

**barchart**

# **SECURITY NATIONAL FINANCIAL CORP**

## **FORM 10-Q**

(Quarterly Report)

Filed 08/14/23 for the Period Ending 06/30/23

Address PO BOX 57220, SALT LAKE CITY, UT, 84157  
Telephone (727) 384-2323  
CIK 0000318673  
Symbol SNFCA  
SIC Code 6199 - Finance Services  
Fiscal Year 12/31

Powered by **barchart**

<https://www.barchart.com/solutions>

© Copyright 2022, Barchart.com, Inc. All Rights Reserved.

---

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended June 30, 2023

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.)*

**433 Ascension Way, 6<sup>th</sup> Floor, Salt Lake City, Utah**  
*(Address of principal executive offices)*

**84123**  
*(Zip Code)*

**(801) 264-1060**

*(Registrant's telephone number, including area code)*

**Securities registered pursuant to Section 12(b) of the Act:**

Title of each class	Trading symbol	Name of each exchange on which registered
Class A Common Stock	SNFCA	The Nasdaq Global Select Market

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 every Interactive Data File required to be submitted 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 such files).

Yes  No

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of August 9, 2023, the registrant had 19,947,531 shares of Class A Common Stock, \$2.00 par value, outstanding and 2,971,854 shares of Class C Common Stock, \$2.00 par value, outstanding.

---

**SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q**

QUARTER ENDED JUNE 30, 2023

**Table of Contents**

**Part I - Financial Information**

Item	<a href="#">Financial Statements</a>	
1.		
	<a href="#">Condensed Consolidated Balance Sheets as of June 30, 2023 (unaudited) and December 31, 2022</a>	3-4
	<a href="#">Condensed Consolidated Statements of Earnings for the three and six month periods ended June 30, 2023 and 2022 (unaudited)</a>	5
	<a href="#">Condensed Consolidated Statements of Comprehensive Income (loss) for the three and six month periods ended June 30, 2023 and 2022 (unaudited)</a>	6
	<a href="#">Condensed Consolidated Statements of Stockholders' Equity as of June 30, 2023 and June 30, 2022 (unaudited)</a>	7
	<a href="#">Condensed Consolidated Statements of Cash Flows for the six month periods ended June 30, 2023 and 2022 (unaudited)</a>	8-9
	<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	10
Item	<a href="#">Management's Discussion and Analysis of Financial Condition and Results of Operations</a>	58
2.		
Item	<a href="#">Quantitative and Qualitative Disclosures about Market Risk</a>	64
3.		
Item	<a href="#">Controls and Procedures</a>	65
4.		
<b>Part II - Other Information</b>		
Item	<a href="#">Legal Proceedings</a>	65
1.		
Item	<a href="#">Risk Factors</a>	65
1A.		
Item	<a href="#">Unregistered Sales of Equity Securities and Use of Proceeds</a>	66
2.		
Item	<a href="#">Defaults Upon Senior Securities</a>	66
3.		
Item	<a href="#">Mine Safety Disclosures</a>	66
4.		
Item	<a href="#">Other Information</a>	66
5.		
Item	<a href="#">Exhibits</a>	67
6.		
	<a href="#">Signatures</a>	68

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

**Part I - Financial Information****Item 1. Financial Statements.**

	June 30, 2023 (Unaudited)	December 31, 2022
<b>Assets</b>		
Investments:		
Fixed maturity securities, available for sale, at estimated fair value (amortized cost of \$371,731,265 and \$362,750,511 for 2023 and 2022, respectively; allowance for credit losses of \$224,005 and nil for 2023 and 2022, respectively)	\$ 354,789,812	\$ 345,858,492
Equity securities at estimated fair value (cost of \$10,416,580 and \$9,942,265 for 2023 and 2022, respectively)	12,801,925	11,682,526
Mortgage loans held for investment (net of allowance for credit losses of \$2,663,560 and \$1,970,311 for 2023 and 2022, respectively)	271,049,585	308,123,927
Real estate held for investment (net of accumulated depreciation of \$26,941,328 and \$23,793,204 for 2023 and 2022, respectively)	180,962,902	191,328,616
Real estate held for sale	1,827,474	11,161,582
Other investments and policy loans (net of allowance for credit losses of \$1,690,693 and \$1,609,951 for 2023 and 2022, respectively)	64,554,148	70,508,156
Accrued investment income	10,188,551	10,299,826
Total investments	<u>896,174,397</u>	<u>948,963,125</u>
Cash and cash equivalents	110,285,941	120,919,805
Loans held for sale at estimated fair value	161,310,060	141,179,620
Receivables (net of allowance for credit losses of \$1,492,934 and \$2,229,791 for 2023 and 2022, respectively)	11,675,595	28,573,092
Restricted assets (including \$7,780,162 and \$6,565,552 for 2023 and 2022 respectively, at estimated fair value; allowance for credit losses of \$2,760 and nil for 2023 and 2022, respectively)	19,434,263	18,935,055

Cemetery perpetual care trust investments (including \$4,315,932 and \$3,859,893 for 2023 and 2022 respectively, at estimated fair value; allowance for credit losses of \$1,453 and nil for 2023 and 2022, respectively)	7,666,221	7,276,210
Receivable from reinsurers	14,839,279	15,033,938
Cemetery land and improvements	9,033,600	9,101,474
Deferred policy and pre-need contract acquisition costs	111,733,330	108,655,128
Mortgage servicing rights, net	3,442,352	3,039,765
Property and equipment, net	19,932,664	20,579,649
Value of business acquired	9,393,595	9,803,736
Goodwill	5,253,783	5,253,783
Other	23,431,668	23,798,512
<b>Total Assets</b>	<b>\$ 1,403,606,748</b>	<b>\$ 1,461,112,892</b>

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

3

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

	June 30, 2023 (Unaudited)	December 31, 2022
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Future policy benefits and unpaid claims	\$ 901,792,172	\$ 889,327,303
Unearned premium reserve	2,658,492	2,773,616
Bank and other loans payable	103,301,721	161,712,804
Deferred pre-need cemetery and mortuary contract revenues	17,155,722	16,226,836
Cemetery perpetual care obligation	5,207,198	5,099,542
Accounts payable	3,215,659	5,361,449
Other liabilities and accrued expenses	56,073,488	57,113,888
Income taxes	15,439,539	30,710,527
<b>Total liabilities</b>	<b>1,104,843,991</b>	<b>1,168,325,965</b>
<b>Stockholders' Equity</b>		
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; 40,000,000 shares authorized; 19,893,700 shares issued and outstanding as of June 30, 2023 and 18,758,031 shares issued and outstanding as of December 31, 2022	39,787,400	37,516,062
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; 6,000,000 shares authorized; 2,973,552 shares issued and outstanding as of June 30, 2023 and 2,889,859 shares issued and outstanding as of December 31, 2022	5,947,104	5,779,718
Additional paid-in capital	71,685,665	64,767,769
Accumulated other comprehensive loss, net of taxes	(12,894,771)	(13,070,277)
Retained earnings	200,078,709	202,160,306
Treasury stock at cost - 849,005 Class A shares and 35,717 Class C shares as of June 30, 2023; and 525,870 Class A shares and 34,016 Class C shares as of December 31, 2022	(5,841,350)	(4,366,651)
<b>Total stockholders' equity</b>	<b>298,762,757</b>	<b>292,786,927</b>
<b>Total Liabilities and Stockholders' Equity</b>	<b>\$ 1,403,606,748</b>	<b>\$ 1,461,112,892</b>

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

4

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Revenues:</b>				

Mortgage fee income	\$ 26,078,753	\$ 42,030,898	\$ 52,067,759	\$ 90,375,343
Insurance premiums and other considerations	28,813,299	25,911,995	56,780,591	52,253,947
Net investment income	20,171,974	15,971,288	37,946,857	31,165,594
Net mortuary and cemetery sales	7,168,714	7,250,503	13,640,143	14,456,224
Gains (losses) on investments and other assets	816,584	(914,395)	927,738	(742,420)
Other	796,835	5,316,365	1,983,805	10,483,873
Total revenues	<u>83,846,159</u>	<u>95,566,654</u>	<u>163,346,893</u>	<u>197,992,561</u>
<b>Benefits and expenses:</b>				
Death benefits	15,455,305	14,839,044	32,133,671	31,723,750
Surrenders and other policy benefits	950,657	1,153,767	2,083,350	2,476,935
Increase in future policy benefits	8,499,804	6,600,443	16,554,743	13,371,544
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	4,251,321	4,053,109	9,134,902	8,449,522
Selling, general and administrative expenses:				
Commissions	10,736,126	18,397,337	20,409,436	38,299,539
Personnel	20,508,415	25,504,950	42,470,927	52,379,714
Advertising	965,753	1,595,738	1,869,164	3,307,533
Rent and rent related	1,831,011	1,702,262	3,607,791	3,361,532
Depreciation on property and equipment	587,213	628,305	1,175,629	1,243,849
Costs related to funding mortgage loans	1,841,367	2,044,637	3,683,709	4,884,100
Other	7,403,409	11,174,128	15,183,944	23,265,764
Interest expense	1,414,802	1,900,249	2,868,135	3,627,564
Cost of goods and services sold-mortuaries and cemeteries	1,251,643	1,242,839	2,437,271	2,427,853
Total benefits and expenses	<u>75,696,826</u>	<u>90,836,808</u>	<u>153,612,672</u>	<u>188,819,199</u>
<b>Earnings before income taxes</b>	<b>8,149,333</b>	<b>4,729,846</b>	<b>9,734,221</b>	<b>9,173,362</b>
Income tax expense	(1,796,627)	(1,155,397)	(2,141,343)	(2,370,195)
Net earnings	<u>\$ 6,352,706</u>	<u>\$ 3,574,449</u>	<u>\$ 7,592,878</u>	<u>\$ 6,803,167</u>
<b>Net earnings per Class A Equivalent common share (1)</b>				
	<u>\$ 0.29</u>	<u>\$ 0.16</u>	<u>\$ 0.34</u>	<u>\$ 0.30</u>
<b>Net earnings per Class A Equivalent common share-assuming dilution (1)</b>				
	<u>\$ 0.28</u>	<u>\$ 0.15</u>	<u>\$ 0.34</u>	<u>\$ 0.29</u>
Weighted-average Class A equivalent common shares outstanding (1)				
	<u>22,005,332</u>	<u>22,233,852</u>	<u>22,066,991</u>	<u>22,331,911</u>
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)				
	<u>22,568,633</u>	<u>23,108,651</u>	<u>22,617,888</u>	<u>23,225,600</u>

(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Net earnings per common share represent net earnings per equivalent Class A common share.

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)  
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net earnings	<u>\$ 6,352,706</u>	<u>\$ 3,574,449</u>	<u>\$ 7,592,878</u>	<u>\$ 6,803,167</u>
Other comprehensive income:				
Unrealized gains (losses) on fixed maturity securities available for sale	\$ (4,993,177)	(12,995,132)	224,852	(28,322,034)
Unrealized losses on restricted assets (1)	(6,189)	(43,169)	(2,056)	(115,118)
Unrealized losses on cemetery perpetual care trust investments (1)	(3,738)	(15,868)	(812)	(53,225)
Other comprehensive income (loss), before income tax	<u>(5,003,104)</u>	<u>(13,054,169)</u>	<u>221,984</u>	<u>(28,490,377)</u>
Income tax (expense) benefit	1,051,052	2,743,684	(46,478)	5,989,562
Other comprehensive income (loss), net of income tax	<u>(3,952,052)</u>	<u>(10,310,485)</u>	<u>175,506</u>	<u>(22,500,815)</u>
Comprehensive income (loss)	<u>\$ 2,400,654</u>	<u>\$ (6,736,036)</u>	<u>\$ 7,768,384</u>	<u>\$ (15,697,648)</u>

(1) Fixed maturity securities available for sale

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

6

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

Six Months Ended June 30, 2023

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
<b>January 1, 2023</b>	\$ 37,516,062	\$ 5,779,718	\$ 64,767,769	\$ (13,070,277)	\$ 202,160,306	\$ (4,366,651)	\$ 292,786,927
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-13)	-	-	-	-	(671,506)	-	(671,506)
Net earnings	-	-	-	-	1,240,172	-	1,240,172
Other comprehensive gain	-	-	-	4,127,558	-	-	4,127,558
Stock-based compensation expense	-	-	143,671	-	-	-	143,671
Exercise of stock options	96,092	-	(62,073)	-	-	-	34,019
Sale of treasury stock	-	-	(43,493)	-	-	620,651	577,158
Purchase of treasury stock	-	-	-	-	-	(1,204,357)	(1,204,357)
Conversion Class C to Class A	1,872	(1,872)	-	-	-	-	-
<b>March 31, 2023</b>	<u>\$ 37,614,026</u>	<u>\$ 5,777,846</u>	<u>\$ 64,805,874</u>	<u>\$ (8,942,719)</u>	<u>\$ 202,728,972</u>	<u>\$ (4,950,357)</u>	<u>\$ 297,033,642</u>
Net earnings	-	-	-	-	6,352,706	-	6,352,706
Other comprehensive loss	-	-	-	(3,952,052)	-	-	(3,952,052)
Stock-based compensation expense	-	-	141,954	-	-	-	141,954
Exercise of stock options	159,284	-	(154,424)	-	-	-	4,860
Vesting of restricted stock units	810	-	(810)	-	-	-	-
Sale of treasury stock	-	-	(54,350)	-	-	623,056	568,706
Purchase of treasury stock	-	-	126,990	-	-	(1,514,049)	(1,387,059)
Conversion Class C to Class A	113,930	(113,930)	-	-	-	-	-
Stock dividends	1,899,350	283,188	6,820,431	-	(9,002,969)	-	-
<b>June 30, 2023</b>	<u>\$ 39,787,400</u>	<u>\$ 5,947,104</u>	<u>\$ 71,685,665</u>	<u>\$ (12,894,771)</u>	<u>\$ 200,078,709</u>	<u>\$ (5,841,350)</u>	<u>\$ 298,762,757</u>

Six Months Ended June 30, 2022

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
<b>January 1, 2022</b>	\$ 35,285,444	\$ 5,733,130	\$ 57,985,947	\$ 18,070,448	\$ 184,537,489	\$ (1,845,624)	\$ 299,766,834
Net earnings	-	-	-	-	3,228,718	-	3,228,718
Other comprehensive loss	-	-	-	(12,190,330)	-	-	(12,190,330)
Stock-based compensation expense	-	-	271,747	-	-	-	271,747
Exercise of stock options	100,446	-	(8,487)	-	-	-	91,959
Sale of treasury stock	-	-	24,055	-	-	1,880,125	1,904,180
Purchase of treasury stock	-	-	106,176	-	-	(878,417)	(772,241)

Conversion Class C to Class A	414	(414)	-	-	-	-	-
<b>March 31, 2022</b>	<u>\$ 35,386,304</u>	<u>\$ 5,732,716</u>	<u>\$ 58,379,438</u>	<u>\$ 5,880,118</u>	<u>\$ 187,766,207</u>	<u>\$ (843,916)</u>	<u>\$ 292,300,867</u>
Net earnings	-	-	-	-	3,574,449	-	3,574,449
Other comprehensive loss	-	-	-	(10,310,485)	-	-	(10,310,485)
Stock-based compensation expense	-	-	220,175	-	-	-	220,175
Exercise of stock options	37,746	-	(2,440)	-	-	-	35,306
Sale of treasury stock	-	-	50,401	-	-	1,119,392	1,169,793
Purchase of treasury stock	-	-	-	-	-	(6,505,050)	(6,505,050)
Conversion Class C to Class A	154,218	(154,218)	-	-	-	-	-
Stock dividends	1,779,108	278,924	6,009,453	-	(8,067,485)	-	-
<b>June 30, 2022</b>	<u>\$ 37,357,376</u>	<u>\$ 5,857,422</u>	<u>\$ 64,657,027</u>	<u>\$ (4,430,367)</u>	<u>\$ 183,273,171</u>	<u>\$ (6,229,574)</u>	<u>\$ 280,485,055</u>

