

**1<sup>st</sup> Franklin Financial**



**ANNUAL REPORT**  
**2022**





# 2022 ANNUAL REPORT

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## THE COMPANY

1<sup>st</sup> 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, 2022, the business was operated through 119 branch offices in Georgia, 46 in Alabama, 43 in South Carolina, 40 in Mississippi, 40 in Tennessee, 36 in Louisiana, 12 in Texas, 6 in Kentucky, and 1 in Virginia. The Company had 1,575 employees as of December 31, 2022.

As of December 31, 2022, the resources of the Company were invested principally in loans, which comprised 69% 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](http://www.1FFC.com). The information posted on our website is not incorporated into this Annual Report.



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

Enclosed in this 2022 Annual Report, you will find the results of 1<sup>st</sup> Franklin Financial Corporation's accounting of another successful year, serving our customers and their communities. The financial strength that is represented by the accompanying financials, are highlighted by,

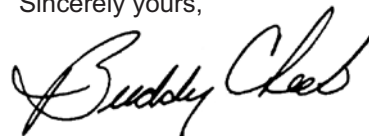
- \* Added 18 new branches, including adding two new states of Kentucky and Virginia (6 in Kentucky, 6 in Texas, 3 in Tennessee, 1 in Mississippi and 1 in Virginia)
- \* Grew our receivables \$53.7 million which was a 6.1% increase from the previous year.
- \* With the receivables growth we gained 35,985 accounts.
- \* 4 of our 8 Divisions converted to our new loan origination platform (all of Georgia and Alabama)
- \* Our Investment Center ended the year with approximately \$765.7 million in investments which was an increase of \$79.8 million over the previous year.

Something that you will not find in this Annual Report however, is the remarkable dedication, loyalty and resiliency of the 1<sup>st</sup> Franklin team when unexpected challenges are thrust upon them. We have lived through another year of the pandemic related to COVID-19 and vaccines and the growing worldwide immunity has allowed us to continue to adjust to our new normal. We are still challenged with natural disasters both personally and professionally. The landscape of our industry is ever changing with new regulations at both the state and federal levels requiring us to adjust our business model and philosophy. Economically, the rise in the cost of living, record high inflation, continuing softness in the labor market and the continuing supply chain disruptions have added to consumer anxiety. But through all of this adversity, our team smiled, extended a helping hand and provided credit when it was needed most. What played the biggest part of our successful year? LEADERSHIP. The right people in the right positions doing the right thing for the right reason. Without this vital component a successful year such as the one we are reporting for 2022 would have been difficult to accomplish.

Toward the end of 2022, 1<sup>st</sup> Franklin Financial endured a cyber-attack. As a result, our ability to do business was interrupted for a period of time and the attack prevented us from conducting business in a manner to which we were accustomed. The diligent efforts by the Information Technologies and Information Securities teams led by Alan Shaw and Julie Baker kept the communications within the Company flowing with information and timelines of how soon our branches would be securely online and making loans again. A perfect example of having the right people in the right places. In the aftermath of the attack, we analyzed and assessed how this event affected us and how we will strive to prevent future incidents, from hardware and software enhancements to increased storage security protocols. While no efforts can guarantee that we will not be the target of future cyber-attacks, we are confident that our enhanced cybersecurity procedures and safeguards will better serve our Company as we continue our business to help Families do Life.

FUTURE FOCUSED is our 2023 theme. We cannot change the past, only learn from it. We believe we have the best team in the consumer finance business. We are focused on continuing our expansion in Texas, Kentucky, and Virginia. We will continue to provide a professional and friendly customer experience by leveraging technology. We will strive each and every day to earn and maintain the confidence and trust of each 1<sup>st</sup> Franklin Financial investor and customer, and to respect each and every one of our team members, continuing the tradition of being the "Friendly Franklin Folks".

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.

1<sup>st</sup> 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, 2022, direct cash loans comprised 84%, real estate loans comprised 3% and sales finance contracts comprised 13% 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				
	2022	2021	2020	2019	2018
	(in thousands)				
Direct Cash Loans .....	\$ 240,542	\$ 213,527	\$ 192,976	\$ 185,631	\$ 161,337
Real Estate Loans .....	7,285	7,245	6,555	5,859	4,970
Sales Finance Contracts .....	19,137	15,880	13,556	9,088	6,497
Total Finance Charges .....	<u>\$ 266,964</u>	<u>\$ 236,652</u>	<u>\$ 213,087</u>	<u>\$ 200,578</u>	<u>\$ 172,804</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.

1<sup>st</sup> 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:

	As of December 31				
	2022	2021	2020	2019	2018
Direct Cash Loans .....	31.12 %	31.22 %	31.45 %	32.03 %	32.66 %
Real Estate Loans .....	17.48	17.33	17.16	17.36	17.55
Sales Finance Contracts .....	19.36	19.66	19.13	18.86	19.12

The following table contains certain information about our operations:

	As of December 31				
	2022	2021	2020	2019	2018
Number of Branch Offices .....	343	325	320	319	315
Number of Employees .....	1,575	1,442	1,476	1,513	1,488
Average Total Loans Outstanding Per Branch (in 000's) .....	\$ 3,177	\$ 3,176	\$ 2,860	\$ 2,647	\$ 2,328
Average Number of Loans Outstanding Per Branch .....	944	886	849	895	873

## DESCRIPTION OF LOANS

Loans outstanding on the Consolidated Statements of Financial Position ("Financial Gross Outstanding(s)") include principal, origination fees, premiums, discounts, and in the case of interest-bearing loans, deferred fees, other fees receivable, and accrued interest receivable.

Loan performance reporting is generally based on a loan's gross outstanding balance ("Gross Outstanding(s)", ("Gross Balance"), ("Gross Amount"), or ("Gross Loan") that includes principal plus origination fees for interest-bearing loans and the total of payments for loans with pre-computed interest.

## DESCRIPTION OF LOANS - Gross Amount

	Year Ended December 31				
	2022	2021	2020	2019	2018
<b>DIRECT CASH LOANS:</b>					
Number of Loans Made to New Borrowers	83,061	71,300	49,942	62,336	59,739
Number of Loans Made to Former Borrowers	96,435	59,225	55,088	65,452	64,727
Number of Loans Made to Present Borrowers	129,337	147,893	147,228	186,601	187,163
Total Number of Loans Made	308,833	278,418	252,258	314,389	311,629
Total Volume of Loans Made (in 000's)	\$ 1,049,088	\$ 1,048,154	\$ 891,358	\$ 953,356	\$ 895,904
Average Size of Loan Made	\$ 3,397	\$ 3,765	\$ 3,534	\$ 3,032	\$ 2,875
Number of Loans Outstanding	299,418	266,028	249,880	263,181	255,132
Total Loans Outstanding (in 000's)	\$ 911,822	\$ 873,433	\$ 777,569	\$ 737,255	\$ 651,085
Percent of Total Loans Outstanding	84%	84%	85%	87%	89%
Average Balance on Outstanding Loans	\$ 3,045	\$ 3,283	\$ 3,112	\$ 2,801	\$ 2,552

### REAL ESTATE LOANS:

Total Number of Loans Made	73	622	480	553	538
Total Volume of Loans Made (in 000's)	\$ 2,106	\$ 17,419	\$ 11,871	\$ 13,423	\$ 12,307
Average Size of Loan Made	\$ 28,845	\$ 28,005	\$ 24,731	\$ 24,273	\$ 22,876
Number of Loans Outstanding	1,690	2,034	1,880	1,812	1,666
Total Loans Outstanding (in 000's)	\$ 37,323	\$ 45,972	\$ 39,960	\$ 37,255	\$ 31,655
Percent of Total Loans Outstanding	3%	4%	4%	5%	4%
Average Balance on Outstanding Loans	\$ 22,085	\$ 22,602	\$ 21,256	\$ 20,560	\$ 19,001

### SALES FINANCE CONTRACTS:

Number of Contracts Purchased	12,812	11,515	14,556	18,081	17,185
Total Volume of Contracts Purchased (in 000's)	\$ 106,620	\$ 86,448	\$ 97,371	\$ 69,373	\$ 55,723
Average Size of Contract Purchased	\$ 8,322	\$ 7,507	\$ 6,689	\$ 3,837	\$ 3,243
Number of Contracts Outstanding	22,705	19,790	19,961	20,616	18,127
Total Contracts Outstanding (in 000's)	\$ 146,507	\$ 118,960	\$ 103,258	\$ 70,019	\$ 50,694
Percent of Total Loans Outstanding	13%	12%	11%	8%	7%
Average Balance on Outstanding Loans	\$ 6,453	\$ 6,011	\$ 5,173	\$ 3,396	\$ 2,797

## LOANS ORIGINATED, ACQUIRED, LIQUIDATED AND OUTSTANDING

	Year Ended December 31				
	2022	2021	2020	2019	2018
	(in thousands)				
GROSS AMOUNT OF LOANS ORIGINATED OR ACQUIRED					
Other Consumer (Live Check and Premier) New Loans .....	\$ 470,803	\$ 436,278	\$ 392,898	\$ 423,858	\$ 407,410
Other Consumer (Live Check and Premier) Loan Renewals .....	567,392	589,624	485,948	526,016	487,716
Real Estate Loans .....	2,106	17,345	11,846	13,423	12,307
Sales Finance Contracts .....	106,620	82,688	96,003	68,573	55,172
Net Bulk Purchases .....	10,893	26,086	13,905	4,282	1,329
Total Loans Originated / Acquired .....	<u>\$ 1,157,814</u>	<u>\$ 1,152,021</u>	<u>\$ 1,000,600</u>	<u>\$ 1,036,152</u>	<u>\$ 963,934</u>
GROSS AMOUNT LOANS LIQUIDATED *					
Other Consumer (Live Check and Premier) New Loans .....	\$ 483,042	\$ 398,846	\$ 382,952	\$ 403,655	\$ 373,160
Other Consumer (Live Check and Premier) Loan Renewals .....	526,315	553,444	468,091	463,531	412,039
Real Estate Loans .....	10,694	11,407	9,166	7,823	7,769
Sales Finance Contracts .....	79,146	70,746	64,132	50,048	39,344
Total Loans Liquidated .....	<u>\$ 1,099,197</u>	<u>\$ 1,034,443</u>	<u>\$ 924,341</u>	<u>\$ 925,057</u>	<u>\$ 832,312</u>
FINANCIAL GROSS OUTSTANDING OF LOANS AT YEAR END					
Direct Cash Loans .....	\$ 911,822	\$ 873,433	\$ 777,569	\$ 737,255	\$ 651,085
Real Estate Loans .....	37,323	45,972	39,960	37,255	31,655
Sales Finance Contracts .....	146,507	118,960	103,258	70,019	50,694
Total Loans Outstanding .....	<u>\$ 1,095,652</u>	<u>\$ 1,038,365</u>	<u>\$ 920,787</u>	<u>\$ 844,529</u>	<u>\$ 733,434</u>
FINANCIAL GROSS OF UNEARNED FINANCE CHARGES					
Direct Cash Loans .....	\$ 119,804	\$ 122,455	\$ 107,850	\$ 103,810	\$ 88,660
Real Estate Loans .....	—	—	6	28	41
Sales Finance Contracts .....	34,826	28,626	24,847	14,910	9,676
Total Unearned Finance Charges .....	<u>\$ 154,630</u>	<u>\$ 151,081</u>	<u>\$ 132,703</u>	<u>\$ 118,748</u>	<u>\$ 98,377</u>



