

SECURITY NATIONAL FINANCIAL CORP

Form 10-Q/A

August 25, 2017

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q/A

Amendment No. 1

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF  
THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended March 31, 2017, or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

UTAH

(State or other jurisdiction of incorporation or organization)

87-0345941

(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250, Salt Lake City, Utah

(Address of principal executive offices)

84123

(Zip Code)

(801) 264-1060

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐

Accelerated filer ☐

Non-accelerated filer ☐ (Do not check if a smaller reporting company) Smaller reporting company ☒

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  
Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

|                                               |                                                    |
|-----------------------------------------------|----------------------------------------------------|
| <u>Class A Common Stock, \$2.00 par value</u> | <u>13,820,079</u>                                  |
| Title of Class                                | Number of Shares Outstanding as of<br>May 11, 2017 |

|                                               |                                                    |
|-----------------------------------------------|----------------------------------------------------|
| <u>Class C Common Stock, \$2.00 par value</u> | <u>2,005,026</u>                                   |
| Title of Class                                | Number of Shares Outstanding as of<br>May 11, 2017 |

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## EXPLANATORY NOTE

Security National Financial Corporation ("the Company") is filing this Amendment No. 1 on Form 10-Q/A (this "Form 10-Q/A") to amend its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, as originally filed with the Securities and Exchange Commission (the "SEC") on May 15, 2017 (the "Original Filing"), to restate its Condensed Consolidated Financial Statements and related disclosures as of March 31, 2017 and 2016. This Form 10-Q/A also amends certain other items in the Original Filing, as listed in "Items Amended in This Filing" below.

### Background and Effects of Restatement

Subsequent to the Original Filing, the Company identified errors relating to the application of accounting principles that related to its treatment of warehouse line repurchase agreements and its assessment of the tax valuation allowance, which is a component of the Company's deferred tax assets. As disclosed in the Current Report on Form 8-K that was filed by the Company with the SEC on August 4, 2017, the Company's management and the Audit Committee of its Board of Directors determined, based on the preliminary results of an internal investigation, that the Company's condensed consolidated and combined financial statements within its Quarterly Report on Form 10-Q for the quarter ended March 31, 2017, originally filed with the SEC on May 15, 2017, should no longer be relied upon as a result of these errors.

Along with restating its financial statements to correct the errors discussed above, the Company elected to record adjustments for certain immaterial accounting errors related to the periods covered in its Form 10-Q/A.

Related financial information in this Form 10-Q/A has been restated to reflect adjustments for the accounting errors related to the matters described above. For further details, see Note 13 "Correction of Errors." Restated balances have been identified with the notation "As Restated" where appropriate and the terms and "As Previously Reported" are used to refer to balances from the 2017 condensed consolidated financial statements as reported in the Original Filing.

The Company has not filed amendments to any previously filed Quarterly Reports on Form 10-Q to restate financial information presented for the periods affected by the restatement. The Company believes that presenting amended and restated unaudited quarterly financial information in this Form 10-Q/A allows the readers to review relevant data in a single presentation along with the revised evaluation of controls and procedures. Accordingly, investors should rely only on the financial information regarding the restated periods in this Form 10-Q/A or in future filings with the SEC (as applicable), and not on any previously filed reports relating to those periods.

### Items Amended in This Filing

For the convenience of the reader, this Amendment sets forth the information in the Original Filing, in its entirety, as such information is modified and superseded where necessary to reflect the restatement of the Company's condensed consolidated financial statements as a result of the errors discussed above. References throughout this document to "Form 10-Q" have been amended to "Form 10-Q/A" where appropriate. Except as noted below, this Amendment does not affect any other parts of the Original Filing, nor does it reflect events occurring after the date of the Original Filing or amend or otherwise update any information in the Original Filing. The following Items have been amended as a result of the restatement:

- Part I, Item 1. Financial Statements
- Part I, Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations
- Part I, Item 4. Controls and Procedures

In addition, in accordance with applicable SEC rules, this Amendment includes new certifications required by Rule 13a-14 under the Securities Exchange Act of 1934 ("Exchange Act") from the Company's Chief Executive Officer and Chief Financial Officer dated as of the date of filing of this Amendment. These certifications are filed as Exhibits

31.1, 31.2, 32.1 and 32.2.

#### Internal Control Consideration

The Company's management has reassessed its evaluation of the effectiveness of its internal control over financial reporting as of March 31, 2017. As a result of that reassessment, management identified additional material weaknesses that existed as of March 31, 2017. For a description of the material weaknesses, see Part I, Item 4.

"Controls and Procedures."

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q/A

QUARTER ENDED MARCH 31, 2017

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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

## Part I - Financial Information

## Item 1. Financial Statements.

|                                                                                                                                                              | March 31<br>2017<br>(As Restated)<br>(Unaudited) | December 31<br>2016<br>(As Restated) |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|
| Assets                                                                                                                                                       |                                                  |                                      |
| Investments:                                                                                                                                                 |                                                  |                                      |
| Fixed maturity securities, held to maturity, at amortized cost                                                                                               | \$ 186,445,498                                   | \$ 184,979,644                       |
| Equity securities, available for sale, at estimated fair value                                                                                               | 10,735,239                                       | 10,573,356                           |
| Mortgage loans on real estate and construction loans, held for investment net of allowances for loan losses of \$1,955,443 and \$1,748,783 for 2017 and 2016 | 134,123,773                                      | 149,181,578                          |
| Real estate held for investment, net of accumulated depreciation of \$16,732,122 and \$16,138,439 for 2017 and 2016                                          | 151,417,470                                      | 145,165,921                          |
| Policy loans and other investments, net of allowances for doubtful accounts of \$1,050,111 and \$1,119,630 for 2017 and 2016                                 | 41,773,152                                       | 40,937,146                           |
| Short-term investments                                                                                                                                       | 28,346,922                                       | 27,560,040                           |
| Accrued investment income                                                                                                                                    | 3,008,839                                        | 2,972,596                            |
| Total investments                                                                                                                                            | 555,850,893                                      | 561,370,281                          |
| Cash and cash equivalents                                                                                                                                    | 85,069,717                                       | 38,987,430                           |
| Mortgage loans sold to investors                                                                                                                             | 151,891,428                                      | 189,139,832                          |
| Receivables, net                                                                                                                                             | 6,302,801                                        | 6,373,364                            |
| Restricted assets                                                                                                                                            | 10,230,360                                       | 10,391,394                           |
| Cemetery perpetual care trust investments                                                                                                                    | 4,211,337                                        | 4,131,885                            |
| Receivable from reinsurers                                                                                                                                   | 13,227,385                                       | 13,079,668                           |
| Cemetery land and improvements                                                                                                                               | 10,641,141                                       | 10,672,836                           |
| Deferred policy and pre-need contract acquisition costs                                                                                                      | 71,643,040                                       | 69,118,745                           |
| Mortgage servicing rights, net                                                                                                                               | 19,432,993                                       | 18,872,362                           |
| Property and equipment, net                                                                                                                                  | 8,478,347                                        | 8,791,522                            |
| Value of business acquired                                                                                                                                   | 7,375,084                                        | 7,570,300                            |
| Goodwill                                                                                                                                                     | 2,765,570                                        | 2,765,570                            |
| Other                                                                                                                                                        | 12,397,267                                       | 10,413,394                           |
| Total Assets                                                                                                                                                 | \$959,517,363                                    | \$951,678,583                        |

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

|                                                                                                                                                 | March 31<br>2017<br>(As Restated)<br>(Unaudited) | December 31<br>2016<br>(As Restated) |
|-------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|--------------------------------------|
| Liabilities and Stockholders' Equity                                                                                                            |                                                  |                                      |
| Liabilities                                                                                                                                     |                                                  |                                      |
| Future life, annuity, and other benefits                                                                                                        | \$588,248,948                                    | \$584,067,692                        |
| Unearned premium reserve                                                                                                                        | 4,405,472                                        | 4,469,771                            |
| Bank and other loans payable                                                                                                                    | 153,594,078                                      | 152,140,679                          |
| Deferred pre-need cemetery and mortuary contract revenues                                                                                       | 12,350,470                                       | 12,360,249                           |
| Cemetery perpetual care obligation                                                                                                              | 3,624,895                                        | 3,598,580                            |
| Accounts payable                                                                                                                                | 3,113,519                                        | 4,213,109                            |
| Other liabilities and accrued expenses                                                                                                          | 34,128,938                                       | 33,950,503                           |
| Income taxes                                                                                                                                    | 25,370,027                                       | 24,318,869                           |
| Total liabilities                                                                                                                               | 824,836,347                                      | 819,119,452                          |
| Stockholders' Equity                                                                                                                            |                                                  |                                      |
| Preferred Stock - non-voting - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding                                        | -                                                | -                                    |
| Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 13,820,078 shares in 2017 and 13,819,006 shares in 2016          | 27,640,156                                       | 27,638,012                           |
| Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding                                    | -                                                | -                                    |
| Class C: convertible common stock - \$2.00 par value; 3,000,000 shares authorized; issued 1,901,624 shares in 2017 and 1,902,229 shares in 2016 | 3,803,248                                        | 3,804,458                            |
| Additional paid-in capital                                                                                                                      | 35,095,594                                       | 34,813,246                           |
| Accumulated other comprehensive income, net of taxes                                                                                            | 286,114                                          | 264,822                              |
| Retained earnings                                                                                                                               | 69,265,920                                       | 67,409,204                           |
| Treasury stock at cost - 686,549 Class A shares in 2017 and 704,122 Class A shares in 2016                                                      | (1,410,016 )                                     | (1,370,611 )                         |
| Total stockholders' equity                                                                                                                      | 134,681,016                                      | 132,559,131                          |
| Total Liabilities and Stockholders' Equity                                                                                                      | \$959,517,363                                    | \$951,678,583                        |

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS  
(As Restated) (Unaudited)

|                                                                                               | Three Months Ended<br>March 31 |               |
|-----------------------------------------------------------------------------------------------|--------------------------------|---------------|
|                                                                                               | 2017                           | 2016          |
| Revenues:                                                                                     |                                |               |
| Insurance premiums and other considerations                                                   | \$ 17,357,124                  | \$ 14,451,575 |
| Net investment income                                                                         | 9,563,282                      | 8,992,191     |
| Net mortuary and cemetery sales                                                               | 3,358,973                      | 3,245,856     |
| Realized gains on investments and other assets                                                | 145,330                        | 97,922        |
| Other than temporary impairments on investments                                               | (52,139 )                      | (73,630 )     |
| Mortgage fee income                                                                           | 38,427,854                     | 41,212,008    |
| Other                                                                                         | 2,028,873                      | 1,530,426     |
| Total revenues                                                                                | 70,829,297                     | 69,456,348    |
| Benefits and expenses:                                                                        |                                |               |
| Death benefits                                                                                | 8,794,598                      | 7,824,001     |
| Surrenders and other policy benefits                                                          | 857,531                        | 518,321       |
| Increase in future policy benefits                                                            | 5,568,042                      | 4,121,701     |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 2,264,039                      | 2,212,836     |
| Selling, general and administrative expenses:                                                 |                                |               |
| Commissions                                                                                   | 16,355,048                     | 19,210,968    |
| Personnel                                                                                     | 18,589,687                     | 17,197,372    |
| Advertising                                                                                   | 1,310,674                      | 1,078,010     |
| Rent and rent related                                                                         | 2,139,538                      | 2,064,325     |
| Depreciation on property and equipment                                                        | 625,812                        | 521,455       |
| Provision for loan loss reserve                                                               | -                              | -             |
| Costs related to funding mortgage loans                                                       | 2,219,649                      | 2,632,754     |
| Other                                                                                         | 7,430,951                      | 6,480,711     |
| Interest expense                                                                              | 1,254,039                      | 1,064,195     |
| Cost of goods and services sold-mortuaries and cemeteries                                     | 521,919                        | 458,619       |
| Total benefits and expenses                                                                   | 67,931,527                     | 65,385,268    |
| Earnings before income taxes                                                                  | 2,897,770                      | 4,071,080     |
| Income tax expense                                                                            | (1,037,770 )                   | (1,533,139 )  |
| Net earnings                                                                                  | \$ 1,860,000                   | \$ 2,537,941  |
| Net earnings per Class A Equivalent common share (1)                                          | \$0.12                         | \$0.17        |
| Net earnings per Class A Equivalent common share-assuming dilution (1)                        | \$0.12                         | \$0.17        |
| Weighted-average Class A equivalent common share outstanding (1)                              | 15,058,153                     | 14,656,450    |
| Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)           | 15,527,996                     | 15,112,278    |

(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).  
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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(As Restated) (Unaudited)

|                                                       | Three Months Ended<br>March 31 |             |
|-------------------------------------------------------|--------------------------------|-------------|
|                                                       | 2017                           | 2016        |
| Net earnings                                          | \$1,860,000                    | \$2,537,941 |
| Other comprehensive income:                           |                                |             |
| Net unrealized gains on derivative instruments        | 973                            | 1,669       |
| Net unrealized gains on available for sale securities | 20,319                         | 297,897     |
| Other comprehensive income                            | 21,292                         | 299,566     |
| Comprehensive income                                  | \$1,881,292                    | \$2,837,507 |

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY  
(As Restated) (Unaudited)

|                                     | Class A<br>Common<br>Stock | Class C<br>Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income | Retained<br>Earnings | Treasury<br>Stock | Total         |
|-------------------------------------|----------------------------|----------------------------|----------------------------------|-------------------------------------------------|----------------------|-------------------|---------------|
| Balance at<br>December 31,<br>2015  | \$26,218,200               | \$3,419,280                | \$30,232,582                     | \$(499,358 )                                    | \$60,525,404         | \$(2,179,429)     | \$117,716,679 |
| Net earnings                        | -                          | -                          | -                                | -                                               | 2,537,941            | -                 | 2,537,941     |
| Other<br>comprehensive<br>income    | -                          | -                          | -                                | 299,566                                         | -                    | -                 | 299,566       |
| Grant of stock<br>options           | -                          | -                          | 84,452                           | -                                               | -                    | -                 | 84,452        |
| Exercise of<br>stock options        | 56,920                     | -                          | 4,367                            | -                                               | -                    | -                 | 61,287        |
| Sale of treasury<br>stock           | -                          | -                          | 136,826                          | -                                               | -                    | 149,639           | 286,465       |
| Stock<br>Dividends                  | 274                        | 12,768                     | 30,779                           | -                                               | (43,821 )            | -                 | -             |
| Balance at<br>March 31, 2016        | \$26,275,394               | \$3,432,048                | \$30,489,006                     | \$(199,792 )                                    | \$63,019,524         | \$(2,029,790)     | \$120,986,390 |
| Balance at<br>December 31,<br>2016  | \$27,638,012               | \$3,804,458                | \$34,813,246                     | \$264,822                                       | \$67,409,204         | \$(1,370,611)     | \$132,559,131 |
| Net earnings                        | -                          | -                          | -                                | -                                               | 1,860,000            | -                 | 1,860,000     |
| Other<br>comprehensive<br>income    | -                          | -                          | -                                | 21,292                                          | -                    | -                 | 21,292        |
| Grant of stock<br>options           | -                          | -                          | 101,996                          | -                                               | -                    | -                 | 101,996       |
| Sale of treasury<br>stock           | -                          | -                          | 178,002                          | -                                               | -                    | 146,065           | 324,067       |
| Purchase of<br>treasury stock       | -                          | -                          | -                                | -                                               | -                    | (185,470 )        | (185,470 )    |
| Stock<br>Dividends                  | 930                        | 4                          | 2,350                            | -                                               | (3,284 )             | -                 | -             |
| Conversion<br>Class C to Class<br>A | 1,214                      | (1,214 )                   | -                                | -                                               | -                    | -                 | -             |
| Balance at<br>March 31, 2017        | \$27,640,156               | \$3,803,248                | \$35,095,594                     | \$286,114                                       | \$69,265,920         | \$(1,410,016)     | \$134,681,016 |

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).