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

7

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

	Six Months Ended June 30,	
	2023	2022
<b>Cash flows from operating activities:</b>		
Net cash provided by operating activities	\$ 2,181,039	\$ 97,638,887
<b>Cash flows from investing activities:</b>		
Purchases of fixed maturity securities	(28,549,767)	(49,382,284)
Sales, calls and maturities of fixed maturity securities	19,851,603	9,286,436
Purchases of equity securities	(5,949,902)	(3,166,256)
Sales of equity securities	5,430,156	1,918,057
Net changes in restricted assets	-	(635,844)
Purchases of restricted assets	(1,148,199)	-
Sales, calls and maturities of restricted assets	64,746	-
Net changes in cemetery perpetual care trust investments	-	330,999
Purchases of cemetery perpetual care trust investments	(355,152)	-
Sales, calls and maturities of perpetual care trust investments	91,504	-
Mortgage loans held for investment, other investments and policy loans made	(326,286,179)	(382,449,025)
Payments received for mortgage loans held for investment, other investments and policy loans	369,206,657	386,898,902
Purchases of property and equipment	(527,285)	(706,058)
Sales of property and equipment	10,973	64,579
Purchases of real estate	(3,971,593)	(11,853,775)
Sales of real estate	20,684,319	13,549,696
Net cash provided by (used in) investing activities	<u>48,551,881</u>	<u>(36,144,573)</u>
<b>Cash flows from financing activities:</b>		
Investment contract receipts	6,103,142	5,770,353
Investment contract withdrawals	(7,663,735)	(8,160,796)
Proceeds from stock options exercised	38,879	127,265
Purchases of treasury stock	(2,591,416)	(7,277,291)
Repayment of bank loans	(68,658,021)	(45,217,295)
Proceeds from bank loans	66,000,000	59,618,052
Net change in warehouse line borrowings for loans held for sale	(55,805,126)	(65,362,776)
Net cash used in financing activities	<u>(62,576,277)</u>	<u>(60,502,488)</u>
<b>Net change in cash, cash equivalents, restricted cash and restricted cash equivalents</b>	<u>(11,843,357)</u>	<u>991,826</u>
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period	<u>133,483,817</u>	<u>141,414,282</u>
<b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period</b>	<u>\$ 121,640,460</u>	<u>\$ 142,406,108</u>

**Supplemental Disclosure of Cash Flow Information:**

Cash paid during the year for:

Interest	\$	3,056,099	\$	3,568,862
Income taxes (net of refunds)		17,458,807		407,958

**Non Cash Operating, Investing and Financing Activities:**

Transfer from mortgage loans held for investment to restricted assets	\$	1,625,961	\$	-
Transfer from mortgage loans held for investment to cemetery perpetual care trust investments		1,611,550		-
Transfer from loans held for sale to mortgage loans held for investment		1,150,074		-
Benefit plans funded with treasury stock		1,145,864		3,073,973
Right-of-use assets obtained in exchange for operating lease liabilities		139,095		732,005
Right-of-use assets obtained in exchange for finance lease liabilities		12,332		-
Accrued real estate construction costs and retainage		-		1,782,556

8

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

Reconciliation of cash, cash equivalents, restricted cash and restricted cash equivalents as shown in the condensed consolidated statements of cash flows is presented in the table below:

	Six Months Ended June 30,	
	2023	2022
Cash and cash equivalents	\$ 110,285,941	\$ 131,296,538
Restricted assets	10,276,918	9,654,673
Cemetery perpetual care trust investments	1,077,601	1,454,897
<b>Total cash, cash equivalents, restricted cash and restricted cash equivalents</b>	<b>\$ 121,640,460</b>	<b>\$ 142,406,108</b>

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

9

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

**1) Basis of Presentation**

The accompanying unaudited condensed 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, 2022, 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 and six month periods ended June 30, 2023 are not necessarily indicative of the results that may be expected for the year ending December 31, 2023.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to adopt policies and make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. In applying these policies and estimates, the Company makes judgments that frequently require assumptions about matters that are inherently uncertain. Accordingly, significant estimates used in the preparation of the Company's financial statements may be subject to significant adjustments in future periods. 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 or sale; 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 credit losses; 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.

**Banking Environment.**

On March 10, 2023 and March 12, 2023, Silicon Valley Bank and Signature Bank were placed in receivership with the Federal Deposit Insurance Corporation ("FDIC"). Normal banking activities resumed shortly thereafter. On May 1, 2023, First Republic bank was placed in receivership with the FDIC and was immediately purchased by a national bank.

The Company does not maintain any deposit or other accounts or credit facilities with Silicon Valley Bank, Signature Bank or First Republic Bank. The Company may periodically transfer funds to these banks to pay for services rendered by third party vendors that continue to maintain banking relationships with these banks. The Company continues to monitor the banking industry and its relationships with regional and community banks.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

2) Recent Accounting Pronouncements

**Accounting Standards Adopted in 2023**

ASU No. 2016-13: "Financial Instruments - Credit Losses (Topic 326)" — Issued in September 2016, ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis (such as mortgage loans held for investment and held to maturity debt securities) and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold 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 Topic 326 requires that credit losses be presented as an allowance rather than as a write-down. The Company adopted this standard on January 1, 2023, and after a review of the affected assets, decreased the opening balance of retained earnings in stockholders' equity by \$671,506 on January 1, 2023. The allowances for credit losses increased (decreased) by the following amounts.

	Amount
Mortgage loans held for investment:	
Residential	\$ (192,607)
Residential construction	301,830
Commercial	555,807
<b>Total</b>	<b>665,030</b>
Restricted assets - mortgage loans held for investment:	
Residential construction	3,463
Cemetery perpetual care trust investments - mortgage loans held for investment:	
Residential construction	3,013
<b>Grand Total</b>	<b>671,506</b>

**Accounting Standards Issued But Not Yet Adopted**

ASU No. 2018-12: "Financial Services - Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts" — Issued in August 2018, ASU 2018-12 is intended to improve the timeliness of recognizing changes in the liability for future policy benefits on traditional long-duration contracts by requiring that assumptions be updated after contract inception and by modifying the rate used to discount future cash flows. The standard is aimed at improving the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, simplify amortization of deferred acquisition costs while improving and expanding required disclosures. In November 2020, the FASB issued an update to ASU No. 2018-12 that requires the standard to be adopted by the Company commencing on January 1, 2025. The Company has made progress in the implementation of the new standard, including the involvement of actuaries, accountants, and systems specialists. However, the Company has not yet estimated the impact the new guidance will have on the consolidated financial statements.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments

The Company's investments as of June 30, 2023 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (1)	Allowance for Credit Losses	Estimated Fair Value
<u>June 30, 2023:</u>					
Fixed maturity securities, available for sale, at estimated fair value:					

U.S. Treasury securities and obligations of U.S. Government agencies	\$ 99,323,377	\$ 50,602	\$ (2,554,426)	\$ -	\$ 96,819,553
Obligations of states and political subdivisions	6,757,087	403	(378,987)	-	6,378,503
Corporate securities including public utilities	232,127,146	2,177,346	(11,487,153)	(224,005)	222,593,334
Mortgage-backed securities	33,273,655	169,558	(4,704,791)	-	28,738,422
Redeemable preferred stock	<u>250,000</u>	<u>10,000</u>	<u>-</u>	<u>-</u>	<u>260,000</u>
Total fixed maturity securities available for sale	<u>\$ 371,731,265</u>	<u>\$ 2,407,909</u>	<u>\$(19,125,357)</u>	<u>\$ (224,005)</u>	<u>\$354,789,812</u>
Equity securities at estimated fair value:					
Common stock:					
Industrial, miscellaneous and all other	\$ 10,416,580	\$ 2,976,949	\$ (591,604)		\$ 12,801,925
Total equity securities at estimated fair value	<u>\$ 10,416,580</u>	<u>\$ 2,976,949</u>	<u>\$ (591,604)</u>		<u>\$ 12,801,925</u>
Mortgage loans held for investment at amortized cost:					
Residential	\$ 95,208,040				
Residential construction	121,322,532				
Commercial	59,205,487				
Less: Unamortized deferred loan fees, net	(1,689,405)				
Less: Allowance for credit losses	(2,663,560)				
Less: Net discounts	<u>(333,509)</u>				
Total mortgage loans held for investment	<u>\$ 271,049,585</u>				
Real estate held for investment - net of accumulated depreciation:					
Residential	\$ 30,680,836				
Commercial	<u>150,282,066</u>				
Total real estate held for investment	<u>\$ 180,962,902</u>				
Real estate held for sale:					
Residential	\$ 1,675,921				
Commercial	<u>151,553</u>				
Total real estate held for sale	<u>\$ 1,827,474</u>				
Other investments and policy loans at amortized cost:					
Policy loans	\$ 13,020,654				
Insurance assignments	41,157,301				
Federal Home Loan Bank stock (2)	2,677,100				
Other investments	9,389,786				
Less: Allowance for credit losses for insurance assignments	<u>(1,690,693)</u>				
Total other investments and policy loans	<u>\$ 64,554,148</u>				
Accrued investment income	<u>\$ 10,188,551</u>				
Total investments	<u>\$ 896,174,397</u>				

(1) Gross unrealized losses are net of allowance for credit losses

(2) Includes \$84,800 of Membership stock and \$2,592,300 of Activity stock attributable to short-term borrowings and letters of credit.

Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

The Company's investments as of December 31, 2022 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2022:</b>				
Fixed maturity securities, available for sale, at estimated fair value:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 93,182,210	\$ 180,643	\$ (2,685,277)	\$ 90,677,576
Obligations of states and political subdivisions	6,675,071	13,869	(458,137)	6,230,803
Corporate securities including public utilities	229,141,544	1,909,630	(11,930,773)	219,120,401
Mortgage-backed securities	33,501,686	168,700	(4,100,674)	29,569,712
Redeemable preferred stock	250,000	10,000	-	260,000
<b>Total fixed maturity securities available for sale</b>	<b><u>\$ 362,750,511</u></b>	<b><u>\$ 2,282,842</u></b>	<b><u>\$ (19,174,861)</u></b>	<b><u>\$ 345,858,492</u></b>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 9,942,265	\$ 2,688,375	\$ (948,114)	\$ 11,682,526
<b>Total equity securities at estimated fair value</b>	<b><u>\$ 9,942,265</u></b>	<b><u>\$ 2,688,375</u></b>	<b><u>\$ (948,114)</u></b>	<b><u>\$ 11,682,526</u></b>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 93,355,623			
Residential construction	172,516,125			
Commercial	46,311,955			
Less: Unamortized deferred loan fees, net	(1,746,605)			
Less: Allowance for credit losses	(1,970,311)			
Less: Net discounts	(342,860)			
<b>Total mortgage loans held for investment</b>	<b><u>\$ 308,123,927</u></b>			
Real estate held for investment - net of accumulated depreciation:				
Residential	\$ 38,437,960			
Commercial	152,890,656			
<b>Total real estate held for investment</b>	<b><u>\$ 191,328,616</u></b>			
Real estate held for sale:				
Residential	\$ 11,010,029			
Commercial	151,553			
<b>Total real estate held for sale</b>	<b><u>\$ 11,161,582</u></b>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 13,095,473			
Insurance assignments	46,942,536			
Federal Home Loan Bank stock (1)	2,600,300			
Other investments	9,479,798			
Less: Allowance for credit losses for insurance assignments	(1,609,951)			
<b>Total other investments and policy loans</b>	<b><u>\$ 70,508,156</u></b>			
Accrued investment income	\$ 10,299,826			
<b>Total investments</b>	<b><u>\$ 948,963,125</u></b>			

(1) Includes \$938,500 of Membership stock and \$1,661,800 of Activity stock attributable to short-term borrowings and letters of credit.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

**Fixed Maturity Securities**

The table below summarizes unrealized losses on fixed maturity securities available for sale that were carried at estimated fair value at June 30, 2023 and at December 31, 2022. The unrealized losses were primarily related to interest rate fluctuations and inflation. 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 table below sets forth unrealized losses by duration with the fair value of the related fixed maturity securities.

	Unrealized Losses for Less than Twelve Months	Fair Value	Unrealized Losses for More than Twelve Months	Fair Value	Total Unrealized Loss	Combined Fair Value
<u>At June 30, 2023</u>						
U.S. Treasury Securities And Obligations of U.S. Government Agencies	\$ 872,936	\$ 56,265,029	\$ 1,681,490	\$ 28,818,980	\$ 2,554,426	\$ 85,084,009
Obligations of States and Political Subdivisions	159,415	3,758,985	219,572	2,149,115	378,987	5,908,100
Corporate Securities	3,664,905	96,981,686	7,822,248	71,988,258	11,487,153	168,969,944
Mortgage and other asset-backed securities	497,345	5,241,798	4,207,446	20,951,604	4,704,791	26,193,402
<b>Totals</b>	<u>\$ 5,194,601</u>	<u>\$ 162,247,498</u>	<u>\$ 13,930,756</u>	<u>\$ 123,907,957</u>	<u>\$ 19,125,357</u>	<u>\$ 286,155,455</u>
<u>At December 31, 2022</u>						
U.S. Treasury Securities And Obligations of U.S. Government Agencies	\$ 2,685,277	\$ 79,400,753	\$ -	\$ -	\$ 2,685,277	\$ 79,400,753
Obligations of States and Political Subdivisions	378,067	5,467,910	80,070	429,020	458,137	5,896,930
Corporate Securities	10,935,114	162,995,969	995,659	5,781,822	11,930,773	168,777,791
Mortgage and other asset-backed securities	2,884,731	19,909,907	1,215,943	6,978,745	4,100,674	26,888,652
<b>Totals</b>	<u>\$ 16,883,189</u>	<u>\$ 267,774,539</u>	<u>\$ 2,291,672</u>	<u>\$ 13,189,587</u>	<u>\$ 19,174,861</u>	<u>\$ 280,964,126</u>

Relevant holdings were comprised of 748 securities with fair value of 93.7% of amortized cost at June 30, 2023. Relevant holdings were comprised of 713 securities with fair value of 93.6% of amortized cost at December 31, 2022. Credit losses of \$44,505 and nil have been recognized for the three month periods ended June 30, 2023 and 2022, respectively. Credit losses of \$224,005 and nil have been recognized for the six month periods ended June 30, 2023 and 2022, respectively. Credit losses are included in gains (losses) on investments and other assets on the condensed consolidated statements of earnings. Other unrealized losses for which no credit loss was recognized are primarily the result of the recent increases in interest and inflation rates.

*Evaluation of Allowance for Credit Losses*

See Note 2 regarding the adoption of ASU 2016-13.

On a quarterly basis, the Company evaluates its fixed maturity securities classified as available for sale to identify any potential credit losses. This evaluation includes a review of current ratings by the National Association of Insurance Commissioners ("NAIC"). Securities with a rating of 1 or 2 are considered investment grade and are not reviewed for credit loss, unless current market or recent company news could lead to a credit downgrade. Securities with ratings of 3 to 5 are evaluated for credit loss. Securities with a rating of 6 are automatically determined to be impaired and a credit loss is recognized in earnings. The evaluation involves assessing all facts and circumstances surrounding each security including, but not limited to, historical values, interest payment history, projected earnings, and revenue growth rates as well as a review of the reason for a downgrade in the NAIC rating. Based on the analysis of a security that is rated 3 to 5, a determination is made whether the security will likely make interest and principal payments in accordance with the terms of the financial instrument.