## COMPONENTS OF GROSS LOAN LIQUIDATIONS

	2022	2021	2020	2019	2018
Customer Loan Payments .....	\$ 676,935	\$ 633,979	\$ 573,685	\$ 539,000	\$ 484,991
Other Consumer (Live Check and Premier) Loan Renewals* .....	313,843	332,292	280,199	313,726	292,385
Gross Charge offs .....	90,826	57,439	57,981	60,590	48,806
Refunds on precomputed finance charges .....	17,594	10,733	12,477	11,741	6,129
Total Loans Liquidated .....	<u>\$ 1,099,197</u>	<u>\$ 1,034,443</u>	<u>\$ 924,341</u>	<u>\$ 925,057</u>	<u>\$ 832,311</u>

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

Components of net loss/charge offs include the loan's amortized cost basis based on *ASC 326 Financial Instruments - Credit Losses*. The following are included in the Company's amortized cost basis:

- For pre-computed loans, the amortized cost basis includes the principal balance, fees, and accrued interest, less unearned finance charges and unearned insurance. As of December 31, 2022, the amount charged off related to the principal balance was \$64.8 million.
- For interest-bearing loans, the amortized cost basis includes the balance, fees, and accrued interest, net of unearned insurance. As of December 31, 2022, the amount charged off related to the principal balance was \$33.2 million.

## 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				
	2022	2021	2020	2019	2018
Number of Bankrupt Delinquency Resets .....	201	178	335	378	535

The Company tracks the dollar amount of loans in bankruptcy on which the delinquency rating was changed. During 2022 and 2021, the delinquency rating changed as a result of court-initiated repayment plans \$1.1 million and \$1.3 million, respectively. This represented approximately 0.10% and 0.14% of the average principal loan portfolios outstanding during 2022 and 2021, respectively.

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

		As of December 31				
		2022	2021	2020	2019	2018
		(in thousands, except % data)				
DIRECT CASH LOANS:						
60-89 Days Past Due .....	\$	20,199	\$ 12,272	\$ 10,779	\$ 11,619	\$ 9,541
Percentage of Principal Outstanding .....		2.22 %	1.41 %	1.39 %	1.58 %	1.47 %
90 Days or More Past Due .....	\$	37,465	\$ 23,437	\$ 18,094	\$ 24,972	\$ 20,261
Percentage of Principal Outstanding .....		4.12 %	2.69 %	2.33 %	3.40 %	3.12 %
REAL ESTATE LOANS:						
60-89 Days Past Due .....	\$	436	\$ 440	\$ 223	\$ 340	\$ 330
Percentage of Principal Outstanding .....		1.19 %	0.97 %	0.57 %	0.93 %	1.06 %
90 Days or More Past Due .....	\$	1,380	\$ 1,118	\$ 1,438	\$ 1,592	\$ 1,142
Percentage of Principal Outstanding .....		3.77 %	2.47 %	3.66 %	4.35 %	3.68 %
SALES FINANCE CONTRACTS:						
60-89 Days Past Due .....	\$	2,066	\$ 1,134	\$ 1,341	\$ 754	\$ 573
Percentage of Principal Outstanding .....		1.42 %	0.96 %	1.31 %	1.09 %	1.14 %
90 Days or More Past Due .....	\$	3,316	\$ 2,385	\$ 2,261	\$ 1,755	\$ 1,193
Percentage of Principal Outstanding .....		2.28 %	2.02 %	2.21 %	2.53 %	2.38 %

## LOSS EXPERIENCE

Net losses (charge-offs less recoveries) and the percent such net losses represent of average net loans (loan Gross Outstandings less unearned finance charges) and liquidations (loan payments, refunds on

Year Ended December 31				
2022	2021	2020	2019	2018
(in thousands, except % data)				

#### DIRECT CASH LOANS

Average Net Loans	\$ 782,093	\$ 691,635	\$ 577,978	\$ 586,765	\$ 500,754
Liquidations	\$ 1,009,357	\$ 952,290	\$ 851,044	\$ 867,185	\$ 785,199
Net Losses	\$ 70,567	\$ 37,635	\$ 42,143	\$ 47,228	\$ 37,131
Net Losses as % of Average Net Loans	9.02 %	5.44 %	7.29 %	8.05 %	7.42 %
Net Losses as % of Liquidations	6.99 %	3.95 %	4.95 %	5.45 %	4.73 %

#### REAL ESTATE LOANS

Average Net Loans	\$ 41,384	\$ 42,593	\$ 36,128	\$ 34,438	\$ 28,924
Liquidations	\$ 10,694	\$ 11,407	\$ 9,166	\$ 7,823	\$ 7,769
Net Losses	\$ 20	\$ 26	\$ 42	\$ 40	\$ 27
Net Losses as a % of Average Net Loans	0.05 %	0.06 %	0.12 %	0.12 %	0.09 %
Net Losses as a % of Liquidations	0.19 %	0.23 %	0.46 %	0.51 %	0.35 %

#### SALES FINANCE CONTRACTS

Average Net Loans	\$ 100,244	\$ 82,192	\$ 66,681	\$ 49,001	\$ 34,499
Liquidations	\$ 79,285	\$ 70,746	\$ 64,132	\$ 50,048	\$ 39,344
Net Losses	\$ 5,802	\$ 3,539	\$ 3,335	\$ 2,428	\$ 1,549
Net Losses as % of Average Net Loans	5.79 %	4.31 %	5.00 %	4.96 %	4.49 %
Net Losses as % of Liquidations	7.32 %	5.00 %	5.20 %	4.85 %	3.94 %

#### 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

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, 2022, the Company had 1,575 employees, located in Alabama, Georgia, Kentucky, Louisiana, Mississippi, South Carolina, Tennessee, Texas, and Virginia. 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				
	2022	2021	2020	2019	2018
Bank Borrowings .....	5.81 %	5.39 %	11.73 %	11.86 %	6.68 %
Senior Debt .....	63.37 %	58.69 %	51.19 %	51.08 %	56.15 %
Subordinated Debt .....	2.49 %	2.66 %	2.97 %	3.09 %	3.80 %
Other Liabilities .....	6.03 %	6.73 %	6.64 %	6.13 %	3.13 %
Stockholders' Equity .....	22.30 %	26.53 %	27.47 %	27.84 %	30.24 %
Total .....	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %
Number of Investors .....	4,809	4,713	4,543	4,555	5,163

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				
	2022	2021	2020	2019	2018
Senior Borrowings .....	3.50 %	3.39 %	3.42 %	3.48 %	2.92 %
Subordinated Borrowings .....	3.16 %	3.12 %	3.01 %	2.81 %	2.66 %
All Borrowings .....	3.49 %	3.38 %	3.40 %	3.44 %	2.90 %

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

	As of December 31				
	2022	2021	2020	2019	2018
Total Liabilities to					
Stockholders' Equity .....	3.48	2.77	2.64	2.59	2.31
Unsubordinated Debt to					
Subordinated Debt plus					
Stockholders' Equity .....	2.79	2.43	2.29	2.23	1.94

As of April 11, 2023, 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 \$102.86 and \$117.72 per share were paid to shareholders in 2022 and 2021, 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 2022 and 2021. 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 2020 results and year-to-year comparisons between 2021 and 2020 can be found in the Company's 2021 Annual Report filed as Exhibit 13 to the Company's Annual Report on Form 10-K which was filed with the SEC on March 31, 2022.

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 nine southeastern states and had a total of 343 branch locations at December 31, 2022. 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.

During the year ended December 31, 2022, the Company suffered a cyber-attack against certain systems within the Company's network environment on or about November 17, 2022. The attack temporarily affected operations and caused delays in originating and servicing loans at some locations. During the incident, the attackers had access to personally identifiable information of certain Company employees, customers, and investors. The incident, which only affected systems, was contained to the Company's onsite file directory system, but not its off-site core operating system. Full lending and investing operations were restored within days of the incident, and the Company provided notifications to all potentially-affected individuals. As of April 11, 2023, the Company is named as a Defendant in five consumer class action cases alleging harm from the cyber-attack. The Company maintained a cyber insurance policy that should mitigate the costs of investigation, remediation, business interruption, and costs pertaining to the breach.

### Financial Condition:

The Company's total assets increased \$44.7 million to \$1.2 billion as of December 31, 2022 compared to \$1.1 billion at December 31, 2021. The increase in assets was primarily due to growth in the Company's net loan portfolio, cash and cash equivalents, restricted cash and increases in other assets.

Cash and cash equivalents increased \$16.6 million at December 31, 2022 compared to December 31, 2021

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 \$15.8 million compared to \$7.3 million at December 31, 2021. See Note 3, "Investment Securities" in the accompanying "Notes to Consolidated Financial Statements" for further discussion of amounts held in trust.

Gross Loan originations increased \$5.8 million during 2022 compared to 2021. Our net loan portfolio increased \$49.4 million (7%) at December 31, 2022 compared to December 31, 2021. 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, 2022; 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 decreased \$41.6 million (16%) to \$220.0 million at December 31, 2022 compared to \$261.6 million at December 31, 2021. 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, 2022 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 \$11.8 million (18%) to \$77.2 million at December 31, 2022 compared to \$65.4 million at December 31, 2021. Increases in operating lease right-of-use assets, miscellaneous accounts receivables, deferred tax assets and prepaid expenses were main factors contributing to the increase in other assets. Offsetting a portion of the increase was a decline in amounts due from non-affiliated insurance company.

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, 2022 increased \$87.2 million (12%) to \$833.4 million compared to \$746.2 million outstanding at December 31, 2021. Higher sales of the Company's debt securities was the primary factor contributing to the increase. The line of credit usage increased \$7.2 million to \$67.5 million at December 31, 2022 due to portfolio growth.