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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS  
(As Restated) (Unaudited)

|                                                                          | Three Months Ended March 31 |               |
|--------------------------------------------------------------------------|-----------------------------|---------------|
|                                                                          | 2017                        | 2016          |
| Cash flows from operating activities:                                    |                             |               |
| Net cash provided by operating activities                                | \$30,431,376                | \$27,275,404  |
| Cash flows from investing activities:                                    |                             |               |
| Securities held to maturity:                                             |                             |               |
| Purchase-fixed maturity securities                                       | (2,575,997 )                | (4,481,397 )  |
| Calls and maturities - fixed maturity securities                         | 830,595                     | 2,470,005     |
| Securities available for sale:                                           |                             |               |
| Purchase - equity securities                                             | (4,190,458 )                | (1,651,302 )  |
| Sales - equity securities                                                | 4,092,734                   | 1,487,110     |
| Purchase of short-term investments                                       | (3,053,797 )                | (3,258,070 )  |
| Sales of short-term investments                                          | 2,266,915                   | 2,364,571     |
| Purchase of restricted assets                                            | 174,197                     | 1,242,342     |
| Changes in assets for perpetual care trusts                              | (104,731 )                  | (51,461 )     |
| Amount received for perpetual care trusts                                | 26,315                      | 11,735        |
| Mortgage loans, policy loans, and other investments made                 | (108,649,435)               | (112,920,364) |
| Payments received for mortgage loans, policy loans and other investments | 127,506,014                 | 99,348,725    |
| Purchase of property and equipment                                       | (312,640 )                  | (1,084,975 )  |
| Purchase of real estate                                                  | (3,103,471 )                | (3,432,051 )  |
| Sale of real estate                                                      | 2,891,887                   | 843,701       |
| Net cash provided by (used in) investing activities                      | 15,798,128                  | (19,111,431 ) |
| Cash flows from financing activities:                                    |                             |               |
| Annuity contract receipts                                                | 3,051,883                   | 2,516,596     |
| Annuity contract withdrawals                                             | (4,468,624 )                | (3,025,833 )  |
| Proceeds from stock options exercised                                    | -                           | 61,287        |
| Purchase of treasury stock                                               | (185,470 )                  | -             |
| Repayment of bank loans on notes and contracts                           | (673,454 )                  | (390,168 )    |
| Proceeds from borrowing on bank loans                                    | 7,255,187                   | 737,232       |
| Net change in warehouse line borrowings                                  | (6,376,739 )                | (1,412,370 )  |
| Change in line of credit borrowings                                      | 1,250,000                   | -             |
| Net cash used in financing activities                                    | (147,217 )                  | (1,513,256 )  |
| Net change in cash and cash equivalents                                  | 46,082,287                  | 6,650,717     |
| Cash and cash equivalents at beginning of period                         | 38,987,430                  | 40,053,242    |
| Cash and cash equivalents at end of period                               | \$85,069,717                | \$46,703,959  |
| Supplemental Disclosure of Cash Flow Information:                        |                             |               |
| Cash paid during the year for:                                           |                             |               |
| Interest (net of amount capitalized)                                     | \$1,234,420                 | \$1,079,891   |
| Income taxes (net of refunds)                                            | (3,215 )                    | 12,321        |

Non Cash Investing and Financing Activities:

|                                                                       |             |           |
|-----------------------------------------------------------------------|-------------|-----------|
| Accrued real estate construction costs and retainage                  | \$6,794,065 | \$-       |
| Transfer of loans held for sale to mortgage loans held for investment | 5,032,147   | 7,386,432 |
| Mortgage loans foreclosed into real estate                            | 204,839     | 87,000    |

See accompanying notes to condensed consolidated financial statements (as restated) (unaudited).

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q and Articles 8 and 10 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2016, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017. The presentation of certain amounts in the prior year have been reclassified to conform to the 2017 presentation. See additional discussion regarding correction of errors in Note 21 and 22 included in the Company's Form 10-K/A and in Note 13 of this Form 10-Q/A.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant changes in the near term are those used in determining the value of derivative assets and liabilities, those used in determining deferred acquisition costs and the value of business acquired, those used in determining the value of mortgage loans foreclosed to real estate held for investment, those used in determining the liability for future policy benefits and unearned revenue, those used in determining the estimated future costs for pre-need sales, those used in determining the value of mortgage servicing rights, those used in determining allowances for loan losses for mortgage loans on real estate, those used in determining loan loss reserve, and those used in determining deferred tax assets and liabilities. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

2) Recent Accounting Pronouncements

ASU No. 2016-13: "Financial Instruments – Credit Losses (Topic 326)" – Issued in June 2016, ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current generally accepted accounting principles ("GAAP") and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2019. The Company is in the process of evaluating the potential impact of this standard.

ASU No. 2016-02: "Leases (Topic 842)" - Issued in February 2016, ASU 2016-02 supersedes the leases requirements in ASC Topic 840, "Leases", and was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new authoritative guidance is effective for interim and annual periods beginning after December

15, 2018. The Company is in the process of evaluating the potential impact of this standard.

ASU No. 2016-01: "Financial Instruments – Overall (Topic 825-10)" – Issued in January 2016, ASU 2016-01 changes the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. Under current guidance, changes in fair value for investments of this nature are recognized in accumulated other comprehensive income as a component of stockholders' equity. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is in the process of evaluating the potential impact of this standard.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

2) Recent Accounting Pronouncements (Continued)

ASU No. 2014-09: "Revenue from Contracts with Customers (Topic 606)" - Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition", and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts are excluded from the scope of this new guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2017. The Company is in the process of evaluating the potential impact of this standard, which is not expected to be material to the Company's results of operations or financial position.

The Company has reviewed other recent accounting pronouncements and has determined that they will not significantly impact the Company's results of operations or financial position.

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of March 31, 2017 are summarized as follows:

|                                                                                             | Cost          | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---------------------------------------------------------------------------------------------|---------------|------------------------------|-------------------------------|----------------------------|
| <u>March 31, 2017</u>                                                                       |               |                              |                               |                            |
| Fixed maturity securities held to maturity carried at amortized cost:                       |               |                              |                               |                            |
| Bonds:                                                                                      |               |                              |                               |                            |
| U.S. Treasury securities and obligations of U.S.                                            |               |                              |                               |                            |
| Government agencies                                                                         | \$4,357,040   | \$244,853                    | \$(57,240)                    | \$4,544,653                |
| Obligations of states and political subdivisions                                            | 5,995,384     | 146,273                      | (132,140)                     | 6,009,517                  |
| Corporate securities including public utilities                                             | 165,716,233   | 11,763,828                   | (2,443,238)                   | 175,036,823                |
| Mortgage-backed securities                                                                  | 9,753,206     | 246,004                      | (233,586)                     | 9,765,624                  |
| Redeemable preferred stock                                                                  | 623,635       | 14,954                       | (8,627)                       | 629,962                    |
| Total fixed maturity securities held to maturity                                            | \$186,445,498 | \$12,415,912                 | \$(2,874,831)                 | \$195,986,579              |
| Equity securities available for sale at estimated fair value:                               |               |                              |                               |                            |
| Common stock:                                                                               |               |                              |                               |                            |
| Industrial, miscellaneous and all other                                                     | \$11,139,482  | \$412,535                    | \$(816,778)                   | \$10,735,239               |
| Total equity securities available for sale at estimated fair value                          | \$11,139,482  | \$412,535                    | \$(816,778)                   | \$10,735,239               |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: |               |                              |                               |                            |
| Residential                                                                                 | \$64,629,906  |                              |                               |                            |
| Residential construction                                                                    | 33,917,309    |                              |                               |                            |

|                                                                                |                |
|--------------------------------------------------------------------------------|----------------|
| Commercial                                                                     | 37,532,001     |
| Less: Allowance for loan losses                                                | (1,955,443 )   |
| Total mortgage loans on real estate and construction loans held for investment | \$ 134,123,773 |
| Real estate held for investment - net of depreciation                          | \$ 151,417,470 |
| Policy loans and other investments are shown at amortized cost:                |                |
| Policy loans                                                                   | \$6,666,500    |
| Insurance assignments                                                          | 33,857,966     |
| Promissory notes                                                               | 48,797         |
| Other investments                                                              | 2,250,000      |
| Less: Allowance for doubtful accounts                                          | (1,050,111 )   |
| Total policy loans and other investments                                       | \$41,773,152   |
| Short-term investments at amortized cost                                       | \$28,346,922   |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2016 are summarized as follows:

|                                                                                             | Cost          | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Estimated<br>Fair<br>Value |
|---------------------------------------------------------------------------------------------|---------------|------------------------------|-------------------------------|----------------------------|
| <u>December 31, 2016:</u>                                                                   |               |                              |                               |                            |
| Fixed maturity securities held to maturity carried at amortized cost:                       |               |                              |                               |                            |
| Bonds:                                                                                      |               |                              |                               |                            |
| U.S. Treasury securities and obligations of U.S.                                            |               |                              |                               |                            |
| Government agencies                                                                         | \$4,475,065   | \$249,028                    | \$(66,111)                    | \$4,657,982                |
| Obligations of states and political subdivisions                                            | 6,017,225     | 153,514                      | (133,249)                     | 6,037,490                  |
| Corporate securities including public utilities                                             | 164,375,636   | 10,440,989                   | (3,727,013)                   | 171,089,612                |
| Mortgage-backed securities                                                                  | 9,488,083     | 221,400                      | (280,871)                     | 9,428,612                  |
| Redeemable preferred stock                                                                  | 623,635       | 13,418                       | -                             | 637,053                    |
| Total fixed maturity securities held to maturity                                            | \$184,979,644 | \$11,078,349                 | \$(4,207,244)                 | \$191,850,749              |
| Equity securities available for sale at estimated fair value:                               |               |                              |                               |                            |
| Common stock:                                                                               |               |                              |                               |                            |
| Industrial, miscellaneous and all other                                                     | \$10,985,338  | \$447,110                    | \$(859,092)                   | \$10,573,356               |
| Total securities available for sale carried at estimated fair value                         | \$10,985,338  | \$447,110                    | \$(859,092)                   | \$10,573,356               |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: |               |                              |                               |                            |
| Residential                                                                                 | \$58,593,622  |                              |                               |                            |
| Residential construction                                                                    | 40,800,117    |                              |                               |                            |
| Commercial                                                                                  | 51,536,622    |                              |                               |                            |
| Less: Allowance for loan losses                                                             | (1,748,783)   |                              |                               |                            |
| Total mortgage loans on real estate and construction loans held for investment              | \$149,181,578 |                              |                               |                            |
| Real estate held for investment - net of depreciation                                       | \$145,165,921 |                              |                               |                            |
| Policy loans and other investments are shown at amortized cost:                             |               |                              |                               |                            |
| Policy loans                                                                                | \$6,694,148   |                              |                               |                            |
| Insurance assignments                                                                       | 33,548,079    |                              |                               |                            |

|                                       |              |
|---------------------------------------|--------------|
| Promissory notes                      | 48,797       |
| Other investments                     | 1,765,752    |
| Less: Allowance for doubtful accounts | (1,119,630 ) |

|                                          |              |
|------------------------------------------|--------------|
| Total policy loans and other investments | \$40,937,146 |
|------------------------------------------|--------------|

|                                          |              |
|------------------------------------------|--------------|
| Short-term investments at amortized cost | \$27,560,040 |
|------------------------------------------|--------------|

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at March 31, 2017 and December 31, 2016. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration with the fair value of the related fixed maturity securities:

|                                                                            | Unrealized<br>Losses for<br>Less than<br>Twelve<br>Months | Fair Value   | Unrealized<br>Losses for<br>More than<br>Twelve<br>Months | Fair Value   | Total<br>Unrealized<br>Loss | Fair Value   |
|----------------------------------------------------------------------------|-----------------------------------------------------------|--------------|-----------------------------------------------------------|--------------|-----------------------------|--------------|
| <u>At March 31, 2017</u>                                                   |                                                           |              |                                                           |              |                             |              |
| U.S. Treasury Securities and<br>Obligations of U.S. Government<br>Agencies | \$57,240                                                  | \$1,345,231  | \$-                                                       | \$-          | \$57,240                    | \$1,345,231  |
| Obligations of states and political<br>subdivisions                        | 132,140                                                   | 3,270,595    | -                                                         | -            | 132,140                     | 3,270,595    |
| Corporate securities                                                       | 1,094,907                                                 | 29,075,748   | 1,348,331                                                 | 12,362,900   | 2,443,238                   | 41,438,648   |
| Mortgage-backed securities                                                 | 126,828                                                   | 1,745,284    | 106,758                                                   | 1,470,559    | 233,586                     | 3,215,843    |
| Redeemable preferred stock                                                 | 8,627                                                     | 98,110       | -                                                         | -            | 8,627                       | 98,110       |
| Total unrealized losses                                                    | \$1,419,742                                               | \$35,534,968 | \$1,455,089                                               | \$13,833,459 | \$2,874,831                 | \$49,368,427 |

At December 31, 2016

|                                                                            |             |              |             |              |             |              |
|----------------------------------------------------------------------------|-------------|--------------|-------------|--------------|-------------|--------------|
| U.S. Treasury Securities and<br>Obligations of U.S. Government<br>Agencies | \$66,111    | \$1,342,088  | \$-         | \$-          | \$66,111    | \$1,342,088  |
| Obligations of states and political<br>subdivisions                        | 133,249     | 3,686,856    | -           | -            | 133,249     | 3,686,856    |
| Corporate securities                                                       | 1,728,312   | 41,796,016   | 1,998,701   | 12,969,135   | 3,727,013   | 54,765,151   |
| Mortgage-backed securities                                                 | 176,715     | 4,176,089    | 104,156     | 940,278      | 280,871     | 5,116,367    |
| Total unrealized losses                                                    | \$2,104,387 | \$51,001,049 | \$2,102,857 | \$13,909,413 | \$4,207,244 | \$64,910,462 |

There were 195 securities with unrealized losses of 94.5% of amortized cost at March 31, 2017. There were 250 securities with unrealized losses of 93.9% of amortized cost at December 31, 2016. During the three months ended March 31, 2017 and 2016 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of \$52,139 and \$30,000, respectively.

On a quarterly basis, the Company reviews its available for sale and held to maturity fixed investment securities related to corporate securities and other public utilities, consisting of bonds and preferred stocks that are in a loss position. The review involves an analysis of the securities in relation to historical values, and projected earnings and revenue growth rates. Based on the analysis, a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.



## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at March 31, 2017 and December 31, 2016. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

|                                         | Unrealized<br>Losses for<br>Less than<br>Twelve<br>Months | No. of<br>Investment<br>Positions | Unrealized<br>Losses for<br>More than<br>Twelve<br>Months | No. of<br>Investment<br>Positions | Total<br>Unrealized<br>Losses |
|-----------------------------------------|-----------------------------------------------------------|-----------------------------------|-----------------------------------------------------------|-----------------------------------|-------------------------------|
| <u>At March 31, 2017</u>                |                                                           |                                   |                                                           |                                   |                               |
| Industrial, miscellaneous and all other | \$ 178,006                                                | 149                               | \$ 638,772                                                | 105                               | \$ 816,778                    |
| Total unrealized losses                 | \$ 178,006                                                | 149                               | \$ 638,772                                                | 105                               | \$ 816,778                    |
| Fair Value                              | \$ 3,955,133                                              |                                   | \$ 1,154,812                                              |                                   | \$ 5,109,945                  |
| <u>At December 31, 2016</u>             |                                                           |                                   |                                                           |                                   |                               |
| Industrial, miscellaneous and all other | \$ 215,563                                                | 124                               | \$ 643,529                                                | 104                               | \$ 859,092                    |
| Total unrealized losses                 | \$ 215,563                                                | 124                               | \$ 643,529                                                | 104                               | \$ 859,092                    |
| Fair Value                              | \$ 2,063,144                                              |                                   | \$ 1,685,874                                              |                                   | \$ 3,749,018                  |

The average market value of the equity securities available for sale was 86.2% and 81.4% of the original investment as of March 31, 2017 and December 31, 2016, respectively. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the three months ended March 31, 2017 and 2016, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of \$-0- and \$43,630, respectively.

On a quarterly basis, the Company reviews its investment in industrial, miscellaneous and all other equity securities that are in a loss position. The review involves an analysis of the securities in relation to historical values, price earnings ratios, projected earnings and revenue growth rates. Based on the analysis a determination is made whether a security will likely recover from the loss position within a reasonable period of time. If it is unlikely that the investment will recover from the loss position, the loss is considered to be other than temporary, the security is written down to the impaired value and an impairment loss is recognized.

The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments. The fair values for equity securities are based on quoted market prices.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

|                            | Amortized<br>Cost | Estimated<br>Fair<br>Value |
|----------------------------|-------------------|----------------------------|
| Held to Maturity:          |                   |                            |
| Due in 2017                | \$5,625,049       | \$5,677,028                |
| Due in 2018 through 2021   | 42,733,718        | 44,794,103                 |
| Due in 2022 through 2026   | 43,263,792        | 45,020,917                 |
| Due after 2026             | 84,446,098        | 90,098,945                 |
| Mortgage-backed securities | 9,753,206         | 9,765,624                  |
| Redeemable preferred stock | 623,635           | 629,962                    |
| Total held to maturity     | \$186,445,498     | \$195,986,579              |

The cost and estimated fair value of available for sale securities at March 31, 2017, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

|                          | Cost         | Estimated<br>Fair<br>Value |
|--------------------------|--------------|----------------------------|
| Available for Sale:      |              |                            |
| Common stock             | \$11,139,482 | \$10,735,239               |
| Total available for sale | \$11,139,482 | \$10,735,239               |

The Company's realized gains and losses and other than temporary impairments from investments and other assets, are summarized as follows:

|                                             | Three Months Ended<br>Mar 31 |          |
|---------------------------------------------|------------------------------|----------|
|                                             | 2017                         | 2016     |
| Fixed maturity securities held to maturity: |                              |          |
| Gross realized gains                        | \$2,434                      | \$-      |
| Gross realized losses                       | -                            | (24,795) |
| Other than temporary impairments            | (52,139 )                    | (30,000) |
| Securities available for sale:              |                              |          |
| Gross realized gains                        | 60,978                       | 63,495   |
| Gross realized losses                       | (4,556 )                     | (23,878) |
| Other than temporary impairments            | -                            | (43,630) |
| Other assets:                               |                              |          |

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|                       |           |          |
|-----------------------|-----------|----------|
| Gross realized gains  | 456,275   | 84,768   |
| Gross realized losses | (369,801) | (1,668 ) |
| Total                 | \$93,191  | \$24,292 |

The net carrying amount of held to maturity securities sold was \$28,073 and \$-0- for the three months ended March 31, 2017 and 2016, respectively. The net realized gain related to these sales was \$2,434 and \$-0- for the three months ended March 31, 2017 and 2016, respectively. Although the intent is to buy and hold a bond to maturity the Company will sell a bond prior to maturity if conditions have changed within the entity that issued the bond to increase the risk of default to an unacceptable level.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available for sale securities) at March 31, 2017, other than investments issued or guaranteed by the United States Government.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

Major categories of net investment income are as follows:

|                                                                                  | Three Months Ended Mar<br>31 |              |
|----------------------------------------------------------------------------------|------------------------------|--------------|
|                                                                                  | 2017                         | 2016         |
| Fixed maturity securities                                                        | \$2,368,710                  | \$2,050,569  |
| Equity securities                                                                | 54,786                       | 71,041       |
| Mortgage loans on real estate                                                    | 2,223,139                    | 2,026,515    |
| Real estate                                                                      | 2,894,331                    | 2,838,484    |
| Policy loans                                                                     | 193,734                      | 182,206      |
| Insurance assignments                                                            | 3,364,642                    | 3,104,788    |
| Other investments                                                                | 7,543                        | -            |
| Short-term investments, principally interest on sale of mortgage loans and other | 1,804,746                    | 1,863,144    |
| Gross investment income                                                          | 12,911,631                   | 12,136,747   |
| Investment expenses                                                              | (3,348,349 )                 | (3,144,556 ) |
| Net investment income                                                            | \$9,563,282                  | \$8,992,191  |

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$115,501 and \$87,976 for the three months ended March 31, 2017 and 2016, respectively.

Net investment income on real estate consists primarily of rental revenue.

Investment expenses consist primarily of depreciation, property taxes, operating expenses of real estate and an estimated portion of administrative expenses relating to investment activities.

Securities on deposit for regulatory authorities as required by law amounted to \$9,268,330 at March 31, 2017 and \$9,269,121 at December 31, 2016. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Real Estate

The Company continues to strategically deploy resources into real estate to match the income and yield durations of its primary obligations. The sources for these real estate assets come through its various business units in the form of acquisition, development mortgage foreclosures.

Commercial Real Estate Held for Investment

The Company owns and manages commercial real estate assets as a means of generating investment income. These assets are acquired in accordance with the Company's goals and objectives for risk-adjusted returns. Due diligence is conducted on each asset using internal and third-party reports. Geographic locations and asset classes of the investment activity is determined by senior management under the direction of the Board of Directors.

The Company employs full-time employees to attend to the day-to-day operations of those assets within the greater Salt Lake area and close surrounding markets. The Company utilizes third party property managers when the geographic boundary does not warrant full-time staff or through strategic lease-up periods. The Company generally looks to acquire assets in regions that are high growth regions for employment and population and in assets that provide operational efficiencies.

The Company currently owns and operates 13 commercial properties in 7 states. These properties include industrial warehouses, office buildings, retail centers, undeveloped land and includes the redevelopment and expansion of its corporate campus in Salt Lake City Utah. The assets are primarily held without debt; however, the Company does use debt in strategic cases to leverage established yields or to acquire higher quality or different class of asset.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The following is a summary of the Company's investment in commercial real estate for the periods presented:

|             | Net Ending Balance |                     | Total Square Footage |                     |
|-------------|--------------------|---------------------|----------------------|---------------------|
|             | March 31<br>2017   | December 31<br>2016 | March 31<br>2017     | December 31<br>2016 |
| Arizona     | \$447,229          | (1) \$450,538       | (1) 16,270           | 16,270              |
| Arkansas    | 99,319             | 100,369             | 3,200                | 3,200               |
| Kansas      | 12,512,451         | 12,450,297          | 222,679              | 222,679             |
| Louisiana   | 512,324            | 518,700             | 7,063                | 7,063               |
| Mississippi | 3,795,355          | 3,818,985           | 33,821               | 33,821              |
| New Mexico  | 7,000              | (1) 7,000           | (1) -                | -                   |
| Texas       | 3,760,499          | 3,734,974           | 23,470               | 23,470              |
| Utah        | 57,104,854         | (2) 47,893,073      | (2) 433,244          | 433,244             |
|             | \$78,239,031       | \$68,973,936        | 739,747              | 739,747             |

(1)  
Includes  
undeveloped  
land

(2) Includes  
53rd Center  
to be  
completed in  
July 2017

Residential Real Estate Held for Investment

The Company owns a portfolio of residential homes primarily as a result of loan foreclosures. The strategy has been to lease these homes to produce cash flow, and allow time for the economic fundamentals to return to the various markets. As an orderly and active market for these homes returns, the Company has the option to dispose or to continue and hold them for cash flow and acceptable returns.

The Company established Security National Real Estate Services ("SNRE") to manage the residential portfolio. SNRE cultivates and maintains the preferred vendor relationships necessary to manage costs and quality of work performed on the portfolio of homes across the country.

As of March 31, 2017, SNRE manages 124 residential properties in 9 states across the United States which includes a newly constructed apartment complex, Dry Creek at East Village, in Sandy Utah.

The following is a summary of the Company's investment in residential real estate for the periods presented:

| Net Ending Balance |             |
|--------------------|-------------|
| March 31           | December 31 |

|            | 2017         | 2016         |
|------------|--------------|--------------|
| Arizona    | \$739,333    | \$742,259    |
| California | 5,404,417    | 5,848,389    |
| Colorado   | 204,538      | 364,489      |
| Florida    | 8,273,416    | 8,327,355    |
| Ohio       | 46,658       | 46,658       |
| Oklahoma   | 17,500       | -            |
| Texas      | 777,843      | 1,091,188    |
| Utah       | 57,428,553   | 59,485,466   |
| Washington | 286,181      | 286,181      |
|            | \$73,178,439 | \$76,191,985 |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)Real Estate Owned and Occupied by the Company

The primary business units of the Company occupy a portion of the real estate owned by the Company. Currently, the Company occupies nearly 80,000 square feet, or 10% of the overall commercial real estate holdings.

As of March 31, 2017, real estate owned and occupied by the company is summarized as follows:

| Location                                    | Business Segment                                                   | Approximate Square Footage | Square Footage Occupied by the Company |   |
|---------------------------------------------|--------------------------------------------------------------------|----------------------------|----------------------------------------|---|
| 5300 South 360 West, Salt Lake City, UT (1) | Corporate Offices, Life Insurance and Cemetery/Mortuary Operations | 36,000                     | 100                                    | % |
| 5201 Green Street, Salt Lake City, UT       | Mortgage Operations                                                | 36,899                     | 34                                     | % |
| 1044 River Oaks Dr., Flowood, MS            | Life Insurance Operations                                          | 5,522                      | 27                                     | % |

(1) This asset is included in property and equipment on the Condensed Consolidated Balance Sheet

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At March 31, 2017, the Company had 42%, 15%, 10%, 8%, 5% and 3% of its mortgage loans from borrowers located in the states of Utah, California, Texas, Florida, Oregon, and Nevada, respectively. The mortgage loans on real estate balances on the Condensed Consolidated Balance Sheet are reflected net of an allowance for loan losses of \$1,955,443 and \$1,748,783 at March 31, 2017 and December 31, 2016, respectively.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The Company establishes a valuation allowance for credit losses in its portfolio. The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

## Allowance for Credit Losses and Recorded Investment in Mortgage Loans

|                                                                 | Commercial   | Residential  | Residential<br>Construction | Total         |
|-----------------------------------------------------------------|--------------|--------------|-----------------------------|---------------|
| March 31, 2017                                                  |              |              |                             |               |
| Allowance for credit losses:                                    |              |              |                             |               |
| Beginning balance - January 1, 2017                             | \$187,129    | \$1,461,540  | \$100,114                   | \$1,748,783   |
| Charge-offs                                                     | -            | (16,226 )    | -                           | (16,226 )     |
| Provision                                                       | -            | 222,886      | -                           | 222,886       |
| Ending balance -March 31, 2017                                  | \$187,129    | \$1,668,200  | \$100,114                   | \$1,955,443   |
| Ending balance: individually evaluated for impairment           | \$-          | \$423,487    | \$-                         | \$423,487     |
| Ending balance: collectively evaluated for impairment           | \$187,129    | \$1,244,713  | \$100,114                   | \$1,531,956   |
| Ending balance: loans acquired with deteriorated credit quality | \$-          | \$-          | \$-                         | \$-           |
| Mortgage loans:                                                 |              |              |                             |               |
| Ending balance                                                  | \$37,532,001 | \$64,629,906 | \$33,917,309                | \$136,079,216 |
| Ending balance: individually evaluated for impairment           | \$203,264    | \$4,842,306  | \$484,196                   | \$5,529,766   |
| Ending balance: collectively evaluated for impairment           | \$37,328,737 | \$59,787,600 | \$33,433,113                | \$130,549,450 |
| Ending balance: loans acquired with deteriorated credit quality | \$-          | \$-          | \$-                         | \$-           |
| December 31, 2016                                               |              |              |                             |               |
| Allowance for credit losses:                                    |              |              |                             |               |
| Beginning balance - January 1, 2016                             | \$187,129    | \$1,560,877  | \$100,114                   | \$1,848,120   |
| Charge-offs                                                     | -            | (420,135 )   | -                           | (420,135 )    |
| Provision                                                       | -            | 320,798      | -                           | 320,798       |
| Ending balance - December 31, 2016                              | \$187,129    | \$1,461,540  | \$100,114                   | \$1,748,783   |
| Ending balance: individually evaluated for impairment           | \$-          | \$374,501    | \$-                         | \$374,501     |
| Ending balance: collectively evaluated for impairment           | \$187,129    | \$1,087,039  | \$100,114                   | \$1,374,282   |
| Ending balance: loans acquired with deteriorated credit quality | \$-          | \$-          | \$-                         | \$-           |

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|                                                                 |              |              |              |               |
|-----------------------------------------------------------------|--------------|--------------|--------------|---------------|
| Mortgage loans:                                                 |              |              |              |               |
| Ending balance                                                  | \$51,536,622 | \$58,593,622 | \$40,800,117 | \$150,930,361 |
| Ending balance: individually evaluated for impairment           | \$202,992    | \$2,916,538  | \$64,895     | \$3,184,425   |
| Ending balance: collectively evaluated for impairment           | \$51,333,630 | \$55,677,084 | \$40,735,222 | \$147,745,936 |
| Ending balance: loans acquired with deteriorated credit quality | \$-          | \$-          | \$-          | \$-           |
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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The following is a summary of the aging of mortgage loans for the periods presented:

## e Analysis of Past Due Mortgage Loans

|                             | 30-59 Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>Than<br>90 Days<br>(1) | In Process<br>of<br>Foreclosure<br>(1) | Total<br>Past Due | Current       | Total<br>Mortgage<br>Loans | Allowance<br>for<br>Loan<br>Losses | Net Mortga<br>Loans |
|-----------------------------|------------------------|---------------------------|-----------------------------------|----------------------------------------|-------------------|---------------|----------------------------|------------------------------------|---------------------|
| March 31, 2017              |                        |                           |                                   |                                        |                   |               |                            |                                    |                     |
| Commercial                  | \$1,547,419            | \$-                       | \$-                               | \$203,264                              | \$1,750,683       | \$35,781,318  | \$37,532,001               | \$(187,129 )                       | \$37,344,87         |
| Residential                 | 733,374                | 91,433                    | 1,451,582                         | 3,390,724                              | 5,667,113         | 58,962,793    | 64,629,906                 | (1,668,200)                        | 62,961,70           |
| Residential<br>Construction | -                      | -                         | 64,895                            | 419,301                                | 484,196           | 33,433,113    | 33,917,309                 | (100,114 )                         | 33,817,19           |
| Commercial                  | \$2,280,793            | \$91,433                  | \$1,516,477                       | \$4,013,289                            | \$7,901,992       | \$128,177,224 | \$136,079,216              | \$(1,955,443)                      | \$134,123,7         |
| December 31, 2016           |                        |                           |                                   |                                        |                   |               |                            |                                    |                     |
| Commercial                  | \$-                    | \$-                       | \$-                               | \$202,992                              | \$202,992         | \$51,333,630  | \$51,536,622               | \$(187,129 )                       | \$51,349,49         |
| Residential                 | 964,960                | 996,779                   | 1,290,355                         | 1,626,183                              | 4,878,277         | 53,715,345    | 58,593,622                 | (1,461,540)                        | 57,132,08           |
| Residential<br>Construction | -                      | -                         | 64,895                            | -                                      | 64,895            | 40,735,222    | 40,800,117                 | (100,114 )                         | 40,700,00           |
| Commercial                  | \$964,960              | \$996,779                 | \$1,355,250                       | \$1,829,175                            | \$5,146,164       | \$145,784,197 | \$150,930,361              | \$(1,748,783)                      | \$149,181,5         |

Interest income is not recognized on loans past due greater than 90 days or in foreclosure.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)Impaired Mortgage Loans

Impaired mortgage loans include loans with a related specific valuation allowance or loans whose carrying amount has been reduced to the expected collectible amount because the impairment has been considered other than temporary. The recorded investment in and unpaid principal balance of impaired loans along with the related loan specific allowance for losses, if any, for each reporting period and the average recorded investment and interest income recognized during the time the loans were impaired were as follows:

## Impaired Loans

|                                     | Recorded<br>Investment | Unpaid<br>Principal<br>Balance | Related<br>Allowance | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------------------|------------------------|--------------------------------|----------------------|-----------------------------------|----------------------------------|
| March 31, 2017                      |                        |                                |                      |                                   |                                  |
| With no related allowance recorded: |                        |                                |                      |                                   |                                  |
| Commercial                          | \$203,264              | \$203,264                      | \$ -                 | \$203,264                         | \$ -                             |
| Residential                         | -                      | -                              | -                    | -                                 | -                                |
| Residential construction            | 484,196                | 484,196                        | -                    | 484,196                           | -                                |
| With an allowance recorded:         |                        |                                |                      |                                   |                                  |
| Commercial                          | \$-                    | \$-                            | \$ -                 | \$-                               | \$ -                             |
| Residential                         | 4,842,306              | 4,842,306                      | 423,487              | 4,842,306                         | -                                |
| Residential construction            | -                      | -                              | -                    | -                                 | -                                |
| Total:                              |                        |                                |                      |                                   |                                  |
| Commercial                          | \$203,264              | \$203,264                      | \$ -                 | \$203,264                         | \$ -                             |
| Residential                         | 4,842,306              | 4,842,306                      | 423,487              | 4,842,306                         | -                                |
| Residential construction            | 484,196                | 484,196                        | -                    | 484,196                           | -                                |
| December 31, 2016                   |                        |                                |                      |                                   |                                  |
| With no related allowance recorded: |                        |                                |                      |                                   |                                  |
| Commercial                          | \$202,992              | \$202,992                      | \$ -                 | \$202,992                         | \$ -                             |
| Residential                         | -                      | -                              | -                    | -                                 | -                                |
| Residential construction            | 64,895                 | 64,895                         | -                    | 64,895                            | -                                |
| With an allowance recorded:         |                        |                                |                      |                                   |                                  |
| Commercial                          | \$-                    | \$-                            | \$ -                 | \$-                               | \$ -                             |
| Residential                         | 2,916,538              | 2,916,538                      | 374,501              | 2,916,538                         | -                                |
| Residential construction            | -                      | -                              | -                    | -                                 | -                                |
| Total:                              |                        |                                |                      |                                   |                                  |
| Commercial                          | \$202,992              | \$202,992                      | \$ -                 | \$202,992                         | \$ -                             |
| Residential                         | 2,916,538              | 2,916,538                      | 374,501              | 2,916,538                         | -                                |
| Residential construction            | 64,895                 | 64,895                         | -                    | 64,895                            | -                                |

Credit Risk Profile Based on Performance Status

The Company's mortgage loan portfolio is monitored based on performance of the loans. Monitoring a mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment. The Company defines non-performing mortgage loans as loans 90 days or greater delinquent or on non-accrual status.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

3) Investments (Continued)

The Company's performing and non-performing mortgage loans were as follows:

## Mortgage Loan Credit Exposure

## Credit Risk Profile Based on Payment Activity

|               | Commercial   |              | Residential  |              | Residential Construction |              | Total         |               |
|---------------|--------------|--------------|--------------|--------------|--------------------------|--------------|---------------|---------------|
|               | March        | December     | March        | December     | March                    | December     | March         | December      |
|               | 31, 2017     | 31, 2016     | 31, 2017     | 31, 2016     | 31, 2017                 | 31, 2016     | 31, 2017      | 31, 2016      |
| Performing    | \$37,328,737 | \$51,333,630 | \$59,787,600 | \$55,677,084 | \$33,433,113             | \$40,735,222 | \$130,549,450 | \$147,745,936 |
| Nonperforming | 203,264      | 202,992      | 4,842,306    | 2,916,538    | 484,196                  | 64,895       | 5,529,766     | 3,184,425     |
| Total         | \$37,532,001 | \$51,536,622 | \$64,629,906 | \$58,593,622 | \$33,917,309             | \$40,800,117 | \$136,079,216 | \$150,930,361 |

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals approximately \$156,000 and \$172,000 as of March 31, 2017 and December 31, 2016, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

|                          | Mortgage Loans on<br>Nonaccrual Status |                                 |
|--------------------------|----------------------------------------|---------------------------------|
|                          | As of<br>March 31<br>2017              | As of<br>December<br>31<br>2016 |
| Commercial               | \$203,264                              | \$202,992                       |
| Residential              | 4,842,306                              | 2,916,538                       |
| Residential construction | 484,196                                | 64,895                          |
| Total                    | \$5,529,766                            | \$3,184,425                     |

Loan Loss Reserve

When a repurchase demand corresponding to a mortgage loan previously sold to a third-party investor is received from a third-party investor, the relevant data is reviewed and captured so that an estimated future loss can be calculated. The key factors that are used in the estimated loss calculation are as follows: (i) lien position, (ii) payment status, (iii) claim type, (iv) unpaid principal balance, (v) interest rate, and (vi) validity of the demand. Other data is captured and is useful for management purposes; the actual estimated loss is generally based on these key factors. The Company conducts its own review upon the receipt of a repurchase demand. In many instances, the Company is able to resolve the issues relating to the repurchase demand by the third-party investor without having to make any payments to the investor.

The following is a summary of the loan loss reserve that is included in other liabilities and accrued expenses:

|                                             | As of<br>March 31<br>2017<br>(As<br>Restated)<br>(Unaudited) | As of<br>December<br>31<br>2016<br>(As<br>Restated) |
|---------------------------------------------|--------------------------------------------------------------|-----------------------------------------------------|
| Balance, beginning of period                | \$ 627,733                                                   | \$ 2,805,900                                        |
| Provision for current loan originations (1) | 426,634                                                      | 2,988,754                                           |
| Additional provision for loan loss reserve  | -                                                            | 1,700,000                                           |
| Charge-offs, net of recaptured amounts      | 10,708                                                       | (6,866,921)                                         |
| Balance, end of period                      | \$ 1,065,075                                                 | \$ 627,733                                          |

(1) Included in Mortgage fee income

The Company believes the loan loss reserve represents probable loan losses incurred as of the balance sheet date. Actual loan loss experience could change, in the near-term, from the established reserve based upon claims that could be asserted by third party investors. SecurityNational Mortgage believes there is potential to resolve any alleged claims by third party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third-party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

4) Stock Compensation Plans

The Company has four fixed option plans (the "2003 Plan", the "2006 Director Plan", the "2013 Plan" and the "2014 Director Plan"). Compensation expense for options issued of \$101,996 and \$84,452 has been recognized for these plans for the three months ended March 31, 2017 and 2016, respectively. As of March 31, 2017, the total unrecognized compensation expense related to the options issued in December 2016 was \$273,464, which is expected to be recognized over the vesting period of one year.

The Company generally estimates the expected life of the options based upon the contractual term of the options adjusted for actual experience. Future volatility is estimated based upon the weighted historical volatility of the Company's Class A common stock over a period equal to the estimated life of the options. Common stock issued upon exercise of stock options are generally new share issuances rather than from treasury shares.

A summary of the status of the Company's stock incentive plans as of March 31, 2017, and the changes during the three months ended March 31, 2017, are presented below:

|                                                                            | Number of<br>Class A<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Class C<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------------------------------------------------|--------------------------------|------------------------------------------|--------------------------------|------------------------------------------|
| Outstanding at December 31, 2016                                           | 741,973                        | \$ 4.33                                  | 556,298                        | \$ 4.61                                  |
| Granted                                                                    | -                              |                                          | -                              |                                          |
| Exercised                                                                  | -                              |                                          | -                              |                                          |
| Cancelled                                                                  | -                              |                                          | -                              |                                          |
| Outstanding at March 31, 2017                                              | 741,973                        | \$ 4.33                                  | 556,298                        | \$ 4.61                                  |
| As of March 31, 2017:                                                      |                                |                                          |                                |                                          |
| Options exercisable                                                        | 636,764                        | \$ 3.94                                  | 493,298                        | \$ 4.26                                  |
| As of March 31, 2017:                                                      |                                |                                          |                                |                                          |
| Available options for future grant                                         | 253,432                        |                                          | -                              |                                          |
| Weighted average contractual term of options outstanding at March 31, 2017 | 7.12 years                     |                                          | 2.42 years                     |                                          |
| Weighted average contractual term of options exercisable at March 31, 2017 | 6.70 years                     |                                          | 2.13 years                     |                                          |
| Aggregated intrinsic value of options outstanding at March 31, 2017 (1)    | \$1,837,828                    |                                          | \$1,264,540                    |                                          |

Aggregated intrinsic value of options exercisable at March 31, 2017

|     |             |             |
|-----|-------------|-------------|
| (1) | \$1,824,086 | \$1,264,540 |
|-----|-------------|-------------|

(1) The Company used a stock price of \$6.80 as of March 31, 2017 to derive intrinsic value.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

4) Stock Compensation Plans (Continued)

A summary of the status of the Company's stock incentive plans as of March 31, 2016, and the changes during the three months ended March 31, 2016, are presented below:

|                                                                            | Number<br>of<br>Class A<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Class C<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|----------------------------------------------------------------------------|-----------------------------------|------------------------------------------|--------------------------------|------------------------------------------|
| Outstanding at December 31, 2015                                           | 618,261                           | \$ 3.89                                  | 577,436                        | \$ 3.54                                  |
| Granted                                                                    | -                                 | -                                        | -                              | -                                        |
| Exercised                                                                  | (28,460 )                         | 2.15                                     | -                              | -                                        |
| Cancelled                                                                  | -                                 | -                                        | -                              | -                                        |
| Outstanding at March 31, 2016                                              | 589,801                           | \$ 3.97                                  | 577,436                        | \$ 3.54                                  |
| As of March 31, 2016:                                                      |                                   |                                          |                                |                                          |
| Options exercisable                                                        | 484,659                           | \$ 3.45                                  | 498,686                        | \$ 2.99                                  |
| As of March 31, 2016:                                                      |                                   |                                          |                                |                                          |
| Available options for future grant                                         | 454,842                           |                                          | 57,750                         |                                          |
| Weighted average contractual term of options outstanding at March 31, 2016 | 7.50<br>years                     |                                          | 2.50 years                     |                                          |
| Weighted average contractual term of options exercisable at March 31, 2016 | 7.03<br>years                     |                                          | 2.16 years                     |                                          |
| Aggregated intrinsic value of options outstanding at March 31, 2016 (1)    | \$844,342                         |                                          | \$1,096,391                    |                                          |
| Aggregated intrinsic value of options exercisable at March 31, 2016 (1)    | \$844,342                         |                                          | \$1,096,391                    |                                          |

(1) The Company used a stock price of \$5.09 as of March 31, 2016 to derive intrinsic value.

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the three months ended March 31, 2017 and 2016 was \$-0- and \$91,989, respectively.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

5) Earnings Per Share

The basic and diluted earnings per share amounts were calculated as follows:

|                                             | Three Months Ended<br>March 31 (As Restated)<br>(Unaudited) |             |
|---------------------------------------------|-------------------------------------------------------------|-------------|
|                                             | 2017                                                        | 2016        |
| Numerator:                                  |                                                             |             |
| Net earnings                                | \$1,860,000                                                 | \$2,537,941 |
| Denominator:                                |                                                             |             |
| Basic weighted-average shares outstanding   | 15,058,153                                                  | 14,656,450  |
| Effect of dilutive securities:              |                                                             |             |
| Employee stock options                      | 469,843                                                     | 455,828     |
| Diluted weighted-average shares outstanding | 15,527,996                                                  | 15,112,278  |
| Basic net earnings per share                | \$0.12                                                      | \$0.17      |
| Diluted net earnings per share              | \$0.12                                                      | \$0.17      |

Net earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. For the three months ended March 31, 2017 and 2016, there were 89,250 and 250,039 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net earnings per common share as their effect would be anti-dilutive.

6) Business Segment InformationDescription of Products and Services by Segment

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage segment consists of fee income and expenses from the originations of residential mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles of the Form 10-K/A for the year ended December 31, 2016. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit, and are eliminated upon consolidation.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that are managed separately due to the different products provided and the need to report separately to the various regulatory jurisdictions. The Company regularly reviews the quantitative thresholds and other criteria to determine when other business segments may need to be reported.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

6) Business Segment Information (Continued)

|                                                     | Life<br>Insurance | Cemetery/<br>Mortuary | Mortgage     | Intercompany<br>Eliminations | Consolidated |
|-----------------------------------------------------|-------------------|-----------------------|--------------|------------------------------|--------------|
| For the Three Months Ended<br><u>March 31, 2017</u> |                   |                       |              |                              |              |
| Revenues from external customers                    | \$26,158,701      | \$3,604,897           | \$41,065,699 | \$-                          | \$70,829,297 |
| Intersegment revenues                               | 2,988,651         | 109,351               | 95,770       | (3,193,772 )                 | -            |
| Segment profit before income taxes                  | 1,483,480         | 758,911               | 655,379      | -                            | 2,897,770    |
| Identifiable Assets                                 | 833,999,127       | 99,554,821            | 164,990,647  | (139,027,232)                | 959,517,363  |
| Goodwill                                            | 2,765,570         | -                     | -            | -                            | 2,765,570    |
| For the Three Months Ended<br><u>March 31, 2016</u> |                   |                       |              |                              |              |
| Revenues from external customers                    | \$22,075,134      | \$3,330,766           | \$44,050,448 | \$-                          | \$69,456,348 |
| Intersegment revenues                               | 3,103,446         | 286,925               | 79,479       | (3,469,850 )                 | -            |
| Segment profit before income taxes                  | 1,103,727         | 469,055               | 2,498,298    | -                            | 4,071,080    |
| Identifiable Assets                                 | 724,858,698       | 96,827,903            | 157,602,831  | (133,414,858)                | 845,874,574  |
| Goodwill                                            | 2,765,570         | -                     | -            | -                            | 2,765,570    |

7) Fair Value of Financial Instruments

Generally accepted accounting principles (GAAP) defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants. GAAP also specifies a fair value hierarchy based upon the observability of inputs used in valuation techniques. Observable inputs (highest level) reflect market data obtained from independent sources, while unobservable inputs (lowest level) reflect internally developed market assumptions. Fair value measurements are classified under the following hierarchy:

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that the Company can access.

