>Shares</u>	<u>Amount</u>	<u>Retained</u> <u>Earnings</u>	<u>Accumulated</u> <u>Other</u> <u>Comprehensive</u> <u>Income (Loss)</u>	<u>Total</u>
Balance at December 31, 2018	170,000	\$170,000	\$241,082,137	\$(391,979)	\$240,860,158
Comprehensive Income:					
Net Income for 2019	—	—	13,348,373	—	
Other Comprehensive Income	—	—	—	10,006,825	
Total Comprehensive Income	—	—	—	—	23,355,198
Distributions	—	—	(2,719,240)	—	(2,719,240)
Balance at December 31, 2019	170,000	170,000	251,711,270	9,614,846	261,496,116
Comprehensive Income:					
Net Income for 2020	—	—	15,890,262	—	
Other Comprehensive Income	—	—	—	3,652,081	
Total Comprehensive Income	—	—	—	—	19,542,343
Cumulative Change in Accounting					
Principal (Note 1)	—	—	(2,158,161)	—	(2,158,161)
Distributions	—	—	(440,970)	—	(440,970)
Balance at December 31, 2020	170,000	170,000	265,002,401	13,266,927	278,439,328
Comprehensive Income:					
Net Income for 2021	—	—	41,861,007	—	
Other Comprehensive Loss	—	—	—	(3,530,276)	
Total Comprehensive Income	—	—	—	—	38,330,731
Distributions	—	—	(20,012,306)	—	(20,012,306)
Balance at December 31, 2021	<u>170,000</u>	<u>\$170,000</u>	<u>\$286,851,102</u>	<u>\$9,736,651</u>	<u>\$296,757,753</u>

See Notes to Consolidated Financial Statements

1ST FRANKLIN FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

	2021	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net Income	\$ 41,861,007	\$ 15,890,262	\$ 13,348,373
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	42,183,163	56,689,484	59,695,888
Depreciation and amortization	4,629,756	4,837,876	4,906,380
Provision for deferred (prepaid) taxes	487,481	156,075	444,780
Net (gains) losses due to called redemptions of marketable securities, gain on sales of equipment and amortization on securities	(763,017)	(214,898)	(425,618)
Increase in miscellaneous assets and other	(1,634,447)	(2,409,367)	(1,758,206)
Increase in other liabilities	6,995,269	6,109,380	(2,051,933)
Net Cash Provided	<u>93,759,212</u>	<u>81,058,812</u>	<u>74,159,664</u>
CASH FLOWS FROM INVESTING ACTIVITIES:			
Loans originated or purchased	(588,636,277)	(516,978,375)	(540,426,634)
Loan payments	456,342,806	412,553,076	407,678,188
Purchases of securities, available for sale	(59,722,784)	(19,013,337)	(3,265,479)
Sales of securities, available for sale	—	—	14,873,211
Redemptions of securities, available for sale	15,905,000	7,220,000	9,145,000
Redemptions of securities, held to maturity	—	—	400,000
Capital expenditures	(3,339,606)	(3,022,147)	(5,047,495)
Proceeds from sale of equipment	35,088	67,462	132,478
Net Cash Used	<u>(179,415,773)</u>	<u>(119,173,321)</u>	<u>(116,510,731)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase in Senior Demand Notes	17,420,976	10,372,708	2,910,714
Advances on credit line	164,964,653	193,849,330	189,428,300
Payments on credit line	(223,564,653)	(186,299,330)	(131,258,300)
Commercial paper issued	161,768,917	139,155,810	76,624,561
Commercial paper redeemed	(41,849,573)	(110,373,572)	(46,936,830)
Subordinated debt issued	6,963,742	6,916,788	6,677,992
Subordinated debt redeemed	(7,346,797)	(5,846,413)	(7,943,418)
Dividends / distributions paid	(20,012,306)	(440,970)	(2,719,240)
Net Cash Provided	<u>58,344,959</u>	<u>47,334,351</u>	<u>86,783,779</u>
NET (DECREASE) INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(27,311,602)	9,219,842	44,432,712
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning	<u>67,678,422</u>	<u>58,458,580</u>	<u>14,025,868</u>
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, ending	<u>\$ 40,366,820</u>	<u>\$ 67,678,422</u>	<u>\$ 58,458,580</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Interest Paid	\$ 23,018,333	\$ 21,119,661	\$ 19,156,155
Income Taxes Paid	3,050,638	3,178,625	3,346,023
Adoption of ASC 842 - Lease Assets and Associated Liabilities	—	—	29,781,213

See Notes to Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2021, 2020 AND 2019

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 325 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, the credit unemployment 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.

Investment Securities. The fair value of investment 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 investment 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 investment securities and for information related to how these securities are valued.

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 the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could vary materially from these estimates.

Income Recognition:

The Company categorizes its primary sources of revenue into three categories: (1) interest related revenues, (2) insurance related revenue, and (3) revenue from contracts with customers.

- (1) Interest related revenues are specifically excluded from the scope of ASC 606 and accounted for under ASC Topic 310, "Receivables".
- (2) Insurance related revenues are subject to industry-specific guidance within the scope of ASC Topic 944, "Financial Services – Insurance" which remains unchanged.
- (3) Other revenues primarily relate to commissions earned by the Company on sales of auto club memberships. Auto club commissions are revenue from contracts with customers and are accounted for in accordance with the guidance set forth in ASC 606.

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 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 \$5,291,972 and \$5,361,761 at December 31, 2021 and 2020, 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, 2021, 2020, and 2019 was \$4,629,756, \$4,837,876 and \$4,906,380, respectively.

Restricted Cash:

Restricted cash consists of funds maintained in restricted accounts 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 real estate mortgage customers.

	Year Ended December 31,		
	(In thousands)		
	2021	2020	2019
Cash and cash equivalents	\$ 33,061	\$ 59,214	\$ 51,934
Restricted cash	7,306	8,465	6,525
Total cash, cash equivalents and restricted cash	<u>\$ 40,367</u>	<u>\$ 67,679</u>	<u>\$ 58,459</u>

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 was no impairment of the carrying value of the long-lived assets, including property and equipment at December 31, 2021 or 2020.

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, 2021 and December 31, 2020, 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, certain states do not recognize S Corporation status, and the Company has accrued amounts necessary to pay the required income taxes in such states.

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 Credit Losses.

Marketable Debt Securities:

Management has designated a significant portion of the Company's investment securities held in the Company's investment portfolio at December 31, 2021 and 2020 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.

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 June 2016, the FASB issued ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”). This ASU amends existing guidance that requires an incurred loss impairment methodology that delays recognition until it is probable a loss has been incurred. The new guidance requires measurement and recognition of an allowance for credit losses that estimates expected credit losses and applies to financial assets measured at amortized cost including financing receivables, as well as net investments in leases recognized by a lessor, off-balance sheet credit exposures and reinsurance recoverables. The ASU was effective for annual and interim periods beginning after December 15, 2019. The Company adopted this guidance as of January 1, 2020 using the modified retrospective approach. Transition to the new ASU was through a cumulative-effect adjustment to beginning retained earnings as of January 1, 2020. The following table illustrates the impact of adopting ASU 2016-13 and details how outstanding loan balances have been reclassified as a result of changes made to our primary portfolio segments under CECL.

Assets	As Reported Under ASC 326 (in 000's)	January 1, 2020	
		Pre-ASC 326 Adoption (in 000's)	Impact of ASC 326 Adoption (in 000's)
Loans:			
Live Checks	\$ 88,442	\$ -	\$ 88,442
Premier Loans	85,252	-	85,252
Other Consumer Loans	563,560	-	563,560
Real Estate Loans	37,255	-	37,255
Sales Finance Contracts	70,019	-	70,019
Total Portfolio Level	-	844,528	(844,528)
Unearned Finance Charges	118,748	118,748	-
Unearned Insurance Premiums & Comm.	57,620	57,620	-
Allowance for Credit Losses	55,158	53,000	2,158
Total Net	<u>\$613,002</u>	<u>\$615,160</u>	<u>\$ (2,158)</u>
Equity:			
Retained Earnings	<u>\$249,553</u>	<u>\$251,711</u>	<u>\$ (2,158)</u>

A cross-functional implementation team led by Finance and Accounting leadership was established to implement the new standard and develop a CECL compliant methodology and model. Under the Company's new model, loans with similar risk characteristics will be collectively evaluated in pools utilizing an open pool loss rate method, whereby a historical loss rate is calculated and applied to the balance of loans outstanding in the portfolio at each reporting period. This will then be adjusted utilizing a macroeconomic forecast and other qualitative factors, as appropriate, to fully reflect expected losses in the portfolio. The Company expects ongoing variability in the allowance for credit losses under this new standard to be driven primarily by the growth of the loan portfolio, ratio of types of loans in the portfolio, credit quality of customers and macroeconomic environment and outlook at each reporting period. See Note 2.