Accounts payables and accrued expenses decreased \$5.1 million (7%) at December 31, 2022 compared to the prior year. The Company's incentive bonus accrual and change in deferred tax position from a deferred tax liability to a deferred tax asset were the primary factors causing the decrease in accrued expenses and other liabilities.

#### **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, 2022 and December 31, 2021, the Company had \$49.7 million and \$33.1 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, 2022 and 2021, 97% and 99%, 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 2022, without prior approval of the Georgia Insurance Commissioner, was approximately \$40.8 million.

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 in 2022 without prior approval of the Georgia Insurance Commissioner is approximately \$40.8 million. The Georgia Insurance Department approved the Company's request for transactions involving dividends and/or lines of credit of \$75.0 million for Frandisco Life Insurance Company and \$95.0 million for Frandisco Property and Casualty Insurance Company for transactions on or before December 31, 2022. Effective February 1, 2022, Frandisco Life Insurance Company and Frandisco Property and Casualty Insurance Company amended their respective \$60.0 million unsecured revolving lines of credit available to the Company to extend the term to December 31, 2025 and define the interest rate as the rate of interest on outstanding balances as the prime rate of interest as published in the Wall Street Journal.

At December 31, 2022, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$147.5 million and \$103.0 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company during 2023 without prior approval of the Georgia Insurance Commissioner, is approximately \$46.6 million. The Georgia Insurance Department approved the Company's request for transactions involving dividends and/or lines of credit of \$75.0 million for Frandisco Life Insurance Company and \$105.0 million for Frandisco Property and Casualty Insurance Company for transactions on or before December 31, 2023. Effective March 31, 2023, Frandisco Life Insurance Company amended its previous unsecured revolving line of credit increasing the amount available to the Company to \$75.0 million and extending the term to December 31, 2026. Effective March, 2023, Frandisco Property and Casualty Insurance Company amended its previous unsecured revolving line of credit increasing the amount available to the Company to \$105.0 million and extending the term to December 31, 2026.

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, 2022 and 2021, \$67.5 million and \$60.3 million, respectively, were outstanding under the credit line. The credit agreement has a commitment termination date of February

28, 2025. 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 secured overnight financing rate (the "SOFR Rate") plus the term SOFR adjustment (the "Adjusted Term SOFR Rate") plus the Applicable Margin. The Adjusted Term SOFR Rate is adjusted on the first day of each calendar month based upon the SOFR 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, 2022 and 2021 was 6.97% 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.

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.

### **Results of Operations:**

Total revenues, which include finance charge income, investment income, insurance income and miscellaneous other revenue, were \$339.0 million and \$304.3 million for 2022 and 2021, respectively. The aforementioned growth in our loan portfolio resulted in higher revenue across all categories.

Provision expense for credit losses increased \$42.1 million (100%) during 2022 compared to 2021 due to higher net charge offs and an increase to the allowance for credit losses.

Higher revenues were offset by increases in provision expense, interest expense, personnel expense, travel expense and information technology and security expenses resulted in decreased net income for the Company during the year just ended. Net income decreased \$25.7 million (61%) to \$16.2 million during 2022 compared to \$41.9 million during 2021.

### **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.

Daily average Gross Outstanding less unearned finance was \$913.5 million during 2022 compared to \$806.6 million during 2021. Net finance charge income was \$267.0 million during 2022, compared to \$236.7 million in 2021.

As previously mentioned, higher sales of the Company's debt securities and an increase in borrowings on the Company's credit line resulted in an increase in senior and subordinated debt. The increase in senior and subordinated debt coupled with rising interest rates resulted in higher cost of funds. Average borrowings were \$795.9 million during 2022 compared to \$686.0 million during 2021. Interest expense increased \$4.7 million (20%) during 2022 compared to 2021.

#### ***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 \$39.8 million during 2022 and \$35.7 million during 2021. Net insurance income increased 11% with premium and commission revenue growth at 7% while claims and expenses decreased 2% during 2022.

#### ***Other Revenue:***

Other revenue was \$6.8 million and \$6.9 million during 2022 and 2021. 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 was the primary factor 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.

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 Gross Loan portfolio greater than 30 days delinquent is 9.44% at December 31, 2022 compared to 6.04% at December 31, 2021. The ratio of bankrupt accounts to the Gross Balance of loans was 1.25% and 1.27% at December 31, 2022 and December 31, 2021, respectively.

Management considers recent economic factors in its analysis. The central bank raised the Fed Funds Rate thought 2022 to ease inflation. Despite the central bank's efforts prices of consumer goods have increased, although energy prices appear to have stabilized. Unemployment remains near historic lows at 3.6% in February. Recently two banks failed, one of which is the second largest bank to fail in history. It has been reported that the central bank's rate hikes contributed to the failure the banks. Ultimately, it creates turmoil in the economy.

The Company's core model continues to be influenced by charge off rates experienced while the government provided economic stimulus to assistance Americans during the COVID-19 pandemic. A qualitative adjustment for economic uncertainty was calculated by considering emerging credit loss rates on more recent pools. Management calculated a qualitative adjustment totaling \$13.2 million by incorporating emerging post pandemic pool loss rates in an estimation model. The allowance for credit losses increased by \$2.0 million and \$7.9 million to \$75.2 million for the quarter, and year ended December 31, 2022.



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, 2022; 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 \$189.1 million during 2022 compared to \$175.6 million during 2021. Personnel expense, occupancy expense and miscellaneous other expenses are the components included in operating expenses.

Personnel expense increased \$4.7 million (4%) during 2022 compared to 2021 mainly due to merit salary increases, and an increase in base employment.

Occupancy expense increased \$0.8 million (5%) during 2022 compared to 2021. Higher maintenance expenses and rent expense were the contributing factors to the increase in occupancy expense.

Other operating expenses increased \$8.0 million (16%) during 2022 compared to 2021. Increases in consultant fees, postage, software conversion costs, advertising, and traveling costs contributed to the growth in other operating expenses.

### **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, 2022 and 2021 were 21.5% and 8.6%, 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, 2022. 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							
	2023	2024	2025	2026	2027	2028 & Beyond	Total	Fair Value
Assets:	(Dollars in millions)							
Investment Securities.....	\$ 1	\$ —	\$ —	\$ 1	\$ 2	\$ 216	\$ 220	\$ 220
Average Interest Rate .....	3.02%	—%	—%	4.07%	3.95%	3.17%	3.07%	
Liabilities:								
Senior Debt:								
Note Payable to Bank .....	\$ —	\$ —	\$ 68	\$ —	\$ —	\$ —	\$ 68	\$ 68
Average Interest Rate .....	— %	— %	6.97 %	— %	— %	— %	6.97 %	
Senior Demand Notes .....	\$ 112	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 112	\$ 112
Average Interest Rate .....	1.92 %	— %	— %	— %	— %	— %	1.92 %	
Commercial Paper .....	\$ 625	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 625	\$ 625
Average Interest Rate .....	3.94 %	— %	— %	— %	— %	— %	3.94 %	
Subordinated Debentures .....	\$ 2	\$ 6	\$ 12	\$ 11	\$ —	\$ —	\$ 29	\$ 29
Average Interest Rate .....	2.69 %	2.98 %	3.33 %	3.53 %	— %	— %	3.29 %	

### 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.

### Revenue Recognition:

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

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

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

The property and casualty credit insurance policies written by the Company, as agent for 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.

***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.

## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

### To the Shareholders and 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 1<sup>st</sup> Franklin Financial Corporation and subsidiaries (the "Company") as of December 31, 2022 and 2021, 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, 2022, 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, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, in conformity with accounting principles generally accepted in the United States of America.

#### Basis of 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*

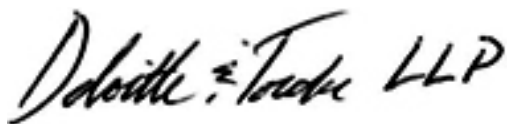
The Company estimates and records an allowance for credit losses based on the determination of the amount of expected losses inherent in the loan portfolio as of the reporting date. The Company calculates a snapshot of each specific loan segment at a point in history and tracks that loan segment's performance 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 its 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 macro environmental 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 uncertainty in consumer payment patterns and general economic conditions on the estimate.

### *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 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 with the assistance of our credit specialists.
- 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.



Atlanta, Georgia  
April 11, 2023

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

**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

**ASSETS**

	2022	2021
CASH AND CASH EQUIVALENTS (Note 1) .....	\$ 49,652,729	\$ 33,060,390
RESTRICTED CASH (Note 1) .....	15,781,499	7,306,430
LOANS (Note 2):		
Direct Cash Loans .....	911,821,593	873,432,972
Real Estate Loans .....	37,323,155	45,972,414
Sales Finance Contracts .....	146,507,130	118,959,994
	<u>1,095,651,878</u>	<u>1,038,365,380</u>
Less: Unearned Finance Charges .....	154,630,023	151,081,033
Unearned Insurance Premiums .....	65,536,077	69,124,817
Allowance for Credit Losses .....	75,210,063	67,311,208
	<u>800,275,715</u>	<u>750,848,322</u>
INVESTMENT SECURITIES (Note 3):		
Available for Sale, at fair value .....	220,028,343	261,601,925
OTHER ASSETS:		
Land, Buildings, Equipment and Leasehold Improvements, less accumulated depreciation and amortization of \$50,116,238 and \$46,347,589 in 2022 and 2021, respectively .....	13,111,394	12,265,626
Operating Lease Right-of-Use Assets (Note 8) .....	38,153,238	34,768,208
Deferred Acquisition Costs .....	3,768,290	4,221,480
Due from Non-affiliated Insurance Company .....	—	2,912,499
Other Miscellaneous .....	22,153,048	11,237,055
	<u>77,185,970</u>	<u>65,404,868</u>
<b>TOTAL ASSETS .....</b>	<b><u>\$ 1,162,924,256</u></b>	<b><u>\$ 1,118,221,935</u></b>

