1st FRANKLIN FINANCIAL CORPORATION

QUARTERLY REPORT TO INVESTORS
AS OF AND FOR THE
THREE AND NINE MONTHS ENDED
SEPTEMBER 30, 2023

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

The following narrative is Management's discussion and analysis of the foremost factors that influenced 1st Franklin Financial Corporation's and its consolidated subsidiaries' (the "Company", "our" or "we") financial condition and operating results as of and for the three and nine months ended September 30, 2023 and 2022. This discussion and analysis and the accompanying unaudited condensed consolidated financial information should be read in conjunction with the Company's audited consolidated financial statements and related notes included in the Company's 2022 Annual Report. Results achieved in any interim period are not necessarily indicative of the results to be expected for any other interim or full year period.

Forward-Looking Statements:

Certain information in this discussion and other statements contained in this Quarterly Report are forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are all statements other than those of historical fact. The Company's actual results, performance or achievements could differ materially from those contemplated, expressed or implied by the forward-looking statements contained herein, which involve known and unknown risks and uncertainties. Possible factors that could cause actual future results to differ from expectations include, but are not limited to, adverse general economic conditions, including changes in employment rates or in the interest rate environment, unexpected reductions in the size or collectability of our loan portfolio, unexpected increases in our allowance for credit losses, reduced sales or increased redemptions of our securities, unavailability of borrowings under our credit facility, federal and state regulatory changes affecting consumer finance companies, unfavorable outcomes in legal proceedings and adverse or unforeseen developments in any of the matters described under "Risk Factors" in our 2022 Annual Report, as well as other factors referenced elsewhere in our filings with the Securities and Exchange Commission from time to time. The Company undertakes no obligation to update any forward-looking statements, except as required by law.

The Company:

We are engaged in the consumer finance business, primarily in making consumer installment loans to individuals. Our 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 on real estate. All of our loans are at fixed rates, and contain fixed terms and fixed payments. 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. The Company and its operations are guided by a strategic plan which includes planned growth through strategic geographic expansion of our branch office network. As of September 30, 2023, the Company's business was operated through 118 branch offices in Georgia, 47 in Alabama, 43 in South Carolina, 40 in Mississippi, 39 in Tennessee, 37 in Louisiana, 18 in Texas, 13 in Kentucky, and 2 in Virginia.

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.

As previously disclosed, 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 and investments at some locations. During the incident, the attackers had access to personally identifiable information ("PII") of certain Company employees, customers, and investors. The incident was limited to the Company's on-site file directory system and did not affect the Company's 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

November 14, 2023, the Company is named as a defendant in one consolidated consumer class action suit (which originally began as five separate cases alleging harm from the cyber-attack). The Company maintains a cyber insurance policy that we expect indemnifies the Company for the majority of the costs of investigation, remediation, business interruption, and costs pertaining to the breach.

Financial Condition:

The Company's total assets increased $24.5 million (2%) to $1,187.4 million at September 30, 2023 compared to $1,162.9 million at December 31, 2022. The increase was primarily due to an increase in our net loan portfolio and other assets that was partially offset by a decrease in cash and cash equivalents.

Cash and cash equivalents (excluding restricted cash) decreased $29.6 million (60%) at September 30, 2023 while restricted cash decreased $1.3 million (8%) compared to December 31, 2022. Restricted cash consists of funds maintained in restricted accounts at the Company's 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. See Note 3, "Investment Securities" in the accompanying "Notes to Unaudited Condensed Consolidated Financial Statements" for further discussion of amounts held in trust. Restricted cash also includes escrow deposits held by the Company on behalf of certain mortgage real estate customers.

Gross loan originations increased $28.0 million for the three-month period ended September 30, 2023, compared to the same period last year. For the nine-month period ended September 30, 2023 originations were down $26.8 million compared to the same period last year. Our net loan portfolio increased 5% to $842.3 million at September 30, 2023 compared to $800.3 million at December 31, 2022. Included in our net loan portfolio is our allowance for credit losses which reflects estimated current expected credit losses in the loan portfolio as of the date of the statement of financial position. Management decreased the allowance $4.2 million to $71.0 million at September 30, 2023, compared to $75.2 million at December 31, 2022. See Note 2, "Allowance for Credit Losses," in the accompanying "Notes to Unaudited Condensed Consolidated Financial Statements" for further discussion of the Company's allowance for credit losses. Management believes the allowance for credit losses is adequate to cover expected losses inherent in the portfolio as of September 30, 2023; however, unexpected changes in trends or deterioration in economic conditions could result in additional changes in the allowance. Any change in our allowance for credit losses could have a material impact on our results of operations or financial condition in the future.

The Company's investment securities portfolio decreased $3.6 million (2%) compared to the prior year-end. The majority of the decrease was due to a decrease in fair market values. 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 September 30, 2023 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.

Operating lease right-of-use assets increased $3.6 million (9%) in the nine months ended September 30, 2023 mainly due to an increase in the number branches in the Company's network.

Other assets increased by $13.4 million (34%) compared to the prior year-end. Capitalization of software development costs of $5.3 million and prepaid expenses of $4.1 million were the primary drivers of the increase.

The Company's senior debt is comprised of a line of credit from a bank 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 September 30, 2023 was $880.9 million compared to $833.4 million at December 31, 2022, representing an increase of $47.5 million (6%). There was an increase of $41.8 million (62%) in the outstanding balance on the bank line of credit and an increase of $22.3 million (4%) in commercial paper. Increases were partially offset by decreases of $15.7 million (14%) in senior demand notes and $0.8 million (3%) in subordinated debentures.

Operating lease liabilities increased $3.7 million (10%) while accrued expenses and other liabilities decreased $12.4 million (40%) to $18.8 million at September 30, 2023 compared to $31.2 million at December 31, 2022. Payment of $10.3 million for 2022 incentive bonuses in February 2023 was the primary factor causing the decrease in accrued expenses and other liabilities.

Results of Operations:

During the three and nine months ended September 30, 2023, total revenues were $89.9 million and $259.5 million, respectively, compared to $87.3 million and $253.1 million during the same periods a year ago. Growth in the Company's loan portfolio resulted in higher interest and finance charge revenue. The increase was partially offset by a $0.3 million (2%) and $1.0 million (2%) decrease in insurance premium and commission revenue for the three and nine months ended September 30, 2023, respectively. Net income was $9.2 million, for the three-month period ended September 30, 2023, a $7.4 million (416%) increase compared to the same period last year. The increase for the quarter is related to the decrease in provision for credit losses that was partially offset by increased interest and other operating expenses. Net income was $3.2 million for the nine-month period ended September 30, 2023, a $13.8 million (81%) decrease compared to the same period a year ago. The decrease in net income for the nine-month period ended September 30, 2023 is attributable to increased interest expense, increased provision expense, and increased other operating expenses.

Net Interest Income

Net interest income represents the difference between income on earning assets (loans and investments) and the cost of funds on interest bearing liabilities. Our net interest income is affected by the size and mix of our loan and investment portfolios as well as the spread between interest and finance charges earned on the respective assets and interest incurred on our debt. Net interest income decreased $1.9 million and $3.3 million during the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. An increase in our average daily net loan balances of $23.9 million (3%) during the nine months just ended compared to the same period a year ago was offset by increased borrowing costs.

Average daily borrowings increased $9.7 million (1%) and $13.3 million (2%) for the three months ended September 30, 2023 and September 30, 2022, respectively. For the nine-month period ended September 30, 2023 average daily borrowings increased $63.9 million (8%), compared to the same period in 2022. The Company's average borrowing rates were 4.75% and 3.39% during the nine-month period ended September 30, 2023, and 2022, respectively. Interest expense increased $4.6 million (64%) and $10.4 million (52%) during the three and nine months just ended, respectively, compared to the same periods a year ago due to the higher average daily borrowings and higher cost of funds.

Management projects that, based on historical results and current estimates, average net receivables will grow during the remainder of 2023, and net interest income is expected to increase accordingly. However, a decrease in net receivables or an increase in interest rates on outstanding borrowings could negatively impact our net interest income.

Insurance Revenue

Insurance revenues were $0.3 million (2%) and $1.0 million (2%) lower during the three and nine months ended September 30, 2023, respectively, compared to the same periods a year ago. Insurance claims and expenses decreased $0.7 million (16%) for the three-month period just ended and there was a decrease of $1.4 million (10%) during the nine-month period just ended, as compared to the same periods a year ago.

Other Revenue

Other revenue increased $0.2 million (9%) for the three months ended September 30, 2023, compared to the same period last year. For the nine months ended September 30, 2023, other revenue increased $0.3 million (5%) compared to the same period a year ago. The increases are mainly due to increased sales of auto club memberships offered to loan customers and a cash-back rebate from the Company's corporate credit card provider.

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 provision for credit losses decreased $10.1 million (41%) for the three-month period ended September 30, 2023, compared to September 30, 2022. For the nine-month period ended September 30, 2023 the provision for credit losses increased $5.2 million (9%) compared to the same period last year. Net charge-offs increased $0.1 million (0%) and $15.4 million (30%) to $20.1 million and $66.5 million during the three and nine months ended September 30, 2023, respectively, compared to the same periods last year.