In March 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides optional accounting relief for the expected market transition from the use of the London Interchange Bank Offered Rate (“LIBOR”) to the proposed Secured Overnight Financing Rate (“SOFR”). The key provisions of optional relief include (1) accounting for contract modifications as a continuation of the existing contract without additional analysis and (2) continuing hedge accounting when certain critical terms of a hedging relationship change. The guidance in ASU No. 2020-04 will generally no longer be available to apply after December 31, 2022. There was no impact of ASU No. 2020-04 on the Company's consolidated financial statements, as the Company's loan agreements, where applicable, (note 6) provide for an Alternative Rate as published by the International Swaps and Derivatives Association and there were no contract modifications or amendments to the Company's loan agreements.

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.

Cash, unearned finance charges, origination fees, discounts, premiums, deferred fees, and, in the instance of a loan renewal, the net payoff of the of the renewed loan are included in the loan origination amount. The cash component of the loan origination is included in the Statement of Cash Flows in the Cash Flows from Investing Activities as Loans Originated or Purchased. **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, 2021 is as follows:

Due In Calendar Year	Direct Cash Loans	Real Estate Loans	Sales Finance Contracts
2022	51.52%	13.44%	33.24%
2023	29.88	9.56	28.01
2024	12.38	9.76	20.89
2025	4.79	9.69	12.80
2026	1.32	9.05	4.88
2027 & beyond .....	.11	48.50	.18
	<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.

Allowance for Credit Losses:

The allowance for credit losses is based on Management's evaluation of the inherent risks and changes in the composition of the Company's loan portfolio. The Company adopted ASU 2016-13, Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") effective January 1, 2020. Adoption of ASU 2016-13 resulted in a \$2.2 million one-time cumulative adjustment reducing retained earnings to increase the allowance for credit losses to forecast expected credit losses. Management estimates and evaluates the allowance for credit losses utilizing an open pool loss rate method on collectively evaluated loans with similar risk characteristics in segments, whereby a historical loss rate is calculated and applied to the balance of loans outstanding in the portfolio at each reporting date. This historical loss rate then may be adjusted by macroeconomic forecast and other qualitative factors, as appropriate, to fully reflect the Company's expected losses in its loan portfolio. The Company's allowance for credit losses recorded in the balance sheet reflects Management's best estimate of expected credit losses.

The Company calculates an expected credit loss by utilizing a snapshot of each specific loan segment at a point in history and tracing that segment's performance until charge-offs were substantially exhausted for that particular segment. Charge-offs in subsequent periods are aggregated to derive an unadjusted lifetime historical charge-off rate by segment. The level of receivables at the balance sheet date is reviewed and adjustments to the allowance for credit losses are made if Management determines increases or decreases in the level of receivables warrants an adjustment. The Company performs a correlation analysis between macroeconomic factors and prior charge-offs for the following macroeconomic factors: Annual Unemployment Rates, Real Gross Domestic Product, Consumer Price Index (CPI), and US National Home Price Index (HPI). To evaluate the overall adequacy of the Company's allowance for credit losses, Management considers the level of loan receivables, historical loss trends, loan delinquency trends, bankruptcy trends and overall economic conditions. Such allowance is, in the opinion of Management, sufficiently adequate for expected losses in the current loan portfolio. As the estimates used in determining the loan loss reserve 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 disaggregates the Company's loan portfolio by loan segment when evaluating loan performance and calculating the allowance for credit losses. Although most loans are similar in nature, the Company concluded that based on variations in loss experience (severity and duration) driven by product and customer type it is most relevant to segment the portfolio by loan product consisting of five different segments: live checks, premier loans, other consumer loans, real estate loans, and sales finance contracts.

The total segments are monitored for credit losses based on graded contractual delinquency and other economic conditions. The Company classifies delinquent accounts at the end of each month according to the Company's graded delinquency rules which includes the number of installments past due at that time, based on the then-existing terms of the contract. Accounts are classified in delinquency categories of 30-59 days past due, 60-89 days past due, or 90 or more days past due based on the Company's graded delinquency policy. When a loan meets the Company's charge-off policy, the loan 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 other indicators of collectability. The amount charged off is the unpaid balance less the unearned finance charges and the unearned insurance premiums, if applicable.

Management ceases accruing finance charges on loans that meet the Company's non-accrual policy based on graded delinquency rules, generally when two payments remain unpaid on precomputed loans or when an interest-bearing loan is 60 days or more past due. Finance charges are then only recognized to the extent there is a loan payment received or when the account qualifies for return to accrual status. Accounts qualify for return to accrual status when the graded delinquency on a precomputed loan is less than two payments and on an interest-bearing loan when it is less than 60 days past due. There were no loans past due 60 days or more and still accruing interest at December 31, 2021 or December 31, 2020. The Company's principal balances on non-accrual loans by loan class at December 31, 2021 and 2020 are as follows:

<u>Loan Class</u>	<u>December 31, 2021</u>	<u>December 31, 2020</u>
Live Check Consumer Loans	\$ 6,254,394	\$ 3,964,176
Premier Consumer Loans	2,253,818	2,069,315
Other Consumer Loans	25,229,846	20,181,097
Real Estate Loans	1,286,609	1,414,443
Sales Finance Contracts	<u>3,532,183</u>	<u>3,576,629</u>
Total	<u>\$ 38,556,850</u>	<u>\$ 31,205,660</u>

An age analysis of principal balances past due, segregated by loan class, as of December 31, 2021 and 2020 is as follows:

<u>December 31, 2021</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due Loans</u>
Live Check Loans	\$ 2,752,871	\$ 2,446,703	\$ 3,597,241	\$ 8,796,815
Premier Loans	915,525	554,662	1,260,027	2,730,215
Other Consumer Loans ..	15,190,957	9,270,399	18,579,878	43,041,233
Real Estate Loans	656,780	440,155	1,117,924	2,214,859
Sales Finance Contracts	<u>2,176,581</u>	<u>1,134,376</u>	<u>2,385,007</u>	<u>5,695,964</u>
Total	<u>\$ 21,692,714</u>	<u>\$ 13,846,295</u>	<u>\$ 26,940,077</u>	<u>\$ 62,479,086</u>

<u>December 31, 2020</u>	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days or More Past Due</u>	<u>Total Past Due Loans</u>
Live Check Loans	\$ 1,998,538	\$ 1,629,874	\$ 2,122,317	\$ 5,750,729
Premier Loans	895,722	653,370	1,038,398	2,587,490
Other Consumer Loans ..	14,419,790	8,496,082	14,933,605	37,849,477
Real Estate Loans	502,733	223,007	1,437,966	2,163,706
Sales Finance Contracts	<u>2,251,562</u>	<u>1,340,620</u>	<u>2,260,685</u>	<u>5,852,867</u>
Total	<u>\$ 20,068,345</u>	<u>\$ 12,342,953</u>	<u>\$ 21,792,971</u>	<u>\$ 54,204,269</u>

While delinquency rating analysis is the primary credit quality indicator, we also consider the ratio of bankrupt accounts to the total loan portfolio in evaluating whether any qualitative adjustments were

necessary to the allowance for credit losses. The ratio of bankrupt accounts to total principal loan balances outstanding at December 31, 2021 and December 31, 2020 was 1.27% and 1.48% respectively.

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For each segment in the portfolio, the Company also evaluates credit quality based on the aging status of the loan and by payment activity.