See Notes to Consolidated Financial Statements

**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**DECEMBER 31, 2022 AND 2021**

**LIABILITIES AND STOCKHOLDERS' EQUITY**

	2022	2021
SENIOR DEBT (Note 6):		
Bank Borrowings .....	\$ 67,531,000	\$ 60,300,000
Senior Demand Notes, including accrued interest .....	112,325,674	104,043,479
Commercial Paper .....	624,585,553	552,192,882
	<u>804,442,227</u>	<u>716,536,361</u>
ACCOUNTS PAYABLE AND ACCRUED EXPENSES:		
Operating Lease Liabilities (Note 8) .....	39,019,208	35,439,377
Other Accounts Payable and Accrued Expenses .....	31,163,971	39,796,100
	<u>70,183,179</u>	<u>75,235,477</u>
SUBORDINATED DEBT (Note 7) .....	29,005,826	29,692,344
Total Liabilities .....	<u>903,631,232</u>	<u>821,464,182</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, 2022 and 2021 .....	170,000	170,000
Non-Voting Shares; no par value; 198,000 shares authorized; 168,300 shares outstanding as of December 31, 2022 and 2021 .....	—	—
Accumulated Other Comprehensive (Loss) Income .....	(26,401,816)	9,736,651
Retained Earnings .....	285,524,840	286,851,102
Total Stockholders' Equity .....	<u>259,293,024</u>	<u>296,757,753</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY .....	<u>\$1,162,924,256</u>	<u>\$1,118,221,935</u>

See Notes to Consolidated Financial Statements



**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**

	2022	2021	2020
INTEREST INCOME:			
Finance Charges .....	\$ 266,963,826	\$ 236,651,728	\$ 213,087,060
Net Investment Income .....	8,177,846	7,457,734	6,882,483
	<u>275,141,672</u>	<u>244,109,462</u>	<u>219,969,543</u>
INTEREST EXPENSE:			
Senior Debt .....	26,875,546	22,213,128	20,281,290
Subordinated Debt .....	971,958	977,093	922,083
	<u>27,847,504</u>	<u>23,190,221</u>	<u>21,203,373</u>
NET INTEREST INCOME .....	247,294,168	220,919,241	198,766,170
PROVISION FOR CREDIT LOSSES (Note 2) .....	<u>84,287,916</u>	<u>42,183,163</u>	<u>56,689,484</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES .....	<u>163,006,252</u>	<u>178,736,078</u>	<u>142,076,686</u>
NET INSURANCE INCOME:			
Premiums .....	56,984,335	53,231,581	49,780,940
Insurance Claims and Expense .....	(17,164,735)	(17,516,066)	(15,489,876)
	<u>39,819,600</u>	<u>35,715,515</u>	<u>34,291,064</u>
OTHER REVENUE .....	<u>6,831,179</u>	<u>6,921,120</u>	<u>5,419,562</u>
OPERATING EXPENSES:			
Personnel Expense .....	113,732,789	109,011,575	99,684,473
Occupancy Expense .....	18,173,248	17,382,787	17,568,423
Other Expense .....	57,173,463	49,173,951	45,257,347
	<u>189,079,500</u>	<u>175,568,313</u>	<u>162,510,243</u>
INCOME BEFORE INCOME TAXES .....	20,577,531	45,804,400	19,277,069
PROVISION FOR INCOME TAXES (Note 12) .....	<u>4,417,904</u>	<u>3,943,393</u>	<u>3,386,807</u>
NET INCOME .....	<u>\$ 16,159,627</u>	<u>\$ 41,861,007</u>	<u>\$ 15,890,262</u>
BASIC EARNINGS PER SHARE:			
170,000 Shares Outstanding for All Periods (1,700 voting,			
168,300 non-voting) .....	<u>\$ 95.06</u>	<u>\$ 246.24</u>	<u>\$ 93.47</u>

See Notes to Consolidated Financial Statements

**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**

	2022	2021	2020
Net Income .....	\$ 16,159,627	\$ 41,861,007	\$ 15,890,262
Other Comprehensive Income / (Loss):			
Net changes related to available-for-sale Securities:			
Unrealized (losses) gains .....	(45,165,474)	(3,858,538)	4,658,116
Income tax benefit (provision) .....	9,479,082	816,053	(989,588)
Net unrealized (losses) gains .....	(35,686,392)	(3,042,485)	3,668,528
Less reclassification of gains to net income .....	452,074	487,791	16,447
Total Other Comprehensive Income (Loss) .....	(36,138,467)	(3,530,276)	3,652,081
Total Comprehensive Income (Loss) .....	<u>\$ (19,978,840)</u>	<u>\$ 38,330,731</u>	<u>\$ 19,542,343</u>

See Notes to Consolidated Financial Statements

**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021, AND 2020**

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Amount			
<b>Balance at December 31, 2019</b> .....	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 Principle (Note 1) .....	—	—	(2,158,161)	—	(2,158,161)
Cash Distributions Paid .....	—	—	(440,970)	—	(440,970)
<b>Balance at December 31, 2020</b>	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
Cash Distributions Paid .....	—	—	(20,012,306)	—	(20,012,306)
<b>Balance at December 31, 2021</b> .....	170,000	\$ 170,000	\$ 286,851,102	\$ 9,736,651	\$ 296,757,753
Comprehensive Income:					
Net Income for 2022 .....	—	—	16,159,627	—	
Other Comprehensive Loss .....	—	—	—	(36,138,467)	
Total Comprehensive Loss .....	—	—	—	—	(19,978,840)
Cash Distributions Paid .....	—	—	(17,485,889)	—	(17,485,889)
<b>Balance at December 31, 2022</b> .....	170,000	\$ 170,000	\$ 285,524,840	\$ (26,401,816)	\$ 259,293,024

See Notes to Consolidated Financial Statements

**1st FRANKLIN FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**

	2022	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Net Income .....	\$ 16,159,627	\$ 41,861,007	\$ 15,890,262
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses .....	84,287,916	42,183,163	56,689,484
Depreciation and amortization .....	4,425,985	4,629,756	4,837,876
Deferred tax expense (benefit) .....	(151,474)	487,481	156,075
Net (gains) losses due to called redemptions of marketable securities, gain on sales of equipment and amortization on securities .....	(830,011)	(763,017)	(214,898)
Increase in miscellaneous assets and other .....	(7,430,995)	(1,634,447)	(2,409,367)
Increase in other liabilities .....	1,125,774	6,995,269	6,109,380
Net Cash Provided .....	<u>97,586,822</u>	<u>93,759,212</u>	<u>81,058,812</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Loans originated or purchased .....	(602,792,430)	(588,636,277)	(516,978,375)
Loan payments .....	469,077,122	456,342,806	412,553,076
Purchases of securities, available for sale .....	(30,156,252)	(59,722,784)	(19,013,337)
Redemptions of securities, available for sale .....	26,815,000	15,905,000	7,220,000
Capital expenditures .....	(5,219,242)	(3,339,606)	(3,022,147)
Proceeds from sale of equipment .....	22,929	35,088	67,462
Net Cash Used .....	<u>(142,252,873)</u>	<u>(179,415,773)</u>	<u>(119,173,321)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>			
Net increase in Senior Demand Notes .....	8,282,195	17,420,976	10,372,708
Advances on credit line .....	213,677,200	164,964,653	193,849,330
Payments on credit line .....	(206,446,200)	(223,564,653)	(186,299,330)
Commercial paper issued .....	135,878,572	161,768,917	139,155,810
Commercial paper redeemed .....	(63,485,901)	(41,849,573)	(110,373,572)
Subordinated debt issued .....	5,759,655	6,963,742	6,916,788
Subordinated debt redeemed .....	(6,446,173)	(7,346,797)	(5,846,413)
Dividends / distributions paid .....	(17,485,889)	(20,012,306)	(440,970)
Net Cash Provided .....	<u>69,733,459</u>	<u>58,344,959</u>	<u>47,334,351</u>
NET INCREASE (DECREASE) IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH .....	25,067,408	(27,311,602)	9,219,842
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning .....	40,366,820	67,678,422	58,458,580
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, ending .....	<u>\$ 65,434,228</u>	<u>\$ 40,366,820</u>	<u>\$ 67,678,422</u>
Cash paid during the period for -			
Interest .....	\$ 27,264,793	\$ 23,018,333	\$ 21,119,661
Income taxes, Net .....	\$ 4,156,000	3,050,638	3,178,625
Non-Cash Transactions for -			
ASC 842 - Lease Assets and Associated Liabilities .....	9,553,566	7,069,375	7,785,716

See Notes to Consolidated Financial Statements

**1st FRANKLIN FINANCIAL CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Business:**

1<sup>st</sup> 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 343 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. The Company may have deposits in excess of amounts covered by the Federal Deposits Insurance Corporation with its banking partners. 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. 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".
- (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 \$6.5 million and \$5.3 million at December 31, 2022 and 2021, 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, 2022, 2021, and 2020 was \$4.4 million, \$4.6 million and \$4.8 million, 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)		
	2022	2021	2020
Cash and cash equivalents .....	\$ 49,653	\$ 33,061	\$ 59,214
Restricted cash .....	15,781	7,306	8,465
Total cash, cash equivalents and restricted cash .....	<u>\$ 65,434</u>	<u>\$ 40,367</u>	<u>\$ 67,679</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, 2022 or 2021.

#### 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, 2022 and December 31, 2021, 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 the Company's investment securities held in the Company's investment portfolio at December 31, 2022 and 2021 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 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 Company's benchmark rate transitioned to SOFR on December 1, 2022 with no impact to the condensed consolidated financial statements, (Note 6).

In March 2022 the FASB issued ASU No. 2022-02 "Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructuring and Vintage Disclosures. The key provisions include (1) enhancements to disclosure requirements for certain loan refinancings and restructurings by creditor when borrower is experiencing financial difficulty, the creditor must apply the loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan (2) for public business entities, the entity is required to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases. The amendments in this update are effective for annual and interim periods beginning after December 15, 2022. The Company is currently evaluating the effect of disclosure updates to its footnotes, but believes implementation will not have a material financial effect on its financial statements.

## **2. LOANS**

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

### **Loan Renewals:**

Loan renewals are accounted for in accordance with the applicable guidance in ASC *Topic 310-20 Nonrefundable Fees and Other Costs*. Loan renewals are a product the Company offers to existing customers that allows them to borrow additional funds from the Company. In evaluating a loan for renewal, in addition to our standard underwriting requirements, we may take into consideration the customer's prior payment performance with us, which we believe to be an indicator of the customer's future credit performance. If the terms of the new loan resulting from a loan renewal (other than a troubled debt restructuring) are at least as favorable to us as the terms for comparable loans to other customers with similar collection risks who are not renewing a loan, the renewal is accounted for as a new loan. The criteria is met if the new loan's effective yield is at least equal to the effective yield for such comparable loans and the modification of the original loan is more than minor. A modification of a loan is more than minor if the present value of the cash flows under the terms of the renewal is at least 10 percent different from the present value of the remaining cash flows under the terms of the original loan. Accordingly, when a renewal is generated, the original loan(s) are extinguished along with the associated unearned finance charges and a new loan is originated. Substantially all renewals include a non-cash component that represents the exchange of the original principal balance for the new principal balance and a cash component for the net proceeds distributed to the customer for the additional amount borrowed. The cash component is presented as outflows from investing activities and the non-cash component is presented as a non-cash investing activity.