### 3) Investments (Continued)

Where the decline in fair value of fixed maturity securities is attributable to changes in market interest rates or to factors such as market volatility, liquidity and spread widening, and the Company anticipates recovery of all contractual or expected cash flows, the Company does not consider these securities to have credit loss because the Company does not intend to sell these securities and it is not more likely than not the Company will be required to sell these securities before a recovery of amortized cost, which may be at maturity.

If the Company intends to sell a fixed maturity security or if it is more likely than not that the Company will be required to sell a security before recovery of its amortized cost basis, a credit loss has occurred and the difference between the amortized cost and the fair value that relates to the expected credit loss is recognized as a loss in earnings, included in gains (losses) on investments and other assets on the condensed consolidated statements of earnings.

If the Company does not intend to sell and it is not more likely than not that the Company will be required to sell the debt security but also do not expect to recover the entire amortized cost basis of the security, a credit loss is recognized in earnings for the amount of the expected credit loss with a corresponding allowance for credit losses as a contra-asset account. The credit loss is included in gains (losses) on investments and other assets on the condensed consolidated statements of earnings. The recognized credit loss is limited to the total unrealized loss on the security due to a change in credit.

Amounts on available for sale fixed maturities that are deemed to be uncollectible are written off and removed from the allowance for credit loss. A write-off may also occur if the Company intends to sell a security or when it is more likely than not that the Company will be required to sell the security before the recovery of its amortized cost.

The Company does not measure a credit loss allowance on accrued interest receivable, included in accrued investment income on the condensed consolidated balance sheets, as the Company writes off any accrued interest receivable balance to net investment income in a timely manner (after 90 days) when the Company has concerns regarding collectability.

The following table presents a roll forward of the Company's allowance for credit losses on fixed maturity securities available for sale:

	Six Months Ended June 30, 2023				
	U.S. Treasury Securities And Obligations of U.S. Government Agencies	Obligations of states and political subdivisions	Corporate securities	Mortgage- backed securities	Total
Beginning balance	\$ -	\$ -	\$ -	\$ -	\$ -
Additions for credit losses not previously recorded	-	-	179,500	-	179,500
Change in allowance on securities with previous allowance	-	-	44,505	-	44,505
Reductions for securities sold during the period	-	-	-	-	-
Reductions for securities with credit losses due to intent to sell	-	-	-	-	-
Write-offs charged against the allowance	-	-	-	-	-
Recoveries of amounts previously written off	-	-	-	-	-
Ending Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 224,005</u>	<u>\$ -</u>	<u>\$ 224,005</u>

15

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

### 3) Investments (Continued)

The following table presents a roll forward of the Company's cumulative other than temporary credit impairments ("OTTI") recognized in earnings on fixed maturity securities available for sale which was required to be presented prior to the adoption of ASU 2016-13:

	2022
Balance of credit-related OTTI at January 1	\$ 264,977
Additions for credit impairments recognized on:	
Securities not previously impaired	-
Securities previously impaired	-
Reductions for credit impairments previously recognized on:	
Securities that matured or were sold during the period (realized)	(39,502)

Securities due to an increase in expected cash flows	-
Balance of credit-related OTTI at June 30	\$ 225,475

The table below presents the amortized cost and the estimated fair value of fixed maturity securities available for sale at June 30, 2023, by contractual maturity. Actual or 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 Cost	Estimated Fair Value
Due in 1 year	\$ 19,976,902	\$ 19,882,628
Due in 2-5 years	149,667,318	144,707,290
Due in 5-10 years	82,678,874	79,333,563
Due in more than 10 years	85,884,516	81,867,909
Mortgage-backed securities	33,273,655	28,738,422
Redeemable preferred stock	250,000	260,000
Total	<u>\$ 371,731,265</u>	<u>\$ 354,789,812</u>

The Company is a member of the Federal Home Loan Bank of Des Moines and Dallas ("FHLB"). The Company had pledged a total of \$84,531,263, at estimated fair value, of fixed maturity securities with the FHLB at June 30, 2023. These pledged securities are used as collateral for any FHLB cash advances. As of June 30, 2023, the Company owed nil to the FHLB and its estimated maximum borrowing capacity was \$76,274,326.

#### Credit Quality Indicators

The NAIC assigns designations to fixed maturity securities. These designations range from Class 1 (highest quality) to Class 6 (lowest quality). The NAIC designations are utilized by insurers in preparing their annual statutory statements. NAIC Class 1 and 2 are considered "investment grade" while the NAIC Class 3 through 6 designations are considered "non-investment grade." Based on the NAIC designations, the Company had 98.0% and 97.7% of its fixed maturity securities rated investment grade as of June 30, 2023 and December 31, 2022, respectively.

The following table summarizes the credit quality, by NAIC designation, of the Company's fixed maturity securities available for sale, excluding redeemable preferred stock.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

#### 3) Investments (Continued)

NAIC Designation	June 30, 2023		December 31, 2022	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
1	\$ 203,707,382	\$ 195,622,815	\$ 197,753,818	\$ 189,691,540
2	160,122,716	151,974,611	156,261,804	148,073,873
3	5,667,117	5,264,194	7,080,305	6,635,786
4	1,720,314	1,563,190	1,377,541	1,157,454
5	262,465	104,832	25,736	39,155
6	1,271	170	1,307	684
Total	<u>\$ 371,481,265</u>	<u>\$ 354,529,812</u>	<u>\$ 362,500,511</u>	<u>\$ 345,598,492</u>

Information regarding sales of fixed maturity securities available for sale is presented as follows.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Proceeds from sales	\$ -	\$ 233,000	\$ 955,610	\$ 688,651
Gross realized gains	-	-	11,257	2,354
Gross realized losses	-	(7,825)	(54,104)	(7,845)

Securities and cash on deposit with regulatory authorities as required by law amounted to \$10,953,870 at June 30, 2023 and \$11,032,165 at December 31, 2022. These restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on equity securities and fixed maturity securities) at June 30, 2023, other than investments issued or guaranteed by the United States Government.

#### Real Estate Held for Investment and Held for Sale

The Company strategically deploys resources into real estate assets 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,

and mortgage foreclosures.

#### Commercial Real Estate Held for Investment and Held for Sale

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 resources. The geographic locations and asset classes of investments are 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 where the geographic location does not warrant full-time staff or through strategic lease-up periods. The Company generally looks to acquire assets that are located in regions expected to have high growth in employment and population and that provide operational efficiencies.

The Company currently owns and operates nine commercial properties in three states. These properties include office buildings, flex office space, and the redevelopment and expansion of its corporate campus ("Center53") in Salt Lake City, Utah. The Company uses bank debt in strategic cases, primarily where it is anticipated to improve yields, or facilitate the acquisition of higher quality assets or asset class diversification.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

#### 3) Investments (Continued)

The aggregated net book value of commercial real estate serving as collateral for bank loans was \$126,954,484 and \$129,330,119 as of June 30, 2023, and December 31, 2022, respectively. The associated bank loan carrying values totaled \$96,199,103 and \$97,112,131 as of June 30, 2023, and December 31, 2022, respectively.

During the three and six month periods ended June 30, 2023, and 2022, the Company did not record any impairment losses on commercial real estate held for investment or held for sale. Impairment losses, if any, are included in gains (losses) on investment and other assets on the condensed consolidated statements of earnings.

During the three month periods ended June 30, 2023, and 2022, the Company recorded depreciation expense on commercial real estate held for investment of \$1,576,901 and \$1,665,343, respectively, and of \$3,142,828 and \$2,989,274 during the six month periods ended June 30, 2023, and 2022, respectively. Commercial real estate held for investment is stated at cost and is depreciated over the estimated useful life, primarily using the straight-line method. Depreciation is included in net investment income on the consolidated statements of earnings.

The Company's commercial real estate held for investment is summarized as follows as of the respective dates indicated:

	Net Book Value		Total Square Footage	
	June 30, 2023	December 31, 2022	June 30, 2023	December 31, 2022
Utah (1)	\$ 144,998,640	\$ 147,627,946	625,920	625,920
Louisiana	2,357,964	2,380,847	31,778	31,778
Mississippi	2,925,462	2,881,863	19,694	19,694
	<u>\$ 150,282,066</u>	<u>\$ 152,890,656</u>	<u>677,392</u>	<u>677,392</u>

(1) Includes Center53

The Company's commercial real estate held for sale is summarized as follows as of the respective dates indicated:

	Net Book Value	
	June 30, 2023	December 31, 2022
Mississippi (1)	\$ 151,553	\$ 151,553
	<u>\$ 151,553</u>	<u>\$ 151,553</u>

(1) Consists of approximately 93 acres of undeveloped land

This property is being marketed with the assistance of commercial real estate brokers in Mississippi.

#### Residential Real Estate Held for Investment and Held for Sale

The Company occasionally acquires a small portfolio of residential homes primarily as a result of loan foreclosures. The Company has the option to sell these properties or to continue to hold them for expected cash flow and price appreciation. The Company also invests in residential subdivision development.

The Company established Security National Real Estate Services (“SNRE”) to manage its residential property portfolio. SNRE cultivates and maintains the preferred vendor relationships necessary to manage costs and quality of work performed on the Company’s entire residential property portfolio.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

During the three and six month periods ended June 30, 2023, and 2022 the Company did not record any impairment losses on residential real estate held for sale or held for investment. Impairment losses, if any, are included in gains (losses) on investment and other assets on the condensed consolidated statements of earnings.

During the three month periods ended June 30, 2023, and 2022, the Company recorded depreciation expense on residential real estate held for investment of \$2,648 and \$2,648, respectively, and of \$5,296 and \$5,296 during the six month periods ended June 30, 2023, and 2022, respectively. Residential real estate held for investment is stated at cost and is depreciated over the estimated useful life, primarily using the straight-line method. Depreciation is included in net investment income on the consolidated statements of earnings.

The Company’s residential real estate held for investment is summarized as follows as of the respective dates indicated:

	Net Book Value	
	June 30, 2023	December 31, 2022
Utah (1)	\$ 30,680,836	\$ 38,437,960
	<u>\$ 30,680,836</u>	<u>\$ 38,437,960</u>

(1) Includes residential subdivision development

The following table presents additional information regarding the Company’s residential subdivision development in Utah:

	June 30, 2023	December 31, 2022
Lots developed	42	80
Lots to be developed	931	1,131
Book Value	\$ 30,489,876	\$ 38,241,705

The Company’s residential real estate held for sale is summarized as follows as of the respective dates indicated:

	Net Book Value	
	June 30, 2023	December 31, 2022
Utah	\$ 1,675,921(1)	\$ 11,010,029
	<u>\$ 1,675,921</u>	<u>\$ 11,010,029</u>

(1) Unimproved land

The net book value of foreclosed residential real estate included in residential real estate held for sale was nil and \$11,010,029 as of June 30, 2023, and December 31, 2022, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (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. As of June 30, 2023, real estate owned and occupied by the Company is summarized as follows:

Location	Business Segment	Approximate Square Footage	Square Footage Occupied by the Company
433 Ascension Way, Floors 4, 5 and 6, Salt Lake City, UT - Center53 Building 2 (1)	Corporate Offices, Life Insurance, Cemetery/Mortuary Operations, and Mortgage Operations and Sales	221,000	50%
1044 River Oaks Dr., Flowood, MS (1)	Life Insurance Operations	19,694	28%
1818 Marshall Street, Shreveport, LA (2)	Life Insurance Operations	12,274	100%

909 Foisy Street, Alexandria, LA (2)	Life Insurance Sales	8,059	100%
812 Sheppard Street, Minden, LA (2)	Life Insurance Sales	1,560	100%
1550 N 3rd Street, Jena, LA (2)	Life Insurance Sales	1,737	100%

(1) Included in real estate held for investment on the condensed consolidated balance sheets

(2) Included in property and equipment on the condensed consolidated balance sheets

### **Mortgage Loans Held for Investment**

Mortgage loans held for investment consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5%, maturity dates range from nine months to 30 years and the loans 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 the relevant debtors' ability to honor obligations is dependent upon the economic stability of the geographic region in which the debtors do business or are employed. As of June 30, 2023, the Company had 54%, 10%, 8%, 6% and 5%, of its mortgage loans from borrowers located in the states of Utah, Florida, California, Arizona, and Texas, respectively. As of December 31, 2022, the Company had 64%, 10%, 5% and 5% of its mortgage loans from borrowers located in the states of Utah, Florida, California, and Texas, respectively.

Mortgage loans held for investment are carried at their unpaid principal balances adjusted for net deferred fees, charge-offs, premiums, discounts, and the related allowance for credit losses. Interest income is included in net investment income on the condensed consolidated statements of earnings and is recognized when earned. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the terms of the loans. Origination fees are included in net investment income on the condensed consolidated statements of earnings.

Mortgage loans are secured by the underlying property and require an appraisal at the time of underwriting and funding. Generally, the Company requires that loans not exceed 80% of the fair market value of the respective loan collateral. For loans in excess of 80% of the fair market value of the respective loan collateral, additional collateral or mortgage insurance by an approved third-party insurer is required.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

### 3) Investments (Continued)

#### *Evaluation of Allowance for Credit Losses*

See Note 2 regarding the adoption of ASU 2016-13.

The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the Company's mortgage loans held for investment to present the net amount expected to be collected. The Company reports in net earnings, as a credit loss expense, the amount necessary to adjust the allowance for credit losses for the Company's current estimate of expected credit losses on mortgage loans held for investment. This credit loss expense is included in other expenses on the condensed consolidated statements of earnings.

Once a mortgage loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and reverse any interest income that had been accrued. Given this policy, the Company does not measure a credit loss allowance on accrued interest receivable. Accrued interest receivable is included in accrued investment income on the condensed consolidated balance sheets. Payments received for mortgage loans on a non-accrual status are recognized when received. The interest income recognized from payments received for mortgage loans on a non-accrual status was immaterial. Accrual of interest resumes if a mortgage loan is brought current. Interest not accrued on these loans totaled approximately \$145,000 and \$226,000 as of June 30, 2023, and December 31, 2022, respectively.

The Company measures expected credit losses based on the fair value of the collateral when the Company determines that foreclosure is probable. When a mortgage loan becomes delinquent, the Company proceeds to foreclose and all expenses for foreclosure are expensed as incurred. Once foreclosed, the property is classified as real estate held for investment or held for sale.

For purposes of determining the allowance for credit losses, the Company has segmented its mortgage loans held for investment by loan type. The Company's loan types are commercial, residential, and residential construction. The inherent risks within the portfolio vary depending upon the loan type as follows:

**Commercial** - Underwritten in accordance with the Company's policies to determine the borrower's ability to repay the obligation as agreed. Commercial loans are made primarily based on the underlying collateral supporting the loan. Accordingly, the repayment of a commercial loan depends primarily on the collateral and its ability to generate income and secondarily on the borrower's (or guarantors) ability to repay.

Commercial loans are evaluated for credit loss by analyzing loan attributes that are predictors for future credit losses. The Company uses a combination of the debt service coverage ratio ("DSCR") and loan to value ("LTV") to group similar loans. The Company applies a future loss factor to the outstanding balance of each group to arrive at the allowance for credit loss.

Residential— These loans are secured by first and second mortgages on single family dwellings. The borrower’s ability to repay is sensitive to the life events and the general economic condition of the region. Where loan to value exceeds 80%, the loan is generally guaranteed by private mortgage insurance, the FHA, or VA.