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. Management attributes the credit loss increase to inflation driven increases to the cost goods and services consumed by borrowers in the segment. The cyber-attack on the Company impacted its ability to service past due accounts in accordance with standard business practices, resulting higher delinquency.

Delinquency, bankruptcy, non-performing loans, and debt restructurings are returning to levels experienced prior to the third quarter of 2022. The percent of the gross loan portfolio greater than 30 days delinquent is 7.71% at September 30, 2023, compared to 9.44% at December 31, 2022. The ratio of bankrupt accounts to the gross loan portfolio balance was 1.51% at September 30, 2023 and 1.56% at December 31, 2022.

Management considers recent economic factors in its analysis. The U.S. Federal Reserve raised the Federal Funds Rate for the 11th consecutive time on July 26, 2023, representing a cumulative increase of 5.25% since March 2022's near zero rate. The benchmark Federal Funds Rate is at a 16-year high. 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 3.8% as of September 30, 2023. Federal Reserve Chairman Powell stated that conditions in the banking sector improved since the failure of two large banks in March. Rate actions have reduced the inflation rate; however, inflation has not decreased to the U.S. Federal Reserve's target rate.

The allowance for credit losses decreased by $5.3 million and $4.2 million to $71.0 million for the three and nine months ended September 30, 2023 compared to the same periods last year, respectively.

Management believes that the allowance for credit losses, as estimated in accordance with the Company's current expected credit loss ("CECL") methodology, is appropriate to cover expected credit losses on loans at September 30, 2023; 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.

During the quarter ended September 30, 2023, the Company selected a new technique to estimate the allowance for credit losses. For further information regarding the change in technique, refer to the Critical Accounting Policies section below. In addition, please see Note 2, "Loans" in the accompanying "Notes to Unaudited Condensed Consolidated Financial Statements" for further discussion of estimated credit losses. Management may determine it is appropriate to increase or decrease the allowance for expected credit losses in future period, or actual losses in any period, either of which events could have a material impact on our results of operations in the future.

Other Operating Expenses

Other operating expenses increased $1.4 million (3%) and increased $5.7 million (4%) during the three and nine months ended September 30, 2023, respectively, compared to the same periods a year ago. Other operating expenses encompass personnel expense, occupancy expense and miscellaneous other expenses.

Personnel expense increased $0.6 million (2%) and decreased $2.1 million (2%) during the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Inflation-based salary adjustments for certain team members were offset by the lower bonus accrual and capitalization of employee salaries attributable to software development for the three and nine-month periods.

Occupancy expenses increased $0.2 million (4%) and $1.4 million (11%) during the three and nine months ended September 30, 2023, respectively, compared to the same periods a year ago. Increases in monthly rent expenses, maintenance expenses, and new branch openings attributed to the increase in occupancy expenses.

Other expenses increased $0.7 million (4%) and $6.4 million (15%) during the three and nine months ended September 30, 2023, respectively, compared to the same periods in 2022. Higher postage fees for marketing, information technology expenses, credit bureau dues, and legal and audit fees were the primary factors driving the increase in miscellaneous other operating expenses during the three and nine months ended September 30, 2023 as compared to the same periods in 2022.

Income Taxes

The Company has elected to be, and is, treated as an S corporation for income tax reporting purposes. Taxable income or loss of an S corporation is passed through to, and included in, the individual tax returns of the shareholders of the Company, rather than being taxed at the corporate level. Notwithstanding this election, however, income taxes continue to be reported for, and paid by, the Company's insurance subsidiaries as they are not allowed to be treated as S corporations, and for the Company's state taxes in Louisiana, which does not recognize S corporation status. Deferred income tax assets and liabilities are recognized and provisions for current and deferred income taxes continue to be recorded by the Company's subsidiaries. The Company uses the liability method of accounting for deferred income taxes and provides deferred income taxes for all significant income tax temporary differences.

Effective income tax rate was 13% and 52% during the three and nine months ended September 30, 2023, respectively, compared to 43% and 16% during the same periods ended September 30, 2022. The effective income tax rate differs from the statutory rate due to changes in the proportion of income earned by the Company's insurance subsidiaries.

Quantitative and Qualitative Disclosures About Market Risk:

The possibility of market fluctuations in market interest rates during the remainder of the year could have an impact on our net interest margin. Please refer to the market risk analysis discussion contained in our Annual Report as of and for the year ended December 31, 2022 for a more detailed analysis of our market risk exposure. There have been no material changes to our market risk during the nine months ended September 30, 2023.

Liquidity and Capital Resources:

As of September 30, 2023 and December 31, 2022, the Company had $20.0 million and $49.7 million, respectively, invested in cash and cash equivalents (excluding restricted cash), the majority of which was held by the insurance subsidiaries.

The Company's investments in marketable securities can be readily converted into cash, if necessary. State insurance regulations limit the use an insurance company can make of its assets. Dividend payments to a parent 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 a parent company by its wholly-owned property and casualty insurance subsidiary are subject to annual limitations and are restricted to the lesser of 10% of policyholders' surplus or the net statutory income before recognizing realized investment gains of the individual insurance subsidiary during the prior two years.

At December 31, 2022, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company had a statutory surplus of $132.0 million and $96.2 million, respectively. The maximum aggregate amount of dividends these subsidiaries can pay to the Company during 2023, without prior approval of the Georgia Insurance Commissioner, is approximately $46.8 million. The Company requested and received approval from the Georgia Insurance Department for 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 for transactions on or before December 31, 2023. Effective March 31, 2023, Frandisco Property and Casualty Insurance Company and Frandisco Life Insurance Company amended their previous unsecured revolving lines of credit available to the Company to $105.0 million and $75.0 million, respectively and extended the term of each respective line of credit to December 31, 2026. At September 30, 2023, an advance of $30 million and accrued interest of $0.4 million on this advance was outstanding on the Parent's credit line with Frandisco Property and Casualty Insurance Company.

Most of the Company's liquidity requirements are financed through the collection of receivables and through the sale of short-term and long-term debt securities. The Company's continued liquidity is therefore dependent on the collection of its receivables and the sale of debt securities that meet the investment requirements of the public. Overall, debt securities increased $5.7 million (1%) between December 31, 2022 and September 30, 2023. In addition to its receivables and securities sales, the Company has an external source of funds available under a credit facility with Wells Fargo Bank, N.A. (as amended, the "credit agreement"). The credit agreement provides for 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, and has a maturity date of February 28, 2025. Available borrowings under the credit agreement were $120.7 million and $162.5 million at September 30, 2023 and December 31, 2022 at an interest rate of 8.18% and 6.97%, 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.

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.

The Company anticipates that its cash and cash equivalents, cash flows from operations, available lines of credit, and borrowings from time to time under the credit agreement will be sufficient to fund its liquidity needs for the next 12 months and thereafter for the foreseeable future

Critical Accounting Policies:

The accounting and reporting policies of the Company are in accordance with accounting principles generally accepted in the United States and conform to general practices within the financial services industry. The Company's critical accounting and reporting policies include the allowance for credit losses, revenue recognition and insurance claims reserves.

Allowance for Credit Losses

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. When the Company implemented ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") we implemented an open pool method. The method evaluated loans outstanding with similar risk characteristics collectively in pools, 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 was then adjusted by a macroeconomic forecast and other qualitative factors, as appropriate, to fully reflect the expected losses in the loan portfolio.

For the period ending September 30, 2023, we utilized a Probability of Default ("PD") / Loss Given Default ("LGD") technique to estimate the allowance for credit losses, in which the estimated loss is equal to the product of PD and LGD. Historical net finance receivables are tracked over the term of the loan pools to identify the instances of loss (PDs) and the average severity of losses (LGDs). We engaged a major rating service provider to assist with incorporating a reasonable and supportable forecast which is utilized to support the adjustments of our historical loss experience. Key segmentation in the technique is origination vintage, remaining contractual term, risk score and state of origination. The technique produces a variety of alternative economic scenarios. We consider how macroeconomic or other factors might impact expected credit losses over the remaining maturity of the portfolio and determine which scenario(s) and specific scenario weights to be applied within the estimation. The allowance for credit losses recorded in the balance sheet reflects our best estimate of expected credit losses. There was not a material impact on the Company’s expected credit losses as a result of the change. The output of both models was within the range of acceptable values.

Revenue Recognition

Accounting principles generally accepted in the United States 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 active accounts; however, state regulations often allow interest refunds to be made according to the Rule of 78’s method for payoffs and renewals. Since the majority of the Company's accounts with precomputed charges are paid off or renewed prior to maturity, the result is that most of those accounts effectively yield on a Rule of 78's basis.

Precomputed finance charges are included in the gross amount of certain direct cash loans and sales finance contracts. 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 any loan that is more than 60 days past due.