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.

**Reconciliation of Gross Loans Originated / Acquired to Loans Originated or Purchased in Consolidated Statements of Cash Flows (Gross):**

	2022	2021	2020
Loans Originated/acquired per Business Section:	\$ 1,157,814	\$ 1,152,021	\$ 1,000,600
Non-Cash Reconciling items:			
Other Consumer (Live Check and Premier) Renewed Loans Payoff	313,843	332,292	280,199
Other non-cash activity: unearned finance charges, origination fees, discounts, premiums, and deferred fees	241,179	231,093	203,423
Loans originated or purchased per Consolidated Statements of Cash Flows:	<u>\$ 602,792</u>	<u>\$ 588,636</u>	<u>\$ 516,978</u>

**Contractual Maturities of Loans:**

An estimate of contractual maturities stated as a percentage of the Gross Loan balances based upon an analysis of the Company's portfolio as of December 31, 2022 is as follows:

Due In Calendar Year	Direct Cash Loans	Real Estate Loans	Sales Finance Contracts
2023 .....	61.1%	11.4%	27.7%
2024 .....	30.3	11.2	26.9
2025 .....	6.5	11.3	22.3
2026 .....	1.7	10.4	15.8
2027 .....	0.4	9.6	6.7
2028 & beyond .....	0.1	46.1	0.5
	<u>100.0%</u>	<u>100.0%</u>	<u>100.0%</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. 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 receivables balance at the balance sheet date is reviewed and adjustments to the allowance for credit losses are made if Management determines the receivables balance 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, 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 estimating 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, 2022 or December 31, 2021.

The Company's Gross Balances on non-accrual loans by loan class at December 31, 2022 and 2021 are as follows:

Loan Class	December 31, 2022	December 31, 2021
Live Check Consumer Loans .....	\$ 13,526,548	\$ 6,254,394
Premier Consumer Loans .....	4,738,297	2,253,818
Other Consumer Loans .....	41,240,279	25,229,846
Real Estate Loans .....	1,869,737	1,286,609
Sales Finance Contracts .....	5,656,143	3,532,183
Total .....	<u>\$ 67,031,004</u>	<u>\$ 38,556,850</u>

An age analysis of Gross Balances past due, segregated by loan class, as of December 31, 2022 and 2021 is as follows:

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due Loans
Live Check Loans .....	\$ 6,216,951	\$ 4,523,944	\$ 8,232,387	\$ 18,973,282
Premier Loans .....	2,164,484	1,301,917	2,415,621	5,882,022
Other Consumer Loans .....	24,681,141	14,373,393	26,817,773	65,872,307
Real Estate Loans .....	894,141	436,415	1,379,878	2,710,434
Sales Finance Contracts .....	4,256,920	2,066,105	3,315,491	9,638,516
Total .....	<u>\$ 38,213,637</u>	<u>\$ 22,701,774</u>	<u>\$ 42,161,150</u>	<u>\$ 103,076,561</u>
December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due Loans
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 .....	2,176,581	1,134,376	2,385,007	5,695,964
Total .....	<u>\$ 21,692,714</u>	<u>\$ 13,846,295</u>	<u>\$ 26,940,077</u>	<u>\$ 62,479,086</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, 2022 and December 31, 2021 was 1.25% and 1.27% 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 as of December 31, 2022 based on year of origination.

Payment Performance – Principal Balance by Origination Year							
	2022	2021	2020	2019	2018	Prior	Total Net Balance
	(in Millions)						
Live Checks:							
Performing .....	\$ 117.5	\$ 13.7	\$ 2.1	\$ 0.3	\$ —	\$ —	\$ 133.6
Nonperforming .....	11.6	1.8	0.1	—	—	—	13.5
	<u>\$ 129.1</u>	<u>\$ 15.5</u>	<u>\$ 2.2</u>	<u>\$ 0.3</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 147.1</u>
Premier Loans:							
Performing .....	\$ 65.9	\$ 27.3	\$ 6.8	\$ 1.9	\$ 0.5	\$ 0.1	\$ 102.5
Nonperforming .....	2.3	1.9	0.4	0.2	—	—	4.8
	<u>\$ 68.2</u>	<u>\$ 29.2</u>	<u>\$ 7.2</u>	<u>\$ 2.1</u>	<u>\$ 0.5</u>	<u>\$ 0.1</u>	<u>\$ 107.3</u>
Other Consumer Loans:							
Performing .....	\$ 458.8	\$ 122.5	\$ 22.7	\$ 7.3	\$ 2.1	\$ 0.5	\$ 613.9
Nonperforming .....	23.8	14.0	2.2	0.9	0.2	0.1	41.2
	<u>\$ 482.6</u>	<u>\$ 136.5</u>	<u>\$ 24.9</u>	<u>\$ 8.2</u>	<u>\$ 2.3</u>	<u>\$ 0.6</u>	<u>\$ 655.1</u>
Real Estate Loans:							
Performing .....	\$ 3.5	\$ 12.6	\$ 5.7	\$ 5.0	\$ 3.6	\$ 4.3	\$ 34.7
Nonperforming .....	0.1	0.7	0.4	0.3	0.2	0.2	1.9
	<u>\$ 3.6</u>	<u>\$ 13.3</u>	<u>\$ 6.1</u>	<u>\$ 5.3</u>	<u>\$ 3.8</u>	<u>\$ 4.5</u>	<u>\$ 36.6</u>
Sales Finance Contracts:							
Performing .....	\$ 82.8	\$ 35.1	\$ 18.0	\$ 3.5	\$ 0.5	\$ 0.1	\$ 140.0
Nonperforming .....	2.1	2.0	1.2	0.3	0.1	—	5.7
	<u>\$ 84.9</u>	<u>\$ 37.1</u>	<u>\$ 19.2</u>	<u>\$ 3.8</u>	<u>\$ 0.6</u>	<u>\$ 0.1</u>	<u>\$ 145.7</u>

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, 2022, 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 market disruptions resulting from recent bank failures. The Company also considered the potential impact of increased central bank interest rates. Despite increase to the Federal Funds Rate, the economy has been resilient with unemployment remaining historically low. 1st Franklin loans are contracted at a fixed rate; therefore, borrowers will not be directly affected by rising interest rates.

Management determined that certain snapshot periods included in the estimation model benefited from government stimulus actions. 1st Franklin's expected credit loss model incorporates periods that may have benefited from economic stimulus. Based on recent increased charge offs, increased delinquency and the aforementioned economic uncertainty, management concluded that an adjustment was required to sufficiently provide for expected credit losses. Management estimated an adjustment totaling \$13.2 million by incorporating

pre-pandemic loss rate curves to more recent loss experience as a proxy for current and expected economic conditions in the estimation model. The allowance for credit losses increased by \$7.9 million to \$75.2 million at December 31, 2022 compared to \$67.3 million at December 31, 2021.

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.

2022						
	Live Checks	Premier Loans	Other Consumer Loans	Real Estate Loans	Sales Finance Contracts	Total
	(in 000's)					
Allowance for Credit Losses:						
Balance at January 1, 2022	\$ 10,649	\$ 6,216	\$ 44,646	\$ 265	\$ 5,535	\$ 67,311
Provision for Credit Losses	24,044	4,452	47,976	(102)	7,918	84,288
Charge-offs	(23,207)	(5,630)	(61,787)	(28)	(7,353)	(98,005)
Recoveries	3,410	1,070	15,577	8	1,551	21,616
Ending Balance	<u>\$ 14,896</u>	<u>\$ 6,108</u>	<u>\$ 46,412</u>	<u>\$ 143</u>	<u>\$ 7,651</u>	<u>\$ 75,210</u>

2021						
	Live Checks	Premier Loans	Other Consumer Loans	Real Estate Loans	Sales Finance Contracts	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>

### Troubled Debt Restructurings (TDRs)

TDRs are accounted for in accordance with the applicable guidance in *ASC 310-40 Troubled Debt Restructurings by Creditors*. 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. We do not consider TDRs as new loans because the restructuring is part of our ongoing effort to recover its investment in the original loan. The Company allows refinancing of delinquent loans on a case-by-case basis for those who satisfy certain eligibility requirements. The eligible customers can include those experiencing temporary hardships, lawsuits, or customers who have declared bankruptcy. In most cases, the loans that eligible for restructuring are between 90 and 180 days past due. We do not allow the amount of the new loan to exceed the original amount of the existing loan and we believe that refinancing the delinquent loans for certain customers provides the Company with an opportunity to increase its average loans outstanding and its interest, fees, and other income without experiencing a significant increase in loan losses. These refinancings also provide a resolution to temporary financial setbacks for these borrowers and sustain their credit rating.

Legal fees and other direct costs incurred by the Company during a restructuring are expensed when incurred. The effective interest rate for restructured loan is based on the original contractual rate, not the rate specified in the restructuring agreement. The modified loans are adjusted to be recorded at the value of expected cash flows to be received in the future. Modifications that lower the principal balance experience a direct charge off for the difference of the original and modified principal amount. Substantially all of the restructurings relate to fee and interest rate concessions. The Company only lowers the principal balance due in the event of a court order which are immaterial to each period presented.



The following table presents a summary of Gross Loans that were restructured during the year ended December 31, 2022.

Loan Class	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
Live Check Consumer Loans .....	6,238	\$ 11,025,593	\$ 10,869,297
Premier Consumer Loans .....	999	6,521,316	6,367,261
Other Consumer Loans .....	21,599	85,662,652	83,162,166
Real Estate Loans .....	26	238,274	236,228
Sales Finance Contracts .....	1,165	8,921,572	8,663,893
Total .....	<u>30,027</u>	<u>\$ 112,369,407</u>	<u>\$ 109,298,845</u>

TDRs that subsequently defaulted during the year ended December 31, 2022 are listed below.

Loan Class	Number of Loans	Pre-Modification Recorded Investment
Live Check Consumer Loans .....	2,252	\$ 3,883,391
Premier Consumer Loans .....	182	1,065,631
Other Consumer Loans .....	5,196	13,211,867
Real Estate Loans .....	2	5,217
Sales Finance Contracts .....	183	1,060,841
Total .....	<u>7,815</u>	<u>\$ 19,226,947</u>

The following table presents a summary of Gross Loans that were restructured during the year ended December 31, 2021.

Loan Class	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
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.