Level 2: Financial assets and financial liabilities whose values are based on the following:

- a) Quoted prices for similar assets or liabilities in active markets;
- b) Quoted prices for identical or similar assets or liabilities in non-active markets; or
- c) Valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs may reflect the Company's estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The Company utilizes a combination of third party valuation service providers, brokers, and internal valuation models to determine fair value.

The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

The items shown under Level 1 and Level 2 are valued as follows:

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3 of the Notes to Condensed Consolidated Statements.

Restricted Assets: A portion of these assets include mutual funds and equity securities that have quoted market prices. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Cemetery Endowment Care Trust Investments: A portion of these assets include equity securities that have quoted market prices. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

Call and Put Options: The Company uses quoted market prices to value its call and put options.

The items shown under Level 3 are valued as follows:

Policyholder Account Balances and Future Policy Benefits-Annuities: Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%. The fair values for the Company's liabilities under investment-type insurance contracts (disclosed as policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

The fair values for the Company's insurance contracts other than investment-type contracts are not required to be disclosed. However, the fair values of liabilities under all insurance contracts are taken into consideration in the Company's overall management of interest rate risk, such that the Company's exposure to changing interest rates is minimized through the matching of investment maturities with amounts due under insurance contracts.

Loan Commitments and Forward Sale Commitments: The Company's mortgage segment enters into loan commitments with potential borrowers and forward sale commitments to sell loans to third-party investors. The Company also uses a hedging strategy for these transactions. A loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after issuance of the loan commitment. Loan commitments are defined to be derivatives under GAAP and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded in current earnings.

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment net of estimated commission expense. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued and is shown net of related expenses. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates and other factors from the Company's recent historical data are used to estimate the quantity and value of

mortgage loans that will fund within the terms of the commitments.

Interest Rate Swaps: Management considers the interest rate swap instruments to be an effective cash flow hedge against the variable interest rate on bank borrowings since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swaps are derivative financial instruments carried at their fair value. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

Mortgage Loans on Real Estate: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

Real Estate Held for Investment: The Company believes that in an orderly market, fair value will approximate the replacement cost of a home and the rental income provides a cash flow stream for investment analysis. The Company believes the highest and best use of the properties are as income producing assets since it is the Company's intent to hold the properties as rental properties, matching the income from the investment in rental properties with the funds required for future estimated policy claims.

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 20% of the projected cash flow analysis and 80% of the replacement cost to approximate fair value of the collateral.

In addition to this analysis performed by the Company, the Company depreciates Real Estate Held for Investment. This depreciation reduces the book value of these properties and lessens the exposure to the Company from further deterioration in real estate values.

Mortgage Servicing Rights: The Company initially recognizes Mortgage Servicing Rights ("MSRs") at their estimated fair values derived from the net cash flows associated with the servicing contracts, where the Company assumes the obligation to service the loan in the sale transaction. The precise fair value of MSRs cannot be readily determined because MSRs are not actively traded in stand-alone markets. Considerable judgment is required to estimate the fair values of these assets and the exercise of such judgment can significantly affect the Company's earnings.

The Company's subsequent accounting for MSRs is based on the class of MSRs. The Company has identified two classes of MSRs: MSRs backed by mortgage loans with initial term of 30 years and MSRs backed by mortgage loans with initial term of 15 years. The Company distinguishes between these classes of MSRs due to their differing sensitivities to change in value as the result of changes in market. After being initially recorded at fair value, MSRs backed by mortgage loans are accounted for using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated seven and nine-year life which estimates the proportion to, and over the period of the estimated future net servicing income of the underlying financial assets.

The Company periodically assesses MSRs for impairment. Impairment occurs when the current fair value of the MSR falls below the asset's carrying value (carrying value is the amortized cost reduced by any related valuation allowance). If MSRs are impaired, the impairment is recognized in current-period earnings and the carrying value of the MSRs is adjusted through a valuation allowance.

Management periodically reviews the various loan strata to determine whether the value of the MSRs in a given stratum is impaired and likely to recover. When management deems recovery of the value to be unlikely in the foreseeable future, a write-down of the cost of the MSRs for that stratum to its estimated recoverable value is charged to the valuation allowance.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at March 31, 2017, as restated.

|                                                                    | Total            | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--------------------------------------------------------------------|------------------|----------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Assets accounted for at fair value on a recurring basis            |                  |                                                                                  |                                                  |                                                    |
| Common stock                                                       | \$10,735,239     | \$10,735,239                                                                     | \$ -                                             | \$-                                                |
| Total securities available for sale                                | \$10,735,239     | \$10,735,239                                                                     | \$ -                                             | \$-                                                |
|                                                                    |                  |                                                                                  |                                                  |                                                    |
| Restricted assets of cemeteries and mortuaries                     | \$752,814        | \$752,814                                                                        | \$ -                                             | \$-                                                |
| Cemetery perpetual care trust investments                          | 672,922          | 672,922                                                                          | -                                                | -                                                  |
| Derivatives - loan commitments                                     | 9,540,950        | -                                                                                | -                                                | 9,540,950                                          |
| Total assets accounted for at fair value on a recurring basis      | \$21,701,925     | \$12,160,975                                                                     | \$ -                                             | \$9,540,950                                        |
|                                                                    |                  |                                                                                  |                                                  |                                                    |
| Liabilities accounted for at fair value on a recurring basis       |                  |                                                                                  |                                                  |                                                    |
| Policyholder account balances                                      | \$(49,155,440 )  | \$-                                                                              | \$ -                                             | \$(49,155,440 )                                    |
| Future policy benefits - annuities                                 | (98,714,812 )    | -                                                                                | -                                                | (98,714,812 )                                      |
| Derivatives - bank loan interest rate swaps                        | (1,713 )         | -                                                                                | -                                                | (1,713 )                                           |
| - call options                                                     | (38,628 )        | (38,628 )                                                                        | -                                                | -                                                  |
| - put options                                                      | (13,700 )        | (13,700 )                                                                        | -                                                | -                                                  |
| - loan commitments                                                 | (564,025 )       | -                                                                                | -                                                | (564,025 )                                         |
| Total liabilities accounted for at fair value on a recurring basis | \$(148,488,318 ) | \$(52,328 )                                                                      | \$ -                                             | \$(148,435,990 )                                   |

Following is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs:

|                                          | Policyholder<br>Account<br>Balances | Future Policy<br>Benefits -<br>Annuities | Loan<br>Commitments | Bank<br>Loan<br>Interest<br>Rate<br>Swaps |
|------------------------------------------|-------------------------------------|------------------------------------------|---------------------|-------------------------------------------|
| Balance - December 31, 2016, as restated | \$(49,421,125)                      | \$(99,388,662)                           | \$ 6,809,332        | \$(3,308)                                 |

Total gains (losses):

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|                                        |                |                |              |           |
|----------------------------------------|----------------|----------------|--------------|-----------|
| Included in earnings                   | 265,685        | 673,850        | 2,167,593    | -         |
| Included in other comprehensive income | -              | -              | -            | 1,595     |
| Balance - March 31, 2017, as restated  | \$(49,155,440) | \$(98,714,812) | \$ 8,976,925 | \$(1,713) |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at March 31, 2017.

|                                                                  | Total       | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------------------------------------|-------------|-------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Assets accounted for at fair value on a nonrecurring basis       |             |                                                                                           |                                                  |                                                    |
| Mortgage loans on real estate                                    | \$5,106,278 | \$ -                                                                                      | \$ -                                             | \$ 5,106,278                                       |
| Mortgage servicing rights                                        | 1,357,867   | -                                                                                         | -                                                | 1,357,867                                          |
| Total assets accounted for at fair value on a nonrecurring basis | \$6,464,145 | \$ -                                                                                      | \$ -                                             | \$ 6,464,145                                       |

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at December 31, 2016, as restated.

|                                                               | Total            | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---------------------------------------------------------------|------------------|----------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Assets accounted for at fair value on a recurring basis       |                  |                                                                                  |                                                  |                                                    |
| Common stock                                                  | \$10,573,356     | \$10,573,356                                                                     | \$ -                                             | \$-                                                |
| Total securities available for sale                           | \$10,573,356     | \$10,573,356                                                                     | \$ -                                             | \$-                                                |
| Restricted assets of cemeteries and mortuaries                | \$736,603        | \$736,603                                                                        | \$ -                                             | \$-                                                |
| Cemetery perpetual care trust investments                     | 698,202          | 698,202                                                                          | -                                                | -                                                  |
| Derivatives - loan commitments                                | 6,911,544        | -                                                                                | -                                                | 6,911,544                                          |
| Total assets accounted for at fair value on a recurring basis | \$18,919,705     | \$12,008,161                                                                     | \$ -                                             | \$6,911,544                                        |
| Liabilities accounted for at fair value on a recurring basis  |                  |                                                                                  |                                                  |                                                    |
| Policyholder account balances                                 | \$(49,421,125 )  | \$-                                                                              | \$ -                                             | \$(49,421,125 )                                    |
| Future policy benefits - annuities                            | (99,388,662 )    | -                                                                                | -                                                | (99,388,662 )                                      |
| Derivatives - bank loan interest rate swaps                   | (3,308 )         | -                                                                                | -                                                | (3,308 )                                           |
| - call options                                                | (109,474 )       | (109,474 )                                                                       | -                                                | -                                                  |
| - put options                                                 | (26,494 )        | (26,494 )                                                                        | -                                                | -                                                  |
| - loan commitments                                            | (102,212 )       | -                                                                                | -                                                | (102,212 )                                         |
|                                                               | \$(149,051,275 ) | \$(135,968 )                                                                     | \$ -                                             | \$(148,915,307 )                                   |

Total liabilities accounted for at fair value on a recurring basis

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

Following is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs:

|                                          | Policyholder<br>Account<br>Balances | Future<br>Policy<br>Benefits -<br>Annuities | Loan<br>Commitments | Bank<br>Loan<br>Interest<br>Rate<br>Swaps |
|------------------------------------------|-------------------------------------|---------------------------------------------|---------------------|-------------------------------------------|
| Balance - December 31, 2015, as restated | \$(50,694,953)                      | \$(69,398,617)                              | \$ 7,671,495        | \$(13,947)                                |
| Purchases                                | -                                   | (30,294,480)                                | -                   | -                                         |
| Total gains (losses):                    |                                     |                                             |                     |                                           |
| Included in earnings                     | 1,273,828                           | 304,435                                     | (862,163)           | -                                         |
| Included in other comprehensive income   | -                                   | -                                           | -                   | 10,639                                    |
| Balance - December 31, 2016, as restated | \$(49,421,125)                      | \$(99,388,662)                              | \$ 6,809,332        | \$(3,308)                                 |

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at December 31, 2016.

|                                                                  | Total         | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|------------------------------------------------------------------|---------------|-------------------------------------------------------------------------------------------|--------------------------------------------------|----------------------------------------------------|
| Assets accounted for at fair value on a nonrecurring basis       |               |                                                                                           |                                                  |                                                    |
| Mortgage loans on real estate                                    | \$2,809,925   | \$ -                                                                                      | \$ -                                             | \$ 2,809,925                                       |
| Mortgage servicing rights                                        | 8,603,154     | -                                                                                         | -                                                | 8,603,154                                          |
| Real estate held for investment                                  | 2,347,820     | -                                                                                         | -                                                | 2,347,820                                          |
| Total assets accounted for at fair value on a nonrecurring basis | \$ 13,760,899 | \$ -                                                                                      | \$ -                                             | \$ 13,760,899                                      |

## Fair Value of Financial Instruments Carried at Other Than Fair Value

ASC 825, Financial Instruments, requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate that value.

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at March 31, 2017 and December 31, 2016. The estimated fair value amounts for March 31, 2017 and December 31, 2016 have been measured as of period-end, and have not been reevaluated or updated for purposes of

these Condensed Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of March 31, 2017:

|                                             | Carrying<br>Value | Level<br>1 | Level 2       | Level 3         | Total<br>Estimated<br>Fair Value |
|---------------------------------------------|-------------------|------------|---------------|-----------------|----------------------------------|
| <b>Assets</b>                               |                   |            |               |                 |                                  |
| Fixed maturity securities, held to maturity | \$186,445,498     | \$ -       | \$195,986,579 | \$-             | \$195,986,579                    |
| Mortgage loans:                             |                   |            |               |                 |                                  |
| Residential                                 | 62,961,706        | -          | -             | 67,122,262      | 67,122,262                       |
| Residential construction                    | 33,817,195        | -          | -             | 33,817,195      | 33,817,195                       |
| Commercial                                  | 37,344,872        | -          | -             | 38,610,972      | 38,610,972                       |
| Mortgage loans, net                         | \$134,123,773     | \$ -       | \$-           | \$139,550,429   | \$139,550,429                    |
| Loans held for sale                         | 151,891,428       | -          | -             | 156,891,384     | 156,891,384                      |
| Policy loans                                | 6,666,500         | -          | -             | 6,666,500       | 6,666,500                        |
| Insurance assignments, net                  | 32,856,652        | -          | -             | 32,856,652      | 32,856,652                       |
| Short-term investments                      | 28,346,922        | -          | -             | 28,346,922      | 28,346,922                       |
| Mortgage servicing rights                   | 19,432,993        | -          | -             | 26,632,996      | 26,632,996                       |
| <b>Liabilities</b>                          |                   |            |               |                 |                                  |
| Bank and other loans payable                | \$(153,592,365)   | \$ -       | \$-           | \$(153,592,365) | \$(153,592,365)                  |

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2016:

|                                             | Carrying<br>Value | Level<br>1 | Level 2       | Level 3         | Total<br>Estimated<br>Fair Value |
|---------------------------------------------|-------------------|------------|---------------|-----------------|----------------------------------|
| <b>Assets</b>                               |                   |            |               |                 |                                  |
| Fixed maturity securities, held to maturity | \$184,979,644     | \$ -       | \$191,850,749 | \$-             | \$191,850,749                    |
| Mortgage loans:                             |                   |            |               |                 |                                  |
| Residential                                 | 57,132,082        | -          | -             | 61,357,393      | 61,357,393                       |
| Residential construction                    | 40,700,003        | -          | -             | 40,700,003      | 40,700,003                       |
| Commercial                                  | 51,349,493        | -          | -             | 53,299,800      | 53,299,800                       |
| Mortgage loans, net                         | \$149,181,578     | \$ -       | \$-           | \$155,357,196   | \$155,357,196                    |
| Loans held for sale                         | 189,139,832       | -          | -             | 192,289,854     | 192,289,854                      |
| Policy loans                                | 6,694,148         | -          | -             | 6,694,148       | 6,694,148                        |
| Insurance assignments, net                  | 32,477,246        | -          | -             | 32,477,246      | 32,477,246                       |
| Short-term investments                      | 27,560,040        | -          | -             | 27,560,040      | 27,560,040                       |
| Mortgage servicing rights                   | 18,872,362        | -          | -             | 25,496,832      | 25,496,832                       |
| <b>Liabilities</b>                          |                   |            |               |                 |                                  |
| Bank and other loans payable                | \$(152,137,371)   | \$ -       | \$-           | \$(152,137,371) | \$(152,137,371)                  |

The methods, assumptions and significant valuation techniques and inputs used to estimate the fair value of financial instruments are summarized as follows:

Fixed Maturity Securities, Held to Maturity: The fair values of fixed maturity securities are based on quoted market prices, when available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from independent pricing services, or in the case of private placements, are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments.