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

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

Insurance Claims Reserves

Included in unearned insurance premiums and commissions on the Unaudited Condensed Consolidated Statements of Financial Position are reserves for incurred but unpaid credit insurance claims for policies written by the Company, as agent for a non-affiliated insurance underwriter, and reinsured by the Company’s wholly-owned insurance subsidiaries. These reserves are established based on generally 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 any of these policies could result in material changes in the Company’s consolidated financial position or consolidated results of operations.

Recent Accounting Pronouncements:

See “Recent Accounting Pronouncements” in Note 1 to the accompanying “Notes to Unaudited Condensed Consolidated Financial Statements” for a discussion of any applicable recently adopted 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 condensed 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 the accompanying Notes to Unaudited Condensed Consolidated Financial Statements.

1st FRANKLIN FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
CASH AND CASH EQUIVALENTS	$ 20,017,378	$ 49,652,729
RESTRICTED CASH	14,477,962	15,781,499
LOANS:		
Direct Cash Loans	944,916,072	911,821,593
Real Estate Loans	31,376,575	37,323,155
Sales Finance Contracts	171,943,423	146,507,130
	1,148,236,070	1,095,651,878
Less: Unearned Finance Charges	167,796,641	154,630,023
Unearned Insurance Premiums and Commissions	67,163,033	65,536,077
Allowance for Credit Losses	70,980,000	75,210,063
Net Loans	842,296,396	800,275,715
INVESTMENT SECURITIES:		
Available for Sale, at fair value	216,428,630	220,028,343
OTHER ASSETS:		
Operating Lease Right-of-Use Assets	41,739,840	38,153,238
Other Assets	52,447,396	39,032,732
	94,187,236	77,185,970
TOTAL ASSETS	$ 1,187,407,602	$ 1,162,924,256
LIABILITIES AND STOCKHOLDERS' EQUITY		
SENIOR DEBT	$ 852,762,952	$ 804,442,227
OPERATING LEASE LIABILITIES	42,762,343	39,019,208
ACCRUED EXPENSES AND OTHER LIABILITIES	18,808,903	31,163,971
SUBORDINATED DEBT	28,165,151	29,005,826
Total Liabilities	942,499,349	903,631,232
STOCKHOLDERS' EQUITY:		
Preferred Stock: $100 par value, 6,000 shares authorized; 0 shares outstanding	—	—
Common Stock		
Voting Shares; $100 par value; 2,000 shares authorized; 1,700 shares outstanding	170,000	170,000
Non-Voting Shares; no par value; 198,000 shares authorized; 168,300 shares outstanding	—	—
Accumulated Other Comprehensive (Loss)	(41,258,658)	(26,401,816)
Retained Earnings	285,996,911	285,524,840
Total Stockholders' Equity	244,908,253	259,293,024
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 1,187,407,602	$ 1,162,924,256

See Notes to Unaudited Condensed Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
INTEREST INCOME	$ 73,421,166	$ 70,724,286	$ 212,045,097	$ 204,867,038
INTEREST EXPENSE	11,708,246	7,123,645	30,424,167	19,988,429
NET INTEREST INCOME	61,712,920	63,600,641	181,620,930	184,878,609
Provision for Credit Losses	14,827,391	24,967,844	62,236,416	57,024,372
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	46,885,529	38,632,797	119,384,514	127,854,237
INSURANCE INCOME				
Premiums and Commissions	14,447,793	14,772,163	41,830,689	42,851,191
Insurance Claims and Expenses	3,793,588	4,513,929	12,360,980	13,731,066
Total Net Insurance Income	10,654,205	10,258,234	29,469,709	29,120,125
OTHER REVENUE	2,002,447	1,835,940	5,641,872	5,381,846
OTHER OPERATING EXPENSES				
Personnel Expense	28,968,385	28,417,796	84,546,352	86,643,628
Occupancy Expense	4,776,283	4,571,707	14,727,662	13,284,849
Other	15,252,548	14,596,721	48,624,026	42,265,283
Total	48,997,216	47,586,224	147,898,040	142,193,760
INCOME BEFORE INCOME TAXES	10,544,965	3,140,747	6,598,055	20,162,448
Provision for Income Taxes	1,346,979	1,359,786	3,440,894	3,201,942
NET INCOME	$ 9,197,986	$ 1,780,961	$ 3,157,161	$ 16,960,506
BASIC AND DILUTED EARNINGS PER SHARE				
170,000 Shares Outstanding for All Periods (1,700 voting, 168,300 non-voting)	$ 54.11	$ 10.48	$ 18.57	$ 99.77

See Notes to Unaudited Condensed Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Net Income	$ 9,197,986	$ 1,780,961	$ 3,157,161	$ 16,960,506
Other Comprehensive (Loss):				
Net changes related to available-for-sale securities				
Unrealized (losses)	(21,458,438)	(18,369,401)	(18,582,360)	(58,740,515)
Income tax benefit	4,503,368	3,849,925	3,904,323	12,319,839
Net unrealized (losses)	(16,955,070)	(14,519,476)	(14,678,037)	(46,420,676)
Less reclassification of gain to net income	80,690	116,198	178,805	320,656
Total Other Comprehensive (Loss)	(17,035,760)	(14,635,674)	(14,856,842)	(46,741,332)
Total Comprehensive (Loss)	$ (7,837,774)	$ (12,854,713)	$ (11,699,681)	$ (29,780,826)

See Notes to Unaudited Condensed Consolidated Financial Statements

1st FRANKLIN FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

	Common Stock								
	Shares		Amount		Retained Earnings		Accumulated Other Comprehensive Income (Loss)		Total
Three Months Ended September 30, 2023:									
Balance at June 30, 2023	170,000	$	170,000	$	276,798,925	$	(24,222,898)	$	252,746,027
Comprehensive Income:									
Net Income	—		—		9,197,986		—		
Other Comprehensive Loss	—		—		—		(17,035,760)		
Total Comprehensive Loss	—		—		—		—		(7,837,774)
Cash Distributions Paid	—		—		—		—		—
Balance at September 30, 2023	170,000	$	170,000	$	285,996,911	$	(41,258,658)	$	244,908,253
Three Months Ended September 30, 2022:									
Balance at June 30, 2022	170,000	$	170,000	$	291,793,297	$	(22,369,007)	$	269,594,290
Comprehensive Income:									
Net Income	—		—		1,780,961		—		
Other Comprehensive Loss	—		—		—		(14,635,674)		
Total Comprehensive Loss	—		—		—		—		(12,854,713)
Cash Distributions Paid	—		—		(7,248,539)		—		(7,248,539)
Balance at September 30, 2022	170,000	$	170,000	$	286,325,719	$	(37,004,681)	$	249,491,038
Nine Months Ended September 30, 2023:									
Balance at December 31, 2022	170,000	$	170,000	$	285,524,840	$	(26,401,816)	$	259,293,024
Comprehensive Income:									
Net Income	—		—		3,157,161		—		
Other Comprehensive Loss	—		—		—		(14,856,842)		
Total Comprehensive Loss	—		—		—		—		(11,699,681)
Cash Distributions Paid	—		—		(2,685,090)		—		(2,685,090)
Balance at September 30, 2023	170,000	$	170,000	$	285,996,911	$	(41,258,658)	$	244,908,253
Nine Months Ended September 30, 2022:									
Balance at December 31, 2021	170,000	$	170,000	$	286,851,102	$	9,736,651	$	296,757,753
Comprehensive Income:									
Net Income	—		—		16,960,506		—		
Other Comprehensive Loss	—		—		—		(46,741,332)		
Total Comprehensive Loss	—		—		—		—		(29,780,826)
Cash Distributions Paid	—		—		(17,485,889)		—		(17,485,889)
Balance at September 30, 2022	170,000	$	170,000	$	286,325,719	$	(37,004,681)	$	249,491,038

See Notes to Unaudited Condensed Consolidated Financial Statements

1ST FRANKLIN FINANCIAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ 3,157,161	$ 16,960,506
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	62,236,416	57,024,372
Depreciation and amortization	3,382,908	3,247,341
Deferred tax benefit	264,643	98,667
Net gains due to called redemptions of marketable securities and amortization on securities	(477,461)	(609,685)
Increase in other assets	(9,642,768)	797,136
Decrease in other liabilities	(12,360,694)	(2,571,243)
Net Cash Provided	46,560,205	74,947,094
CASH FLOWS FROM INVESTING ACTIVITIES:		
Loans originated or purchased	(474,518,236)	(476,703,192)
Loan payments	370,261,142	360,884,437
Purchases of securities, available for sale	(30,333,953)	(27,389,663)
Redemptions of securities, available for sale	15,605,000	20,885,000
Capital Expenditures	(3,308,006)	(3,358,384)
Proceeds from Sale of Fixed Assets	—	22,763
Net Cash Used	(122,294,053)	(125,659,039)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) / increase in senior demand notes	(15,705,428)	18,874,264
Advances on credit line	181,343,719	156,902,606
Payments on credit line	(139,574,719)	(159,802,606)
Commercial paper issued	93,516,075	124,974,424
Commercial paper redeemed	(71,258,922)	(53,365,629)
Subordinated debt securities issued	5,036,497	4,235,736
Subordinated debt securities redeemed	(5,877,172)	(4,879,025)
Dividends / distributions	(2,685,090)	(17,485,889)
Net Cash Provided	44,794,960	69,453,881
NET (DECREASE)/INCREASE IN CASH, CASH EQUIVALENTS AND RESTRICTED CASH	(30,938,888)	18,741,936
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, beginning	65,434,228	40,366,820
CASH, CASH EQUIVALENTS AND RESTRICTED CASH, ending	$ 34,495,340	$ 59,108,756
Cash paid during the year for -		
Interest Paid	$ 29,514,305	$ 19,795,232
Income Taxes Paid	3,124,842	3,003,000
Non-cash transactions for -		
ROU assets and associated liabilities	8,406,887	5,827,850