The following table presents the net balance (principal balance less unearned finance charges and unearned insurance) in each segment in the portfolio based on payment activity as of December 31, 2021:

	Payment Performance – Net Balance by Origination Year						Total Net Balance
	<u>2021(1)</u> (in 000's)	<u>2020</u> (in 000's)	<u>2019</u> (in 000's)	<u>2018</u> (in 000's)	<u>2017</u> (in 000's)	<u>Prior</u> (in 000's)	<u>(in 000's)</u>
Live Checks:							
Performing	\$ 99,457	\$ 11,966	\$ 2,145	\$ 234	\$ 28	\$ -	\$ 113,830
Nonperforming	<u>5,216</u>	<u>951</u>	<u>79</u>	<u>5</u>	<u>3</u>	<u>-</u>	<u>6,254</u>
	<u>\$ 104,673</u>	<u>\$ 12,917</u>	<u>\$ 2,224</u>	<u>\$ 239</u>	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ 120,084</u>
Premier Loans:							
Performing	\$ 72,754	\$ 21,215	\$ 7,311	\$ 1,992	\$ 272	\$ -	\$ 103,545
Nonperforming	<u>1,082</u>	<u>797</u>	<u>291</u>	<u>77</u>	<u>7</u>	<u>-</u>	<u>2,254</u>
	<u>\$ 73,836</u>	<u>\$ 22,012</u>	<u>\$ 7,602</u>	<u>\$ 2,069</u>	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ 105,798</u>
Other Consumer Loans:							
Performing	\$ 497,684	\$ 88,604	\$ 24,469	\$ 6,685	\$ 1,278	\$ 184	\$ 618,904
Nonperforming	<u>17,073</u>	<u>5,728</u>	<u>1,799</u>	<u>546</u>	<u>63</u>	<u>21</u>	<u>25,230</u>
	<u>\$ 514,757</u>	<u>\$ 94,332</u>	<u>\$ 26,268</u>	<u>\$ 7,231</u>	<u>\$ 1,341</u>	<u>\$ 205</u>	<u>\$ 644,134</u>
Real Estate Loans:							
Performing	\$ 18,061	\$ 7,857	\$ 6,728	\$ 4,941	\$ 2,838	\$ 3,230	\$ 43,655
Nonperforming	<u>245</u>	<u>208</u>	<u>335</u>	<u>199</u>	<u>99</u>	<u>200</u>	<u>1,286</u>
	<u>\$ 18,306</u>	<u>\$ 8,065</u>	<u>\$ 7,063</u>	<u>\$ 5,140</u>	<u>\$ 2,937</u>	<u>\$ 3,430</u>	<u>\$ 44,941</u>
Sales Finance Contracts:							
Performing	\$ 66,092	\$ 36,807	\$ 9,338	\$ 2,099	\$ 222	\$ 34	\$ 114,592
Nonperforming	<u>1,208</u>	<u>1,746</u>	<u>402</u>	<u>156</u>	<u>17</u>	<u>4</u>	<u>3,533</u>
	<u>\$ 67,300</u>	<u>\$ 38,553</u>	<u>\$ 9,740</u>	<u>\$ 2,255</u>	<u>\$ 239</u>	<u>\$ 38</u>	<u>\$ 118,125</u>

(1) Includes loans originated during the twelve-months ended December 31, 2021.

Due to the composition of the loan portfolio, the Company determines and monitors the allowance for credit losses on a portfolio segment basis. As of December 31, 2021, a historical look back period of five quarters was utilized for live checks; six quarters for other consumer loans, premier loans, and sales finance contracts; and a look back period of five years was utilized for real estate loans. Expected look back periods are determined based on analyzing the history of each segment's snapshot at a point in history and tracing performance until charge-offs are mostly exhausted. The Company addresses seasonality primarily through the use of an average in quarterly historical loss rates over a 4-quarter snapshot time span instead of using one specific snapshot quarter's historical loss rates.

Determining a proper allowance for credit 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, delinquency levels, bankruptcy trends and overall general and industry specific economic conditions.

The Company considered factors such as rising energy, food and services prices and the potential for further oil and commodity market disruptions from the Ukraine crisis. Given increased wages, savings rates, spending on luxury goods, and remote work capability, management anticipates the direct impact from recent gas prices will not be a significant factor in estimating expected losses. The Company also considered the potential impact of increased central bank interest rates. 1st Franklin loans are contracted at a fixed rate; therefore, borrowers will not be affected by rising interest rates. Further, the Company's historical loss history indicates that changes in central bank interest rates do not have a material direct impact to future loss rates.

However, management determined that certain snapshot periods included in the estimation model benefited from government stimulus actions and the benefit to loss rates from those stimulus actions is expected to continue to decline over time. 1st Franklin's expected credit loss model uses loss history from periods prior to government stimulus actions and from periods that may include the effect of government stimulus in estimating the allowance for expected credit losses. Based on the increased impact of periods that include the benefit of government stimulus on loss rates and the aforementioned

economic uncertainty, management concluded that an adjustment was required to sufficiently provide for expected credit losses. Management estimated an adjustment totaling \$6.9 million by incorporating pre-pandemic loss rates in the estimation model. The allowance for credit losses increased by \$1.0 million to \$67.3 million at December 31, 2021 compared to \$66.3 million at December 31, 2020.

Segmentation of the portfolio began with the adoption of ASC 326 on January 1, 2020. The following table provides additional information on our allowance for credit losses based on a collective evaluation.

2021						
	Live Checks (in 000's)	Premier Loans (in 000's)	Other Consumer Loans (in 000's)	Real Estate Loans (in 000's)	Sales Finance Contracts (in 000's)	Total (in 000's)
Allowance for Credit Losses:						
Balance at January 1, 2021	\$ 10,765	\$ 5,838	\$ 43,833	\$ 267	\$ 5,625	\$ 66,328
Provision for Credit Losses	8,170	3,343	27,198	24	3,448	42,183
Charge-offs	(11,324)	(3,823)	(41,534)	(31)	(4,950)	(61,662)
Recoveries	3,038	858	15,149	5	1,412	20,462
Ending Balance	<u>\$ 10,649</u>	<u>\$ 6,216</u>	<u>\$ 44,646</u>	<u>\$ 265</u>	<u>\$ 5,535</u>	<u>\$ 67,311</u>

2020						
	Live Checks (in 000's)	Premier Loans (in 000's)	Other Consumer Loans (in 000's)	Real Estate Loans (in 000's)	Sales Finance Contracts (in 000's)	Total (in 000's)
Allowance for Credit Losses:						
Balance at December 31, 2019	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,000
Impact of adopting ASC 326	-	-	-	-	-	2,158
Balance at January 1, 2020	\$ 8,177	\$ 4,121	\$ 39,180	\$ 169	\$ 3,511	\$ 55,158
Provision for Credit Losses	11,544	5,797	33,760	140	5,449	56,690
Charge-offs	(11,735)	(4,592)	(42,696)	(49)	(4,275)	(63,347)
Recoveries	2,779	512	13,589	7	940	17,827
Ending Balance	<u>\$ 10,765</u>	<u>\$ 5,838</u>	<u>\$ 43,833</u>	<u>\$ 267</u>	<u>\$ 5,625</u>	<u>\$ 66,328</u>

Nearly our entire loan portfolio consists of small homogeneous consumer loans (of the product types set forth in the table below). The principal balance is net of accrued interest, deferred fees, and deferred acquisition costs.