Mortgage Loans on Real Estate: The estimated fair value of the Company's mortgage loans is determined using various methods. The Company's mortgage loans are grouped into three categories: Residential, Residential Construction and Commercial. When estimating the expected future cash flows, it is assumed that all loans will be held to maturity, and any loans that are non-performing are evaluated individually for impairment.

Residential – The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013 thru 2016 is determined from pricing of similar loans that were sold in 2016.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

7) Fair Value of Financial Instruments (Continued)

Residential Construction – These loans are primarily short in maturity (4-6 months) accordingly, the estimated fair value is determined to be the net book value.

Commercial – The estimated fair value is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates for commercial mortgages.

Loans Held for Sale: The fair value is based on quoted market prices, when available. When a quoted market price is not readily available, the Company uses the market price from its last sale of similar assets.

Policy Loans: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values because they are fully collateralized by the cash surrender value of the underlying insurance policies.

Insurance Assignments, Net: These investments are short in maturity accordingly, the carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

Short-Term Investments: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values due to their short-term nature.

Bank and Other Loans Payable: The carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values due to their short-term nature.

8) Allowance for Doubtful Accounts, Allowance for Loan Losses and Impaired Loans

The Company records an allowance and recognizes an expense for potential losses from mortgage loans, other loans and receivables in accordance with generally accepted accounting principles.

Receivables are the result of cemetery and mortuary operations, mortgage loan operations and life insurance operations. The allowance is based upon the Company's historical experience for collectively evaluated impairment. Other allowances are based upon receivables individually evaluated for impairment. Collectability of the cemetery and mortuary receivables is significantly influenced by current economic conditions. The critical issues that impact recovery of mortgage loan operations are interest rate risk, loan underwriting, new regulations and the overall economy.

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment, the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 3 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company does not accrue any interest income. When a loan becomes delinquent, the Company proceeds to foreclose on the real estate and all expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as real estate held for investment. The Company will rent the properties until it is deemed desirable to sell them.

The allowance for losses on mortgage loans held for investment could change based on changes in the value of the underlying collateral, the performance status of the loans, or the Company's actual collection experience. The actual losses could change, in the near term, from the established allowance, based upon the occurrence or non-occurrence of these events.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

9) Derivative Instruments

Mortgage Banking Derivatives

Loan Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of loan commitments from the time a loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of loan commitments that will be exercised (i.e., the number of loans that will be funded) fluctuates. The probability that a loan will not be funded or the loan application is denied or withdrawn within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the issuance of the loan commitment.

In general, the probability of funding increases if mortgage rates rise and decreases if mortgage rates fall. This is due primarily to the relative attractiveness of current mortgage rates compared to the applicant's committed rate. The probability that a loan will not be funded within the terms of the mortgage loan commitment also is influenced by the source of the applications (retail, broker or correspondent channels), proximity to rate lock expiration, purpose for the loan (purchase or refinance) product type and the application approval status. The Company has developed fallout estimates using historical data that take into account all of the variables, as well as renegotiations of rate and point commitments that tend to occur when mortgage rates fall. These fallout estimates are used to estimate the number of loans that the Company expects to be funded within the terms of the loan commitments and are updated periodically to reflect the most current data.

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment net of estimated commission expense. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued and is shown net of expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans.

Forward Sale Commitments

The Company utilizes forward commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments. Management expects these types of commitments will experience changes in fair value opposite to changes in fair value of the loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

The net changes in fair value of all loan commitments and forward sale commitments are shown in current earnings as a component of mortgage fee income.

Call and Put Options

The Company uses a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company uses the strategy of selling put options as a means of

generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for options is adjusted to fair value at each reporting date. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain on the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

9) Derivative Instruments (Continued)

The following table shows the fair value of derivatives as of March 31, 2017 and December 31, 2016.

|                                                | Fair Value of Derivative Instruments |               |              |                       |               |                    |
|------------------------------------------------|--------------------------------------|---------------|--------------|-----------------------|---------------|--------------------|
|                                                | Asset Derivatives                    |               |              | Liability Derivatives |               |                    |
|                                                | March 31, 2017                       |               | December 31, | March 31, 2017        |               | December 31, 2016  |
|                                                | (As Restated)                        | (As Restated) | 2016         | (As Restated)         | (As Restated) | 2016               |
|                                                | Balance                              | Balance       | Balance      | Balance               | Balance       | Balance            |
|                                                | Sheet                                | Sheet         | Sheet        | Sheet                 | Sheet         | Sheet              |
|                                                | Location                             | Location      | Location     | Location              | Location      | Location           |
|                                                | Fair Value                           | Fair Value    | Fair Value   | Fair Value            | Fair Value    | Fair Value         |
| Derivatives designated as hedging instruments: |                                      |               |              |                       |               |                    |
| Loan commitments                               | other assets                         | other assets  |              | Other liabilities     |               | Other liabilities  |
| Call options                                   | -- --                                | -- --         |              | Other liabilities     |               | Other liabilities  |
| Put options                                    | -- --                                | -- --         |              | Other liabilities     |               | Other liabilities  |
| Interest rate swaps                            | -- --                                | -- --         |              | Bank loans payable    |               | Bank loans payable |
| Total                                          | \$9,540,950                          | \$6,911,544   |              |                       | \$618,066     | \$241,488          |

The following table shows the gains and losses on derivatives for the periods presented. There were no gains or losses reclassified from accumulated other comprehensive income (OCI) into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

|                                                      | Net Amount<br>Gain (Loss)<br>Recognized in<br>OCI<br>Three Months<br>Ended Mar 31 |         |
|------------------------------------------------------|-----------------------------------------------------------------------------------|---------|
| <u>Derivative - Cash Flow Hedging Relationships:</u> | 2017                                                                              | 2016    |
| Interest Rate Swaps                                  | \$1,595                                                                           | \$2,737 |
| Sub Total                                            | 1,595                                                                             | 2,737   |
| Tax Effect                                           | 622                                                                               | 1,068   |
| Total                                                | \$973                                                                             | \$1,669 |

10) Reinsurance, Commitments and Contingencies

## Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranges from \$25,000 to \$100,000. The Company is liable for these amounts in the event such reinsurers are unable to pay their portion of the claims. The Company has also assumed insurance from other companies.

## Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2017 and December 31, 2016, the balances were \$1,065,000 and \$628,000, respectively.

#### Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers and Aurora Loan Services, reference is to Part II, Item 1. Legal Proceedings.

#### Other Contingencies and Commitments

The Company has entered into commitments to fund construction and land development loans and has also provided financing for land acquisition and development. As of March 31, 2017, the Company's commitments were approximately \$45,923,000 for these loans of which \$33,917,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees and interest for these loans and the interest rate is generally fixed 5.50% to 8.00% per annum. Maturities range between six and eighteen months.

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

10) Reinsurance, Commitments and Contingencies (Continued)

The Company belongs to a captive insurance group for certain casualty insurance, worker compensation and liability programs. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. At March 31, 2017, \$471,607 of reserves was established related to such insurance programs versus \$416,576 at December 31, 2016.

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of unfavorable outcomes, no amounts have been accrued for the above claims in the consolidated financial statements.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which, if adversely determined, would have a material adverse effect on its financial condition or results of operations.

11) Mortgage Servicing Rights

The Company reports these MSRs pursuant to the accounting policy discussed in Note 7.

The following is a summary of the MSR activity for the periods presented.

|                                                                                            | As of<br>March 31<br>2017 | As of<br>December<br>31<br>2016 |
|--------------------------------------------------------------------------------------------|---------------------------|---------------------------------|
| Amortized cost:                                                                            |                           |                                 |
| Balance before valuation allowance at beginning of year                                    | \$ 18,872,362             | \$ 12,679,755                   |
| MSRs proceeds from loan sales                                                              | 1,357,867                 | 8,603,154                       |
| Amortization                                                                               | (797,236 )                | (2,410,547 )                    |
| Application of valuation allowance to write down MSRs with other than temporary impairment | -                         | -                               |
| Balance before valuation allowance at end of period                                        | \$ 19,432,993             | \$ 18,872,362                   |
| Valuation allowance for impairment of MSRs:                                                |                           |                                 |
| Balance at beginning of year                                                               | \$-                       | \$-                             |
| Additions                                                                                  | -                         | -                               |
| Application of valuation allowance to write down MSRs with other than temporary impairment | -                         | -                               |
| Balance at end of period                                                                   | \$-                       | \$-                             |

|                                               |              |              |
|-----------------------------------------------|--------------|--------------|
| Mortgage servicing rights, net                | \$19,432,993 | \$18,872,362 |
| Estimated fair value of MSRs at end of period | \$26,632,996 | \$25,496,832 |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

11) Mortgage Servicing Rights (Continued)

The Company collected the following contractual servicing fee income and late fee income as reported in other revenues on the Condensed Consolidated Statement of Earnings:

|                            | Three Months Ended |              |
|----------------------------|--------------------|--------------|
|                            | Mar 31             |              |
|                            | 2017               | 2016         |
| Contractual servicing fees | \$ 1,835,873       | \$ 1,314,285 |
| Late fees                  | 86,338             | 63,055       |
| Total                      | \$ 1,922,211       | \$ 1,377,340 |

The following is a summary of the unpaid principal balances of the servicing portfolio for the periods presented:

|               | As of            | As of            |
|---------------|------------------|------------------|
|               | March 31         | December 31      |
|               | 2017             | 2016             |
| Servicing UPB | \$ 2,744,354,316 | \$ 2,720,441,340 |

The following key assumptions were used in determining MSR value:

|                   | Prepayment | Average     | Discount |
|-------------------|------------|-------------|----------|
|                   | Speeds     | Life(Years) | Rate     |
| March 31, 2017    | 3.79       | % 6.55      | 10.01    |
| December 31, 2016 | 3.77       | % 6.52      | 10.01    |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

12) AcquisitionsAcquisition of First Guaranty Insurance Company

On July 11, 2016, the Company, through its wholly owned subsidiary, Security National Life completed the stock purchase transaction with the shareholders of Reppond Holding Corporation, an Arkansas corporation ("Reppond Holding") and sole shareholder of First Guaranty Insurance Company, a Louisiana domestic stock legal reserve life insurance company ("First Guaranty"), to purchase all the outstanding shares of common stock of Reppond Holding. Under the terms of the stock purchase agreement, dated February 17, 2016, between Security National Life and Reppond Holding, which was later amended on March 4 and 17, 2016, Security National Life paid a total of \$6,753,000 at the closing in consideration for the purchase of all the outstanding shares of stock of Reppond Holding from its shareholders.

The estimated fair values of the assets acquired and the liabilities assumed at the date of acquisition were as follows:

|                                                      |              |
|------------------------------------------------------|--------------|
| Fixed maturity securities, held to maturity          | \$43,878,084 |
| Equity securities, available for sale                | 646,335      |
| Mortgage loans on real estate                        | 4,528,582    |
| Real estate held for investment                      | 528,947      |
| Policy loans                                         | 145,953      |
| Short-term investments                               | 5,358,403    |
| Accrued investment income                            | 585,985      |
| Cash and cash equivalents                            | 2,424,480    |
| Receivables                                          | 73,347       |
| Property and equipment                               | 21,083       |
| Deferred tax asset                                   | 1,190,862    |
| Receivable from reinsurers                           | 34,948       |
| Other                                                | 57,768       |
| Total assets acquired                                | 59,474,777   |
| Future life, annuity, and other benefits             | (52,648,838) |
| Accounts payable                                     | (6,953)      |
| Other liabilities and accrued expenses               | (65,986)     |
| Total liabilities assumed                            | (52,721,777) |
| Fair value of net assets acquired/consideration paid | \$6,753,000  |

The estimated fair value of the fixed maturity securities and the equity securities is based on unadjusted quoted prices for identical assets in an active market. These types of financial assets are considered Level 1 under the fair value hierarchy. The estimated fair value of future life, annuity, and other benefits is based on assumptions of the future value of the business acquired. Based on the unobservable nature of certain of these assumptions, the valuation for these financial liabilities is considered to be Level 3 under the fair value hierarchy. The Company determined that the estimated fair value of the remaining assets and liabilities acquired approximated their book values. The fair value of assets acquired and liabilities assumed are subject to adjustment during the first twelve months after the acquisition date if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

12) Acquisitions (Continued)

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of First Guaranty had occurred at the beginning of the three month periods ended March 31, 2017 and 2016. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

|                                                                    | For the Three Months<br>Ended<br>March 31<br>(As Restated) (Unaudited) |              |
|--------------------------------------------------------------------|------------------------------------------------------------------------|--------------|
|                                                                    | 2017                                                                   | 2016         |
| Total revenues                                                     | \$70,829,297                                                           | \$70,614,654 |
| Net earnings                                                       | \$1,860,000                                                            | \$2,302,158  |
| Net earnings per Class A equivalent common share                   | \$0.12                                                                 | \$0.16       |
| Net earnings per Class A equivalent common share assuming dilution | \$0.12                                                                 | \$0.15       |

## 13) Correction of Errors

The accompanying Condensed Consolidated Financial Statements include the restatement of the Company's previously filed condensed consolidated balance sheets for the quarter ended March 31, 2017 and year ended December 31, 2016 and the related condensed consolidated statements of operations, shareholders' equity and cash flows for the quarters ended March 31, 2017 and March 31, 2016. For additional information about the correction of errors see Note 21 of the Company's Annual Report on Form 10-K/A.

Subsequent to the issuance of the company's 2016 Consolidated Financial Statements, the Company identified the following errors, ("Adjustments"):

Material Error in Accounting for Repurchase Agreements: The Company has concluded it should account for its Repurchase Agreements with unaffiliated banks as "On-Balance-Sheet" transactions, rather than as "Off-Balance-Sheet" as previously reported. Accordingly, the Company will reflect any outstanding loans as Loans Held for Sale and the corresponding debt as a Bank Loan Payable. The Company has corrected its sale accounting practice to defer revenue and costs on loans that remain as Held for Sale. The Company will recognize these deferred items at the time the loan is purchased by the ultimate investor.

Material Error in Accounting for Tax Valuation Allowance: The Company determined that it should have reversed its valuation allowance in its entirety in 2012 when the Company no longer qualified for the small life insurance company deduction, rather than in other periods as previously reported.