The Company uses a third-party to provide a monthly analysis of its residential portfolio for credit losses. The third-party uses the Company’s current loan data and runs it through various models to project cash flows and provide a projected life of loan loss. The models consider loan features such as loan type, loan to value, payment status, age, and current property values. The Company also considers historical delinquency rates and current unemployment trends.

Residential construction (including land acquisition and development) - These loans are underwritten in accordance with the Company’s underwriting policies, which include a financial analysis of the builders, borrowers (guarantors), construction cost estimates, and independent appraisal valuations, and factor in estimates of the value of construction projects upon completion. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project and the ability of the borrower to secure long-term financing.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

Additionally, land acquisition and development loans are underwritten in accordance with the Company’s underwriting policies, which include independent appraisal valuations as well as the estimated value associated with the land upon completion of development into finished lots. These loans are considered to be of a higher risk than other mortgage loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term or construction financing, and interest rate sensitivity.

To determine the allowance for credit losses on residential construction mortgage loans, the Company considers historical activity and housing market trends. Given the continued volatility in the housing market, the Company has adjusted its credit loss analysis.

The following table presents a roll forward of the allowance for credit losses as of the dates indicated:

	Commercial	Residential	Residential Construction	Total
<u>June 30, 2023</u>				
Allowance for credit losses:				
Beginning balance - January 1, 2023	\$ 187,129	\$ 1,739,980	\$ 43,202	\$ 1,970,311
Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-13)	555,807	(192,607)	301,830	665,030(1)
Change in provision for credit losses	88,119	42,487	(102,387)	28,219(2)
Charge-offs	-	-	-	-
Ending balance - June 30, 2023	<u>\$ 831,055</u>	<u>\$ 1,589,860</u>	<u>\$ 242,645</u>	<u>\$ 2,663,560</u>
<u>December 31, 2022</u>				
Allowance for credit losses:				
Beginning balance - January 1, 2022	\$ 187,129	\$ 1,469,571	\$ 43,202	\$ 1,699,902
Change in provision for credit losses	-	270,409	-	270,409(2)
Charge-offs	-	-	-	-
Ending balance - December 31, 2022	<u>\$ 187,129</u>	<u>\$ 1,739,980</u>	<u>\$ 43,202</u>	<u>\$ 1,970,311</u>

(1) See Note 2 of the notes to the condensed consolidated financial statements

(2) Included in other expenses on the condensed consolidated statements of earnings

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

The following table presents the aging of mortgage loans held for investment by loan type as of the dates indicated:

	Commercial	Residential	Residential Construction	Total
<u>June 30, 2023</u>				
30-59 days past due	\$ 5,960,468	\$ 7,202,883	\$ 2,383,665	\$ 15,547,016
60-89 days past due	-	276,674	-	276,674

Over 90 days past due (1)	596,508	1,721,703	-	2,318,211
In process of foreclosure (1)	-	289,922	-	289,922
Total past due	6,556,976	9,491,182	2,383,665	18,431,823
Current	52,648,511	85,716,858	118,938,867	257,304,236
Total mortgage loans	59,205,487	95,208,040	121,322,532	275,736,059
Allowance for credit losses	(831,055)	(1,589,860)	(242,645)	(2,663,560)
Unamortized deferred loan fees, net	(258,265)	(1,134,554)	(296,586)	(1,689,405)
Unamortized discounts, net	(223,847)	(109,662)	-	(333,509)
Net mortgage loans	\$ 57,892,320	\$ 92,373,964	\$ 120,783,301	\$ 271,049,585
<b>December 31, 2022</b>				
30-59 days past due	\$ 1,000,000	\$ 3,553,390	\$ -	\$ 4,553,390
60-89 days past due	-	814,184	-	814,184
Over 90 days past due (1)	-	1,286,211	-	1,286,211
In process of foreclosure (1)	405,000	876,174	-	1,281,174
Total past due	1,405,000	6,529,959	-	7,934,959
Current	44,906,955	86,825,664	172,516,125	304,248,744
Total mortgage loans	46,311,955	93,355,623	172,516,125	312,183,703
Allowance for credit losses	(187,129)	(1,739,980)	(43,202)	(1,970,311)
Unamortized deferred loan fees, net	(199,765)	(1,212,994)	(333,846)	(1,746,605)
Unamortized discounts, net	(230,987)	(111,873)	-	(342,860)
Net mortgage loans	\$ 45,694,074	\$ 90,290,776	\$ 172,139,077	\$ 308,123,927

(1) Interest income is not recognized on loans which are more than 90 days past due or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

Credit Quality Indicators

The Company evaluates and monitors the credit quality of its commercial loans by analyzing loan to value ("LTV") and debt service coverage ratios ("DSCR"). Monitoring a commercial mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment.

The aggregate unpaid principal balance of commercial mortgage loans by credit quality indicator and origination year was as follows as of June 30, 2023:

Credit Quality Indicator	2023	2022	2021	2020	2019	Prior	Total	% of Total
<b>LTV:</b>								
Less than 65%	\$17,525,000	\$14,375,274	\$3,821,772	\$ -	\$3,006,722	\$6,898,150	\$45,626,918	77.07%
65% to 80%	-	5,630,731	2,100,000	4,913,313	-	-	12,644,044	21.36%
Greater than 80%	-	529,525	405,000	-	-	-	934,525	1.58%
<b>Total</b>	<b>\$17,525,000</b>	<b>\$20,535,530</b>	<b>\$6,326,772</b>	<b>\$4,913,313</b>	<b>\$3,006,722</b>	<b>\$6,898,150</b>	<b>\$59,205,487</b>	<b>100.00%</b>
<b>DSCR</b>								
>1.20x	\$ 5,725,000	\$ 1,000,000	\$2,800,000	\$4,913,313	\$3,006,722	\$2,777,481	\$20,222,516	34.16%
1.00x - 1.20x	5,300,000	10,750,376	3,526,772	-	-	4,120,669	23,697,817	40.03%
<1.00x	6,500,000	8,785,154(1)	-	-	-	-	15,285,154	25.82%
<b>Total</b>	<b>\$17,525,000</b>	<b>\$20,535,530</b>	<b>\$6,326,772</b>	<b>\$4,913,313</b>	<b>\$3,006,722</b>	<b>\$6,898,150</b>	<b>\$59,205,487</b>	<b>100.00%</b>

(1) Commercial construction loan

The Company evaluates and monitors the credit quality of its residential mortgage loans by analyzing loan performance. The Company defines non-performing mortgage loans as loans more than 90 days past due and on a non-accrual status. Monitoring a residential mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment.

The aggregate unpaid principal balance of residential mortgage loans by credit quality indicator and origination year was as follows as of June 30, 2023:

Credit Quality Indicator	2023	2022	2021	2020	2019	Prior	Total	% of Total
--------------------------	------	------	------	------	------	-------	-------	------------

<u>Performance Indicators:</u>								
Performing	\$4,842,385	\$57,085,363	\$7,750,923	\$7,737,211	\$3,103,802	\$12,676,732	\$93,196,416	97.89%
Non-performing (1)	-	298,572	365,460	-	317,501	1,030,091	2,011,624	2.11%
<b>Total</b>	<b>\$4,842,385</b>	<b>\$57,383,935</b>	<b>\$8,116,383</b>	<b>\$7,737,211</b>	<b>\$3,421,303</b>	<b>\$13,706,823</b>	<b>\$95,208,040</b>	<b>100.00%</b>

(1) Includes residential mortgage loans in the process of foreclosure of \$289,922 at June 30, 2023

24

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

The company evaluates and monitors the credit quality of its residential construction loans (including land acquisition and development loans) by analyzing LTV and loan performance. Monitoring a residential construction mortgage loan increases when the loan is delinquent or earlier if there is an indication of impairment.

The aggregate unpaid principal balance of residential construction mortgage loans by credit quality indicator and origination year was as follows as of June 30, 2023:

Credit Quality Indicator	2023	2022	2021	Total	% of Total
<u>Performance Indicators:</u>					
Performing	\$ 32,159,616	\$ 49,757,061	\$ 39,405,855	\$121,322,532	100.00%
Non-performing	-	-	-	-	0.00%
<b>Total</b>	<b>\$ 32,159,616</b>	<b>\$ 49,757,061</b>	<b>\$ 39,405,855</b>	<b>\$121,322,532</b>	<b>100.00%</b>
<u>LTV:</u>					
Less than 65%	\$ 22,977,981	\$ 26,504,890	\$ 4,005,001	\$ 53,487,872	44.09%
65% to 80%	9,181,635	23,252,171	35,400,854	67,834,660	55.91%
Greater than 80%	-	-	-	-	0.00%
<b>Total</b>	<b>\$ 32,159,616</b>	<b>\$ 49,757,061</b>	<b>\$ 39,405,855</b>	<b>\$121,322,532</b>	<b>100.00%</b>

**Insurance Assignments**

The following table presents the aging of insurance assignments, included in other investments and policy loans on the condensed consolidated balance sheets:

	As of June 30, 2023	As of December 31, 2022
30-59 days past due	\$ 7,756,991	\$ 10,621,443
60-89 days past due	3,093,411	3,997,484
Over 90 days past due	4,844,022	5,813,013
Total past due	15,694,424	20,431,941
Current	25,462,877	26,510,594
Total insurance assignments	41,157,301	46,942,536
Allowance for credit losses	(1,690,693)	(1,609,951)
Net insurance assignments	\$ 39,466,608	\$ 45,332,585

The Company records an allowance for credit losses when the insurance assignment is funded. Once an insurance assignment moves to 90 days or legal proceedings, it is monitored for write-off and collectability, and any adjustments to the allowance are done at that time. See Note 2 regarding the adoption of ASU 2016-13.

25

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

3) Investments (Continued)

The following table presents a roll forward of the allowance for credit losses as a contra-asset account for insurance assignments:

	Allowance
Beginning balance - January 1, 2023	\$ 1,609,951

Change in provision for credit losses	452,326(1)
Charge-offs	(371,584)
Ending balance - June 30, 2023	<u>\$ 1,690,693</u>
Beginning balance - January 1, 2022	\$ 1,686,218
Change in provision for credit losses	889,480(1)
Charge-offs	(965,747)
Ending balance - December 31, 2022	<u>\$ 1,609,951</u>

(1) Included in other expenses on the condensed consolidated statements of earnings

### Investment Related Earnings

The following table presents the realized gains and losses from sales, calls, and maturities, and unrealized gains and losses on equity securities from investments and other assets:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Fixed maturity securities:</b>				
Gross realized gains	\$ 1,563	\$ 129,512	\$ 17,054	\$ 175,635
Gross realized losses	(36,908)	(9,828)	(91,799)	(10,758)
Net credit loss (provision) release	(44,505)	-	(224,005)	-
<b>Equity securities:</b>				
Gains (losses) on securities sold	5,363	81,596	(46,952)	71,317
Unrealized gains and (losses) on securities held at the end of the period	566,633	(2,106,375)	898,064	(2,713,422)
<b>Real estate held for investment and sale:</b>				
Gross realized gains	161,028	364,150	161,028	1,239,331
Gross realized losses	-	(94,400)	-	(98,222)
<b>Other assets, including call and put option derivatives:</b>				
Gross realized gains	163,410	720,950	214,348	593,699
Gross realized losses	-	-	-	-
<b>Total</b>	<u>\$ 816,584</u>	<u>\$ (914,395)</u>	<u>\$ 927,738</u>	<u>\$ (742,420)</u>

The realized gains and losses on the sale of securities are recorded on the trade date, and the cost of the securities sold is determined using the specific identification method.

Net realized gains and losses includes gains and losses by the restricted assets and cemetery perpetual care trust investments of the cemeteries and mortuaries of \$197,580 in net gains and \$720,135 in net losses for the three month periods ended June 30, 2023, and 2022, respectively, and of \$251,510 in net gains and \$995,876 in net losses for the six month periods ended June 30, 2023, and 2022, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

### 3) Investments (Continued)

Major categories of net investment income were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Fixed maturity securities available for sale	\$ 4,143,768	\$ 2,811,650	\$ 8,156,500	\$ 5,447,866
Equity securities	140,709	119,798	281,216	242,834
Mortgage loans held for investment	9,467,407	9,244,464	17,955,063	17,204,642
Real estate held for investment and sale	4,897,672	4,012,192	8,262,596	7,052,226
Policy loans	207,441	207,301	407,655	513,583
Insurance assignments	4,461,813	4,093,723	9,230,016	9,490,710
Other investments	213,103	98,361	342,160	169,006
Cash and cash equivalents	780,146	108,431	1,567,907	183,732
Gross investment income	24,312,059	20,695,920	46,203,113	40,304,599
Investment expenses	(4,140,085)	(4,724,632)	(8,256,256)	(9,139,005)
<b>Net investment income</b>	<u>\$ 20,171,974</u>	<u>\$ 15,971,288</u>	<u>\$ 37,946,857</u>	<u>\$ 31,165,594</u>

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$1,250,861 and \$730,534 for the three month periods ended June 30, 2023 and 2022, respectively, and of \$1,852,352 and \$1,207,243 for the six

month periods ended June 30, 2023 and 2022, 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.

#### Accrued Investment Income

Accrued investment income consists of the following:

	As of June 30, 2023	As of December 31, 2022
Fixed maturity securities available for sale	\$ 3,566,511	\$ 3,563,767
Equity securities	12,858	14,496
Mortgage loans held for investment	3,042,343	3,220,709
Real estate held for investment	3,517,092	3,455,305
Policy Loans	42,151	37,951
Cash and cash equivalents	7,596	7,598
<b>Total accrued investment income</b>	<b>\$ 10,188,551</b>	<b>\$ 10,299,826</b>

27

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

#### 4) Loans Held for Sale

The Company elected the fair value option for loans held for sale. Changes in the fair value of the loans are included in mortgage fee income. Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on mortgage loans held for investment and is included in mortgage fee income on the condensed consolidated statement of earnings. See Note 8 to the condensed consolidated financial statements for additional disclosures regarding loans held for sale.

The following table presents the aggregate fair value and the aggregate unpaid principal balance of loans held for sale:

	As of June 30, 2023	As of December 31, 2022
Aggregate fair value	\$ 161,310,060	\$ 141,179,620
Unpaid principal balance	162,075,374	141,337,811
Unrealized loss	(765,314)	(158,191)

#### Mortgage Fee Income

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination and sale of mortgage loans held for sale.

Major categories of mortgage fee income for loans held for sale are summarized as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Loan fees	\$ 5,986,802	\$ 7,950,227	\$ 10,375,215	\$ 15,037,410
Interest income	2,620,489	2,923,446	4,627,546	4,955,315
Secondary gains	19,298,213	37,161,287	37,259,571	76,763,900
Change in fair value of loan commitments	(151,382)	(2,247,244)	526,570	428,127
Change in fair value of loans held for sale	(1,401,738)	(3,463,922)	(607,123)	(6,210,487)
Provision for loan loss reserve	(273,631)	(292,896)	(114,020)	(598,922)
<b>Mortgage fee income</b>	<b>\$ 26,078,753</b>	<b>\$ 42,030,898</b>	<b>\$ 52,067,759</b>	<b>\$ 90,375,343</b>

#### Loan Loss Reserve

Repurchase demands from third party investors that correspond to mortgage loans previously held for sale and sold are reviewed and relevant data is captured so that an estimated future loss can be calculated. The key factors that are used in the estimated future 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.