	Principal Balance	% Portfolio	Net Charge Offs	% Net Charge Offs
<u>December 31, 2021</u>				
Consumer Loans	\$ 870,018,568	84.2%	\$37,635,360	91.3%
Real Estate Loans	44,943,030	4.4	25,643	0.1
Sales Finance Contracts ..	118,124,535	11.4	3,538,625	8.6
Total	<u>\$1,033,086,133</u>	<u>100.0%</u>	<u>\$41,199,628</u>	<u>100.0%</u>

	Principal Balance	% Portfolio	Net Charge Offs	% Net Charge Offs
<u>December 31, 2020</u>				
Consumer Loans	\$ 775,713,298	84.5%	\$42,142,861	92.6%
Real Estate Loans	39,293,179	4.3	41,751	.1
Sales Finance Contracts ..	102,435,221	11.2	3,335,359	7.3
Total	<u>\$ 917,441,698</u>	<u>100.0%</u>	<u>\$45,519,971</u>	<u>100.0%</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, 2021.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Live Check Consumer Loans ...	2,303	\$ 4,357,450	\$ 4,265,687
Premier Consumer Loans	476	2,951,288	2,850,034
Other Consumer Loans	12,752	46,992,778	45,056,454
Real Estate Loans	28	346,960	346,735
Sales Finance Contracts	745	4,800,447	4,632,933
Total	<u>16,304</u>	<u>\$ 59,448,923</u>	<u>\$ 57,151,843</u>

TDRs that subsequently defaulted during the year ended December 31, 2021 are listed below.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>
Live Check Consumer Loans ...	844	\$ 1,568,070
Premier Consumer Loans	99	516,895
Other Consumer Loans	3,094	7,082,463
Real Estate Loans	-	-
Sales Finance Contracts	142	613,181
Total	<u>4,179</u>	<u>\$ 9,780,609</u>

The following table presents a summary of loans that were restructured during the year ended December 31, 2020.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Live Check Consumer Loans ...	2,127	\$ 3,688,912	\$ 3,588,117
Premier Consumer Loans	485	3,185,328	3,090,506
Other Consumer Loans	11,463	41,709,966	39,405,511
Real Estate Loans	39	465,759	453,611
Sales Finance Contracts	846	4,379,561	4,215,137
Total	<u>14,960</u>	<u>\$ 53,429,526</u>	<u>\$ 50,752,882</u>

TDRs that subsequently defaulted during the year ended December 31, 2020 are listed below.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>
Live Check Consumer Loans ...	787	\$ 1,248,879
Premier Consumer Loans	92	480,080
Other Consumer Loans	2,735	5,523,962
Real Estate Loans	4	27,476
Sales Finance Contracts	183	475,188
Total	<u>3,801</u>	<u>\$ 7,755,585</u>

The following table presents a summary of loans that were restructured during the year ended December 31, 2019.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>	Post-Modification Recorded <u>Investment</u>
Consumer Loans	18,680	\$ 55,198,024	\$ 52,873,724
Real Estate Loans	50	698,205	695,693
Sales Finance Contracts	870	3,226,704	3,086,441
Total	<u>19,600</u>	<u>\$ 59,122,933</u>	<u>\$ 56,655,858</u>

TDRs that subsequently defaulted during the year ended December 31, 2019 are listed below.

	Number of <u>Loans</u>	Pre-Modification Recorded <u>Investment</u>
Consumer Loans	5,854	\$ 10,583,099
Real Estate Loans	-	-
Sales Finance Contracts	<u>222</u>	<u>546,101</u>
Total	<u>6,076</u>	<u>\$ 11,129,200</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 credit losses.

3. INVESTMENT SECURITIES

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

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Estimated Fair <u>Value</u>
<u>December 31, 2021:</u>				
Obligations of states and political subdivisions	\$ 248,858,502	\$ 13,273,291	\$ (948,416)	\$ 261,183,377
Corporate securities	<u>130,316</u>	<u>288,232</u>	<u>-</u>	<u>418,548</u>
	<u>\$ 248,988,818</u>	<u>\$ 13,561,523</u>	<u>\$ (948,416)</u>	<u>\$ 261,601,925</u>
<u>December 31, 2020:</u>				
Obligations of states and political subdivisions	\$ 204,199,851	\$ 16,464,476	\$ (1,022)	\$ 220,663,305
Corporate securities	<u>130,316</u>	<u>260,797</u>	<u>-</u>	<u>391,113</u>
	<u>\$ 204,330,167</u>	<u>\$ 16,725,273</u>	<u>\$ (1,022)</u>	<u>\$ 221,054,418</u>

Investment 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 investment securities are as follows:

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Estimated Fair <u>Value</u>
<u>December 31, 2020:</u>				
Obligations of states and political subdivisions	<u>\$ 379,002</u>	<u>\$ 1,848</u>	<u>\$ -</u>	<u>\$ 380,850</u>

The amortized cost and estimated fair values of investment securities at December 31, 2021, by contractual maturity, are shown below:

	<u>Available for Sale</u>		<u>Held to Maturity</u>	
	Amortized <u>Cost</u>	Estimated Fair <u>Value</u>	Amortized <u>Cost</u>	Estimated Fair <u>Value</u>
Due in one year or less	\$ 390,316	\$ 678,883	\$ -	\$ -
Due after one year through five years .	5,434,529	5,516,281	-	-
Due after five years through ten years .	28,347,381	29,611,054	-	-
Due after ten years	<u>214,816,592</u>	<u>225,795,707</u>	<u>-</u>	<u>-</u>
	<u>\$ 248,988,818</u>	<u>\$261,601,925</u>	<u>\$ -</u>	<u>\$ -</u>

Gross unrealized losses on investment securities totaled \$948,416 and \$1,022 as of December 31, 2021 and December 31, 2020, respectively.

The following table provides an analysis of investment securities in an unrealized loss position.

December 31, 2021	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Fair</u>	<u>Total</u>
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>		<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Available for Sale:						
Obligations of states and political subdivisions	\$ 41,660,651	\$ (896,338)	\$ 652,921	\$ (52,078)	\$ 42,313,572	\$ (948,416)
December 31, 2020	<u>Less than 12 Months</u>		<u>12 Months or Longer</u>		<u>Fair</u>	<u>Total</u>
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>		<u>Unrealized</u>
	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>	<u>Value</u>	<u>Losses</u>
Available for Sale:						
Obligations of states and political subdivisions	\$ 920,927	\$ (1,022)	\$ -	\$ -	\$ 920,927	\$ (1,022)

The previous two tables represent 34 investments and 1 investment held by the Company at December 31, 2021 and 2020, respectively, the majority of which were rated “A+” or higher. The unrealized losses on the Company’s investments were the result of interest rate and market fluctuations. 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 Management concluded that an allowance for credit losses was not required at December 31, 2021 or at December 31, 2020.

There were no sales of securities during 2021. Proceeds from redemption of investments due to the exercise of call provisions by the issuers thereof and regularly scheduled maturities during 2021 were \$15,905,000. Gross and net gains of \$252,607 were realized on these redemptions.

There were no sales of securities during 2020. Proceeds from redemption of investments due to the exercise of call provisions by the issuers thereof and regularly scheduled maturities during 2020 were \$7,220,000. Gross and net gains of \$20,818 were realized on 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. The fair values of common stocks and mutual funds are based on unadjusted quoted market prices in active markets. 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, 2021 and 2020 are available-for-sale investment securities which are summarized below:

Fair Value Measurements at Reporting Date Using Quoted Prices				
Description	December 31, 2021	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate securities	\$ 418,548	\$ 418,548	\$ -	\$ -
Obligations of states and political subdivisions	261,183,377	-	261,183,377	-
Available-for-sale investment securities	\$261,601,925	\$ 418,548	\$261,183,377	\$ -

Fair Value Measurements at Reporting Date Using Quoted Prices				
Description	December 31, 2020	In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate securities	\$ 391,113	\$ 391,113	\$ -	\$ -
Obligations of states and political subdivisions	220,663,305	-	220,663,305	-
Available-for-sale investment securities	\$221,054,418	\$ 391,113	\$220,663,305	\$ -

5. INSURANCE SUBSIDIARY RESTRICTIONS

As of December 31, 2021 and 2020, 99% and 97%, respectively, of 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 life insurance subsidiary are subject to annual limitations and are restricted to the lesser of 10% of policyholders' surplus or the net statutory gain from operations before recognizing realized investment gains of the individual insurance subsidiary during the prior year. Dividend payments to the Company by its wholly-owned property and casualty insurance subsidiary are also subject to annual limitations and are restricted to the greater of 10% of policyholders' surplus or the net statutory income before recognizing realized investment gains of the individual insurance subsidiary during the prior three years. At December 31, 2020, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$121.8 million and \$91.6 million, respectively. The maximum aggregate amount of dividends these subsidiaries could pay to the Company during 2021, without prior approval of the Georgia Insurance Commissioner, was approximately \$38.7 million.