Loan Class	Number of Loans	Pre-Modification Recorded Investment
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 .....	0	—
Sales Finance Contracts .....	142	613,181
Total .....	4,179	\$ 9,780,609

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

Loan Class	Number of Loans	Pre-Modification Recorded Investment	Post-Modification Recorded Investment
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 .....	14,960	\$ 53,429,526	\$ 50,752,882

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

Loan Class	Number of Loans	Pre-Modification Recorded Investment
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 .....	3,801	\$ 7,755,585

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 Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2022:</u>				
Obligations of states and political subdivisions .....	\$ 253,068,048	\$ 1,033,647	\$ (34,453,668)	\$ 219,648,027
Corporate securities .....	380,316	—	—	380,316
Total .....	<u>\$ 253,448,364</u>	<u>\$ 1,033,647</u>	<u>\$ (34,453,668)</u>	<u>\$ 220,028,343</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 .....	418,548	—	—	418,548
Total .....	<u>\$ 249,277,050</u>	<u>\$ 13,273,291</u>	<u>\$ (948,416)</u>	<u>\$ 261,601,925</u>

The amortized cost and estimated fair values of investment securities at December 31, 2022, by contractual maturity, are shown below:

	Amortized Cost	Estimated Fair Value
Due in one year or less .....	\$ 1,240,317	\$ 1,239,689
Due after one year through five years .....	2,597,874	2,609,629
Due after five years through ten years .....	24,770,364	25,139,757
Due after ten years .....	224,839,809	191,039,268
Total .....	<u>\$ 253,448,364</u>	<u>\$ 220,028,343</u>

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

	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2022</u>						
Obligations of states and political subdivisions .....	<u>\$118,495,346</u>	<u>\$ (9,327,370)</u>	<u>\$ 42,313,572</u>	<u>\$ (25,126,298)</u>	<u>\$160,808,918</u>	<u>\$ (34,453,668)</u>
<u>December 31, 2021</u>						
Obligations of states and political subdivisions .....	<u>\$ 41,660,651</u>	<u>\$ (896,338)</u>	<u>\$ 652,921</u>	<u>\$ (52,078)</u>	<u>\$ 42,313,572</u>	<u>\$ (948,416)</u>

The previous two tables represent 184 investments and 34 investment held by the Company at December 31, 2022 and 2021, 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, Management concluded that an allowance for credit losses was not required at December 31, 2022 or at December 31, 2021.

There were no sales of securities during 2022. Proceeds from redemption of investments due to the exercise of call provisions by the issuers thereof and regularly scheduled maturities during 2022 were \$26,815,000 Gross and net gains of \$606,417 were realized on these redemptions.

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 \$15.9 million Gross and net gains of \$0.3 million 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, 2022 and 2021 are available-for-sale investment securities which are summarized below:

Description	December 31, 2022	Fair Value Measurements at Reporting Date Using		
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Corporate securities .....	\$ 380,316	\$ 380,316	\$ —	\$ —
Obligations of states and political subdivisions .....	219,648,027	—	219,648,027	—
Available-for-sale investment securities .....	<u>\$ 220,028,343</u>	<u>\$ 380,316</u>	<u>\$ 219,648,027</u>	<u>\$ —</u>

Description	December 31, 2021	Fair Value Measurements at Reporting Date Using		
		Quoted Prices 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 .....	<u>\$ 261,601,925</u>	<u>\$ 418,548</u>	<u>\$ 261,183,377</u>	<u>\$ —</u>

## 5. INSURANCE SUBSIDIARY RESTRICTIONS

As of December 31, 2022 and 2021, 97% and 99%, 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, 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 2022, without prior approval of the Georgia Insurance Commissioner, was approximately \$40.8 million. On November 30, 2021, 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 \$75.0 million from the Company's life insurance subsidiary and \$95.0 million from the Company's 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 January 20, 2022, 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, 2022.

At December 31, 2022, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of \$147.5 million and \$103.0 million, respectively. The maximum aggregate amount of dividends these subsidiaries could pay to the Company during 2023, without prior approval of the Georgia Insurance Commissioner, is approximately \$46.6 million. On December 6, 2022, 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 \$105.0 million from Frandisco Property and Casualty Insurance Company. The request was approved by the Georgia Insurance Department on March 16, 2023 for transactions on or before December 31, 2023. Effective March 31, 2023, Frandisco Life Insurance Company amended its previous unsecured revolving line of credit available to the Company for a maximum amount up to \$105.0 million and extended the maturity date to December 31, 2026. Frandisco Property and Casualty Insurance Company also amended an unsecured revolving line of credit available to the Company for a maximum amount up to \$75.0 million and extended the maturity date to December 31, 2026.

## 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. The credit agreement contains covenants customary for financing transactions of this type. Available borrowings under the credit agreement were \$162.5 million and \$169.7 million at December 31, 2022 and 2021, at an interest rate of 6.97% and 3.50%, respectively. At December 31, 2022, the Company had borrowings of \$67.5 million under the credit agreement. The Company had borrowings of \$60.3 million under the credit agreement at December 31, 2021.

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 secured overnight financing rate (the "SOFR Rate") plus the term SOFR adjustment (the "Adjusted Term SOFR Rate") plus the Applicable Margin. The Adjusted Term SOFR Rate is adjusted on the first day of each calendar month based upon the SOFR 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, 2022 and 2021 was 6.97% and 3.50%, respectively.

The credit agreement has a commitment termination date of February 28, 2025. 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, 2022, 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 <sup>(1)</sup>
(In thousands, except % data)				
2022				
Bank Borrowings	6.97 %	\$ 81,942	\$ 47,083	7.07 %
Senior Demand Notes	1.92	122,860	113,151	1.92
Commercial Paper	3.94	633,534	604,980	3.54
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
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

(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		
2022	2021	2020	2022	2021	2020
3.29%	3.16%	3.10%	3.16%	3.12%	3.01%



Maturity and redemption information relating to the Company's subordinated debt at December 31, 2022 is as follows:

	Amount Maturing or Redeemable at Option of Holder	
	Based on Maturity Date	Based on Interest Adjustment Period
2023 .....	\$ 6,039,363	\$ 15,497,719
2024 .....	6,215,892	8,620,385
2025 .....	8,387,815	3,076,825
2026 .....	8,362,756	1,810,897
	<u>\$ 29,005,826</u>	<u>\$ 29,005,826</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. Actual lease payment were \$9.2 million, \$8.7 million, and \$8.4 million for the years ended December 31, 2022, 2021 and 2020, respectively. The Company's minimum aggregate future lease commitments at December 31, 2022 and 2021 are presented in the tables that follow.

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, 2022
Operating lease expense .....	\$ 7,843,282
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases .....	7,706,605
Weighted-average remaining lease term – operating leases (in years) .....	7.09
Weighted-average discount rate – operating leases .....	4.84%
Lease Maturity Schedule as of December 31, 2022:	Amount
2023 .....	7,785,034
2024 .....	7,003,616
2025 .....	6,642,211
2026 .....	6,086,452
2027 .....	5,296,864
2028 and beyond .....	13,308,568
Total .....	46,122,745
Less: Discount .....	(7,103,537)
Present Value of Lease Liability .....	<u>\$ 39,019,208</u>
Present Value of Lease Asset	\$ 38,153,238
	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>
Present Value of Lease Asset	\$ 34,768,208

## 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 its 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, the peril or claim is uninsured or underinsured, 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 uninsured or underinsured 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 uninsured or underinsured 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 uninsured or underinsured 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 (whether on the merits or by virtue of the existence of collectible insurance) would not be material. Based on current expectations, such matters, both individually and in aggregate, are not expected to have a material adverse effect on the liquidity, results of operations, business or financial condition of the Company.

During the year ended December 31, 2022, the Company suffered a cyber-attack against certain systems within the Company's network environment on or about November 17, 2022. The attack temporarily affected operations and caused delays in originating and servicing loans at some locations. During the incident, the attackers had access to personally identifiable information of certain Company employees, customers, and investors. The incident, which only affected systems, was contained to the Company's onsite file directory system, but not its off-site core operating system. Full lending and investing operations were restored within days of the incident, and the Company provided notifications to all potentially affected individuals. As of April 11, 2023, the Company is named as a Defendant in five consumer class action cases alleging harm from the cyber-attack.

The Company maintains a cyber insurance policy applicable to most of the costs of investigation, remediation, business interruption, and other costs pertaining to the breach. Insurance recoveries are only recognized when uncertainties related to the timing and amount of recovery are resolved. The Company incurred investigation and remediation costs totaling \$2.5 million as of December 31, 2022. This amount is recognized in the Company's consolidated statements of financial position as receivable from insurance company in miscellaneous assets. Additional insurance recoveries from the cyber insurance policy are expected; however, the Company is currently unable to estimate the timing and amount of such recoveries.

## 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 2022, 2021 and 2020, the Company contributed \$2.9 million, \$2.6 million and \$2.5 million, 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 \$1,959,772 at December 31, 2022. 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 a now retired 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 \$12,187 for interest accrued during 2022 was applied to the loan on December 31, 2022. No principal payments on this loan were made in 2022. The balance on this loan at December 31, 2022 was \$468,422. 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, 2022, 2021 and 2020 is made up of the following components:

	2022	2021	2020
Current – Federal .....	\$ 4,280,033	\$ 2,859,997	\$ 3,024,953
Current – State .....	289,345	595,915	205,779
Total Current .....	<u>4,569,378</u>	<u>3,455,912</u>	<u>3,230,732</u>
Deferred tax expense (benefit) .....	<u>(151,474)</u>	<u>487,481</u>	<u>156,075</u>
Total Provision .....	<u>\$ 4,417,904</u>	<u>\$ 3,943,393</u>	<u>\$ 3,386,807</u>

Temporary differences create deferred federal tax assets and liabilities, which are detailed below as of December 31, 2022 and 2021. As of December 31, 2022 net deferred tax assets of \$3.1 million are included in other miscellaneous assets in the accompanying consolidated statements of financial position. As of December 31, 2021 net deferred tax liabilities of \$6.6 million are included in accounts payable and accrued expenses in the accompanying consolidated statements of financial position.

	As Of December 31,	
	2022	2021
Deferred Tax Assets:		
Unearned Premium Reserves .....	\$ 2,042,304	\$ 2,239,933
Unrealized Loss (Gain) on		
Marketable Debt Securities .....	7,018,205	—
SPA Capitalization .....	31,643	33,713
STAT & Tax Reserve .....	643,782	671,836
Total Deferred Tax Assets .....	<u>\$ 9,735,934</u>	<u>\$ 2,945,482</u>
Deferred Tax Liabilities:		
Insurance Commissions .....	(4,774,456)	(5,034,729)
Deferred Acquisition Cost Amortization .....	(1,554,166)	(1,637,230)
GAAP/STAT Premium Tax .....	(198,450)	(230,665)
Unrealized Loss (Gain) on		
Marketable Debt Securities .....	—	(2,588,224)
Other .....	(66,235)	(69,944)
Total Deferred Tax Liabilities .....	<u>(6,593,307)</u>	<u>(9,560,792)</u>
Net Deferred Tax Asset (Liability) .....	<u>\$ 3,142,627</u>	<u>\$ (6,615,310)</u>

The Company's effective tax rate for the years ended December 31, 2022, 2021 and 2020 is analyzed as follows.