28

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

4) Loans Held for Sale (Continued)

The loan loss reserve, which is included in other liabilities and accrued expenses, is summarized as follows:

	As of June 30, 2023	As of December 31, 2022
Balance, beginning of period	\$ 1,725,667	\$ 2,447,139
Provision on current loan originations (1)	513,431	1,078,812
Charge-offs, net of recaptured amounts	(983,185)	(1,800,284)
Balance, end of period	<u>\$ 1,255,913</u>	<u>\$ 1,725,667</u>

(1) Included in mortgage fee income

The Company maintains reserves for estimated losses on current production volumes. For the six month period ended June 30, 2023, \$513,431 in reserves were added at a rate of 4.5 basis points per loan, the equivalent of \$450 per \$1,000,000 in loans originated. This is an increase over the six month period ended June 30, 2022, when reserves of \$598,922 were added at a rate of 2.9 basis points per loan originated, the equivalent of \$290 per \$1,000,000 in loans originated. The Company will continue to monitor data and economic conditions in order to maintain adequate loss reserves on current production. Thus, the Company believes that the final loan loss reserve as of June 30, 2023, represents its best estimate for adequate loss reserves on loans sold.

5) Stock Compensation Plans

The Company has three fixed option plans (the "2013 Plan", the "2014 Director Plan" and the "2022 Equity Incentive Plan").

**Stock Options**

Stock based compensation expense for stock options issued of \$142,696 and \$220,175 has been recognized for these plans for the three month periods ended June 30, 2023, and 2022, respectively, and \$284,883 and \$491,922 has been recognized for these plans for the six month periods ended June 30, 2023 and 2022, respectively, and is included in personnel expenses on the condensed consolidated statements of earnings. As of June 30, 2023, the total unrecognized compensation expense related to the options issued was \$248,748, which is expected to be recognized over the vesting period.

The fair value of each option granted is estimated on the date of grant using the Black Scholes Option Pricing Model. The Company estimates the expected life of the options using the simplified method. Future volatility is estimated based upon the weighted historical volatility of the Company's Class A common stock over a period equal to the expected life of the options. The risk-free interest rate for the expected life of the options is based upon the Federal Reserve Board's daily interest rates in effect at the time of the grant.

Activity of the stock option plans during the six month period ended June 30, 2023, is summarized as follows:

	Number of Class A Shares	Weighted Average Exercise Price (2)	Number of Class C Shares	Weighted Average Exercise Price (2)
Outstanding at January 1, 2023	976,605	\$ 4.56	1,157,203	\$ 5.31
Adjustment for the effect of stock dividends	38,266		57,859	
Granted	16,000		-	
Exercised	(214,989)		-	
Cancelled	-		-	
Outstanding at June 30, 2023	<u>815,882</u>	\$ 4.75	<u>1,215,062</u>	\$ 5.31
As of June 30, 2023:				
Options exercisable	<u>764,632</u>	\$ 4.64	<u>1,067,562</u>	\$ 5.18
As of June 30, 2023:				
Available options for future grant	<u>171,386</u>		<u>834,750</u>	
Weighted average contractual term of options outstanding at June 30, 2023	4.87 years		6.41 years	
Weighted average contractual term of options exercisable at June 30, 2023	4.56 years		6.14 years	
Aggregated intrinsic value of options outstanding at June 30, 2023 (1)	<u>\$ 3,018,675</u>		<u>\$ 3,815,225</u>	
Aggregated intrinsic value of options exercisable at June 30, 2023 (1)	<u>\$ 2,910,455</u>		<u>\$ 3,487,200</u>	

(1)The Company used a stock price of \$8.45 as of June 30, 2023 to derive intrinsic value.

(2)Adjusted for the effect of annual stock dividends.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

5) Stock Compensation Plans (Continued)

Activity of the stock option plans during the six month period ended June 30, 2022, is summarized as follows:

	<u>Number of Class A Shares</u>	<u>Weighted Average Exercise Price (2)</u>	<u>Number of Class C Shares</u>	<u>Weighted Average Exercise Price (2)</u>
Outstanding at January 1, 2022	1,024,351	\$ 4.38	821,146	\$ 5.26
Adjustment for the effect of stock dividends	47,780		41,057	
Granted	4,000		-	
Exercised	(71,330)		-	
Cancelled	(1,591)		-	
Outstanding at June 30, 2022	<u>1,003,210</u>	\$ 4.58	<u>862,203</u>	\$ 5.26
As of June 30, 2022:				
Options exercisable	<u>955,460</u>	\$ 4.40	<u>747,203</u>	\$ 4.78
As of June 30, 2022:				
Available options for future grant	<u>239,795</u>		<u>17,523</u>	
Weighted average contractual term of options outstanding at June 30, 2022	4.32 years		6.75 years	
Weighted average contractual term of options exercisable at June 30, 2022	4.06 years		6.50 years	
Aggregated intrinsic value of options outstanding at June 30, 2022 (1)	<u>\$ 3,891,873</u>		<u>\$ 2,758,643</u>	
Aggregated intrinsic value of options exercisable at June 30, 2022 (1)	<u>\$ 3,878,980</u>		<u>\$ 2,748,093</u>	

(1)The Company used a stock price of \$8.46 as of June 30, 2022, which was the closing price of the Company's Class A shares on Nasdaq for that day, to derive intrinsic value.

(2)Adjusted for the effect of annual stock dividends.

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 six month periods ended June 30, 2023 and 2022 was \$387,561 and \$521,527, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

5) Stock Compensation Plans (Continued)

**Restricted Stock Units ("RSUs")**

Stock based compensation expense for RSUs issued of nil has been recognized under these plans for the three month periods ended June 30, 2023 and 2022, respectively, and of \$742 and nil has been recognized under these plans for the six month periods ended June 30, 2023 and 2022, respectively, and is included in personnel expenses on the condensed consolidated statements of earnings. As of June 30, 2023, the total unrecognized compensation expense related to the RSUs issued was nil. The fair value of each RSU

granted is determined based on the Company's stock price on the date of grant. Prior to December 2022, the Company did not grant any RSUs.

Activity of the RSUs during the six month period ended June 30, 2023 is summarized as follows:

	Number of Class A Shares	Weighted Average Grant Date Fair Value
Non-vested at January 1, 2023	1,620	\$ 6.48
Granted	-	
Vested	(405)	
Non-vested at June 30, 2023	<u>1,215</u>	\$ 6.48
Available RSUs for future grant	<u>\$ 18,380</u>	
Aggregated intrinsic value of RSUs outstanding at June 30, 2023 (1)	<u>\$ 2,394</u>	

(1)The Company used a stock price of \$8.45 as of June 30, 2023 to derive intrinsic value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

6) Earnings Per Share

Earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. In accordance with GAAP, the basic and diluted earnings per share amounts were calculated as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Numerator:</b>				
Net earnings	\$ 6,352,706	\$ 3,574,449	\$ 7,592,878	\$ 6,803,167
<b>Denominator:</b>				
Basic weighted-average shares outstanding	<u>22,005,332</u>	<u>22,233,852</u>	<u>22,066,991</u>	<u>22,331,911</u>
<b>Effect of dilutive securities:</b>				
Employee stock options	<u>563,301</u>	<u>874,799</u>	<u>550,897</u>	<u>893,689</u>
Diluted weighted-average shares outstanding	<u>22,568,633</u>	<u>23,108,651</u>	<u>22,617,888</u>	<u>23,225,600</u>
Basic net earnings per share	<u>\$ 0.29</u>	<u>\$ 0.16</u>	<u>\$ 0.34</u>	<u>\$ 0.30</u>
Diluted net earnings per share	<u>\$ 0.28</u>	<u>\$ 0.15</u>	<u>\$ 0.34</u>	<u>\$ 0.29</u>

For the six month periods ended June 30, 2023, and 2022, there were 55,125 and 52,500 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. Basic and diluted earnings per share amounts are the same for each class of common stock.

The following table summarizes the activity in shares of capital stock.

	Class A	Class C
Outstanding shares at December 31, 2021	<u>17,642,722</u>	<u>2,866,565</u>
Exercise of stock options	69,096	-
Stock dividends	889,554	139,462
Conversion of Class C to Class A	<u>77,316</u>	<u>(77,316)</u>
Outstanding shares at June 30, 2022	<u>18,678,688</u>	<u>2,928,711</u>
Outstanding shares at December 31, 2022	18,758,031	2,889,859
Exercise of stock options	127,688	-
Vesting of restricted stock units	405	-
Stock dividends	949,675	141,594
Conversion of Class C to Class A	<u>57,901</u>	<u>(57,901)</u>

Outstanding shares at June 30, 2023	19,893,700	2,973,552
-------------------------------------	------------	-----------

32

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

7) Business Segment Information

Description 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 loans held for sale.

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 for the year ended December 31, 2022. 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.

	Life Insurance	Cemetery/ Mortuary	Mortgage	Intercompany Eliminations	Consolidated
<u>For the Three Months Ended June 30, 2023</u>					
Revenues from external customers	\$ 48,071,089	\$ 8,812,508	\$ 26,962,562	\$ -	\$ 83,846,159
Intersegment revenues	2,517,490	84,767	135,807	(2,738,064)	-
Segment profit (loss) before income taxes	9,158,186	2,828,159	(3,837,012)	-	8,149,333
<u>For the Six Months Ended June 30, 2023</u>					
Revenues from external customers	\$ 93,486,386	\$ 16,010,904	\$ 53,849,603	\$ -	\$ 163,346,893
Intersegment revenues	4,027,518	168,603	259,506	(4,455,627)	-
Segment profit (loss) before income taxes	12,841,921	4,612,751	(7,720,451)	-	9,734,221
Identifiable Assets	\$1,284,084,674	\$ 89,589,716	\$114,402,197	\$ (89,723,622)	\$1,398,352,965
Goodwill	2,765,570	2,488,213	-	-	5,253,783
Total Assets	<u>\$1,286,850,244</u>	<u>\$ 92,077,929</u>	<u>\$114,402,197</u>	<u>\$ (89,723,622)</u>	<u>\$1,403,606,748</u>
<u>For the Three Months Ended June 30, 2022</u>					
Revenues from external customers	\$ 41,166,269	\$ 7,291,018	\$ 47,109,367	\$ -	\$ 95,566,654
Intersegment revenues	2,075,987	85,151	77,826	(2,238,964)	-
Segment profit (loss) before income taxes	3,931,784	1,485,938	(687,876)	-	4,729,846
<u>For the Six Months Ended June 30, 2022</u>					
Revenues from external customers	\$ 82,668,078	\$ 14,754,212	\$100,570,271	\$ -	\$ 197,992,561
Intersegment revenues	3,771,766	267,740	152,535	(4,192,041)	-
Segment profit before income taxes	4,748,269	3,506,255	918,838	-	9,173,362
Identifiable Assets	\$1,229,780,002	\$ 78,739,030	\$250,312,796	\$ (91,917,796)	\$1,466,914,032
Goodwill	2,765,570	2,488,213	-	-	5,253,783
Total Assets	<u>\$1,232,545,572</u>	<u>\$ 81,227,243</u>	<u>\$250,312,796</u>	<u>\$ (91,917,796)</u>	<u>\$1,472,167,815</u>

33

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) Fair Value of Financial Instruments

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 significant financial instruments.

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

*Fixed Maturity Securities Available for Sale:* 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 (considered Level 3 financial assets), are estimated by discounting expected future cash flows using a current market value applicable to the coupon rate, credit and maturity of the investments.

*Equity Securities:* The fair values for equity securities are based on quoted market prices.

*Restricted Assets:* A portion of these assets include mutual funds and equity securities and fixed maturity securities that have quoted market prices that are used to determine fair value. Also included are cash and cash equivalents and participations in mortgage loans. The carrying amounts reported in the accompanying condensed consolidated balance sheets for these financial instruments approximate their fair values due to their short-term nature.

*Cemetery Perpetual Care Trust Investments:* A portion of these assets include equity securities and fixed maturity securities that have quoted market prices that are used to determine fair value. Also included are cash and cash equivalents. The carrying amounts reported in the accompanying condensed consolidated balance sheets for these financial instruments approximate their fair values due to their short-term nature.

*Call and Put Option Derivatives:* The fair values for call and put options are based on quoted market prices.

Additionally, there were no transfers between Level 1 and Level 2 in the fair value hierarchy.

#### 8) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

*Loans Held for Sale:* The Company elected the fair value option for 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. Fair value is often difficult to determine and may contain significant unobservable inputs.

*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 with 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 sheets 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. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued. 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.

Impaired Mortgage Loans Held for Investment: The Company believes that the fair value of these nonperforming loans will approximate the unpaid principal balance expected to be recovered based on the fair value of the underlying collateral. For residential and commercial properties, the collateral value is estimated by obtaining an independent appraisal. The appraisal typically considers comparable sales in the area, property condition, and potential rental income that could be generated (particularly for commercial properties). For residential construction loans, the collateral is typically incomplete, so fair value is estimated as the replacement cost using data from a provider of building cost information to the real estate construction.

Impaired 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 real estate held for investment, the Company uses a provider of building cost information to the real estate construction industry. For the investment analysis, the Company uses market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company also considers area comparable properties and property condition when determining fair value.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) 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 June 30, 2023:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Assets accounted for at fair value on a recurring basis</b>				
Fixed maturity securities available for sale	\$ 354,789,812	\$ -	\$ 353,357,938	\$ 1,431,874
Equity securities	12,801,925	12,801,925	-	-
Loans held for sale	161,310,060	-	-	161,310,060
Restricted assets (1)	1,550,968	-	1,550,968	-
Restricted assets (2)	6,229,193	6,229,193	-	-
Cemetery perpetual care trust investments (1)	420,625	-	420,625	-
Cemetery perpetual care trust investments (2)	3,895,307	3,895,307	-	-
Derivatives - loan commitments (3)	5,949,181	-	-	5,949,181
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 546,947,071</b>	<b>\$ 22,926,425</b>	<b>\$ 355,329,531</b>	<b>\$ 168,691,115</b>
<b>Liabilities accounted for at fair value on a recurring basis</b>				
Derivatives - loan commitments (4)	(2,715,734)	-	-	(2,715,734)
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ (2,715,734)</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (2,715,734)</b>

(1) Fixed maturity securities available for sale

(2) Equity securities

(3) Included in other assets on the consolidated balance sheets

(4) Included in other liabilities and accrued expenses on the consolidated balance sheets

## 8) 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 December 31, 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Fixed maturity securities available for sale	\$ 345,858,492	\$ -	\$ 344,422,973	\$ 1,435,519
Equity securities	11,682,526	11,682,526	-	-
Loans held for sale	141,179,620	-	-	141,179,620
Restricted assets (1)	1,217,308	-	1,217,308	-
Restricted assets (2)	5,348,244	5,348,244	-	-
Cemetery perpetual care trust investments (1)	254,731	-	254,731	-
Cemetery perpetual care trust investments (2)	3,605,162	3,605,162	-	-
Derivatives - loan commitments (3)	4,089,856	-	-	4,089,856
Total assets accounted for at fair value on a recurring basis	\$ 513,235,939	\$ 20,635,932	\$ 345,895,012	\$ 146,704,995
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (4)	\$ (29,715)	\$ (29,715)	\$ -	\$ -
Derivatives - put options (4)	(13,888)	(13,888)	-	-
Derivatives - loan commitments (4)	(1,382,979)	-	-	(1,382,979)
Total liabilities accounted for at fair value on a recurring basis	\$ (1,426,582)	\$ (43,603)	\$ -	\$ (1,382,979)

(1)Fixed maturity securities available for sale

(2)Equity securities

(3)Included in other assets on the consolidated balance sheets

(4)Included in other liabilities and accrued expenses on the consolidated balance sheets