On December 2, 2020, the Company filed a request with the Georgia Insurance Department for approval of two separate transactions involving dividends and/or lines of credit with maximum amounts of \$70.0 million from the Company's life insurance subsidiary and \$90.0 million from the Company's property and casualty insurance company. The request was approved by the Georgia Insurance Department on January 8, 2021 for transactions on or before December 31, 2021. Effective January 8, 2021, Frandisco Life Insurance Company amended its previous unsecured revolving line of credit available to the Company for a maximum amount up to \$60.0 million. Frandisco Property and Casualty Insurance Company also amended an unsecured revolving line of credit available to the Company for a maximum amount up to \$60.0 million. No borrowings have been utilized on either of these lines as of December 31, 2021.

At December 31, 2021, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$132.0 million and \$96.2 million, respectively. The maximum aggregate amount of dividends these subsidiaries could pay to the Company during 2021, without prior approval of the Georgia Insurance Commissioner, is approximately \$40.8 million. On November 30, 2021, Management submitted a request for approval of two separate transactions involving dividends and/or lines of credit with maximum amounts of \$75.0 million from Frandisco Life Insurance Company and \$95.0 million from Frandisco Property and Casualty Insurance Company. The request was approved by the Georgia Insurance Department on January 20, 2022 for transactions on or before December 31, 2022.

6. 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 reborrowing's of up to \$230.0 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 \$169.7 million and \$111.1 million at December 31, 2021 and 2020, at an interest rate of 3.50%. At December 31, 2021, the Company had borrowings of \$60.3 million under the credit agreement. The Company had borrowings of \$118.9 under the credit agreement at December 31, 2020.

Available but unborrowed amounts under the credit agreement are subject to a periodic unused line fee of 0.50%. The interest rate under the credit agreement is equivalent to the greater of (a) 0.75% per annum plus the Applicable Margin or (b) the one month London Interbank Offered Rate (the "LIBOR Rate") plus the Applicable Margin. 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 Applicable Margin is 2.75%. The interest rate on the credit agreement at December 31, 2021 and 2020 was 3.50%.

The credit agreement has a commitment termination date of February 28, 2024. 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, a minimum EBITDA ratio and a minimum debt to equity ratio, among others. At December 31, 2021, 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 260 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:

Year Ended December 31	Weighted Average Interest Rate at End of Year	Maximum Amount Outstanding During Year	Average Amount Outstanding During Year	Weighted Average Interest Rate During Year ⁽¹⁾
(In thousands, except % data)				
2021:				
Bank Borrowings	3.50%	\$ 119,304	\$ 68,080	4.83%
Senior Demand Notes	1.91	103,979	95,143	1.90
Commercial Paper	3.46	550,929	491,431	3.48
All Categories	3.24	715,207	654,654	3.39
2020:				
Bank Borrowings	3.50%	\$ 123,256	104,206	4.38%
Senior Demand Notes	1.90	87,413	82,509	1.90
Commercial Paper	3.45	431,314	407,156	3.48
All Categories	3.25	636,784	593,871	3.42

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

	Weighted Average Interest Rate at End of Year	Maximum Amount Outstanding During Year (In thousands, except % data)	Average Amount Outstanding During Year	Weighted Average Interest Rate During Year ⁽¹⁾
<u>2019:</u>				
Bank Borrowings	4.45%	\$ 111,350	\$ 73,307	5.60%
Senior Demand Notes	1.89	76,204	73,498	1.87
Commercial Paper	3.47	402,651	389,597	3.38
All Categories	3.45	590,205	536,402	3.48

(1) Includes unused line fee and administrative fee

7. 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:

Weighted Average Interest Rate at End of Year			Weighted Average Interest Rate During Year		
<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
3.16%	3.10%	2.96%	3.12%	3.01%	2.81%

Maturity and redemption information relating to the Company's subordinated debt at December 31, 2021 is as follows:

	Amount Maturing or Redeemable at Option of Holder	
	Based on Maturity Date	Based on Interest Adjustment Period
2022	\$ 4,551,559	\$ 14,529,492
2023	6,816,867	8,784,519
2024	7,919,592	3,251,988
2025	10,404,326	3,126,345
	<u>\$ 29,692,344</u>	<u>\$ 29,692,344</u>

8. LEASES

The Company's operations are carried on in locations which are occupied under operating lease agreements. These lease agreements are recorded as operating lease right-of-use ("ROU") assets and operating lease liabilities. Total operating lease expense was \$8,724,532, \$8,376,222 and \$8,075,073 for the years ended December 31, 2021, 2020 and 2019, respectively. The Company's minimum aggregate future lease commitments at December 31, 2021 and 2020 are presented in the tables that follows.

ROU assets represent the Company's right to use an underlying asset during the lease term and the operating lease liabilities represent the Company's obligations for lease payments in accordance with the lease. Recognition of ROU assets and liabilities are recognized at the lease commitment based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the lease commitment date or adoption. Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy expense in the consolidated statement of income.

Remaining lease terms range from 1 to 10 years and typically include extension options. The Company's leases are not complex and do not contain residual value guarantees, variable lease payments, or significant assumptions or judgments made in applying the requirements of Topic 842. Operating leases with a term of 12 months or less are not recorded on the statement of financial condition and the related lease expense is recognized on a straight-line basis over the lease term.

The table below summarizes our lease expense and other information related to the Company's operating leases with respect to FASB ASC 842:

	Twelve Months Ended Dec. 31, 2021
Operating lease expense	\$ 7,499,568
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	7,381,898
Weighted-average remaining lease term – operating leases (in years)	7.05
Weighted-average discount rate – operating leases	4.47%

Lease Maturity Schedule as of December 31, 2021:	Amount
2022	\$ 7,260,471
2023	6,385,647
2024	5,604,799
2025	5,249,730
2026	4,696,343
2027 and beyond	11,956,205
Total	41,153,195
Less: Discount	(5,713,818)
Present Value of Lease Liability	<u>\$ 35,439,377</u>

	Twelve Months Ended Dec. 31, 2020
Operating lease expense	\$ 7,226,361
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	7,055,046
Weighted-average remaining lease term – operating leases (in years)	7.07
Weighted-average discount rate – operating leases	4.92%

Lease Maturity Schedule as of December 31, 2020:	Amount
2021	\$ 6,982,155
2022	6,444,448
2023	5,577,917
2024	4,846,460
2025	4,489,926
2026 and beyond	11,855,364
Total	40,196,270
Less: Discount	(6,033,117)
Present Value of Lease Liability	<u>\$ 34,163,153</u>

9. COMMITMENTS AND CONTINGENCIES

We conduct our lending operations under the provisions of various federal and state laws, implementing regulations, and insurance regulations. Changes in the current regulatory environment, or the interpretation or application of current regulations, could impact our business.

The Company is subject to various legal proceedings, claims and administrative proceedings arising in the ordinary course of business, some of which are expected to be covered by liability insurance. Management makes assumptions and estimates concerning the likelihood and amount of any potential loss relating to these matters using the latest information available. The Company records a liability for litigation if an unfavorable outcome is probable and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable and a reasonable estimate of the loss is a range, the Company accrues the best estimate within the range. If no amount within the range is a better estimate than any other amount, the Company accrues the minimum amount within the range. If an unfavorable outcome is probable but the amount of the loss cannot be reasonably estimated, the Company discloses the nature of the litigation and indicates that an estimate of the loss or range of loss cannot be made. If an unfavorable outcome is reasonably possible and the estimated loss is material, the Company discloses the nature and estimate of the possible loss of the litigation. The Company does not disclose information with respect to litigation where an unfavorable outcome is considered to be remote or where the estimated loss would not be material. Based on current expectations, such matters, both individually and in the aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

10. EMPLOYEE BENEFIT PLANS

The Company maintains a 401(k) plan, which is 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 2021, 2020 and 2019, the Company contributed \$2,574,754, \$2,505,468 and \$2,482,686, 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 leased a portion of its properties (see Note 8) for an aggregate of \$160,800 per year from certain officers or stockholders.

The Company has an outstanding loan to a real estate development partnership of which David Cheek (son of Ben F. Cheek, III) who beneficially owns 24.24% of the Company's voting stock, is a partner. The balance on this commercial loan (including principal and accrued interest) was \$1,841,381 at December 31, 2021. 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.