See Notes to Unaudited Condensed Consolidated Financial Statements

-NOTES TO UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-

Note 1 – Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of 1st Franklin Financial Corporation and subsidiaries (the "Company") should be read in conjunction with the audited consolidated financial statements of the Company and notes thereto as of December 31, 2022 and for the year then ended included in the Company's 2022 Annual Report filed with the Securities and Exchange Commission. Inter-company accounts and transactions have been eliminated from the condensed consolidated financial statements.

In the opinion of Management of the Company, the accompanying unaudited condensed consolidated financial statements contain all normal recurring adjustments necessary to present fairly the Company's consolidated financial position as of September 30, 2023 and December 31, 2022, its consolidated results of operations and comprehensive income for the three and nine months ended September 30, 2023 and 2022 and its consolidated cash flows for the nine months ended September 30, 2023 and 2022. While certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission, the Company believes that the disclosures herein are adequate to make the information presented not misleading.

The Company's financial condition and results of operations as of and for the three and nine months ended September 30, 2023 are not necessarily indicative of the results to be expected for the full fiscal year or any other future period. The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at and as of the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

The computation of earnings per share is self-evident from the accompanying Condensed Consolidated Statements of Income and Retained Earnings (Unaudited). The Company has no dilutive securities outstanding.

The following table provides a reconciliation of cash, cash equivalents and restricted cash (in 000's) reported in the condensed consolidated statements of cash flows:

	September 30, 2023	September 30, 2022
Cash and Cash Equivalents	$ 20,017	$ 46,680
Restricted Cash	14,478	12,429
Total Cash, Cash Equivalents and Restricted Cash	$ 34,495	$ 59,109

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

- Interest related revenues are specifically excluded from the scope of ASC Topic 606, Revenue from Contracts with Customers, and accounted for under ASC Topic 310, "Receivables".
- Insurance related revenues are subject to industry-specific guidance within the scope of ASC Topic 944, "Financial Services – Insurance".
- 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 Topic 606.

During the three months ended September 30, 2023, and 2022, the Company recognized interest related revenue of $73.4 million and $70.7 million, respectively, insurance related revenue of $14.4 million and $14.8 million, respectively, and other revenue from contracts with customers of $2.0 million and $1.8 million, respectively. During the nine months ended September 30, 2023, and 2022, the Company recognized interest related revenue of $212.0 million and $204.9 million, respectively, insurance related revenue of $41.8 million and $42.9 million, and other revenues of $5.6 million and $5.4 million, respectively.

Recent Accounting Pronouncements:

In March 2022 the Financial Accounting Standards Board ("FASB") issued an accounting update ("ASU No. 2022-02") eliminating the accounting for troubled debt restructurings (each, a "TDR") by creditors while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The amendment also requires disclosure of gross credit losses by year of origination for finance receivables. The amendments in this update are effective for annual and interim period beginning after December 15, 2022. The elimination of TDR guidance may be adopted prospectively for loan modifications after adoption or on a modified retrospective basis, which would also apply to loans previously modified, resulting in a cumulative effect adjustment to retained earnings in the period of adoption for changes in the allowance for credit losses.

The Company adopted the new standard on January 1, 2023 and elected to apply the new measurement prospectively. Adoption did not have a material impact, except for changes in disclosure required by the standard, in the footnotes to the Company's consolidated financial statements.

Note 2 – Loans

The Company's consumer loans are made to individuals, who may be new customers, existing customers (loan renewals), former customers or customers converting from a sales contract, in relatively small amounts for relatively short period of time. First and second mortgage loans on real estate are made in larger amounts and for longer periods of time. The Company also purchases sales finance contracts from various dealers. All loans and sales contracts are held for investment.

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

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 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 (in 000's):

	Nine Months Ended September 30,	
	2023	**2022**
Loans originated or purchased:		
Originated	$ 855,522	$ 882,362
Purchased	$ 32,882	$ 9,758
Less Non-Cash Reconciling items:		
Other Consumer renewed loans (live check and premier)	182,951	192,010
Other non-cash activity: unearned finance charges, origination fees, discounts, premiums, and deferred fees	230,935	213,649
Loans originated or purchased per Consolidated Statements of Cash Flows:	$ 474,518	$ 476,703

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.

The allowance for credit losses is based on the underlying financial instrument's amortized cost basis ("Amortized Cost Basis"), with the allowance representing the portion of Amortized Cost Basis the Company does not expect to recover due to credit losses. The following are included in the Company's Amortized Cost Basis:

- For pre-computed loans: Principal Balance, net of unearned finance charges and unearned insurance[1].
- For interest-bearing loans: Principal Balance, net of unearned insurance[1].

[1] The state of Louisiana classifies certain insurance products as non-refundable. Non-refundable products are not netted against the principal balance for calculation of the amortized cost basis.

The Company's Gross Balances (in 000's) by loan class as of September 30, 2023 and December 31, 2022:

Gross Balance (in 000's) by Origination Year as of September 30, 2023:

Loan Class	2023	2022	2021	2020	2019	Prior	Total
Live Check Loans	$ 123,848	$ 30,310	$ 3,990	$ 596	$ 60	$ 19	$ 158,823
Premier Loans	11,183	36,020	14,092	2,925	734	249	65,203
Other Consumer Loans	466,578	180,653	55,472	10,739	3,417	1,155	718,014
Real Estate Loans	2,054	1,437	11,277	4,951	4,443	6,741	30,903
Sales Finance Contracts	80,577	55,495	22,652	10,563	1,592	173	171,052
Total	$ 684,240	$ 303,915	$ 107,483	$ 29,774	$ 10,246	$ 8,337	$ 1,143,995

Gross Balance (in 000's) by Origination year as of December 31, 2022:

Loan Class	2022	2021	2020	2019	2018	Prior	Total
Live Check Loans	$ 129,140	$ 15,432	$ 2,234	$ 292	$ 32	$ 10	$ 147,140
Premier Loans	68,166	29,236	7,155	2,101	528	82	107,268
Other Consumer Loans	482,667	136,511	24,941	8,134	2,333	526	655,112
Real Estate Loans	3,640	13,216	6,098	5,261	3,876	4,517	36,608
Sales Finance Contracts	85,001	37,060	19,145	3,817	585	68	145,676
Total	$ 768,614	$ 231,455	$ 59,573	$ 19,605	$ 7,354	$ 5,203	$ 1,091,804

The Company's Gross Balance (in 000's) on non-accrual loans by loan class as of September 30, 2023 and December 31, 2022 are as follows:

Loan Class	September 30, 2023	December 31, 2022
Live Check Loans	$ 9,839	$ 13,527
Premier Loans	3,227	4,738
Other Consumer Loans	30,966	41,240
Real Estate Loans	1,264	1,870
Sales Finance Contracts	6,142	5,656
Total	$ 51,438	$ 67,031

Age analysis of Gross Balance (in 000's) on past due loans, segregated by loan class, as of September 30, 2023:

Loan Class	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due Loans
Live Check Loans	$ 5,296	$ 3,315	$ 6,307	$ 14,918
Premier Loans	1,308	941	2,178	4,427
Other Consumer Loans	20,824	12,039	23,181	56,044
Real Estate Loans	725	421	1,353	2,499
Sales Finance Contracts	4,028	2,203	4,081	10,312
Total	$ 32,181	$ 18,919	$ 37,100	$ 88,200

Age analysis of Gross Balance (in 000's) on past due loans, segregated by loan class, as of December 31, 2022:

Loan Class	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due Loans
Live Check Loans	$ 6,217	$ 4,524	$ 8,232	$ 18,973
Premier Loans	2,164	1,302	2,416	5,882
Other Consumer Loans	24,681	14,373	26,818	65,872
Real Estate Loans	894	436	1,380	2,710
Sales Finance Contracts	4,257	2,066	3,315	9,638
Total	$ 38,213	$ 22,701	$ 42,161	$ 103,075

While aging analysis is the primary credit quality indicator, we also consider loans in non-accrual status, loan restructures where the borrower is experiencing financial difficulty, the ratio of bankrupt accounts to the total Gross Outstanding, and economic factors in evaluating whether any qualitative adjustments were necessary to the allowance for credit losses.