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

## 8) Fair Value of Financial Instruments (Continued)

For Level 3 assets and liabilities measured at fair value on a recurring basis as of June 30, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at June 30, 2023	Valuation Technique	Significant Unobservable Input(s)	Range of Inputs		Weighted Average
				Minimum Value	Maximum Value	
Loans held for sale	\$ 161,310,060	Market approach	Investor contract pricing as a percentage of unpaid principal balance	70.0%	106.0%	100.0%
Derivatives - loan commitments (net)	3,233,447	Market approach	Pull-through rate	65.0%	95.0%	87.0%
			Initial-Value	N/A	N/A	N/A
			Servicing	0 bps	154 bps	74 bps
Fixed maturity securities available for sale	1,431,874	Broker quotes	Pricing quotes	\$ 100.00	\$ 111.11	\$ 104.72

For Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2022, the significant unobservable inputs used in the fair value measurements were as follows:

Fair Value at	Significant	Range of Inputs
---------------	-------------	-----------------

	December 31, 2022	Valuation Technique	Unobservable Input(s)	Minimum Value	Maximum Value	Weighted Average
Loans held for sale	\$ 141,179,620	Market approach	Investor contract pricing as a percentage of unpaid principal balance	69.9%	106.1%	99.8%
Derivatives - loan commitments (net)	2,706,877	Market approach	Pull-through rate	65.0%	95.0%	82.2%
			Initial-Value	N/A	N/A	N/A
			Servicing	0 bps	153 bps	73 bps
Fixed maturity securities available for sale	1,435,519	Broker quotes	Pricing quotes	\$ 100.00	\$ 111.11	\$ 104.97

38

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

The following table is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs for the six month periods ended June 30, 2023:

	Net Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2022	\$ 2,706,877	\$ 141,179,620	\$ 1,435,519
Originations and purchases	-	1,139,735,241	-
Sales, maturities and paydowns	-	(1,140,477,623)	-
Transfer to mortgage loans held for investment	-	(1,150,074)	-
Total gains (losses):			
Included in earnings	526,570(1)	22,022,896(1)	-(2)
Included in other comprehensive income	-	-	(3,645)
Balance - June 30, 2023	\$ 3,233,447	\$ 161,310,060	\$ 1,431,874

(1)As a component of Mortgage fee income on the condensed consolidated statements of earnings

(2)As a component of Net investment income on the condensed consolidated statements of earnings

The following table is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs for the six month periods ended June 30, 2022:

	Net Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2021	\$ 7,015,515	\$ 302,776,827	\$ 2,023,348
Originations and purchases	-	2,049,959,460	-
Sales, maturities and paydowns	-	(2,187,475,867)	(24,350)
Total gains (losses):			
Included in earnings	428,127(1)	44,599,989(1)	1,957(2)
Included in other comprehensive income	-	-	(38,166)
Balance - June 30, 2022	\$ 7,443,642	\$ 209,860,409	\$ 1,962,789

(1)As a component of Mortgage fee income on the condensed consolidated statements of earnings

(2)As a component of Net investment income on the condensed consolidated statements of earnings

39

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

The following table is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs for the three month periods ended June 30, 2023:

	Net Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - March 31, 2023	\$ 3,384,829	\$ 173,015,404	\$ 1,435,519
Originations and purchases	-	607,867,445	-
Sales, maturities and paydowns	-	(628,567,681)	-
Transfer to mortgage loans held for investment	-	(1,150,074)	-
Total gains (losses):			
Included in earnings	(151,382)(1)	10,144,966(1)	-(2)
Included in other comprehensive income	-	-	(3,645)
Balance - June 30, 2023	<u>\$ 3,233,447</u>	<u>\$ 161,310,060</u>	<u>\$ 1,431,874</u>

(1)As a component of Mortgage fee income on the condensed consolidated statements of earnings

(2)As a component of Net investment income on the condensed consolidated statements of earnings

The following table is a summary of changes in the condensed consolidated balance sheet line items measured using level 3 inputs for the three month periods ended June 30, 2022:

	Net Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - March 31, 2022	\$ 9,690,886	\$ 234,012,872	\$ 2,011,772
Originations and purchases	-	1,010,742,878	-
Sales, maturities and paydowns	-	(1,055,390,037)	(12,400)
Total gains (losses):			
Included in earnings	(2,247,244)(1)	20,494,696(1)	996(2)
Included in other comprehensive income	-	-	(37,579)
Balance - June 30, 2022	<u>\$ 7,443,642</u>	<u>\$ 209,860,409</u>	<u>\$ 1,962,789</u>

(1)As a component of Mortgage fee income on the condensed consolidated statements of earnings

(2)As a component of Net investment income on the condensed consolidated statements of earnings

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

The Company did not have any financial assets and financial liabilities measured at fair value on a nonrecurring basis at June 30, 2023.

The following table summarizes 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, 2022:

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Impaired mortgage loans held for investment	\$ 794,224	\$ -	\$ -	\$ 794,224
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 794,224</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 794,224</u>

**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 June 30, 2023 and December

31, 2022.

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 June 30, 2023:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
Mortgage loans held for investment					
Residential	\$ 92,373,964	\$ -	\$ -	\$ 90,236,721	\$ 90,236,721
Residential construction	120,783,301	-	-	120,783,301	120,783,301
Commercial	57,892,320	-	-	56,552,307	56,552,307
Mortgage loans held for investment, net	\$ 271,049,585	\$ -	\$ -	\$ 267,572,329	\$ 267,572,329
Policy loans	13,020,654	-	-	13,020,654	13,020,654
Insurance assignments, net (1)	39,466,608	-	-	39,466,608	39,466,608
Restricted assets (2)	1,377,183	-	-	1,377,183	1,377,183
Cemetery perpetual care trust investments (2)	2,271,516	-	-	2,271,516	2,271,516
Mortgage servicing rights, net	3,442,352	-	-	4,790,912	4,790,912
<b>Liabilities</b>					
Bank and other loans payable	\$(103,301,721)	\$ -	\$ -	\$(103,301,721)	\$(103,301,721)
Policyholder account balances (3)	(40,389,204)	-	-	(40,878,607)	(40,878,607)
Future policy benefits - annuities (3)	(106,259,062)	-	-	(124,475,238)	(124,475,238)

(1)Included in other investments and policy loans on the condensed consolidated balance sheets

(2)Mortgage loans held for investment

(3)Included in future policy benefits and unpaid claims on the condensed consolidated balance sheets

41

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) 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 December 31, 2022:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
Mortgage loans held for investment					
Residential	\$ 90,290,776	\$ -	\$ -	\$ 88,575,293	\$ 88,575,293
Residential construction	172,139,077	-	-	172,139,077	172,139,077
Commercial	45,694,074	-	-	44,079,537	44,079,537
Mortgage loans held for investment, net	\$ 308,123,927	\$ -	\$ -	\$ 304,793,907	\$ 304,793,907
Policy loans	13,095,473	-	-	13,095,473	13,095,473
Insurance assignments, net (1)	45,332,585	-	-	45,332,585	45,332,585
Restricted assets (2)	1,731,469	-	-	1,731,469	1,731,469
Cemetery perpetual care trust investments (2)	1,506,517	-	-	1,506,517	1,506,517
Mortgage servicing rights, net	3,039,765	-	-	3,927,877	3,927,877
<b>Liabilities</b>					
Bank and other loans payable	\$(161,712,804)	\$ -	\$ -	\$(161,712,804)	\$(161,712,804)
Policyholder account balances (3)	(41,146,171)	-	-	(42,181,089)	(42,181,089)
Future policy benefits - annuities (3)	(106,637,094)	-	-	(126,078,031)	(126,078,031)

(1)Included in other investments and policy loans on the consolidated balance sheets

(2)Mortgage loans held for investment

(3)Included in future policy benefits and unpaid claims on the consolidated balance sheets

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

Mortgage Loans Held for Investment: The estimated fair value of the Company's mortgage loans held for investment 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 is determined through a combination of discounted cash flows (estimating expected future cash flows of payments and discounting them using current interest rates from single family mortgages) and considering pricing of similar loans that were sold recently.

Residential Construction – These loans are primarily short in maturity. Accordingly, the estimated fair value is determined to be the carrying value.

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

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 primarily short in maturity, accordingly, the carrying amounts reported in the accompanying condensed consolidated balance sheet for these financial instruments approximate their fair values.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

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 relatively short-term maturities and variable interest rates.

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 1.5% to 6.5%. The fair values for these investment-type insurance contracts are estimated based on the present value of liability cash flows. 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.

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 mortgage-backed securities ("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 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

9) Derivative Instruments (Continued)

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 loan commitments and forward sale commitments are shown in current earnings as a component of mortgage fee income on the consolidated statements of earnings. Mortgage banking derivatives are shown in other assets and other liabilities and accrued expenses on the condensed consolidated balance sheets.

**Call and Put Options Derivatives**

The Company discontinued its use of selling “out of the money” call options on its equity securities and the use of selling put options as a source of revenue in the first quarter of 2023. The net changes in the fair value of call and put options are shown in current earnings as a component of realized gains (losses) on investments and other assets. Call and put options are shown in other liabilities and accrued expenses on the condensed consolidated balance sheets.

The following table shows the fair value and notional amounts of derivative instruments:

	Balance Sheet Location	June 30, 2023			December 31, 2022		
		Notional Amount	Asset Fair Value	Liability Fair Value	Notional Amount	Asset Fair Value	Liability Fair Value
Derivatives not designated as hedging instruments:							
Loan commitments	Other assets and Other liabilities	\$ 344,410,019	\$ 5,949,181	\$ 2,715,734	\$453,371,808	\$ 4,089,859	\$ 1,382,979
Call options	Other liabilities	-	-	-	868,600	-	29,715
Put options	Other liabilities	-	-	-	654,500	-	13,888
<b>Total</b>		<u>\$ 344,410,019</u>	<u>\$ 5,949,181</u>	<u>\$ 2,715,734</u>	<u>\$454,894,908</u>	<u>\$ 4,089,859</u>	<u>\$ 1,426,582</u>

The table below presents the gains (losses) on derivatives. There were no gains or losses reclassified from accumulated other comprehensive income into income or gains or losses recognized in income on derivatives ineffective portion, or any amounts excluded from effective testing.

Derivative	Classification	Net Amount Gain (Loss) Three Months Ended June 30,		Net Amount Gain (Loss) Six Months Ended June 30,	
		2023	2022	2023	2022
Loan commitments	Mortgage fee income	\$ (151,382)	\$ (2,247,244)	\$ 526,570	\$ 428,127
Call and put options	Gains on investments and other assets	\$ -	\$ 65,033	\$ 49,963	\$ 126,229

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

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 evaluates the financial condition of reinsurers and monitors the concentration of credit risk. The Company has also assumed insurance from other companies.

## **Mortgage Loan Loss Settlements**

Future loan losses can be extremely difficult to estimate. However, the Company believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. See Note 4 to the condensed consolidated financial statements for additional information about the Company's loan loss reserve.

## **Debt Covenants for Mortgage Warehouse Lines of Credit**

The Company, through its subsidiary SecurityNational Mortgage, has a \$100,000,000 line of credit with Wells Fargo Bank N.A. The agreement charges interest at the 1-Month SOFR rate plus 2.1% and expires on December 31, 2023 and will not be renewed as a result of the lender exiting the market place. SecurityNational Mortgage is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, the ratio of indebtedness to adjusted tangible net worth, and the liquidity overhead coverage ratio, and a quarterly gross profit of at least \$1.00.

The Company, through its subsidiary SecurityNational Mortgage, has a line of credit with Texas Capital Bank N.A. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$100,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month SOFR rate plus 2% and matures on November 9, 2023. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling four-quarter basis.

The Company through its subsidiary SecurityNational Mortgage, has a line of credit with Comerica Bank. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$75,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month SOFR rate plus 2.50% and expires on December 31, 2023 and will not be renewed as a result of the lender exiting the market place. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling twelve months.

The Company through its subsidiary SecurityNational Mortgage, has a line of credit with U.S Bank. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$25,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at 2.10% plus the greater of (i) 0%, and (ii) the one-month forward-looking term rate based on SOFR and matures on December 1, 2023. The Company is required to comply with covenants for adjusted tangible net worth, unrestricted cash balance, and minimum combined pre-tax income (excluding any changes in the fair value of mortgage servicing rights) of at least \$1.00 on a rolling twelve months.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

### **10) Reinsurance, Commitments and Contingencies (Continued)**

The agreements for warehouse lines include cross default provisions in that a covenant violation under one agreement constitutes a covenant violation under the other agreement. As of June 30, 2023, the Company was not in compliance with the net income covenant and has received or is in the process of receiving waivers from the warehouse banks. In the unlikely event the Company is required to repay the outstanding advances of approximately \$7,100,000 on the warehouse line that has not provided a covenant waiver, the Company has sufficient cash and borrowing capacity on the warehouse lines that have provided covenant waivers to fund its origination activities. The Company has performed an internal analysis of its funding capacities of both internal and external sources and has determined that there are sufficient funds to continue its business model. The Company continues to negotiate other warehouse lines with other lenders.

### **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 June 30, 2023, the Company's commitments were approximately \$170,804,000 for these loans, of which \$124,975,445 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 5.25% to 8.50% per annum. Maturities range between six and eighteen months.

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.

The Company is a defendant in various other legal actions arising from the normal conduct of business. Management believes that none of the actions, if adversely determined, 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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

11) Mortgage Servicing Rights

The Company initially records these MSR as fair value as discussed in Note 8.

After being initially recorded at fair value, MSRs backed by mortgage loans are accounted for using the amortization method. Amortization expense is included in other expenses on the consolidated statements of earnings. MSR amortization is determined by amortizing the MSR balance in 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.

The following table presents the MSR activity:

	As of June 30, 2023	As of December 31, 2022
<b>Amortized cost:</b>		
Balance before valuation allowance at beginning of year	\$ 3,039,765	\$ 53,060,455
MSR additions resulting from loan sales (1)	694,897	10,243,922
Amortization (2)	(292,310)	(9,078,706)
Sale of MSRs	-	(51,185,906)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at end of period	<u>\$ 3,442,352</u>	<u>\$ 3,039,765</u>
<b>Valuation allowance for impairment of MSRs:</b>		
Balance at beginning of year	\$ -	\$ -
Additions	-	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance at end of period	<u>\$ -</u>	<u>\$ -</u>
<b>Mortgage servicing rights, net</b>	<u><u>\$ 3,442,352</u></u>	<u><u>\$ 3,039,765</u></u>
<b>Estimated fair value of MSRs at end of period</b>	<u><u>\$ 4,790,912</u></u>	<u><u>\$ 3,927,877</u></u>

(1) Included in mortgage fee income on the condensed consolidated statements of earnings

(2) Included in other expenses on the condensed consolidated statements of earnings

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

11) Mortgage Servicing Rights (Continued)

The table below summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its June 30, 2023 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

	Estimated MSR Amortization
2023	363,261
2024	328,177

2025	299,068
2026	266,962
2027	238,917
Thereafter	1,945,967
Total	<u>\$ 3,442,352</u>

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 June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Contractual servicing fees	\$ 233,218	\$ 4,694,969	\$ 643,618	\$ 9,201,229
Late fees	14,008	81,597	63,321	181,635
Total	<u>\$ 247,226</u>	<u>\$ 4,776,566</u>	<u>\$ 706,939</u>	<u>\$ 9,382,864</u>

The following is a summary of the unpaid principal balances ("UPB") of the servicing portfolio.