Certain directors, officers and stockholders have funds personally invested in the Company's debt securities. The rates on these debt securities are the same rates provided to other customers.

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 \$3,960 for interest accrued during 2021 was applied to the loan on December 31, 2021. No principal payments on this loan were made in 2021. The balance on this loan at December 31, 2021 was \$451,486. 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 certain states, which do 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.

We account for income taxes under the asset and liability method, which requires the recognition of Deferred Tax Assets, "DTAs", and Deferred Tax Liabilities, "DTLs", for the expected future tax consequences of events that have been included in the financial statements. Under this method, we determine DTAs and DTLs on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on DTAs and DTLs is recognized in income in the period that includes the enactment date.

We recognize DTAs to the extent that we believe that these assets are more likely than not to be realized. In making such a determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, carryback potential if permitted under the tax law, and results of recent operations. If we determine that we would be able to realize our DTAs in the future in excess of their net recorded amount, we would make an adjustment to the DTA valuation allowance, which would reduce the provision for income taxes.

We record uncertain tax positions in accordance with ASC 740 on the basis of a two-step process in which (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

We recognize interest and penalties related to unrecognized tax benefits, "UTBs", on the interest expense line and other expense line, respectively, in the accompanying consolidated statement of operations. Accrued interest and penalties are included on the related liability lines in the consolidated balance sheet.

The provision for income taxes for the years ended December 31, 2021, 2020 and 2019 is made up of the following components:

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Current – Federal	\$ 2,859,997	\$ 3,024,953	\$ 3,207,966
Current – State	<u>595,915</u>	<u>205,779</u>	<u>126,466</u>
Total Current	<u>3,455,912</u>	<u>3,230,732</u>	<u>3,334,432</u>
Deferred – Federal	<u>487,481</u>	<u>156,075</u>	<u>444,780</u>
Total Provision	<u>\$ 3,943,393</u>	<u>\$ 3,386,807</u>	<u>\$ 3,779,212</u>

Temporary differences create deferred federal tax assets and liabilities, which are detailed below as of December 31, 2021 and 2020. These amounts are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

As Of December 31, 2021

Deferred Tax Assets:	<u>2021</u>	<u>2020</u>
Unearned Premium Reserves	\$ 2,239,933	\$ 1,937,163
SPAE Capitalization	33,713	27,107
STAT & Tax Reserve	<u>671,836</u>	<u>551,919</u>
Total Deferred Tax Assets	<u>\$ 2,945,482</u>	<u>\$ 2,516,189</u>
Deferred Tax Liabilities:		
Insurance Commissions	(5,034,729)	(4,459,805)
Deferred Acquisition Cost Amortization	(1,637,230)	(1,336,728)
GAAP/STAT Premium Tax	(230,665)	(205,280)
Unrealized Loss (Gain) on		
Marketable Debt Securities	(2,588,224)	(3,457,325)
Other	<u>(69,944)</u>	<u>(53,948)</u>
Total Deferred Tax Liabilities	<u>(9,560,792)</u>	<u>(9,513,086)</u>
Net Deferred Tax Liability	<u>\$ (6,615,310)</u>	<u>\$ (6,996,897)</u>

The Company's effective tax rate for the years ended December 31, 2021, 2020 and 2019 is analyzed as follows.

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Statutory Federal income tax rate	21.0%	21.0%	21.0%
Tax effect of S corporation status	(11.3)	1.0	6.7
Tax exempt income	(2.4)	(5.5)	(6.4)
State income taxes	1.3	1.1	.5
Miscellaneous	<u>-</u>	<u>-</u>	<u>.3</u>
Effective Tax Rate	<u>8.6%</u>	<u>17.6%</u>	<u>22.1%</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 has eight divisions which comprise its operations: Division I through Division V, Division VII, Division VIII and Division IX. Each division consists of branch offices that are aggregated based on vice president responsibility and geographic location. Division I consists of offices located in South Carolina. Prior to 2020, offices in North Georgia comprised Division II, Division III consisted of offices in South Georgia and Division IX consisted of offices in West Georgia. Effective January 1, 2020, the Company geographically realigned the Georgia Divisions into Division II consisting of Middle Georgia, Division III consisting of South Georgia and Division IX consisting of North Georgia. Various branches were realigned in order to be in the appropriate geographic division. Division IV represents our Alabama offices, Division V represents our Mississippi offices, Division VII represents our Tennessee offices and Division VIII represents our Louisiana and Texas offices. The following division financial data has been retrospectively presented to give effect to the current structure. The change in the Georgia reporting structure had no impact on the previously reported consolidated results.

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 credit 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, 2021 followed by a reconciliation to consolidated Company data.

Year 2021	Division I	Division II	Division III	Division IV	Division V	Division VII	Division VIII	Division IX	Total
(In Millions)									
Revenues:									
Finance Charges Earned	\$ 34.7	\$ 31.6	\$ 32.9	\$ 38.4	\$ 25.2	\$ 24.7	\$ 20.4	\$ 28.7	\$ 236.6
Insurance Income	4.6	6.9	7.8	4.7	4.4	3.1	4.6	5.5	41.6
Other	<u>.1</u>	<u>1.0</u>	<u>1.0</u>	<u>1.4</u>	<u>.7</u>	<u>.7</u>	<u>.6</u>	<u>.9</u>	<u>6.4</u>
	<u>39.4</u>	<u>39.5</u>	<u>41.7</u>	<u>44.5</u>	<u>30.3</u>	<u>28.5</u>	<u>25.6</u>	<u>35.1</u>	<u>284.6</u>
Expenses:									
Interest Cost	3.1	3.3	3.4	3.9	2.3	2.4	2.3	3.0	23.7
Provision for Credit Losses ...	7.6	3.7	5.0	5.5	4.9	5.0	4.9	4.6	41.2
Depreciation .....	.3	.4	.4	.5	.5	.4	.4	.4	3.3
Other	<u>13.7</u>	<u>12.8</u>	<u>12.7</u>	<u>14.3</u>	<u>10.6</u>	<u>10.7</u>	<u>12.6</u>	<u>12.9</u>	<u>100.3</u>
	<u>24.7</u>	<u>20.2</u>	<u>21.5</u>	<u>24.2</u>	<u>18.3</u>	<u>18.5</u>	<u>20.2</u>	<u>20.9</u>	<u>168.5</u>
Division Profit	<u>\$ 14.7</u>	<u>\$ 19.3</u>	<u>\$ 20.2</u>	<u>\$ 20.3</u>	<u>\$ 12.0</u>	<u>\$ 10.0</u>	<u>\$ 5.4</u>	<u>\$ 14.2</u>	<u>\$ 116.1</u>
Division Assets:									
Net Receivables	\$ 110.9	\$ 117.9	\$ 119.7	\$ 144.8	\$ 86.3	\$ 86.5	\$ 84.7	\$ 104.0	\$ 854.8
Cash .....	.5	.6	.6	.7	.5	.4	.4	.4	4.1
Net Fixed Assets .....	.6	.6	.9	1.1	1.4	.9	1.0	.6	7.0
Other Assets	<u>3.4</u>	<u>4.7</u>	<u>4.5</u>	<u>5.7</u>	<u>3.6</u>	<u>4.0</u>	<u>4.3</u>	<u>4.5</u>	<u>34.7</u>
Total Division Assets	<u>\$ 115.3</u>	<u>\$ 123.8</u>	<u>\$ 125.7</u>	<u>\$ 152.3</u>	<u>\$ 91.8</u>	<u>\$ 91.8</u>	<u>\$ 90.4</u>	<u>\$ 109.5</u>	<u>\$ 900.6</u>

RECONCILIATION:

2021

(In Millions)

Revenues:

Total revenues from reportable divisions	\$ 284.6
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	7.5
Timing difference of insurance income allocation to divisions	11.6
Other revenues not allocated to divisions .....	.5
Consolidated Revenues (1)	<u>\$ 304.3</u>

Net Income:

Total profit or loss for reportable divisions	\$ 116.1
Corporate earnings not allocated	19.7
Corporate expenses not allocated	(90.0)
Consolidated Income Before Income Taxes	<u>\$ 45.8</u>

Assets:

Total assets for reportable divisions	\$ 900.6
Loans held at corporate level	2.3
Unearned insurance at corporate level	(39.0)
Allowance for credit losses at corporate level	(67.3)
Cash and cash equivalents held at corporate level	36.3
Investment securities at corporate level	261.6
Fixed assets at corporate level	5.2
Other assets at corporate level	18.5
Consolidated Assets	<u>\$ 1,118.2</u>

Note 1: Includes Finance Charge Income, Investment Income, Insurance Premium Revenues and Other Revenue.