The ratio of bankrupt accounts to the Gross Balance was 1.51% at September 30, 2023, compared to 1.56% at December 31, 2022.

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 Gross Balance in each segment of the portfolio as of September 30, 2023 based on year of origination:

Payment Performance by Origination Year (in thousands)

	2023(1)	2022	2021	2020	2019	Prior	Total Gross Balance Balance
Live Check Loans:							
Performing	$ 117,682	$ 26,957	$ 3,708	$ 562	$ 57	$ 19	$ 148,985
Nonperforming	6,166	3,353	282	34	3	—	9,838
	$ 123,848	$ 30,310	$ 3,990	$ 596	$ 60	$ 19	$ 158,823
Premier Loans:							
Performing	$ 11,013	$ 34,068	$ 13,217	$ 2,756	$ 698	$ 222	$ 61,974
Nonperforming	170	1,952	875	169	36	27	3,229
	$ 11,183	$ 36,020	$ 14,092	$ 2,925	$ 734	$ 249	$ 65,203
Other Consumer Loans:							
Performing	$ 454,975	$ 167,107	$ 50,997	$ 9,797	$ 3,119	$ 1,054	$ 687,049
Nonperforming	11,603	13,546	4,475	942	298	101	30,965
	$ 466,578	$ 180,653	$ 55,472	$ 10,739	$ 3,417	$ 1,155	$ 718,014
Real Estate Loans:							
Performing	$ 2,054	$ 1,400	$ 10,754	$ 4,710	$ 4,227	$ 6,495	$ 29,640
Nonperforming	—	37	523	241	216	246	1,263
	$ 2,054	$ 1,437	$ 11,277	$ 4,951	$ 4,443	$ 6,741	$ 30,903
Sales Finance Contracts:							
Performing	$ 78,852	$ 53,171	$ 21,391	$ 9,917	$ 1,427	$ 151	$ 164,909
Nonperforming	1,725	2,324	1,261	646	165	22	6,143
	$ 80,577	$ 55,495	$ 22,652	$ 10,563	$ 1,592	$ 173	$ 171,052

(1) Includes loans originated during the nine months ended September 30, 2023.

In March 2022 the Financial Accounting Standards Board ("FASB") issued an accounting update ("ASU No. 2022-02") eliminating the accounting for troubled debt restructurings (each, a "TDR") by creditors while enhancing the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. The amendment also requires disclosure of gross credit losses by year of origination for finance receivables. The amendments in this update are effective for annual and interim periods beginning after December 15, 2022. The elimination of TDR guidance and enhanced disclosure requirements were adopted prospectively for loan modifications after adoption. These enhanced disclosures are presented herein for periods since adoption.

Modifications that lower the principal balance experience a direct charge-off for the difference of the original and modified principal amount. The Company only lowers the principal balance due in the event of a court order. The information relating to modifications made to borrowers experiencing financial difficulty (dollars in 000's) for the period indicated are as follows:

	Three months ended September 30, 2023 (in 000's)									
Loan Class	Interest Rate Reduction		Term Extension		Principal Forgiveness		Combination - Term Extension and Principal Forgiveness		Combination - Term Extension and Interest Rate Reduction	
Live Check Loans	$ 1,225	3.1 %	$ 503	1.3 %	$ 627	1.6 %	$ 677	1.7 %	$ 352	0.9 %
Premier Loans	268	1.6 %	375	2.3 %	176	1.1 %	533	3.3 %	309	1.9 %
Other Consumer Loans	3,245	1.8 %	3,969	2.2 %	2,225	1.2 %	7,651	4.3 %	4,721	2.6 %
Real Estate Loans	119	1.6 %	—	— %	—	— %	—	— %	—	— %
Sales Finance Contracts	207	0.5 %	298	0.7 %	459	1.1 %	1,614	3.8 %	192	0.5 %
Total	$ 5,064	1.8 %	$ 5,145	1.8 %	$ 3,487	1.2 %	$ 10,475	3.7 %	$ 5,574	2.0 %

	Nine months ended September 30, 2023 (in 000's)									
Loan Class	Interest Rate Reduction		Term Extension		Principal Forgiveness		Combination - Term Extension and Principal Forgiveness		Combination - Term Extension and Interest Rate Reduction	
Live Check Loans	$ 3,749	3.1 %	$ 1,622	1.4 %	$ 1,895	1.6 %	$ 2,106	1.8 %	$ 876	0.7 %
Premier Loans	1,011	2.1 %	1,190	2.4 %	613	1.3 %	1,456	3.0 %	1,008	2.1 %
Other Consumer Loans	8,939	1.7 %	10,353	1.9 %	7,156	1.3 %	21,657	4.0 %	12,908	2.4 %
Real Estate Loans	282	1.3 %	5	— %	25	0.1 %	—	— %	17	0.1 %
Sales Finance Contracts	480	0.4 %	577	0.4 %	1,372	1.1 %	4,677	3.6 %	475	0.4 %
Total	$ 14,461	1.7 %	$ 13,747	1.6 %	$ 11,061	1.3 %	$ 29,896	3.5 %	$ 15,284	1.8 %

The financial effects of the modifications made to borrowers experiencing financial difficulty in the three months ended September 30, 2023 are as follows:

Loan Modification	Loan Class	Financial Effect
Principal Forgiveness	Live Check Loans	Reduced the gross balance of the loans $0.6 million
	Premier Loans	Reduced the gross balance of the loans $0.2 million
	Other Consumer Loans	Reduced the gross balance of the loans $2.2 million
	Real Estate Loans	No Financial Effect
	Sales Finance Contracts	Reduced the gross balance of the loans $0.5 million
Interest Rate Reduction	Live Check Loans	Reduced the weighted-weighted average contractual interest rate from 27.1% to 16.8%
	Premier Loans	Reduced the weighted-weighted average contractual interest rate from 20.6% to 16.0%
	Other Consumer Loans	Reduced the weighted-weighted average contractual interest rate from 29.1% to 18.8%
	Real Estate Loans	Reduced the weighted-weighted average contractual interest rate from 18.2% to 6.0%
	Sales Finance Contracts	Reduced the weighted-weighted average contractual interest rate from 21.3% to 13.3%
Term Extension	Live Check Loans	Added a weighted average 12 months to the term
	Premier Loans	Added a weighted average 26 months to the term
	Other Consumer Loans	Added a weighted average 16 months to the term
	Real Estate Loans	No Financial Effect
	Sales Finance Contracts	Added a weighted average 28 months to the term

The financial effects of the modifications made to borrowers experiencing financial difficulty in the nine months ended September 30, 2023 are as follows:

Loan Modification	Loan Class	Financial Effect
Principal Forgiveness	Live Check Loans	Reduced the gross balance of the loans $1.9 million
	Premier Loans	Reduced the gross balance of the loans $0.6 million
	Other Consumer Loans	Reduced the gross balance of the loans $7.2 million
	Real Estate Loans	No Financial Effect
	Sales Finance Contracts	Reduced the gross balance of the loans $1.4 million
Interest Rate Reduction	Live Check Loans	Reduced the weighted-weighted average contractual interest rate from 26.9% to 17.0%
	Premier Loans	Reduced the weighted-weighted average contractual interest rate from 20.3% to 15.4%
	Other Consumer Loans	Reduced the weighted-weighted average contractual interest rate from 29.1% to 19.2%
	Real Estate Loans	Reduced the weighted-weighted average contractual interest rate from 18.4% to 6.6%
	Sales Finance Contracts	Reduced the weighted-weighted average contractual interest rate from 21.7% to 14.8%
Term Extension	Live Check Loans	Added a weighted average 13 months to the term
	Premier Loans	Added a weighted average 22 months to the term
	Other Consumer Loans	Added a weighted average 16 months to the term
	Real Estate Loans	Added a weighted average 43 months to the term
	Sales Finance Contracts	Added a weighted average 17 months to the term

Loans modified for borrowers experiencing financial difficulty during the prior 12 months that subsequently charged off during the three and nine month periods ended September 30, 2023 (in 000's):

	Three Months Ended September 30, 2023				
Loan Class	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination- Term Extension and Principal Forgiveness	Combination - Term Extension and Interest Rate Reduction
Live Check Loans	$ 908	$ 142	$ 408	$ 166	$ 101
Premier Loans	125	100	85	96	99
Other Consumer Loans	1,554	832	909	1,244	852
Real Estate Loans	—	—	—	—	—
Sales Finance Contracts	73	101	159	330	20
Total	$ 2,660	$ 1,175	$ 1,561	$ 1,836	$ 1,072

	Nine Months Ended September 30, 2023				
Loan Class	Interest Rate Reduction	Term Extension	Principal Forgiveness	Combination- Term Extension and Principal Forgiveness	Combination - Term Extension and Interest Rate Reduction
Live Check Loans	$ 2,326	$ 221	$ 697	$ 221	$ 226
Premier Loans	366	148	242	144	183
Other Consumer Loans	4,002	1,143	1,877	2,047	1,630
Real Estate Loans	—	—	5	—	—
Sales Finance Contracts	153	160	234	523	49
Total	$ 6,847	$ 1,672	$ 3,055	$ 2,935	$ 2,088

The aging for loans that were modified to borrowers experiencing financial difficulty in the past 12 months (in 000's):

	September 30, 2023			
Loan Class	Current	30 - 89 Past Due	90+ Past Due	Total
Live Check Loans	$ 12,070	$ 1,153	$ 1,752	$ 14,975
Premier Loans	6,876	855	911	8,642
Other Consumer Loans	78,198	10,007	11,283	99,488
Real Estate Loans	219	38	293	550
Sales Finance Contracts	9,524	1,276	1,442	12,242
Total	$ 106,887	$ 13,329	$ 15,681	$ 135,897

Prior to January 1, 2023, the Company classified a receivable as a TDR when the Company modified a loan's contractual terms for economic or other reasons related to the borrower's financial difficulties and granted a concession that would not have otherwise been considered.