	2022	2021	2020
Statutory Federal income tax rate .....	21.0%	21.0%	21.0%
Tax effect of S corporation status .....	5.0	(11.3)	1.0
Tax exempt income .....	(5.9)	(2.4)	(5.5)
State income taxes .....	1.4	1.3	1.1
Effective Tax Rate .....	<u>21.5%</u>	<u>8.6%</u>	<u>17.6%</u>

## Enactment of the Inflation Reduction Act of 2022

On August 16, 2022, the U.S. government enacted the Inflation Reduction Act (IRA) which, among other changes, created a new 15% corporate alternative minimum tax (CAMT) based on adjusted financial statement income (AFSI) and imposes a 1% excise tax on corporate stock repurchases. The effective date of these provisions is January 1, 2023. The enactment of the IRA did not have any impact on the Company's financial statements in 2022. The Company will not be an applicable corporation subject to the AMT tax beginning in 2023 based on its reported GAAP earnings for the past three years being less than 1 billion dollars. Any excise tax incurred on corporate stock repurchases will generally be recognized as part of the cost basis of the treasury stock acquired and not reported as part of income tax expense.

### 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 nine divisions which comprise its operations: Division I through 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 VI represents our Virginia offices, Division VII represents our Kentucky and 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, 2022 followed by a reconciliation to consolidated Company data.

Year 2022	Division I	Division II	Division III	Division IV	Division V	Division VI	Division VII	Division VIII	Division IX	Total
(In Millions)										
Revenues:										
Finance Charges										
Earned .....	\$ 38	\$ 35	\$ 35	\$ 43	\$ 29	\$ —	\$ 29	\$ 27	\$ 31	\$ 267
Insurance Income .....	\$ 6	\$ 7	\$ 9	\$ 5	\$ 5	\$ —	\$ 4	\$ 6	\$ 6	\$ 48
Other .....	\$ —	\$ 1	\$ 1	\$ —	\$ 1	\$ —	\$ 1	\$ 1	\$ 1	\$ 6
	<u>\$ 44</u>	<u>\$ 43</u>	<u>\$ 45</u>	<u>\$ 48</u>	<u>\$ 35</u>	<u>\$ —</u>	<u>\$ 34</u>	<u>\$ 34</u>	<u>\$ 38</u>	<u>\$ 321</u>
Expenses:										
Interest Cost .....	\$ 4	\$ 4	\$ 4	\$ 4	\$ 3	\$ —	\$ 3	\$ 3	\$ 3	\$ 28
Provision for Loan										
Losses .....	\$ 12	\$ 8	\$ 9	\$ 12	\$ 9	\$ —	\$ 10	\$ 9	\$ 7	\$ 76
Depreciation .....	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ —	\$ —	\$ 1	\$ —	\$ 2
Other .....	\$ 14	\$ 14	\$ 13	\$ 16	\$ 12	\$ —	\$ 12	\$ 14	\$ 14	\$ 109
	<u>\$ 30</u>	<u>\$ 26</u>	<u>\$ 26</u>	<u>\$ 33</u>	<u>\$ 24</u>	<u>\$ —</u>	<u>\$ 25</u>	<u>\$ 27</u>	<u>\$ 24</u>	<u>\$ 215</u>
Division Profit .....	<u>\$ 14</u>	<u>\$ 17</u>	<u>\$ 19</u>	<u>\$ 15</u>	<u>\$ 11</u>	<u>\$ —</u>	<u>\$ 9</u>	<u>\$ 7</u>	<u>\$ 14</u>	<u>\$ 106</u>
Division Assets:										
Net Receivables .....	\$ 118	\$ 126	\$ 123	\$ 149	\$ 92	\$ —	\$ 99	\$ 93	\$ 111	\$ 911
Cash .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ 1	\$ 1	\$ 1	\$ 8
Net Fixed Assets .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ 1	\$ 2	\$ 1	\$ 9
Other Assets .....	\$ 2	\$ 5	\$ 4	\$ 6	\$ 4	\$ —	\$ (1)	\$ 6	\$ 5	\$ 31
Total Division Assets .....	<u>\$ 122</u>	<u>\$ 133</u>	<u>\$ 129</u>	<u>\$ 157</u>	<u>\$ 98</u>	<u>\$ —</u>	<u>\$ 100</u>	<u>\$ 102</u>	<u>\$ 118</u>	<u>\$ 959</u>



**RECONCILIATION:****2022**

(In Millions)

**Revenues:**

Total revenues from reportable divisions .....	\$	321
Corporate investment income earned not allocated to divisions .....	\$	8
Timing difference of insurance income allocation to divisions .....	\$	10
Consolidated Revenues (1) .....	\$	<u>339</u>

**Net Income:**

Total profit or loss for reportable divisions .....	\$	106
Corporate earnings not allocated .....	\$	18
Corporate expenses not allocated .....	\$	(103)
Consolidated Income Before Income Taxes .....	\$	<u>21</u>

**Assets:**

Total assets for reportable divisions .....	\$	959
Loans held at corporate level .....	\$	2
Unearned insurance at corporate level .....	\$	(37)
Allowance for loan losses at corporate level .....	\$	(75)
Cash and cash equivalents held at corporate level .....	\$	58
Investment securities at corporate level .....	\$	220
Fixed assets at corporate level .....	\$	4
Other assets at corporate level .....	\$	32
Consolidated Assets .....	\$	<u>1,163</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, 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 .....	\$ 35	\$ 32	\$ 33	\$ 38	\$ 25	\$ 25	\$ 20	\$ 29	\$ 237
Insurance Income .....	\$ 5	\$ 7	\$ 8	\$ 5	\$ 4	\$ 3	\$ 5	\$ 6	\$ 43
Other .....	\$ —	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 7
	<u>\$ 40</u>	<u>\$ 40</u>	<u>\$ 42</u>	<u>\$ 44</u>	<u>\$ 30</u>	<u>\$ 29</u>	<u>\$ 26</u>	<u>\$ 36</u>	<u>\$ 287</u>
Expenses:									
Interest Cost .....	\$ 3	\$ 3	\$ 3	\$ 4	\$ 2	\$ 2	\$ 2	\$ 3	\$ 22
Provision for Loan									
Losses .....	\$ 8	\$ 4	\$ 5	\$ 6	\$ 5	\$ 5	\$ 5	\$ 5	\$ 43
Depreciation .....	\$ —	\$ —	\$ —	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ 2
Other .....	\$ 14	\$ 13	\$ 13	\$ 14	\$ 11	\$ 11	\$ 13	\$ 13	\$ 102
	<u>\$ 25</u>	<u>\$ 20</u>	<u>\$ 21</u>	<u>\$ 25</u>	<u>\$ 19</u>	<u>\$ 18</u>	<u>\$ 20</u>	<u>\$ 21</u>	<u>\$ 169</u>
Division Profit .....	<u>\$ 15</u>	<u>\$ 20</u>	<u>\$ 21</u>	<u>\$ 19</u>	<u>\$ 11</u>	<u>\$ 11</u>	<u>\$ 6</u>	<u>\$ 15</u>	<u>\$ 118</u>
Division Assets:									
Net Receivables .....	\$ 111	\$ 118	\$ 120	\$ 145	\$ 86	\$ 87	\$ 85	\$ 104	\$ 856
Cash .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ 5
Net Fixed Assets .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ 8
Other Assets .....	\$ 3	\$ 5	\$ 5	\$ 6	\$ 4	\$ 4	\$ 4	\$ 5	\$ 36
Total Division Assets .....	<u>\$ 116</u>	<u>\$ 125</u>	<u>\$ 127</u>	<u>\$ 153</u>	<u>\$ 92</u>	<u>\$ 92</u>	<u>\$ 90</u>	<u>\$ 110</u>	<u>\$ 905</u>

**RECONCILIATION:****2021**

(In Millions)

**Revenues:**

Total revenues from reportable divisions .....	\$	287
Corporate investment income earned not allocated to divisions .....	\$	8
Timing difference of insurance income allocation to divisions .....	\$	9
Consolidated Revenues (1) .....	\$	304

**Net Income:**

Total profit or loss for reportable divisions .....	\$	118
Corporate earnings not allocated .....	\$	20
Corporate expenses not allocated .....	\$	(92)
Consolidated Income Before Income Taxes .....	\$	46

**Assets:**

Total assets for reportable divisions .....	\$	905
Loans held at corporate level .....	\$	2
Unearned insurance at corporate level .....	\$	(39)
Allowance for loan losses at corporate level .....	\$	(67)
Cash and cash equivalents held at corporate level .....	\$	36
Investment securities at corporate level .....	\$	262
Fixed assets at corporate level .....	\$	5
Other assets at corporate level .....	\$	14
Consolidated Assets .....	\$	1,118