Below is a performance recap of each of the Company's divisions for the year ended December 31, 2020 followed by a reconciliation to consolidated Company data.

Year 2020	Division I	Division II	Division III	Division IV	Division V	Division VII	Division VIII	Division IX	Total
(In Millions)									
Revenues:									
Finance Charges Earned.....	\$ 33.4	\$ 28.6	\$ 30.3	\$ 34.0	\$ 21.5	\$ 21.5	\$ 17.2	\$ 26.5	\$ 213.0
Insurance Income	4.8	6.7	8.3	4.2	3.8	3.2	3.8	5.3	40.1
Other.....	<u>.1</u>	<u>.8</u>	<u>1.0</u>	<u>1.1</u>	<u>.6</u>	<u>.5</u>	<u>.4</u>	<u>.7</u>	<u>5.2</u>
	<u>38.3</u>	<u>36.1</u>	<u>39.6</u>	<u>39.3</u>	<u>25.9</u>	<u>25.2</u>	<u>21.4</u>	<u>32.5</u>	<u>258.3</u>
Expenses:									
Interest Cost	3.0	3.1	3.2	3.6	2.0	2.2	1.7	2.8	21.6
Provision for Credit Losses...	8.5	4.7	6.0	6.6	4.4	5.9	4.5	4.9	45.5
Depreciation .....	.4	.4	.3	.5	.5	.5	.3	.5	3.4
Other	<u>13.5</u>	<u>12.8</u>	<u>12.9</u>	<u>14.3</u>	<u>10.4</u>	<u>10.2</u>	<u>10.6</u>	<u>13.1</u>	<u>97.8</u>
	<u>25.4</u>	<u>21.0</u>	<u>22.4</u>	<u>25.0</u>	<u>17.3</u>	<u>18.8</u>	<u>17.1</u>	<u>21.3</u>	<u>168.3</u>
Division Profit	<u>\$ 12.9</u>	<u>\$ 15.1</u>	<u>\$ 17.2</u>	<u>\$ 14.3</u>	<u>\$ 8.6</u>	<u>\$ 6.4</u>	<u>\$ 4.3</u>	<u>\$ 11.2</u>	<u>\$ 90.0</u>
Division Assets:									
Net Receivables	\$ 102.6	\$ 106.2	\$ 111.3	\$ 128.9	\$ 71.3	\$ 76.5	\$ 64.7	\$ 97.3	\$ 758.8
Cash .....	.5	.5	.7	.6	.5	.3	.4	.4	3.9
Net Fixed Assets .....	.7	.8	.9	1.4	1.6	1.2	.9	.9	8.4
Other Assets	<u>3.2</u>	<u>4.6</u>	<u>4.3</u>	<u>5.7</u>	<u>3.7</u>	<u>4.3</u>	<u>3.3</u>	<u>4.5</u>	<u>33.6</u>
Total Division Assets	<u>\$ 107.0</u>	<u>\$ 112.1</u>	<u>\$ 117.2</u>	<u>\$ 136.6</u>	<u>\$ 77.1</u>	<u>\$ 82.3</u>	<u>\$ 69.3</u>	<u>\$ 103.1</u>	<u>\$ 804.7</u>

RECONCILIATION:

2020

(In Millions)

Revenues:

Total revenues from reportable divisions	\$ 258.3
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	6.9
Timing difference of insurance income allocation to divisions	9.7
Other revenues not allocated to divisions	<u>.2</u>
Consolidated Revenues (1)	<u>\$ 275.2</u>

Net Income:

Total profit or loss for reportable divisions	\$ 90.0
Corporate earnings not allocated	16.8
Corporate expenses not allocated	<u>(87.5)</u>
Consolidated Income Before Income Taxes	<u>\$ 19.3</u>

Assets:

Total assets for reportable divisions	\$ 804.7
Loans held at corporate level	2.2
Unearned insurance at corporate level	(33.8)
Allowance for credit losses at corporate level	(66.3)
Cash and cash equivalents held at corporate level	63.8
Investment securities at corporate level	221.4
Fixed assets at corporate level	5.1
Other assets at corporate level	<u>16.6</u>
Consolidated Assets	<u>\$ 1,013.7</u>

Note 1: Includes Finance Charge Income, Investment Income, Insurance Premium Revenues and Other Revenue.

Below is a performance recap of each of the Company's divisions for the year ended December 31, 2019 followed by a reconciliation to consolidated Company data.

Year 2019	Division I	Division II	Division III	Division IV	Division V	Division VII	Division VIII	Division IX	Total
(In Millions)									
Revenues:									
Finance Charges Earned	\$ 32.3	\$ 27.2	\$ 28.8	\$ 32.4	\$ 19.0	\$ 18.8	\$ 15.9	\$ 26.0	\$ 200.4
Insurance Income	5.3	6.8	8.8	4.4	3.5	3.2	3.7	6.0	41.7
Other	<u>.1</u>	<u>1.0</u>	<u>1.1</u>	<u>1.1</u>	<u>.7</u>	<u>.5</u>	<u>.5</u>	<u>1.0</u>	<u>6.0</u>
	<u>37.7</u>	<u>35.0</u>	<u>38.7</u>	<u>37.9</u>	<u>23.2</u>	<u>22.5</u>	<u>20.1</u>	<u>33.0</u>	<u>248.1</u>
Expenses:									
Interest Cost	2.8	2.8	3.0	3.3	1.8	1.8	1.5	2.7	19.7
Provision for Credit Losses ...	8.4	5.7	6.8	8.2	5.0	5.9	4.1	5.6	49.7
Depreciation .....	.5	.4	.3	.5	.4	.4	.4	.5	3.4
Other	<u>13.3</u>	<u>12.5</u>	<u>13.0</u>	<u>14.2</u>	<u>10.3</u>	<u>9.8</u>	<u>10.1</u>	<u>12.9</u>	<u>96.1</u>
	<u>25.0</u>	<u>21.4</u>	<u>23.1</u>	<u>26.2</u>	<u>17.5</u>	<u>17.9</u>	<u>16.1</u>	<u>21.7</u>	<u>168.9</u>
Division Profit	<u>\$ 12.7</u>	<u>\$ 13.6</u>	<u>\$ 15.6</u>	<u>\$ 11.7</u>	<u>\$ 5.7</u>	<u>\$ 4.6</u>	<u>\$ 4.0</u>	<u>\$ 11.3</u>	<u>\$ 79.2</u>
Division Assets:									
Net Receivables	\$ 100.3	\$ 97.1	\$ 105.2	\$ 116.4	\$ 63.2	\$ 67.8	\$ 54.8	\$ 92.6	\$ 697.4
Cash .....	.2	.3	.4	.4	.3	.2	.2	.3	2.3
Net Fixed Assets	1.0	.9	.6	1.4	1.6	1.4	.9	1.3	9.1
Other Assets	<u>3.5</u>	<u>4.6</u>	<u>3.2</u>	<u>5.4</u>	<u>3.2</u>	<u>3.7</u>	<u>3.2</u>	<u>4.8</u>	<u>31.6</u>
Total Division Assets	<u>\$ 105.0</u>	<u>\$ 102.9</u>	<u>\$ 109.4</u>	<u>\$ 123.6</u>	<u>\$ 68.3</u>	<u>\$ 73.1</u>	<u>\$ 59.1</u>	<u>\$ 99.0</u>	<u>\$ 740.4</u>

RECONCILIATION:

2019

(In Millions)

Revenues:

Total revenues from reportable divisions	\$ 248.1
Corporate finance charges earned not allocated to divisions .....	.1
Corporate investment income earned not allocated to divisions	7.4
Timing difference of insurance income allocation to divisions	7.7
Other revenues not allocated to divisions .....	.0
Consolidated Revenues (1)	<u>\$ 263.3</u>

Net Income:

Total profit or loss for reportable divisions	\$ 79.2
Corporate earnings not allocated	15.2
Corporate expenses not allocated	(77.3)
Consolidated Income Before Income Taxes	<u>\$ 17.1</u>

Assets:

Total assets for reportable divisions	\$ 740.4
Loans held at corporate level	2.4
Unearned insurance at corporate level	(31.6)
Allowance for credit losses at corporate level	(53.0)
Cash and cash equivalents held at corporate level	56.1
Investment securities at corporate level	204.9
Fixed assets at corporate level	6.3
Other assets at corporate level	13.7
Consolidated Assets	<u>\$ 939.2</u>

RECONCILIATION:

Note 1: Includes Finance Charge Income, Investment Income, Insurance Premium Revenues and Other Revenue.