The following table presents a summary of loans that were restructured during the three months ended September 30, 2022 ($ in 000's):

Loan Class	Number Of Loans	Pre-Modification Gross Balance	Post-Modification Gross Balance
Live Check Loans	2,014	$ 3,451	$ 3,408
Premier Loans	307	2,032	1,989
Other Consumer Loans	6,500	26,060	25,414
Real Estate Loans	6	48	48
Sales Finance Contracts	343	2,440	2,371
Total	9,170	$ 34,031	$ 33,230

The following table presents a summary of loans that were restructured during the nine months ended September 30, 2022 ($ in 000's):

Loan Class	Number Of Loans	Pre-Modification Gross Balance	Post-Modification Gross Balance
Live Check Consumer Loans	4,401	$ 7,847	$ 7,726
Premier Consumer Loans	685	4,539	4,420
Other Consumer Loans	15,740	61,206	59,388
Real Estate Loans	18	163	161
Sales Finance Contracts	799	5,875	5,684
Total	21,643	$ 79,630	$ 77,379

TDRs that occurred during the twelve months ended September 30, 2022 and subsequently defaulted during the three months ended September 30, 2022 are listed below ($ in 000's):

Loan Class	Number Of Loans	Pre-Modification Gross Balance
Live Check Loans	816	$ 1,359
Premier Loans	61	349
Other Consumer Loans	1,831	4,453
Real Estate Loans	1	2
Sales Finance Contracts	78	381
Total	2,787	$ 6,544

TDRs that occurred during the twelve months ended September 30, 2022 and subsequently defaulted during the nine months ended September 30, 2022 are listed below ($ in 000's):

Loan Class	Number Of Loans	Pre-Modification Gross Balance
Live Check Consumer Loans	1,583	$ 2,787
Premier Consumer Loans	132	724
Other Consumer Loans	4,130	9,572
Real Estate Loans	1	2
Sales Finance Contracts	137	667
Total	5,983	$ 13,752

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. When the Company implemented ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (“ASU 2016-13”) loans outstanding with similar risk characteristics were collectively evaluated in pools utilizing an open pool method, whereby a historical loss rate was calculated and applied to the balance of loans outstanding in the portfolio at each reporting period. This historical loss rate was then adjusted by a macroeconomic forecast and other qualitative factors, as appropriate, to fully reflect the expected losses in the loan portfolio.

For the period ending September 30, 2023 we utilized a Probability of Default (“PD”) / Loss Given Default (“LGD”) technique to estimate the allowance for credit losses, in which the estimated loss is equal to the product of PD and LGD. Historical net finance receivables are tracked over the term of the loan pools to identify the instances of loss (PDs) and the average severity of losses (LGDs). We engaged a major rating service provider to assist with incorporating a reasonable and supportable forecast which is utilized to support the adjustments of our historical loss experience. Key segmentation in the technique is origination vintage, remaining contractual term, risk score and state of origination. The technique produces a variety of alternative economic scenarios. We consider how macroeconomic and/or other factors might impact expected credit losses over the remaining maturity of the portfolio and determine which scenario(s) and specific scenario weights are applied within the estimation. The allowance for credit losses recorded in the balance sheet reflects Management’s best estimate of expected credit losses. There was not a material impact on the Company’s expected credit losses as a result of the change. The output of both models was within the range of acceptable values.

Determining a proper allowance for credit losses is a critical accounting estimate. Estimates used in determining the credit 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.

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 grade delinquency rules, generally when two payments remain unpaid on precomputed loans or when the interest paid-to-date on 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 when the interest paid-to-date on an interest-bearing loan is less than 60 days past due. There were no loans that met the non-accrual policy still accruing interest at September 30, 2023 or December 31, 2022.

The allowance for credit losses decreased by $4.2 million to $71.0 million as of September 30, 2023, compared to $75.2 million at 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, is appropriate to cover expected credit losses on loans at September 30, 2023; 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.

Gross charge offs by origination year during the three months ended September 30, 2023 (in 000's):

Loan Class	2023	2022	2021	2020	2019	Prior	Total
Live Check Loans	$ 3,432	$ 3,666	$ 333	$ 25	$ 7	$ 16	$ 7,479
Premier Loans	81	1,084	426	126	41	9	1,766
Other Consumer Loans	2,607	9,292	2,700	360	205	166	15,330
Real Estate Loans	—	—	—	5	—	2	8
Sales Finance Contracts	176	1,040	542	315	91	20	2,184
Total	$ 6,297	$ 15,082	$ 4,001	$ 831	$ 344	$ 213	$ 26,768

Gross charge offs by origination year during the nine months ended September 30, 2023 (in 000's):

Loan Class	2023	2022	2021	2020	2019	Prior	Total
Live Check Loans	$ 3,586	$ 17,899	$ 1,957	$ 151	$ 36	$ 46	$ 23,675
Premier Loans	81	3,336	1,851	394	168	41	5,871
Other Consumer Loans	2,713	31,080	12,401	1,787	749	524	49,254
Real Estate Loans	—	—	1	12	1	11	25
Sales Finance Contracts	190	3,269	2,043	1,259	239	59	7,059
Total	$ 6,570	$ 55,584	$ 18,253	$ 3,603	$ 1,193	$ 681	$ 85,884

Segmentation of the portfolio began with the adoption of ASC Topic 326 on January 1, 2020. The following table provides additional information on our allowance for credit losses (in 000's) based on a collective evaluation.

	Three Months Ended September 30, 2023					
	Live Check Loans	Premier Loans	Other Consumer Loans	Real Estate Loans	Sales Finance Contracts	Total
Allowance for Credit Losses:						
Ending Balance 6/30/2023	$ 15,289	$ 3,860	$ 47,665	$ 142	$ 9,293	$ 76,249
Provision for Credit Losses	1,667	1,956	6,502	2,109	2,593	$ 14,827
Charge-offs	(7,479)	(1,766)	(15,328)	(9)	(2,184)	$ (26,766)
Recoveries	1,431	380	4,355	2	502	$ 6,670
Ending Balance 9/30/2023	$ 10,908	$ 4,430	$ 43,194	$ 2,244	$ 10,204	$ 70,980

	Nine Months Ended September 30, 2023					
	Live Check Loans	Premier Loans	Other Consumer Loans	Real Estate Loans	Sales Finance Contracts	Total
Allowance for Credit Losses:						
Balance as of 12/31/2022	$ 14,896	$ 6,108	$ 46,412	$ 143	$ 7,651	$ 75,210
Provision for Credit Losses	15,649	3,145	33,213	2,122	8,107	$ 62,236
Charge-offs	(23,675)	(5,871)	(49,254)	(25)	(7,059)	$ (85,884)
Recoveries	4,038	1,048	12,823	4	1,505	$ 19,418
Ending Balance 9/30/2023	$ 10,908	$ 4,430	$ 43,194	$ 2,244	$ 10,204	$ 70,980

Comparative information of the collective evaluation of the Company's allowance for credit losses (in 000's) is presented the following table.