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	\$ 29	\$ 30	\$ 34	\$ 22	\$ 22	\$ 17	\$ 27	\$ 214
Insurance Income .....	\$ 5	\$ 7	\$ 8	\$ 4	\$ 4	\$ 3	\$ 4	\$ 5	\$ 40
Other .....	\$ —	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ 1	\$ 6
	<u>\$ 38</u>	<u>\$ 37</u>	<u>\$ 39</u>	<u>\$ 39</u>	<u>\$ 27</u>	<u>\$ 26</u>	<u>\$ 21</u>	<u>\$ 33</u>	<u>\$ 260</u>
Expenses:									
Interest Cost .....	\$ 3	\$ 3	\$ 3	\$ 4	\$ 2	\$ 2	\$ 2	\$ 3	\$ 22
Provision for Loan									
Losses .....	\$ 9	\$ 5	\$ 6	\$ 7	\$ 4	\$ 6	\$ 5	\$ 5	\$ 47
Depreciation .....	\$ —	\$ —	\$ —	\$ 1	\$ 1	\$ 1	\$ —	\$ 1	\$ 4
Other .....	\$ 14	\$ 13	\$ 13	\$ 14	\$ 10	\$ 10	\$ 11	\$ 13	\$ 98
	<u>\$ 26</u>	<u>\$ 21</u>	<u>\$ 22</u>	<u>\$ 26</u>	<u>\$ 17</u>	<u>\$ 19</u>	<u>\$ 18</u>	<u>\$ 22</u>	<u>\$ 171</u>
Division Profit .....	<u>\$ 12</u>	<u>\$ 16</u>	<u>\$ 17</u>	<u>\$ 13</u>	<u>\$ 10</u>	<u>\$ 7</u>	<u>\$ 3</u>	<u>\$ 11</u>	<u>\$ 89</u>
Division Assets:									
Net Receivables .....	\$ 103	\$ 106	\$ 111	\$ 129	\$ 71	\$ 77	\$ 65	\$ 97	\$ 759
Cash .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 1	\$ —	\$ —	\$ —	\$ 5
Net Fixed Assets .....	\$ 1	\$ 1	\$ 1	\$ 1	\$ 2	\$ 1	\$ 1	\$ 1	\$ 9
Other Assets .....	\$ 3	\$ 5	\$ 4	\$ 6	\$ 4	\$ 4	\$ 3	\$ 5	\$ 34
Total Division Assets .....	<u>\$ 108</u>	<u>\$ 113</u>	<u>\$ 117</u>	<u>\$ 137</u>	<u>\$ 78</u>	<u>\$ 82</u>	<u>\$ 69</u>	<u>\$ 103</u>	<u>\$ 807</u>

**RECONCILIATION:****2020**

(In Millions)

**Revenues:**

Total revenues from reportable divisions .....	\$	260
Corporate investment income earned not allocated to divisions .....	\$	7
Timing difference of insurance income allocation to divisions .....	\$	8
Consolidated Revenues (1) .....	\$	275

**Net Income:**

Total profit or loss for reportable divisions .....	\$	89
Corporate earnings not allocated .....	\$	17
Corporate expenses not allocated .....	\$	(87)
Consolidated Income Before Income Taxes .....	\$	19

**Assets:**

Total assets for reportable divisions .....	\$	807
Loans held at corporate level .....	\$	2
Unearned insurance at corporate level .....	\$	(34)
Allowance for loan losses at corporate level .....	\$	(66)
Cash and cash equivalents held at corporate level .....	\$	64
Investment securities at corporate level .....	\$	221
Fixed assets at corporate level .....	\$	5
Other assets at corporate level .....	\$	15
Consolidated Assets .....	\$	1,014

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

**14. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through the filing of this Form 10-K, and determined that there have been no events that have occurred that would require adjustments to our disclosures in the consolidated financial statements except for the following:

Due to a variety of macroeconomic and bank-specific factors, there was a small number of large bank failures in the first quarter of 2023. These events created concerns among depositors, investors, and other bank stakeholders that the banking system could be subject to an overall drain on liquidity. The Company has no current direct investment in or contractual relationships with the institutions and expects no material impact related to these events on the Company's operations or investments.

## DIRECTORS AND EXECUTIVE OFFICERS

### Directors

Name	Principal Occupation, Title and Company	Director Since
Ben F. Cheek, IV	Chairman of Board, 1st Franklin Financial Corporation	2001
Ben F. Cheek, III	Chairman Emeritus, 1st Franklin Financial Corporation	1967
Virginia C. Herring	President and Chief Executive Officer 1st Franklin Financial Corporation	2020
A. Roger Guimond	Retired Executive Vice President and Chief Financial Officer, 1st Franklin Financial Corporation	2004
James H. Harris, III	Retired Owner, Unichem Technologies, Inc. and Moonrise Distillery	2014
Jerry J. Harrison, Jr.	Project Engineer - Special Projects 1st Franklin Financial Corporation	2020
Donata Ison	VP Finance Controller Libra Solutions	2023
John G. Sample, Jr.	CPA	2004
C. Dean Scarborough	Retired Retail Business Owner	2004
Keith D. Watson	Chairman Bowen & Watson, Inc.	2004

### Executive Officers

Name	Position with Company	Position Since
Ben F. Cheek, IV	Chairman of Board	2015
Virginia C. Herring	President and Chief Executive Officer	2015
Gary L. McQuain	Executive Vice President and Chief Operating Officer	2020
Brian J. Gyomory	Executive Vice President and Chief Financial Officer	2021
Charles E. Vercelli, Jr.	Executive Vice President and Chief Governmental and Regulatory Affairs Officer	2021
Daniel E. Clevenger, II	Executive Vice President and Chief Compliance Officer	2015
Joseph A. Shaw	Executive Vice President and Chief Information Officer	2018
Julie I. Baker	Executive Vice President and Chief Information Security Officer	2023
Mark J. Scarpitti	Executive Vice President and General Counsel	2021
Jeffrey R. Thompson	Executive Vice President and Chief Human Resources Officer	2020

## **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

<b><i>DIVISION I – SOUTH CAROLINA</i></b>		<b><i>DIVISION II – MIDDLE GEORGIA</i></b>	
M. Summer Clevenger	Vice President	Michael J. Whitaker	Vice President
<b>Regional Operations Directors</b>		<b>Regional Operations Directors</b>	
Nicholas D. Blevins	Gerald D. Rhoden	Janet R. Brownlee	James A. Mahaffey
Jenna L. Henderson	Gregory A. Shealy	Ronald E. Byerly	Deloris O'Neal
Becki B. Lawhon	Louise S. Stokes	Kathryn Landry	Harriet H. Welch
Tammy T. Lee			
<b><i>DIVISION III – SOUTH GEORGIA</i></b>		<b><i>DIVISION IX – NORTH GEORGIA</i></b>	
Michael E. Shankles	Vice President	Jennifer C. Purser	Vice President
<b>Regional Operations Directors</b>		<b>Regional Operations Directors</b>	
Stacy M. Courson	Sylvia J. McClung	James D. Blalock	Nokie Moore
Deirdre A. Dunnam	Wanda Parham	Kimberly L. Golka	April Pelphrey
Jeffrey C. Lee	Robert D. Whitlock	Kevin M. Gray	F. Cliff Snyder
<b><i>DIVISION IV – ALABAMA</i></b>		<b><i>DIVISION V – MISSISSIPPI</i></b>	
Jerry W. Hughes	Vice President	Marty B. Miskelly	Vice President
<b>Regional Operations Directors</b>		<b>Regional Operations Directors</b>	
M. Peyton Givens	Johnny M. Olive	Maurice J. Bize, Jr.	Teresa Grantham
Tomerria S. Iser	Tonya Slaten	Carla A. Eldridge	Rebecca L. Holloway
Jonathan M. Kendrick	Michael L. Spriggs	Jimmy R. Fairbanks, Jr.	
Jeffrey A. Lindberg			
<b><i>DIVISION VII – KENTUCKY and TENNESSEE</i></b>		<b><i>DIVISION VIII – LOUISIANA and TEXAS</i></b>	
Joseph R. Cherry	Vice President	John B. Gray	Vice President
Chad Frederick	Assistant Vice President	Lori Sanchez	Assistant Vice President
<b>Regional Operations Directors</b>		<b>Regional Operations Directors</b>	
Brian M. Hill	William N. Murillo	Sonya L. Acosta	Lauren M. Munoz
Tammy R. Hood	Joshua C. Nickerson	Bryan W. Cook	Anthony B. Seney
J. Steven Knotts	Melissa D. Storck	L. Christopher Deakle	Chadd Stewart
		Tabatha A. Green	
<b><i>DIVISION VI - VIRGINIA</i></b>			
Lee Wright	Assistant Vice President		

## HOME OFFICE ADMINISTRATION

Virginia K Palmer	Senior Vice President – Operations Administration	Shelby J. Gober	Vice President - Employee Development
James P. Smith	Senior Vice President – Branch Operations	John-Mark Jones	Vice President – Information Security
Kelly Abernathy	Vice President - Fair and Responsible Lending	Brian D. Lingle	Vice President – Controller
Richard J. Brandt	Vice President – Internal Audit	Timothy E. Ott	Vice President – Information Technology Applications
Angela C. Brock	Vice President – Compliance	Kenneth B. Proctor	Vice President – State Regulatory Compliance
Richard C. Chapman	Vice President – Financial Planning and Analysis	Edmund V. Tanner	Vice President – Real Estate Compliance
Brian K. Davis	Vice President – Marketing	Justin K. Wiles	Vice President - Enterprise Project Management Office
Stacey K. Estes	Vice President - Real Estate and Property Management	Valerie B. Younts	Vice President – Regulatory Counsel



## SWAINSBORO, GA

**2022 Ben F. Cheek, Jr.  
Office Of The Year**



*Pictured are employees of Branch 7987 Swainsboro, GA.*

This award is presented annually in recognition of the office that represents the highest overall performance within the Company. Congratulations to the entire Swainsboro, Georgia staff for this significant achievement.

The Friendly Franklin Folks salute you!

## 1<sup>ST</sup> 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

## 1<sup>ST</sup> FRANKLIN FINANCIAL CORPORATION BRANCH OFFICES

### KENTUCKY



Elizabethtown  
Louisville

Paducah  
Shelbyville

Shepherdsville  
Somerset

### LOUISIANA



Abbeville  
Alexandria  
Baker  
Bastrop  
Baton Rouge  
Bossier City  
Covington  
Crowley  
Denham Springs

DeRidder  
Eunice  
Franklin  
Hammond  
Houma  
Jena  
Kenner  
LaFayette  
Lake Charles

LaPlace  
Leesville  
Marksville  
Marrero  
Minden  
Monroe  
Morgan City  
Natchitoches  
New Iberia

Opelousas  
Pineville  
Prairieville  
Ruston  
Slidell  
Sulphur  
Thibodaux  
West Monroe  
Winnsboro

### MISSISSIPPI



Amory  
Batesville  
Bay St. Louis  
Booneville  
Brookhaven  
Carthage  
Clinton  
Columbia  
Columbus  
Corinth

D'Iberville  
Forest  
Greenwood  
Grenada  
Gulfport  
Hattiesburg  
Hazlehurst  
Hernando  
Houston  
Iuka

Kosciusko  
Laurel  
Louisville  
Magee  
McComb  
Meridian  
New Albany  
Newton  
Olive Branch  
Oxford

Pearl  
Philadelphia  
Picayune  
Pontotoc  
Ridgeland  
Ripley  
Senatobia  
Starkville  
Tupelo  
Winona

## **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	

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## **TENNESSEE**



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

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## **TEXAS**



Austin (2)	Longview	Pasadena	Temple
Bastrop	Missouri City	Pearland	Texarkana
Conroe	New Braunfels	San Antonio	

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## **VIRGINIA**



Abingdon



## ***Mission Statement***

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





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