	As of June 30, 2023	As of December 31, 2022
Servicing UPB	\$ 403,651,388	\$ 360,023,384

The following key assumptions were used in determining MSR value:

	Prepayment Speeds	Average Life (Years)	Discount Rate
June 30, 2023	8.70	8.24	11.57
December 31, 2022	8.12	8.49	11.95

On October 31, 2022, the Company sold certain of its MSRs. The MSRs related to mortgage loans previously originated by the Company in aggregate unpaid principal amount of approximately \$7.02 billion. As a result of the sale, the book value of the Company's MSRs decreased \$51,185,906 and generated a gain of \$34,051,938 included in mortgage fee income on the consolidated statements of earnings. Substantially all of the consideration was received by the Company with the remainder subject to certain holdbacks during transfer of the MSRs. The Company completed the physical transfer of files prior to its deadline. The holdbacks have been received in 2023.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

12) Income Taxes

The Company's overall effective tax rate for the three month periods ended June 30, 2023 and 2022 was 22.0% and 24.4%, respectively, which resulted in a provision for income taxes of \$1,796,627 and \$1,155,397, respectively, and for the six month periods ended June 30, 2023 and 2022 was 22.0% and 25.8%, respectively, which resulted in a provision for income taxes of \$2,141,343 and \$2,370,195, respectively. The Company's effective tax rate differs from the U.S. federal statutory rate of 21% due to its benefit for state income taxes, along with certain permanent tax adjustments such as meals and entertainment and stock-based compensation. The decrease in the effective tax rate when compared to the prior year is primarily due to the Company's state income tax provision.

Interim income taxes are based on an estimated annualized effective tax rate applied to the respective quarterly periods, adjusted for discrete tax items in the period in which they occur. Although the Company believes its tax estimates are reasonable, the Company can make no assurance that the final tax outcome of these matters will not be different from that which it has reflected in its historical income tax provisions and accruals.

13) Revenues from Contracts with Customers

The Company reports revenues from contracts with customers pursuant to ASC No. 606, *Revenue from Contracts with Customers*.

**Information about Performance Obligations and Contract Balances**

The Company's cemetery and mortuary segment sells a variety of goods and services to customers in both at-need and pre-need situations. Due to the timing of the fulfillment of the obligation, revenue is deferred until that obligation is fulfilled.

The Company's three types of future obligations are as follows:

Pre-need Merchandise and Service Revenue: All pre-need merchandise and service revenue is deferred, and the funds are placed in trust until the need arises, the merchandise is received or the service is performed. The trust is then relieved, and the revenue and commissions are recognized.

At-need Specialty Merchandise Revenue: At-need specialty merchandise revenue consists of customizable merchandise ordered from a manufacturer such as markers and bases. When specialty merchandise is ordered, it can take time to manufacture and deliver the product. Revenue is deferred until the at-need merchandise is received.

**Deferred Pre-need Land Revenue:** Deferred pre-need revenue and corresponding commissions are deferred until 10% of the funds are received from the customer through regular monthly payments. Deferred pre-need land revenue is not placed in trust.

Complete payment of the contract does not constitute fulfillment of the performance obligation. Goods or services are deferred until such time the service is performed or merchandise is received. Pre-need contracts are required to be paid in full prior to a customer using a good or service from a pre-need contract. Goods and services from pre-need contracts can be transferred when paid in full from one owner to another. In such cases, the Company will act as an agent in transferring the requested goods and services. A transfer of goods and services does not fulfill an obligation and revenue remains deferred.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

13) Revenues from Contracts with Customers (Continued)

The opening and closing balances of the Company's receivables, contract assets and contract liabilities are as follows:

	Contract Balances		
	Receivables (1)	Contract Asset	Contract Liability
Opening (January 1, 2023)	\$ 5,392,779	\$ -	\$ 16,226,836
Closing (June 30, 2023)	5,814,731	-	17,155,722
Increase/(decrease)	421,952	-	928,886

  

	Contract Balances		
	Receivables (1)	Contract Asset	Contract Liability
Opening (January 1, 2022)	\$ 5,298,636	\$ -	\$ 14,508,022
Closing (December 31, 2022)	5,392,779	-	16,226,836
Increase/(decrease)	94,143	-	1,718,814

(1)Included in Receivables, net on the condensed consolidated balance sheets

The amount of revenue recognized and included in the opening contract liability balance for the three month periods ended June 30, 2023 and 2022 was \$1,116,566 and \$1,526,324, respectively, and for the six month periods ended June 30, 2023 and 2022 was \$2,236,898 and \$2,590,428, respectively.

The difference between the opening and closing balances of the Company's contract assets and contract liabilities primarily results from the timing difference between the Company's performance and the customer's payment.

**Disaggregation of Revenue**

The following table disaggregates revenue for the Company's cemetery and mortuary contracts:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
<b>Major goods/service lines</b>				
At-need	\$ 4,999,450	\$ 5,598,109	\$ 10,153,486	\$ 11,464,987
Pre-need	2,169,264	1,652,394	3,486,657	2,991,237
	\$ 7,168,714	\$ 7,250,503	\$ 13,640,143	\$ 14,456,224
<b>Timing of Revenue Recognition</b>				
Goods transferred at a point in time	\$ 4,528,969	\$ 4,594,656	\$ 8,558,635	\$ 8,775,201
Services transferred at a point in time	2,639,745	2,655,847	5,081,508	5,681,023
	\$ 7,168,714	\$ 7,250,503	\$ 13,640,143	\$ 14,456,224

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

13) Revenues from Contracts with Customers (Continued)

The following table reconciles revenues from cemetery and mortuary contracts to Note 7 - Business Segment Information for the Cemetery/Mortuary Segment for the periods presented:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Net mortuary and cemetery sales	\$ 7,168,714	\$ 7,250,503	\$ 13,640,143	\$ 14,456,224
Gains (losses) on investments and other assets	197,579	(720,135)	251,510	(974,660)
Net investment income	1,343,274	739,272	1,944,765	1,235,731
Other revenues	102,941	21,378	174,486	36,917
Revenues from external customers	<u>8,812,508</u>	<u>7,291,018</u>	<u>16,010,904</u>	<u>14,754,212</u>

#### 14) Receivables

Receivables consist of the following:

	As of June 30, 2023	As of December 31, 2022
Contracts with customers	\$ 5,814,731	\$ 5,392,779
Receivables from sales agents	2,139,563	2,209,185
Other	<u>5,214,235</u>	<u>23,200,919</u>
Total receivables	13,168,529	30,802,883
Allowance for doubtful accounts	<u>(1,492,934)</u>	<u>(2,229,791)</u>
Net receivables	<u>\$ 11,675,595</u>	<u>\$ 28,573,092</u>

The Company records an allowance for credit losses for its receivables in accordance with GAAP. See Note 2 regarding the adoption of ASU 2016-13.

The following table presents a roll forward of the allowance for credit losses:

	Allowance
Beginning balance - January 1, 2023	\$ 2,229,791
Change in provision for credit losses	(651,308)(1)
Charge-offs	<u>(85,549)</u>
Ending balance - June 30, 2023	<u>\$ 1,492,934</u>
Beginning balance - January 1, 2022	\$ 1,800,725
Change in provision for credit losses	799,888(1)
Charge-offs	<u>(370,822)</u>
Ending balance - December 31, 2022	<u>\$ 2,229,791</u>

(1) Included in other expenses on the condensed consolidated statements of earnings

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

#### 15) Cemetery Perpetual Care Trust Investments and Obligation and Restricted Assets

##### **Cemetery Perpetual Care Trust Investments and Obligation**

State law requires the Company to pay into endowment care trusts a portion of the proceeds from the sale of certain cemetery property interment rights for cemeteries that have established an endowment care trust. These endowment care trusts are defined as variable interest entities pursuant to GAAP. Also, management has determined that the Company is the primary beneficiary of these trusts, as it absorbs both a majority of the losses and returns associated with the trusts. The Company has consolidated cemetery endowment care trust investments with a corresponding amount recorded as Cemetery Perpetual Care Obligation in the accompanying consolidated balance sheets.

The components of the cemetery perpetual care investments and obligation as of June 30, 2023, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
<u>June 30, 2023:</u>					
Fixed maturity securities, available for sale, at estimated fair value:					
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 258,053	\$ 658	\$ (2,402)	\$ -	\$ 256,309
Obligations of states and political subdivisions	95,348	-	(1,182)	-	94,166
Corporate securities including public utilities	<u>76,509</u>	<u>-</u>	<u>(6,359)</u>	<u>-</u>	<u>70,150</u>

Total fixed maturity securities available for sale	<u>\$ 429,910</u>	<u>\$ 658</u>	<u>\$ (9,943)</u>	<u>\$ -</u>	<u>\$ 420,625</u>
Equity securities at estimated fair value:					
Common stock:					
Industrial, miscellaneous and all other	<u>\$ 3,379,217</u>	<u>\$ 705,343</u>	<u>\$ (189,253)</u>		<u>\$ 3,895,307</u>
Total equity securities at estimated fair value	<u>\$ 3,379,217</u>	<u>\$ 705,343</u>	<u>\$ (189,253)</u>		<u>\$ 3,895,307</u>
Mortgage loans held for investment at amortized cost:					
Residential construction	\$ 2,272,969				
Less: Allowance for credit losses	<u>\$ (1,453)</u>				
Total mortgage loans held for investment	<u>\$ 2,271,516</u>				
Real estate held for investment: Residential	<u>\$ 1,172</u>				
Cash and cash equivalents	<u>\$ 1,077,601</u>				
Total cemetery perpetual care trust investments	<u>\$ 7,666,221</u>				
Cemetery perpetual care obligation	<u>\$ (5,207,198)</u>				
Trust investments in excess of trust obligations	<u>\$ 2,459,023</u>				

52

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

15) Cemetery Perpetual Care Trust Investments and Obligations and Restricted Assets (Continued)

The components of the cemetery perpetual care investments and obligation as of December 31, 2022, are as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2022:</u>				
Fixed maturity securities, available for sale, at estimated fair value:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 89,004	\$ 42	\$ (38)	\$ 89,008
Obligations of states and political subdivisions	174,201	-	(8,478)	165,723
Total fixed maturity securities available for sale	<u>\$ 263,205</u>	<u>\$ 42</u>	<u>\$ (8,516)</u>	<u>\$ 254,731</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 3,195,942	\$ 584,383	\$ (175,163)	\$ 3,605,162
Total equity securities at estimated fair value	<u>\$ 3,195,942</u>	<u>\$ 584,383</u>	<u>\$ (175,163)</u>	<u>\$ 3,605,162</u>
Mortgage loans held for investment at amortized cost:				
Residential construction	<u>\$ 1,506,517</u>			
Real estate held for investment: Residential	<u>\$ (16,178)</u>			
Cash and cash equivalents	<u>\$ 1,925,978</u>			
Total cemetery perpetual care trust investments	<u>\$ 7,276,210</u>			
Cemetery perpetual care obligation	<u>\$ (5,099,542)</u>			
Trust investments in excess of trust obligations	<u>\$ 2,176,668</u>			

Fixed Maturity Securities

The table below summarizes unrealized losses on fixed maturities securities that were carried at estimated fair value at June 30, 2023 and at December 31, 2022. The unrealized losses were primarily related to interest rate fluctuations and inflation. The tables set forth unrealized losses by duration with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	Fair Value	Unrealized Losses for More than Twelve Months	Fair Value	Total Unrealized Loss	Fair Value
<b>At June 30, 2023</b>						
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,402	\$176,593	\$ -	\$ -	\$ 2,402	\$176,593
Obligations of states and political subdivisions	-	-	1,182	94,166	1,182	94,166
Corporate securities including public utilities	-	-	6,359	70,150	6,359	70,150
<b>Total unrealized losses</b>	<b>\$ 2,402</b>	<b>\$176,593</b>	<b>\$ 7,541</b>	<b>\$164,316</b>	<b>\$ 9,943</b>	<b>\$340,909</b>
<b>At December 31, 2022</b>						
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 38	\$ 59,392	\$ -	\$ -	\$ 38	\$ 59,392
Obligations of states and political subdivisions	1,845	94,612	6,633	71,112	8,478	165,724
<b>Total unrealized losses</b>	<b>\$ 1,883</b>	<b>\$154,004</b>	<b>\$ 6,633</b>	<b>\$ 71,112</b>	<b>\$ 8,516</b>	<b>\$225,116</b>

53

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

15) Cemetery Perpetual Care Trust Investments and Obligations and Restricted Assets (Continued)

Relevant holdings were comprised of 5 securities with fair value of 97.2% of amortized cost at June 30, 2023. Relevant holdings were comprised of 5 securities with fair value of 96.4% of amortized cost at December 31, 2022. No credit losses have been recognized for the three and six month periods ended June 30, 2023 and 2022, since the increase in unrealized losses is primarily a result of the recent increases in interest and inflation rates.

The table below presents the amortized cost and estimated fair value of fixed maturity securities available for sale at June 30, 2023, by contractual maturity. 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 Cost	Estimated Fair Value
Due in 1 year	\$ 79,058	\$ 79,716
Due in 2-5 years	255,504	246,743
Due in 5-10 years	41,086	40,513
Due in more than 10 years	54,262	53,653
<b>Total</b>	<b>\$ 429,910</b>	<b>\$ 420,625</b>

**Restricted Assets**

The Company has also established certain restricted assets to provide for future merchandise and service obligations incurred in connection with its pre-need sales for its cemetery and mortuary segment.

Restricted cash also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for certain real estate construction development projects. Additionally, the Company elected to maintain its medical benefit fund without change from the prior year and has included this amount as a component of restricted cash. These restricted cash items are for the Company's life insurance and mortgage segments.

54

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

15) Cemetery Perpetual Care Trust Investments and Obligations and Restricted Assets (Continued)

Restricted assets as of June 30, 2023, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
--	-------------------	------------------------------	-------------------------------	--------------------------------	-------------------------

**June 30, 2023:**

Fixed maturity securities, available for sale, at estimated fair value:

U.S. Treasury securities and obligations of U.S. Government agencies	\$ 389,640	\$ -	\$ (4,212)	\$ -	\$ 385,428
Obligations of states and political subdivisions	654,307	291	(9,570)	-	645,028
Corporate securities including public utilities	526,586	38	(6,112)	-	520,512
Total fixed maturity securities available for sale	<u>\$ 1,570,533</u>	<u>\$ 329</u>	<u>\$ (19,894)</u>	<u>\$ -</u>	<u>\$ 1,550,968</u>
Equity securities at estimated fair value:					
Common stock:					
Industrial, miscellaneous and all other	\$ 5,688,802	\$ 858,975	\$ (318,583)		\$ 6,229,194
Total equity securities at estimated fair value	<u>\$ 5,688,802</u>	<u>\$ 858,975</u>	<u>\$ (318,583)</u>		<u>\$ 6,229,194</u>
Mortgage loans held for investment at amortized cost:					
Residential construction	\$ 1,379,943				
Less: Allowance for credit losses	\$ (2,760)				
Total mortgage loans held for investment	<u>\$ 1,377,183</u>				
Cash and cash equivalents (1)	<u>\$ 10,276,918</u>				
Total restricted assets	<u>\$ 19,434,263</u>				

(1) Including cash and cash equivalents of \$8,006,323 for the life insurance and mortgage segments.