	Three Months Ended		Nine Months Ended	
	September 30, 2023	September 30, 2022	September 30, 2023	September 30, 2022
Allowance for Credit Losses:				
Beginning Balance	$ 76,249	$ 68,302	$ 75,210	$ 67,311
Provision for credit losses	$ 14,827	$ 24,968	$ 62,236	$ 57,024
Charge-offs	$ (26,766)	$ (25,547)	$ (85,884)	$ (67,381)
Recoveries	$ 6,670	$ 5,504	$ 19,418	$ 16,272
Ending balance; collectively evaluated for impairment	$ 70,980	$ 73,227	$ 70,980	$ 73,227

Note 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 (in 000's):

	As of September 30, 2023		As of December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Available-for-Sale				
Obligations of states and political subdivisions	$ 268,254	$ 216,027	$ 253,068	$ 219,648
Corporate securities	$ 401	$ 401	$ 380	$ 380
Total	$ 268,655	$ 216,428	$ 253,448	$ 220,028

Gross unrealized losses on investment securities totaled $52.3 million and $34.5 million at September 30, 2023 and December 31, 2022, respectively. The following table provides an analysis of investment securities in an unrealized loss position (in 000's) for which an allowance for credit losses is unnecessary as of September 30, 2023 and December 31, 2022:

	Less than 12 Months		12 Months or Longer		Total	
September 30, 2023	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Obligations of states and political subdivisions	$ 107,705	$ (10,436)	$ 101,481	$ (41,877)	$ 209,186	$ (52,313)

	Less than 12 Months		12 Months or Longer		Total	
December 31, 2022	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for Sale:						
Obligations of states and political subdivisions	$ 118,495	$ (9,328)	$ 42,314	$ (25,126)	$ 160,809	$ (34,454)

The previous two tables represent 257 and 184 investments held by the Company at September 30, 2023 and December 31, 2022, respectively, the majority of which are rated “A” or higher by Moody’s and/or Standard & Poor’s. The unrealized losses on the Company’s investments listed in the above table were primarily 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, no other than temporary impairment was determined to be necessary as of September 30, 2023 and December 31, 2022.

No securities were sold to date in 2023. Additionally, the Company sold no securities during the year ended December 31, 2022. Proceeds from redemption of investments due the exercise of call provisions by the issuers thereof and regularly scheduled maturities totaled $15.6 million with a net gain of $0.2 million and $26.8 million with a net gain of $0.6 million as of September 30, 2023 and December 31, 2022, respectively.

The Company’s insurance subsidiaries internally designate certain investments as restricted to cover their policy reserves and loss reserves. Funds are held in separate trusts for the benefit of each insurance subsidiary at U.S. Bank National Association ("US Bank"). US Bank serves as trustee under trust agreements with the Company's property and casualty insurance company subsidiary (“Frandisco P&C”), as grantor, and American Bankers Insurance Company of Florida, as beneficiary. At September 30, 2023, these trusts held $43.1 million in available-for-sale investment securities at market value. US Bank also serves as trustee under trust agreements with the Company's life insurance company subsidiary (“Frandisco Life”), as grantor, and American Bankers Life Assurance Company, as beneficiary. At September 30, 2023, these trusts held $27.1 million in available-for-sale investment securities at market value. The amounts required to be held in each trust change as required reserves change. All earnings on assets in the trusts are remitted to the Company's insurance subsidiaries.

Note 4 – Fair Value

Under ASC Topic 820, fair value is the price that would be received upon sale of an asset or paid to transfer a liability in an orderly transaction between market participants at 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 instrument’s level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurements.

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 following methods and assumptions are used by the Company in estimating fair values of its financial instruments:

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

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

Marketable Debt Securities: Management has designated the Company's investment securities held in the Company's investment portfolio at September 30, 2023 and December 31, 2022 as being available-for-sale. 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; therefore, Marketable Debt Securities are classified as a Level 2 financial asset.

Corporate Securities: The Company estimates the fair value of corporate securities with readily determinable fair values based on quoted prices observed in active markets; therefore, these investments are classified as a Level 1 financial asset.

Senior Debt Securities: 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 Securities: 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.

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

Assets measured at fair value (in 000's) as of September 30, 2023 and December 31, 2022 were available-for-sale investment securities which are summarized below:

		Fair Value Measurements at Reporting Date Using		
Description	September 30, 2023	Quoted Prices In Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level2)	Significant Unobservable Inputs (Level3)
Corporate securities	$ 401	$ 401	$ —	$ —
Obligations of states and political subdivisions	216,027	—	216,027	—
Total	$ 216,428	$ 401	$ 216,027	$ —

		Fair Value Measurements at Reporting Date Using		
Description	December 31, 2022	Quoted Prices In Active Markets for Identical Assets (Level1)	Significant Other Observable Inputs (Level2)	Significant Unobservable Inputs (Level3)
Corporate securities	$ 380	$ 380	$ —	$ —
Obligations of states and political subdivisions	219,648	—	219,648	—
Total	$ 220,028	$ 380	$ 219,648	$ —

Note 5 – 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. Lease payments during the nine-month period ended September 30, 2023 were $6.3 million compared to $5.8 million for the same period in the prior year. The Company's lease maturities schedules as of September 30, 2023 and September 30, 2022 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 date 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 the ASC Topic 842 adoption date. 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 condensed consolidated statement of income.

Remaining lease terms range from 1 to 10 years. 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 ASC Topic 842. Operating leases with a term of 12 months or less are not recorded on the balance sheet and the related lease expense is recognized on a straight-line basis over the lease term. Operating lease ROU assets and operating lease liabilities were $41.7 million and $42.8 million at September 30, 2023, respectively and $37.9 million and $38.7 million at September 30, 2022, respectively. At December 31, 2022 the operating lease ROU assets and operating liabilities were $38.2 million and $39.0 million, respectively.

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

	Three Months Ended September 30, 2023	Nine Months Ended September 30, 2023
Operating lease expense	$ 2,150,405	$ 6,282,110
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	2,094,556	6,146,441
Weighted-average remaining lease term – operating leases	7.09 years	
Weighted-average discount rate – operating leases	5.28 %	

Lease maturity schedule as of September 30, 2023:	Amount
Remainder of 2023	$ 2,131,167
2024	8,307,997
2025	7,912,595
2026	7,364,052
2027	6,547,830
2028 and beyond	19,155,793
Total	51,419,434
Less: Discount	(8,657,091)
Present Value of Lease Liability	$ 42,762,343

	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2022
Operating lease expense	$ 1,982,602	$ 5,827,850
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	1,938,062	5,725,541
Weighted-average remaining lease term – operating leases	7.17 years	
Weighted-average discount rate – operating leases	4.72 %	

Lease maturity schedule as of September 30, 2022:	Amount
Remainder of 2022	$ 1,967,552
2023	7,506,393
2024	6,709,791
2025	6,344,271
2026	5,777,773
2027 and beyond	17,343,550
Total	45,649,330
Less: Discount	(6,910,443)
Present Value of Lease Liability	$ 38,738,887

Note 6 – 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 and the amount of loss or range of loss can be reasonably estimated. If an unfavorable outcome is probable 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 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 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.

As previously disclosed, the Company suffered a cyber-attack against certain systems within the Company's network environment on or about November 17, 2022. There were no material developments regarding this attack during the quarter ended September 30, 2023. For previously reported information about the November 17, 2022 incident, refer to "Item 1A: Risk Factors" and “Item 3. Legal Proceedings” in our Annual Report on Form 10-K for the year ended December 31, 2022 and “Part II. Other information, Item 1. Legal Proceedings” and “Notes to Unaudited Condensed Consolidated Financial Statements – Note 6 – Commitments and Contingencies” in our subsequent Quarterly Reports on Form 10-Q for the quarters ended March 31, 2023 and June 30, 2023.

The Company incurred investigation and remediation costs totaling $5 million as of September 30, 2023. As of September 30, 2023, the company has recovered $3.7 million, leaving an unrecovered amount of $1.3 million. This unrecovered amount is recognized in the Company's consolidated statements of income and retained earnings in other expenses. 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.

Note 7 – 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 rate was 13% and 52% during the three and nine months ended September 30, 2023, respectively, compared to 43% and 16% during the same periods ended September 30, 2022. The effective income tax rate differs from the statutory rate due to changes in the proportion of income earned by the Company's insurance subsidiaries.

Note 8 – Credit Agreement

The Company is party to a credit agreement with Wells Fargo Bank, N.A. As amended to date, the credit agreement provides for borrowings and reborrrowings up to the lesser of $230.0 million or 70% of the Company's net finance receivables (as defined in the credit agreement). Available borrowings under the credit agreement were $120.7 million and $162.5 million at September 30, 2023 and December 31, 2022, at interest rates of 8.18% and 6.97%, respectively. Outstanding borrowings on the credit line were $109.3 million and $67.5 million at September 30, 2023 and December 31, 2022, respectively. The credit agreement contains covenants customary for financing transactions of this type. Required monthly reports include the Company's performance on its covenants. The credit agreement has a commitment termination date of February 28, 2025.

Note 9 – Related Party Transactions

The Company leased a portion of its properties (see Note 5) for an aggregate of $156,800 per year from certain officers or stockholders.

The Company engages from time to time in transactions with related parties. 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 $2.1 million at September 30, 2023. The terms of this loan are not equivalent to those that prevail in the Company's arm's-length transactions.

The Company also has a loan for premium payments to a trust of a retired executive officer's irrevocable life insurance policy. The principal balance on this loan at September 30, 2023 was $0.5 million. Please refer to the disclosure contained in Note 12 "Related Party Transactions" in the Notes to Consolidated Financial Statements in the Company's Annual Report on Form 10-K as of and for the year ended December 31, 2022 for additional information on related party transactions.

Note 10 – Segment Financial Information

The Company discloses segment information in accordance with ASC Topic 280. ASC Topic 280 requires companies to determine segments based on how Management makes decisions about allocating resources to segments and measuring their performance.