Directors

<u>Name</u>	<u>Principal Occupation, Title and Company</u>	<u>Director Since</u>
Ben F. Cheek, IV	Chairman of Board, 1 st Franklin Financial Corporation	2001
Ben F. Cheek, III	Chairman Emeritus, 1 st Franklin Financial Corporation	1967
Virginia C. Herring	President and Chief Executive Officer 1 st Franklin Financial Corporation	2020
A. Roger Guimond	Retired Executive Vice President and Chief Financial Officer, 1 st Franklin Financial Corporation	2004
James H. Harris, III	Retired Owner, Unichem Technologies, Inc. Retired Owner, Moonrise Distillery	2014
Jerry J. Harrison, Jr.	Chief Operating Officer Crider Foods, Inc.	2020
John G. Sample, Jr.	CPA	2004
C. Dean Scarborough	Retired Retail Business Owner	2004
Keith D. Watson	Chairman Bowen & Watson, Inc.	2004

Executive Officers

<u>Name</u>	<u>Position with Company</u>	<u>Position Since</u>
Ben F. Cheek, IV	Chairman of Board	2015
Virginia C. Herring	President and Chief Executive Officer	2015
A. Roger Guimond	Executive Vice President – Finance & Investor Relations (Retired Effective December 31, 2021.)	1991
Gary L. McQuain	Executive Vice President & Chief Operating Officer	2020
Todd S. Manke	Executive Vice President & Chief Risk Officer	2020
Brian J. Gyomory	Executive Vice President & Chief Financial Officer	2021
Karen S. O'Shields	Executive Vice President – Chief Learning Officer (Retired Effective December 31, 2021.)	2017
Charles E. Vercelli, Jr.	Executive Vice President – Governmental Affairs	2008
Daniel E. Clevenger, II	Executive Vice President - Compliance	2015
Joseph A. Shaw	Executive Vice President & Chief Information Officer	2018
Mark J. Scarpitti	Executive Vice President – General Counsel	2021
Lynn E. Cox	Vice President / Secretary & Treasurer	1989
Jeffrey R. Thompson	Executive Vice President – Human Resources	2015

CORPORATE INFORMATION

Corporate Offices
P.O. Box 880
135 East Tugalo Street
Toccoa, Georgia 30577
(706) 886-7571

Legal Counsel
Jones Day
Atlanta, Georgia

**Independent Registered Public
Accounting Firm**
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

DIVISION I – SOUTH CAROLINA

M. Summer Clevenger Vice President

Regional Operations Directors

Nicholas D. Blevins	Gerald D. Rhoden
Jenna L. Henderson	Gregory A. Shealy
Becki B. Lawhon	Louise S. Stokes
Tammy T. Lee	

DIVISION II – MIDDLE GEORGIA

Michael J. Whitaker Vice President

Regional Operations Directors

Janet R. Brownlee	James A. Mahaffey
Ronald E. Byerly	Deloris O'Neal
Diana L. Lewis	Harriet H. Welch

DIVISION III – SOUTH GEORGIA

Michael E. Shankles Vice President

Regional Operations Directors

Stacy M. Courson	Jeffrey C. Lee
William J. Daniel	Sylvia J. McClung
Deirdre A. Dunnam	Robert D. Whitlock

DIVISION IX – NORTH GEORGIA

Jennifer C. Purser Vice President

Regional Operations Directors

James D. Blalock	Sharon S. Langford
Kimberly L. Golka	Nokie Moore
Kevin M. Gray	F. Cliff Snyder

DIVISION IV – ALABAMA

Jerry W. Hughes Vice President

Regional Operations Directors

M. Peyton Givens	Johnny M. Olive
Tomerria S. Iser	Tonya Slaten
Jonathan M. Kendrick	Michael L. Spriggs
Jeffrey A. Lindberg	

DIVISION V – MISSISSIPPI

Marty B. Miskelly Vice President

Regional Operations Directors

Maurice J. Bize, Jr.	Chad H. Frederick
Carla A. Eldridge	Rebecca L. Holloway
Jimmy R. Fairbanks, Jr.	

DIVISION VII – TENNESSEE

Joseph R. Cherry Vice President

Regional Operations Directors

Brian M. Hill	William N. Murillo
Tammy R. Hood	Joshua C. Nickerson
J. Steven Knotts	Melissa D. Stewart

DIVISION VIII – LOUISIANA and TEXAS

John B. Gray Vice President

Regional Operations Directors

Sonya L. Acosta	Tabatha A. Green
Bryan W. Cook	Lauren M. Munoz
L. Christopher Deakle	Anthony B. Seney

HOME OFFICE ADMINISTRATION

James P. Smith	Senior Vice President – Branch Operations
Richard J. Brandt	Vice President – Internal Audit Secretary & Treasurer
Lynn E. Cox	Vice President – Investment Center
Angela C. Brock	Vice President – Compliance
Kenneth B. Proctor	Vice President – State Regulatory Compliance
Timothy E. Ott	Vice President – Information Technology Applications
Julie I. Baker	Vice President – Chief Information Security Officer

Virginia K Palmer	Vice President – Operations Administration
Brian D. Lingle	Vice President - Controller
Brian K. Davis	Vice President – Marketing
Edmund V. Tanner	Vice President – Real Estate Compliance
Valerie B. Younts	Vice President – Regulatory Counsel
Kristi M. Davis	Vice President – Enterprise Project Management



MCDONOUGH, GA

**2021 Ben F. Cheek, Jr.
Office Of The Year**



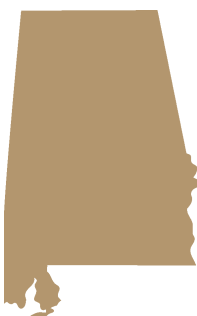
Pictured are employees of Branch 5729 McDonough, GA.

This award is presented annually in recognition of the office that represents the highest overall performance within the Company. Congratulations to the entire McDonough, 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	Mobile	Saraland
Albertville	Dothan (2)	Moody	Scottsboro
Alexander City	Enterprise	Moulton	Selma
Andalusia	Fayette	Muscle Shoals	Sylacauga
Arab	Florence	Opelika	Talladega
Athens	Fort Payne	Oxford	Tallassee
Bay Minette	Gadsden	Ozark	Troy
Bessemer	Hamilton	Pelham	Trussville
Brewton	Huntsville (2)	Prattville	Tuscaloosa
Clanton	Jackson	Robertsdale	Wetumpka
Cullman	Jasper	Russellville (2)	

GEORGIA



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

LOUISIANA



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

1ST FRANKLIN FINANCIAL CORPORATION BRANCH OFFICES

MISSISSIPPI



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

SOUTH CAROLINA



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

TENNESSEE



Athens	Dyersburg	Lafayette	Newport
Bristol	Elizabethton	LaFollette	Powell
Clarksville	Fayetteville	Lebanon	Pulaski
Cleveland	Gallatin	Lenoir City	Savannah
Columbia	Greeneville	Lexington	Sevierville
Cookeville	Hixson	Madisonville	Smyrna
Crossville	Jackson	Maryville	Tazewell
Dayton	Johnson City	Morristown	Tullahoma
Dickson	Kingsport	Murfreesboro	Winchester

TEXAS



Austin 1	Austin 2	Longview	Pasadena
Temple	Texarkana		



Mission Statement

Serving communities by offering opportunities to individuals and families through financial services.



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