Other Immaterial Corrections and Reclassifications: In addition, the Company has recorded the following additional corrections in the accompanying Consolidated Financial Statements:

1. Reclassification of Receivables to Loans Held for Sale
2. Reclassification of the Provision for Loan Loss Reserve to net against Mortgage Fee Income
3. Correction to Future Life, Annuity and Other Benefits to reverse a deferred profit liability



## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

13) Correction of Errors (Continued)

The tables below present the impact of the restatement of the Company's Condensed Consolidated Balance Sheets for the periods presented:

|                                                                        | As of March 31, 2017 |              |               |
|------------------------------------------------------------------------|----------------------|--------------|---------------|
|                                                                        | As                   |              |               |
|                                                                        | Previously           |              |               |
|                                                                        | Reported             | Adjustments  | As Restated   |
| Loans held for sale (formerly called Mortgage loans sold to investors) | \$54,401,522         | \$97,489,906 | \$151,891,428 |
| Receivables, net                                                       | 15,736,045           | (9,433,244 ) | 6,302,801     |
| Other assets                                                           | 8,141,683            | 4,255,584    | 12,397,267    |
| Total Assets                                                           | 867,205,117          | 92,312,246   | 959,517,363   |
| Future life, annuity, and other benefits                               | 589,405,726          | (1,156,778 ) | 588,248,948   |
| Bank and other loans payable                                           | 61,548,686           | 92,045,392   | 153,594,078   |
| Income taxes                                                           | 28,717,508           | (3,347,481 ) | 25,370,027    |
| Total liabilities                                                      | 737,292,214          | 87,544,133   | 824,836,347   |
| Retained earnings                                                      | 64,494,807           | 4,771,113    | 69,265,920    |
| Total stockholders' equity                                             | 129,909,903          | 4,771,113    | 134,681,016   |
| Total Liabilities and Stockholders' Equity                             | 867,205,117          | 92,312,246   | 959,517,363   |

|                                                                        | As of December 31, 2016 |                 |               |
|------------------------------------------------------------------------|-------------------------|-----------------|---------------|
|                                                                        | As                      |                 |               |
|                                                                        | Previously              |                 |               |
|                                                                        | Reported                | Adjustments     | As Restated   |
| Loans held for sale (formerly called Mortgage loans sold to investors) | \$82,491,091            | \$106,648,741   | \$189,139,832 |
| Receivables, net                                                       | 18,870,119              | \$(12,496,755 ) | 6,373,364     |
| Other assets                                                           | 6,891,468               | 3,521,926       | 10,413,394    |
| Total Assets                                                           | 854,004,671             | 97,673,912      | 951,678,583   |
| Future life, annuity, and other benefits                               | 585,610,063             | (1,542,371 )    | 584,067,692   |
| Bank and other loans payable                                           | 53,718,548              | 98,422,131      | 152,140,679   |
| Income taxes                                                           | 27,904,294              | (3,585,425 )    | 24,318,869    |
| Total liabilities                                                      | 725,825,117             | 93,294,335      | 819,119,452   |
| Retained earnings                                                      | 63,029,627              | 4,379,577       | 67,409,204    |
| Total stockholders' equity                                             | 128,179,554             | 4,379,577       | 132,559,131   |
| Total Liabilities and Stockholders' Equity                             | 854,004,671             | 97,673,912      | 951,678,583   |

|                   | As of January 1, 2016 |             |             |
|-------------------|-----------------------|-------------|-------------|
|                   | As                    |             |             |
|                   | Previously            |             |             |
|                   | Reported              | Adjustments | As Restated |
| Retained earnings | 54,054,950            | 6,470,454   | 60,525,404  |

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

13) Correction of Errors (Continued)

The tables below present the impact of the restatement on the Company's Condensed Consolidated Statements of Earnings for the periods presented:

| Three Months Ended March 31, 2017                   |              |              |              |
|-----------------------------------------------------|--------------|--------------|--------------|
|                                                     | As           |              |              |
|                                                     | Previously   |              |              |
|                                                     | Reported     | Adjustments  | As Restated  |
| Mortgage fee income                                 | \$37,050,926 | \$ 1,376,928 | \$38,427,854 |
| Total revenues                                      | 69,452,369   | 1,376,928    | 70,829,297   |
| Increase in future policy benefits                  | 5,182,449    | 385,593      | 5,568,042    |
| Commissions                                         | 15,721,074   | 633,974      | 16,355,048   |
| Provision for loan loss reserve                     | 426,634      | (426,634 )   | -            |
| Cost related to funding mortgage loans              | 2,065,134    | 154,515      | 2,219,649    |
| Total benefits and expenses                         | 67,184,079   | 747,448      | 67,931,527   |
| Earnings before income taxes                        | 2,268,290    | 629,480      | 2,897,770    |
| Income tax expense                                  | (799,826 )   | (237,944 )   | (1,037,770 ) |
| Net earnings                                        | 1,468,464    | 391,536      | 1,860,000    |
| Net earnings per common share (1)                   | \$0.10       | \$ 0.03      | \$0.12       |
| Net earnings per common share assuming dilution (1) | \$0.09       | \$ 0.03      | \$0.12       |

| Three Months Ended March 31, 2016                   |              |              |              |
|-----------------------------------------------------|--------------|--------------|--------------|
|                                                     | As           |              |              |
|                                                     | Previously   |              |              |
|                                                     | Reported     | Adjustments  | As Restated  |
| Mortgage fee income                                 | \$39,110,967 | \$ 2,101,041 | \$41,212,008 |
| Total revenues                                      | 67,355,307   | 2,101,041    | 69,456,348   |
| Increase in future policy benefits                  | 4,160,260    | (38,559 )    | 4,121,701    |
| Commissions                                         | 16,842,270   | 2,368,698    | 19,210,968   |
| Provision for loan loss reserve                     | 586,778      | (586,778 )   | -            |
| Cost related to funding mortgage loans              | 2,154,397    | 478,357      | 2,632,754    |
| Total benefits and expenses                         | 63,163,550   | 2,221,718    | 65,385,268   |
| Earnings before income taxes                        | 4,191,757    | (120,677 )   | 4,071,080    |
| Income tax expense                                  | (1,580,220 ) | 47,081       | (1,533,139 ) |
| Net earnings                                        | 2,611,537    | (73,596 )    | 2,537,941    |
| Net earnings per common share (1)                   | \$0.18       | \$ (0.01 )   | \$0.17       |
| Net earnings per common share assuming dilution (1) | \$0.17       | \$ (0.00 )   | \$0.17       |

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (As Restated) (Unaudited)

13) Correction of Errors (Continued)

The tables below present the impact of the restatement on the Company's Condensed Consolidated Statements of Comprehensive Income for the periods presented:

| Three Months Ended March 31, 2017 |              |             |              |
|-----------------------------------|--------------|-------------|--------------|
| As                                |              |             |              |
|                                   | Previously   | As          |              |
|                                   | Reported     | Adjustments | Restated     |
| Net earnings                      | \$ 1,468,464 | \$ 391,536  | \$ 1,860,000 |

| Three Months Ended March 31, 2016 |              |              |              |
|-----------------------------------|--------------|--------------|--------------|
| As                                |              |              |              |
|                                   | Previously   | As           |              |
|                                   | Reported     | Adjustments  | Restated     |
| Net earnings                      | \$ 2,611,537 | \$ (73,596 ) | \$ 2,537,941 |

The tables below present the impact of the restatement on the Company's Condensed Consolidated Statements of Cash Flows for the periods presented:

| Three Months Ended March 31, 2017                   |              |              |              |
|-----------------------------------------------------|--------------|--------------|--------------|
| As                                                  |              |              |              |
|                                                     | Previously   |              |              |
|                                                     | Reported     | Adjustments  | As Restated  |
| Net cash provided by operating activities           | \$24,054,637 | \$6,376,739  | \$30,431,376 |
| Net change in warehouse line borrowings             | -            | (6,376,739 ) | (6,376,739 ) |
| Net cash provided by (used in) financing activities | 6,229,522    | (6,376,739 ) | (147,217 )   |

| Three Months Ended March 31, 2016                   |              |              |              |
|-----------------------------------------------------|--------------|--------------|--------------|
| As                                                  |              |              |              |
|                                                     | Previously   |              |              |
|                                                     | Reported     | Adjustments  | As Restated  |
| Net cash provided by operating activities           | \$25,863,034 | \$1,412,370  | \$27,275,404 |
| Net change in warehouse line borrowings             | -            | (1,412,370 ) | (1,412,370 ) |
| Net cash provided by (used in) financing activities | (100,886 )   | (1,412,370 ) | (1,513,256 ) |

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

## Overview

The accompanying management's discussion and analysis gives effect to the restatement discussed in Note 13 to the Condensed Consolidated Financial Statements.

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on relatively low interest rates by originating mortgage loans.

## Insurance Operations

The Company's life insurance business includes funeral plans and interest-sensitive life insurance, as well as other traditional life, accident and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of a person's death. On a per thousand-dollar cost of insurance basis, these policies can be more expensive to the policyholder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

The following table shows the condensed financial results of the insurance operations for three months ended March 31, 2017 and 2016. See Note 6 to the Condensed Consolidated Financial Statements.

|                                  | Three months ended March 31<br>(in thousands of dollars) |          |                          |    |
|----------------------------------|----------------------------------------------------------|----------|--------------------------|----|
|                                  | 2017                                                     | 2016     | % Increase<br>(Decrease) |    |
| Revenues from external customers |                                                          |          |                          |    |
| Insurance premiums               | \$17,357                                                 | \$14,452 | 20                       | %  |
| Net investment income            | 7,586                                                    | 6,963    | 9                        | %  |
| Income from loan originations    | 1,188                                                    | 472      | 152                      | %  |
| Other                            | 28                                                       | 188      | (85                      | %) |
| Total                            | \$26,159                                                 | \$22,075 | 19                       | %  |
| Intersegment revenue             | \$2,989                                                  | \$3,103  | (4                       | %) |
| Earnings before income taxes     | \$1,483                                                  | \$1,104  | 34                       | %  |

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company ("SecurityNational Mortgage"). Profitability in the three months ended March 31, 2017 has increased due to increases in insurance premiums, mortgage fee income and net investment income.

## Cemetery and Mortuary Operations

The Company sells mortuary services and products through its eight mortuaries in Utah. The Company also sells cemetery products and services through its five cemeteries in Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the

services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

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The following table shows the condensed financial results of the Cemetery and Mortuary operations for the three months ended March 31, 2017 and 2016. See Note 6 to the Condensed Consolidated Financial Statements.

|                                  | Three months ended March 31<br>(in thousands of dollars) |         |                          |   |
|----------------------------------|----------------------------------------------------------|---------|--------------------------|---|
|                                  | 2017                                                     | 2016    | % Increase<br>(Decrease) |   |
| Revenues from external customers |                                                          |         |                          |   |
| Mortuary revenues                | \$1,406                                                  | \$1,366 | 3                        | % |
| Cemetery revenues                | 2,131                                                    | 2,019   | 6                        | % |
| Other                            | 68                                                       | (54 )   | 226                      | % |
| Total                            | \$3,605                                                  | \$3,331 | 8                        | % |
| Earnings before income taxes     | \$759                                                    | \$469   | 62                       | % |

Included in other revenue is rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income is offset by property insurance, taxes and maintenance expenses. Memorial Estates has recorded depreciation on these properties of \$170,000 and \$187,000 for the three months ended March 31, 2017 and 2016, respectively.

## Mortgage Operations

### Overview

The Company's wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage Company (formerly known as Green Street Mortgage Services, Inc.), are mortgage lenders incorporated under the laws of the State of Utah and approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), incorporated under the laws of the State of Utah and approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), which originate mortgage loans that qualify for government insurance in the event of default by the borrower, in addition to various conventional mortgage loan products. SecurityNational Mortgage and EverLEND Mortgage obtain mortgage loans originated in retail offices and through independent brokers. Mortgage loans originated by the Company's mortgage subsidiaries are funded through loan purchase agreements from Security National Life and unaffiliated financial institutions.

The Company's mortgage subsidiaries receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage are generally sold with mortgage servicing rights released to third party investors or retained by SecurityNational Mortgage. SecurityNational Mortgage currently retains the mortgage servicing rights on approximately 30% of its loan origination volume. These loans are serviced by an approved third party sub-servicer.

For the three months ended March 31, 2017 and 2016, SecurityNational Mortgage originated 2,985 loans (\$568,846,000 total volume) and 3,139 loans (\$586,580,000 total volume), respectively. For the three months ended March 31, 2017 and 2016, EverLEND Mortgage originated one loan (\$310,000 total volume) and -0- loans (\$-0- total volume), respectively.

The following table shows the condensed financial results of the mortgage operations for the three months ended March 31, 2017 and 2016. See Note 6 to the Condensed Consolidated Financial Statements.

| Three months ended March 31<br>(in thousands of dollars) |          |          |                          |    |
|----------------------------------------------------------|----------|----------|--------------------------|----|
|                                                          | 2017     | 2016     | % Increase<br>(Decrease) |    |
| Revenues from external customers                         |          |          |                          |    |
| Income from loan originations                            | \$35,822 | \$36,784 | (3                       | %) |
| Secondary gains from investors                           | 5,244    | 7,266    | (28                      | %) |
| Total                                                    | \$41,066 | \$44,050 | (7                       | %) |
| Earnings before income taxes                             | \$655    | \$2,498  | (74                      | %) |

The decrease in earnings for the three months ended March 31, 2017 was due to a reduction in mortgage loan originations.

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## Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. The estimated liability for indemnification losses was included in other liabilities and accrued expenses and, as of March 31, 2017 and December 31, 2016, the balances were \$1,065,000 and \$628,000, respectively.

## Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers and Aurora Loan Services, reference is to Part II, Item 1. Legal Proceedings.

## Consolidation

### Three Months Ended March 31, 2017 Compared to Three Months Ended March 31, 2016

Total revenues increased by \$1,373,000, or 2.0%, to \$70,829,000 for the three months ended March 31, 2017, from \$69,456,000 for the comparable period in 2016. Contributing to this increase in total revenues was a \$2,906,000 increase in insurance premiums and other considerations, a \$571,000 increase in net investment income, a \$499,000 increase in other revenues, a \$113,000 increase in net mortuary and cemetery sales, a \$47,000 increase in realized gains on investments and other assets, and a \$21,000 decrease in other than temporary impairments on investments. This increase in total revenues was partially offset by a \$2,784,000 decrease in mortgage fee income.

Insurance premiums and other considerations increased by \$2,906,000, or 20.1%, to \$17,357,000 for the three months ended March 31, 2017, from \$14,451,000 for the comparable period in 2016. This increase was primarily due to an increase in renewal premiums and an increase in first year premiums as a result of increased insurance sales.

Net investment income increased by \$571,000, or 6.4%, to \$9,563,000 for the three months ended March 31, 2017, from \$8,992,000 for the comparable period in 2016. This increase was primarily attributable to a \$318,000 increase in fixed maturity securities income, a \$260,000 increase in insurance assignment income, a \$197,000 increase in mortgage loan interest, and a \$56,000 increase in rental income from real estate owned. This increase was partially offset by a \$204,000 increase in investment expenses, a \$58,000 decrease in short-term investment income, and a \$17,000 decrease in equity securities income.