The Company has ten divisions which comprise its operations. Each division consists of branch offices that are aggregated based on vice president responsibility and geographic location. Each state has one vice president of operations, with the exception of Georgia. Georgia is split into three divisions, North Georgia ("NGA"), Middle Georgia ("MGA"), and South Georgia ("SGA"). Tennessee and Kentucky ("TN & KY") branches share a vice president and are segmented as one division.

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

Below is a performance recap of each of the Company's divisions for the nine-month periods ended September 30, 2023, and 2022, followed by a reconciliation to consolidated Company data.

	SC Division	MGA Division	SGA Division	AL Division	MS Division	VA Division	TN & KY Division	LA Division	TX Division	NGA Division	Total
					(in thousands)						
Division Revenues:											
3 Months Ended 09/30/2023	$ 11,776	$ 11,172	$ 11,769	$ 13,178	$ 8,824	$ 102	$ 10,151	$ 7,602	$ 1,824	$ 9,850	$ 86,248
3 Months Ended 09/30/2022	$ 11,334	$ 11,092	$ 11,405	$ 12,737	$ 8,968	$ —	$ 8,882	$ 7,547	$ 1,204	$ 9,735	$ 82,904
9 Months Ended 09/30/2023	$ 33,847	$ 32,131	$ 33,768	$ 37,301	$ 26,017	$ 164	$ 27,834	$ 21,983	$ 4,726	$ 28,592	$ 246,363
9 Months Ended 09/30/2022	$ 32,518	$ 31,983	$ 33,367	$ 37,203	$ 26,008	$ —	$ 24,709	$ 21,846	$ 3,113	$ 28,108	$ 238,855
Division Profit:											
3 Months Ended 09/30/2023	$ 3,185	$ 3,459	$ 4,182	$ 3,760	$ 1,614	$ (85)	$ 1,663	$ (3,464)	$ (1,703)	$ 2,244	$ 14,855
3 Months Ended 09/30/2022	$ 3,227	$ 4,170	$ 4,724	$ 4,091	$ 2,717	$ —	$ 1,916	$ 2,049	$ (279)	$ 3,326	$ 25,941
9 Months Ended 09/30/2023	$ 7,526	$ 9,330	$ 11,917	$ 8,577	$ 4,777	$ (228)	$ 3,542	$ 4,339	$ (1,661)	$ 6,829	$ 54,948
9 Months Ended 09/30/2022	$ 11,006	$ 13,512	$ 14,598	$ 14,299	$ 9,230	$ —	$ 6,860	$ 7,016	$ (400)	$ 10,641	$ 86,762
Division Assets:											
09/30/2023	$123,460	$132,318	$128,832	$172,911	$ 97,173	$ 2,452	$119,072	$ 86,001	$ 27,317	$ 118,215	$ 1,007,751
12/31/2022	$121,529	$132,237	$128,774	$158,096	$ 97,977	$ 259	$100,205	$ 83,686	$ 17,206	$ 116,852	$ 956,821

	3 Months Ended 09/30/2023	3 Months Ended 09/30/2022	9 Months Ended 9/30/2023	9 Months Ended 9/30/2022
	(in 000's)	(in 000's)	(in 000's)	(in 000's)
Reconciliation of Revenues:				
Total revenues from reportable divisions	$ 86,248	$ 82,904	$ 246,363	$ 238,855
Corporate finance charges earned, not allocated to divisions	47	30	$ 132	76
Corporate investment income earned, not allocated to divisions	2,524	2,040	$ 7,428	5,834
Timing difference of insurance income allocation to divisions	1,051	2,356	$ 5,531	8,315
Other revenue not allocated to divisions	1	2	$ 64	21
Consolidated Revenues (1)	$ 89,871	$ 87,332	$ 259,518	$ 253,101

	3 Months Ended 09/30/2023	3 Months Ended 09/30/2022	9 Months Ended 9/30/2023	9 Months Ended 9/30/2022
	(in 000's)	(in 000's)	(in 000's)	(in 000's)
Reconciliation of Income Before Taxes:				
Profit per division	$ 21,255	$ 25,941	$ 54,948	$ 86,762
Corporate earnings not allocated	3,624	4,429	13,154	14,245
Corporate expenses not allocated	(14,334)	(27,229)	(61,504)	(80,845)
Consolidated Income Before Income Taxes	$ 10,545	$ 3,141	$ 6,598	$ 20,162

(1) Includes Finance Charge Income, Investment Income, Insurance Premium Revenues and Other Revenue.

BRANCH OPERATIONS

SOUTH CAROLINA

M. Summer Clevenger — Vice President

Regional Operations Directors

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

MIDDLE GEORGIA

Michael J. Whitaker — Vice President

Regional Operations Directors

Janet R. Brownlee	James A. Mahaffey
Ronald E. Byerly	Deloris O'Neal
Kathryn Landry	Harriet H. Welch

SOUTH GEORGIA

Michael E. Shankles — Vice President

Regional Operations Directors

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

NORTH GEORGIA

Jennifer C. Purser — Vice President

Regional Operations Directors

James D. Blalock	Nokie Moore
Kimberly L. Golka	April Pelphrey
Kevin M. Gray	F. Cliff Snyder

ALABAMA

Jerry W. Hughes — Vice President

Regional Operations Directors

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

MISSISSIPPI

Marty B. Miskelly — Vice President

Regional Operations Directors

Maurice J. Bize, Jr.	Teresa Grantham
Carla A. Eldridge	Rebecca L. Holloway
Jimmy R. Fairbanks, Jr.	

KENTUCKY and TENNESSEE

Joseph R. Cherry — Vice President

Chad Frederick — Assistant Vice President

Regional Operations Directors

Zack Coker	William N. Murillo
Brian M. Hill	Joshua C. Nickerson
Tammy R. Hood	Melissa D. Storck
J. Steven Knotts	Gary Zortman

LOUISIANA

John B. Gray — Vice President

Regional Operations Directors

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

TEXAS

Lori Sanchez — Vice President

Regional Operations Directors

Lauren Munoz	Brittany Rubio
Chadd Stewart	

VIRGINIA

M. Summer Clevenger — Vice President

BRANCH OPERATIONS

ALABAMA

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

GEORGIA

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

KENTUCKY

Cadiz	Hopkinsville	Madisonville	Paducah	Shelbyville	Somerset
Elizabethtown	Jackson	Morehead	Richmond	Shepherdsville	
Harlan	Louisville				

BRANCH OPERATIONS
(Continued)

LOUISIANA

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

MISSISSIPPI

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

SOUTH CAROLINA

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

TENNESSEE

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

TEXAS

Austin (2)	Corpus Christi	Longview	New Braunfels	San Antonio (2)	Texarkana
Bastrop	Huntsville	Lufkin	Pasadena	Temple	Victoria
Conroe	Katy	Missouri City	Pearland		

VIRGINIA

Abingdon	Mechanicsville

DIRECTORS

Ben F. Cheek, IV
Chairman
1st Franklin Financial Corporation

Ben F. Cheek, III
Chairman Emeritus
1st Franklin Financial Corporation

Virginia C. Herring
Vice Chairman, President and Chief Executive Officer
1st Franklin Financial Corporation

A. Roger Guimond
Retired Executive Officer,
1st Franklin Financial Corporation

Jim H. Harris, III
Retired Founder / Co-owner
Unichem Technologies
Retired Founder / Owner / President
Moonrise Distillery

Jerry J. Harrison, Jr.
Executive Vice President and Chief Strategy Officer
1st Franklin Financial Corporation

Donata Ison
Vice President of Finance
Armhr

John G. Sample, Jr.
CPA

C. Dean Scarborough
Retired Retail Business Owner

Keith D. Watson
Chairman
Bowen & Watson, Inc.

EXECUTIVE OFFICERS

Ben F. Cheek, IV
Chairman

Ben F. Cheek, III
Chairman Emeritus

Virginia C. Herring
Vice Chairman, President and Chief Executive Officer

Brian J. Gyomory
Executive Vice President and Chief Financial Officer

Julie I. Baker
Executive Vice President and Chief Information Security Officer

Daniel E. Clevenger, II
Executive Vice President and Chief Compliance Officer

Jerry J. Harrison, Jr.
Executive Vice President and Chief Strategy Officer

Gary L. McQuain
Executive Vice President and Chief Operating Officer

Mark J. Scarpitti
Executive Vice President and General Counsel
Corporate Secretary / Treasurer

Joseph A. Shaw
Executive Vice President and Chief Information Officer

Jeffrey R. Thompson
Executive Vice President and Chief Human Resources Officer

Chip Vercelli
Executive Vice President and Chief Regulatory and Government Affairs Officer

LEGAL COUNSEL

Jones Day
1221 Peachtree Street, N.E.
Suite 400
Atlanta, Georgia 30361

INDEPENDENT AUDITORS

Deloitte & Touche LLP
191 Peachtree Street, N.E.
Atlanta, Georgia 30303