Net mortuary and cemetery sales increased by \$113,000, or 3.5%, to \$3,359,000 for the three months ended March 31, 2017, from \$3,246,000 for the comparable period in 2016. This increase was primarily due to an increase in at-need sales in both the cemetery and mortuary operations.

Realized gains on investments and other assets increased by \$47,000, or 48.4%, to \$145,000 in realized gains for the three months ended March 31, 2017, from \$98,000 in realized gains for the comparable period in 2016. This increase in realized gains on investments and other assets was primarily attributable to a \$27,000 increase in realized gains on fixed maturity securities, and a \$17,000 increase in realized gains on securities available for sale.

Mortgage fee income decreased by \$2,784,000, or 6.8%, to \$38,428,000, for the three months ended March 31, 2017, from \$41,212,000 for the comparable period in 2016. This decrease was primarily due to a reduction in mortgage loan originations.

Other revenues increased by \$499,000, or 32.6%, to \$2,029,000 for the three months ended March 31, 2017, from \$1,530,000 for the comparable period in 2016. This increase was due to an increase in mortgage servicing fees.

Total benefits and expenses were \$67,932,000, or 95.9% of total revenues, for the three months ended March 31, 2017, as compared to \$65,385,000, or 94.1% of total revenues, for the comparable period in 2016.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$2,756,000 or 22.1%, to \$15,220,000 for the three months ended March 31, 2017, from \$12,464,000 for the comparable period in 2016. This increase was primarily the result of a \$1,446,000 increase in future policy benefits, a \$971,000 increase in death benefits, and a \$339,000 increase in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$51,000, or 2.3%, to \$2,264,000 for the three months ended March 31, 2017, from \$2,213,000 for the comparable period in 2016. This increase was primarily due to an increase in insurance sales expenses.

Selling, general and administrative expenses decreased by \$514,000, or 1.0%, to \$48,671,000 for the three months ended March 31, 2017, from \$49,185,000 for the comparable period in 2016. This decrease was primarily the result of a \$2,856,000 decrease in commissions resulting from a decrease in sales, and a \$413,000 decrease in costs related to funding mortgage loans. This decrease was partially offset by a \$1,392,000 increase in personnel expenses resulting from increased salaries for existing employees and the hiring of new employees, a \$950,000 increase in other expenses, a \$233,000 increase in advertising, a \$104,000 increase in depreciation on property and equipment, and a \$75,000 increase in rent and rent related expenses.

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Interest expense increased by \$190,000, or 17.8%, to \$1,254,000 for the three months ended March 31, 2017, from \$1,064,000 for the comparable period in 2016. This increase was primarily due to an increase in interest expense on mortgage warehouse lines, and an increase in interest expense due to the completion of the Dry Creek at East Village Apartments development in December 2015, resulting from interest from the bank loan that had been capitalized during the construction phase of each building and now being expensed.

Comprehensive income for the three months ended March 31, 2017 and 2016 amounted to gains of \$1,881,000 and \$2,837,000, respectively. This \$956,000 decrease in comprehensive income was primarily the result of a \$679,000 decrease in net income, and a \$278,000 decrease in unrealized gains in securities available for sale.

#### Liquidity and Capital Resources

The Company's life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held to maturity investments or sale of other investments. The mortgage subsidiaries realize cash flow from fees generated by originating and refinancing mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long-term and adequate to pay current policyholder claims, annuity payments, expenses related to the issuance of new policies, the maintenance of existing policies, debt service, and to meet current operating expenses.

During the three months ended March 31, 2017 and 2016, the Company's operations provided cash of \$30,431,000 and \$27,275,000, respectively. This was due primarily to an increase in cash collected on loans held for sale.

The Company's liability for future life, annuity and other benefits is expected to be paid out over the long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities, the Company is able to hold to maturity its bonds, real estate and mortgage loans, thus reducing the risk of liquidating these long-term investments as a result of any sudden changes in fair values.

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held to maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products. The Company's investment philosophy is intended to provide a rate of return that will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, real estate, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$185,822,000 and \$184,356,000 as of March 31, 2017 and December 31, 2016, respectively. This represents 33.4% and 33.1% of the total investments as of March 31, 2017 and December 31, 2016, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At March 31, 2017, 8.8% (or \$16,424,000) and at December 31, 2016, 9.0% (or \$16,513,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which were considered non investment grade.

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. In accordance with Company policy, however, any such securities purchased in the future will be classified as held to maturity. Notwithstanding, business conditions may

develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event, the Company believes it could sell short-term investment grade securities before liquidating higher yielding longer-term securities.

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The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At March 31, 2017 and December 31, 2016, the life insurance subsidiaries were in compliance with the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank loans and notes payable was \$288,275,000 as of March 31, 2017, as compared to \$284,700,000 as of December 31, 2016. Stockholders' equity as a percent of total capitalization was 46.7% and 46.6% as of March 31, 2017 and December 31, 2016, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2016 was 9.6% as compared to a rate of 7.4% for 2015. The 2017 lapse rate to date has been approximately the same as 2016.

At March 31, 2017, \$44,605,000 of the Company's consolidated stockholders' equity represented the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company, without approval of state insurance regulatory authorities.

### Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes since the Annual Report on Form 10-K/A filed for the year ended December 31, 2016.

### Item 4. Controls and Procedures.

#### Disclosure Controls and Procedures

As of March 31, 2017, the Company carried out an evaluation under the supervision and with the participation of its Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"). The Company's disclosure controls and procedures are designed to ensure that information required to be disclosed in the Securities and Exchange Commission (SEC) reports that the Company files or submits under the Exchange Act is recorded, processed, summarized and reported within the time period specified by the SEC's rules and forms and that such information is accumulated and communicated to management, including the Company's CEO and CFO, as appropriate, to allow timely decisions regarding required disclosure. The officers have concluded that the Company's disclosure controls and procedures were not effective as of March 31, 2017, and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations and cash flows for the periods presented in conformity with United States Generally Accepted Accounting Principles (GAAP).

#### Changes in Internal Control over Financial Reporting

Except for the material weaknesses discussed in the Company's Annual Report on Form 10K/A, there have not been any significant changes in the Company's internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934, as amended) in the first quarter of 2017 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### Remediation Efforts to Address Material Weakness

During the fourth quarter of 2016, there were changes in the Company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Two of the prior errors were determined to be immaterial errors and were noted in connection with the annual audit of the Company's consolidated financial statements for the fiscal year ended December 31, 2016. The

other two errors were discovered as a result of a review of current accounting policies and were determined to be material errors. Management has corrected these errors in this Form 10-K/A for the fiscal year ended December 2016. See Notes 21 and 22 to the Company's Consolidated Financial Statements.

The Company is implementing measures to remediate the underlying causes that gave rise to the material weaknesses. The following remediation steps are among the measures currently being implemented at the time of this filing by management: (i) a thorough review of the accounting department to ensure that the staff has the appropriate training and the level of reviews are commensurate with the complexity of the accounting; and (ii) a thorough review of the processes and procedures used in the Company's accounting policies and the implementation of those policies.

The Company believes the measures described above will remediate the control deficiencies that it has identified and strengthen its internal control over financial reporting. The Company is committed to continuous improvement of its internal control processes and will continue to diligently review its financial reporting controls and procedures.

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Part II - Other Information

Item 1. Legal Proceedings.

Lehman Brothers Litigation – Delaware and New York

In January 2014, Lehman Brothers Holdings, Inc. ("Lehman Holdings") entered into a settlement with the Federal National Mortgage Association (Fannie Mae) concerning the mortgage loan claims that Fannie Mae had asserted against Lehman Holdings, which were based on alleged breaches of certain representations and warranties by Lehman Holdings in the mortgage loans it had sold to Fannie Mae. Lehman Holdings acquired these loans from Aurora Bank, FSB, formerly known as Lehman Brothers Bank, FSB, which in turn purchased the loans from certain residential mortgage loan originators, including SecurityNational Mortgage. A settlement based on similar circumstances was entered into between Lehman Holdings and the Federal Home Loan Mortgage Corporation (Freddie Mac) in February 2014.

Lehman Holdings filed a motion in May 2014 with the U.S. Bankruptcy Court of the Southern District of New York to require the mortgage loan originators, including SecurityNational Mortgage, to engage in settlement discussions and non-binding mediations of the alleged indemnification claims against the mortgage loan originators concerning the Fannie Mae and Freddie Mac settlements with Lehman Holdings. The mediation was not successful in resolving any issues between SecurityNational Mortgage and Lehman Holdings.

On January 26, 2016, SecurityNational Mortgage filed a declaratory judgment action against Lehman Holdings in the Superior Court for the State of Delaware. In the Delaware action, SecurityNational Mortgage asserted its right to obtain a declaration of rights in that there are allegedly millions of dollars in dispute with Lehman Holdings pertaining to approximately 136 loans. SecurityNational Mortgage sought a declaratory judgment as to its rights as it contends that it has no liability to Lehman Holdings as a result of Lehman Holdings' settlements with Fannie Mae and Freddie Mac. Lehman Holdings filed a motion in the Delaware court seeking to stay or dismiss the declaratory judgment action. On August 24, 2016, the Court ruled that it would exercise its discretion to decline jurisdiction over the action and granted Lehman Holdings' motion to dismiss.

On February 3, 2016, Lehman Holdings filed an adversary proceeding against approximately 150 mortgage loan originators, including SecurityNational Mortgage, in the U.S. Bankruptcy Court of the Southern District of New York seeking a declaration of rights similar in nature to the declaratory judgment that SecurityNational Mortgage sought in its Delaware lawsuit, and for damages relating to the alleged obligations of the defendants under the indemnification provisions of the alleged agreements, in amounts to be determined at trial, including interest, attorneys' fees and costs incurred by Lehman Holdings in enforcing the obligations of the defendants. No response was required to be filed relative to the Complaint or the Amended Complaint dated March 7, 2016. A Case Management Order was entered on November 1, 2016.

On December 27, 2016, pursuant to the Case Management Order, Lehman Holdings filed a Second Amended Complaint against SecurityNational Mortgage, which eliminates the declaratory judgment claim but retains a similar claim for damages as in the Complaint. The case is presently in a motion period. Many of the defendants, including SecurityNational Mortgage, filed a joint motion in the case asserting that the Bankruptcy Court does not have subject matter jurisdiction concerning the matter and that venue is improper. Lehman Holdings' response is due at the end of May 2017. Defendants then have 45 days in which to file a reply brief. No Answer is required to be filed by SecurityNational Mortgage pending further order of the Court. SecurityNational Mortgage denies that it has any liability to Lehman Holdings and intends to vigorously protect and defend its position.

The Company is not a party to any other material legal proceedings outside the ordinary course of business or to any other legal proceedings, which if adversely determined, would have a material adverse effect on its financial condition or results of operation.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

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Item 4. Mine Safety Disclosures.

None

Item 5. Other Information.

Completion of Acquisition of First Guaranty Insurance Company

On July 11, 2016, the Company, through its wholly owned subsidiary, Security National Life, completed a stock purchase transaction with the shareholders of Reppond Holding Corporation, an Arkansas corporation ("Reppond Holding") and sole shareholder of First Guaranty Insurance Company, a Louisiana domestic stock legal reserve life insurance company ("First Guaranty"), to purchase all the outstanding shares of common stock of Reppond Holding. Under the terms of the Stock Purchase Agreement, dated February 17, 2016, between Security National Life and Reppond Holding, which was later amended on March 4, 2016 and March 17, 2016, Security National Life paid a total of \$6,753,000 at the closing in consideration for the purchase of all the outstanding shares of stock of Reppond Holding from its shareholders.

The transaction was completed following the satisfaction or waiver of certain conditions set forth in the Stock Purchase Agreement. These conditions included obtaining all the required material orders, consents, permits, authorizations, approvals and waivers (including, without limitation, obtaining the approval of the Louisiana Department of Insurance without the material abrogation or diminishment of First Guaranty's or Reppond Holding's authority or license or the imposition of signification restrictions upon the transactions contemplated thereby). This condition was satisfied on July 8, 2016 when the Department issued an order approving the transaction, as required. The closing of the transaction took place soon thereafter on July 11, 2016.

At December 31, 2015, First Guaranty had 37,069 policies in force and 320 agents. Also, as of December 31, 2015, First Guaranty had statutory revenues of \$8,102,000 and a statutory net loss of \$724,000. Additionally, as of December 31, 2015, the statutory assets and the capital and surplus of First Guaranty were \$55,550,000 and \$3,849,000, respectively. As of December 31, 2014, First Guaranty had revenues of \$8,080,000 and a net loss of \$172,000. Moreover, as of December 31, 2014, the statutory assets and the capital and surplus of First Guaranty were \$54,696,000 and \$4,581,000, respectively.

Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See "Table of Contents – Part I – Financial Information" under page 2 above

(a)(2) Financial Statement Schedules

None

All other schedules to the consolidated financial statements required by Article 7 of Regulation S X are not required under the related instructions or are inapplicable and therefore have been omitted.

(a)(3) Exhibits

The following Exhibits are filed herewith pursuant to Rule 601 of Regulation S-K or are incorporated by reference to previous filings.

- 3.1 Articles of Amendment to Articles of Incorporation (11)
- 3.2 Amended Bylaws (3)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Amended Employee Stock Ownership Plan (ESOP) and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (2)
- 10.3 2006 Director Stock Option Plan (4)
- 10.4 2013 Amended Stock Option and Other Equity Incentive Awards Plan (10)
- 10.5 2014 Director Stock Option Plan (6)
- 10.6 Employment agreement with Scott M. Quist (8)
- 10.7 Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (5)
- 10.8 Purchase Agreement among Security National Financial Corporation, SNFC Subsidiary, LLC, American Funeral Financial, LLC, and Hypershop, LLC (7)
- 10.9 Stock Purchase Agreement among Security National Financial Corporation, and Reppond Holding Company, to purchase First Guaranty Insurance Company (10)
- 21 Subsidiaries of the Registrant
- 23.1 Consent of Eide Bailly LLP (9)
- 23.2 Consent of Mackey Price & Mecham (9)
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101.xml Instance Document
- 101.xsd Taxonomy Extension Schema Document
- 101.cal Taxonomy Extension Calculation Linkbase Document
- 101.def Taxonomy Extension Definition Linkbase Document
- 101.lab Taxonomy Extension Label Linkbase Document
- 101.pre Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
- (2) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 5, 2003, relating to the Company's Annual Meeting of Stockholders
- (3) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
- (4) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 1, 2007, relating to the Company's Annual Meeting of Stockholders
- (5) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
- (6) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on June 2, 2014, related to Company's Annual Meeting of Stockholders
- (7) Incorporated by reference from Report on Form 8-K, as filed on June 13, 2014
- (8) Incorporated by reference from Report on Form 10-Q, as filed on August 14, 2015
- (9) Incorporated by reference from Registration Statement on Form S-8, as filed on October 20, 2015
- (10) Incorporated by reference from Report on Form 10-Q, as filed on August 15, 2016
- (11) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2017

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION

Registrant

Dated: August 25, 2017 /s/ Scott M. Quist

Scott M. Quist

Chairman, President and Chief Executive Officer

(Principal Executive Officer)

Dated: August 25, 2017 /s/ Garrett S. Sill

Garrett S. Sill

Chief Financial Officer and Treasurer

(Principal Financial Officer and Principal Accounting Officer)