Restricted assets as of December 31, 2022, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2022:</b>				
Fixed maturity securities, available for sale, at estimated fair value:				
Obligations of states and political subdivisions	\$ 1,033,047	\$ 866	\$ (15,360)	\$ 1,018,553
Corporate securities including public utilities	201,771	-	(3,016)	198,755
Total fixed maturity securities available for sale	<u>\$ 1,234,818</u>	<u>\$ 866</u>	<u>\$ (18,376)</u>	<u>\$ 1,217,308</u>
Equity securities at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 4,955,360	\$ 703,049	\$ (310,165)	\$ 5,348,244
Total equity securities at estimated fair value	<u>\$ 4,955,360</u>	<u>\$ 703,049</u>	<u>\$ (310,165)</u>	<u>\$ 5,348,244</u>
Mortgage loans held for investment at amortized cost:				
Residential construction	<u>\$ 1,731,469</u>			
Cash and cash equivalents (1)	<u>\$ 10,638,034</u>			
Total restricted assets	<u>\$ 18,935,055</u>			

(1) Including cash and cash equivalents of \$8,527,620 for the life insurance and mortgage segments.

15) Cemetery Perpetual Care Trust Investments and Obligations and Restricted Assets (Continued)

Fixed Maturity Securities

The table below summarizes unrealized losses on fixed maturities securities that were carried at estimated fair value at June 30, 2023 and at December 31, 2022. The unrealized losses were primarily related to interest rate fluctuations and inflation. The tables set forth unrealized losses by duration with the fair value of the related fixed maturity securities.

	Unrealized Losses for Less than Twelve Months	Fair Value	Unrealized Losses for More than Twelve Months	Fair Value	Total Unrealized Loss	Fair Value
<b>At June 30, 2023</b>						
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 4,212	\$385,429	\$ -	\$ -	\$ 4,212	\$ 385,429
Obligations of states and political subdivisions	1,266	150,501	8,304	392,384	9,570	542,885
Corporate securities including public utilities	1,787	216,540	4,325	228,121	6,112	444,661
Total unrealized losses	<u>\$ 7,265</u>	<u>\$752,470</u>	<u>\$ 12,629</u>	<u>\$620,505</u>	<u>\$ 19,894</u>	<u>\$1,372,975</u>

<b>At December 31, 2022</b>						
Obligations of states and political subdivisions	\$ 11,891	\$760,255	\$ 3,469	\$ 58,072	\$ 15,360	\$ 818,327
Corporate securities including public utilities	3,016	198,755	-	-	3,016	198,755
Total unrealized losses	<u>\$ 14,907</u>	<u>\$959,010</u>	<u>\$ 3,469</u>	<u>\$ 58,072</u>	<u>\$ 18,376</u>	<u>\$1,017,082</u>

Relevant holdings were comprised of 18 securities with fair value of 98.6% of amortized cost at June 30, 2023. Relevant holdings were comprised of 17 securities with fair value of 98.2% of amortized cost at December 31, 2022. No credit losses have been recognized for the three and six month periods ended June 30, 2023 and 2022, since the increase in unrealized losses is primarily a result of the recent increase in interest and inflation rates.

The table below presents the amortized cost and estimated fair value of fixed maturity securities available for sale at June 30, 2023, by contractual maturity. 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 Cost	Estimated Fair Value
Due in 1 year	\$ -	\$ -
Due in 2-5 years	705,807	694,536
Due in 5-10 years	111,301	110,683
Due in more than 10 years	753,425	745,749
Total	<u>\$ 1,570,533</u>	<u>\$ 1,550,968</u>

See Notes 3 and 8 for additional information regarding restricted assets and cemetery perpetual care trust investments.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2023 (Unaudited)

16) Accumulated Other Comprehensive Income (loss)

The following summarizes the changes in accumulated other comprehensive income (loss):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	2023	2022
Unrealized gains (losses) on fixed maturity securities available for sale	\$ (4,913,327)	\$ (13,114,816)	\$ 523,602	\$ (28,486,911)
Amounts reclassified into net earnings	(79,850)	119,684	(298,750)	164,877
Net unrealized gains (losses) before taxes	(4,993,177)	(12,995,132)	224,852	(28,322,034)
Tax (expense) benefit	1,048,567	2,728,977	(47,219)	5,947,627
Net	<u>(3,944,610)</u>	<u>(10,266,155)</u>	<u>177,633</u>	<u>(22,374,407)</u>
Unrealized losses on restricted assets (1)	(6,189)	(43,169)	(2,056)	(115,118)
Tax benefit	1,542	10,754	512	28,676
Net	<u>(4,647)</u>	<u>(32,415)</u>	<u>(1,544)</u>	<u>(86,442)</u>
Unrealized losses on cemetery perpetual care trust investments (1)	(3,738)	(15,868)	(812)	(53,225)
Tax benefit	943	3,953	229	13,259
Net	<u>(2,795)</u>	<u>(11,915)</u>	<u>(583)</u>	<u>(39,966)</u>
Other comprehensive income (loss) changes	<u>\$ (3,952,052)</u>	<u>\$ (10,310,485)</u>	<u>\$ 175,506</u>	<u>\$ (22,500,815)</u>

(1) Fixed maturity securities available for sale

The following is the accumulated balances of other comprehensive income (loss) as of June 30, 2023:

Beginning Balance December 31, 2022	Change for the period	Ending Balance June 30, 2023
--	--------------------------	------------------------------------

Unrealized gains (losses) on fixed maturity securities available for sale	\$ (13,050,767)	\$ 177,633	\$ (12,873,134)
Unrealized losses on restricted assets (1)	(13,148)	(1,544)	(14,692)
Unrealized losses on cemetery perpetual care trust investments (1)	(6,362)	(583)	(6,945)
Other comprehensive income (loss)	\$ (13,070,277)	\$ 175,506	\$ (12,894,771)

(1)Fixed maturity securities available for sale

The following is the accumulated balances of other comprehensive income (loss) as of December 31, 2022:

	Beginning Balance December 31, 2021	Change for the period	Ending Balance December 31, 2022
Unrealized gains (losses) on fixed maturity securities available for sale	\$ 18,021,265	\$ (31,072,032)	\$ (13,050,767)
Unrealized gains (losses) on restricted assets (1)	40,192	(53,340)	(13,148)
Unrealized gains (losses) on cemetery perpetual care trust investments (1)	8,991	(15,353)	(6,362)
Other comprehensive income (loss)	\$ 18,070,448	\$ (31,140,725)	\$ (13,070,277)

(1)Fixed maturity securities available for sale

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

### Overview

The Company's operations over the last several years generally reflect three strategies 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) increased emphasis on the cemetery and mortuary business; and (iii) capitalizing on an improving housing market 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 \$30,000. The Company believes that funeral plans represent a marketing niche that is less competitive 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 and six month periods ended June 30, 2023, and 2022. See Note 7 to the condensed consolidated financial statements.

	Three months ended June 30, (in thousands of dollars)			Six months ended June 30, (in thousands of dollars)		
	2023	2022	% Increase (Decrease)	2023	2022	% Increase (Decrease)
Revenues from external customers						
Insurance premiums	\$ 28,813	\$ 25,912	11%	\$ 56,781	\$ 52,254	9%
Mortgage fee income	22	-	100%	\$ 66	\$ -	100%
Net investment income	18,420	15,126	22%	35,175	29,707	18%
Gains on investments and other assets	458	(266)	272%	515	(159)	424%
Other	358	394	(9)%	949	866	10%
Total	\$ 48,071	\$ 41,166	17%	\$ 93,486	\$ 82,668	13%
Intersegment revenue	\$ 2,517	\$ 2,076	21%	\$ 4,028	\$ 3,772	7%
Earnings before income taxes	\$ 9,158	\$ 3,932	133%	\$ 12,842	\$ 4,748	170%

Intersegment revenues are primarily interest income from the warehouse line for loans held for sale provided to SecurityNational Mortgage Company ("SecurityNational Mortgage"). Profitability for the six month period ended June 30, 2023 increased due to (a) a \$5,468,000 increase in net investment income, (b) a \$4,527,000 increase in insurance premiums and other considerations, (c) a \$1,494,000 decrease in selling, general and administrative expenses, (d) a \$674,000 increase in gains on investments and other assets, (e) a \$256,000 increase in intersegment revenue, (f) a \$83,000 increase in other revenues, and (g) a \$66,000 increase in

mortgage fee income, which were partially offset by (i) a \$3,183,000 increase in future policy benefits, (ii) a \$732,000 increase in amortization of deferred policy acquisition costs, (iii) a \$417,000 increase in interest expense, (iv) a 125,000 increase in intersegment interest expense and other expenses, and (v) a \$16,000 increase in death, surrenders and other policy benefits.

### Cemetery and Mortuary Operations

The Company sells mortuary services and products through its nine mortuaries in Utah and three mortuaries in New Mexico. The Company also sells cemetery products and services through its five cemeteries in Utah, one cemetery in San Diego County, California, and one cemetery in Santa Fe, New Mexico. At-need product sales and services are recognized as revenue when the services are performed or when the products are delivered. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed. Recognition of revenue for cemetery land sales occurs when 10% of the purchase price is received.

The following table shows the condensed financial results of the cemetery and mortuary operations for the three and six month periods ended June 30, 2023, and 2022. See Note 7 to the condensed consolidated financial statements.

	Three months ended June 30, (in thousands of dollars)			Six months ended June 30, (in thousands of dollars)		
	2023	2022	% Increase (Decrease)	2023	2022	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	\$ 3,125	\$ 3,106	1%	\$ 6,400	\$ 6,872	(7)%
Cemetery revenues	4,044	4,144	(2)%	7,240	7,584	(5)%
Net investment income	1,343	739	82%	1,945	1,236	57%
Gains (losses) on investments and other assets	198	(720)	128%	252	(975)	126%
Other	103	21	390%	174	36	383%
Total	<u>\$ 8,813</u>	<u>\$ 7,290</u>	<u>21%</u>	<u>\$ 16,011</u>	<u>\$ 14,753</u>	<u>9%</u>
Earnings before income taxes	<u>\$ 2,828</u>	<u>\$ 1,486</u>	<u>90%</u>	<u>\$ 4,613</u>	<u>\$ 3,506</u>	<u>32%</u>

Profitability in the six month period ended June 30, 2023 increased due to (a) a \$1,227,000 increase in gains on investments and other assets, (b) a \$709,000 increase in net investment income, (c) a \$495,000 increase in cemetery pre-need sales, and (d) a \$138,000 increase in other revenues, (e) a \$46,000 decrease in amortization of deferred policy acquisition costs, and (f) a \$28,000 decrease in intersegment interest expense and other expenses, which were partially offset by (i) an \$839,000 decrease in mortuary at-need sales, (ii) a \$473,000 decrease in cemetery at-need sales, (iii) a \$116,000 increase in selling, general and administrative expenses, (iv) a \$99,000 decrease in intersegment revenues, and a (v) 9,000 increase in cost of goods and services sold.

### Mortgage Operations

The Company's wholly owned subsidiary, SecurityNational Mortgage, is a mortgage lender 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 originates and refinances mortgage loans on a retail basis. Mortgage loans originated or refinanced by the SecurityNational Mortgage are funded through loan purchase agreements with Security National Life, Kilpatrick Life and unaffiliated financial institutions.

SecurityNational Mortgage receive fees from borrowers that are involved in mortgage loan originations and refinancings, and secondary fees earned from third party investors that purchase the mortgage loans. Mortgage loans are generally sold with mortgage servicing rights ("MSRs") released to third-party investors or retained by SecurityNational Mortgage. SecurityNational Mortgage currently retains the mortgage servicing rights on approximately 5% of its loan origination volume. These mortgage loans are serviced by either SecurityNational Mortgage or an approved third-party sub-servicer. On October 31, 2022, the Company sold certain of its MSRs. The MSRs related to mortgage loans previously originated by the Company in aggregate unpaid principal amount of approximately \$7.02 billion. As a result of the sale, the book value of the Company's MSRs decreased by \$51,185,906.

Mortgage rates have followed the US Treasury yields up in response to the higher than expected inflation and the expectation that the Federal Reserve will continue to raise rates in the near term. As expected, the rapid increase in mortgage rates has resulted in a decrease in loan originations classified as 'refinance.' Higher mortgage rates have also had a negative effect on loan originations classified as 'purchases,' although not as significant as those in the refinance classification.

For the six month periods ended June 30, 2023 and 2022, SecurityNational Mortgage originated 3,738 loans (\$1,139,735,000 total volume) and 6,419 loans (\$2,049,959,000 total volume), respectively.

The following table shows the condensed financial results of the mortgage operations for the three and six month periods ended June 30, 2023, and 2022. See Note 7 to the condensed consolidated financial statements.

	Three months ended June 30, (in thousands of dollars)			Six months ended June 30, (in thousands of dollars)		
	2023	2022	% Increase (Decrease)	2023	2022	% Increase (Decrease)
Revenues from external customers						

Secondary gains from investors	\$ 19,276	\$ 37,161	(48)%	\$ 37,193	\$ 76,764	(52)%
Income from loan originations	8,334	10,581	(21)%	14,889	19,393	(23)%
Change in fair value of loans held for sale	(1,402)	(3,464)	(60)%	(607)	(6,210)	(90)%
Change in fair value of loan commitments	(151)	(2,247)	(93)%	527	428	23%
Net investment income	409	106	286%	827	223	271%
Gains on investments and other assets	161	72	124%	161	391	(59)%
Other	336	4,901	(93)%	860	9,581	(91)%
Total	<u>\$ 26,963</u>	<u>\$ 47,110</u>	<u>(43)%</u>	<u>\$ 53,850</u>	<u>\$ 100,570</u>	<u>(46)%</u>
Earnings before income taxes	<u>\$ (3,837)</u>	<u>\$ (688)</u>	<u>(458)%</u>	<u>\$ (7,720)</u>	<u>\$ 919</u>	<u>(940)%</u>

Included in other revenues is service fee income. Profitability for the six month period ended June 30, 2023 decreased due to (a) a \$39,571,000 decrease in secondary gains from investors, (b) a \$8,721,000 decrease in other revenues, (c) a \$4,504,000 decrease in income from loan originations, (d) a \$274,000 increase in rent and rent related expenses, (e) a \$230,000 decrease in gains on investments and other assets, and (f) a \$167,000 increase in intersegment interest expense and other expenses, which were partially offset by (i) a \$18,025,000 decrease in commissions, (ii) a \$9,849,000 decrease in personnel expenses, (iii) a \$7,503,000 decrease in other expenses, (iv) a \$5,603,000 increase in the fair value of loans held for sale, (v) a \$1,200,000 decrease in costs related to funding mortgage loans, (vi) a \$1,177,000 decrease in interest expense, (vii) a \$661,000 decrease in advertising expenses, (viii) a \$604,000 increase in net investment income, (viii) a \$107,000 increase in intersegment revenues, and (ix) a \$99,000 increase in the fair value of loan commitments.

## Consolidated Results of Operations

### Three month period ended June 30, 2023, Compared to Three month period ended June 30, 2022

Total revenues decreased by \$11,721,000, or 12.3%, to \$83,846,000 for the three month period ended June 30, 2023, from \$95,567,000 for the comparable period in 2022. Contributing to this decrease in total revenues was a \$15,952,000 decrease in mortgage fee income, a \$4,520,000 decrease in other revenues, and an \$82,000 decrease in net mortuary and cemetery sales, which were partially offset by a \$4,201,000 increase in net investment income, a \$1,731,000 increase in gains on investments and other assets, and a \$2,901,000 increase in insurance premiums and other considerations.

Mortgage fee income decreased by \$15,952,000, or 38.0%, to \$26,079,000, for the three month period ended June 30, 2023, from \$42,031,000 for the comparable period in 2022. This decrease was primarily due to a \$17,863,000 decrease in secondary gains from mortgage loans sold to third-party investors into the secondary market due to the decline in origination activity because of increasing interest rates, and a \$2,247,000 decrease in loan fees and interest income net of a decrease in the provision for loan loss reserve, which were partially offset by a \$2,096,000 increase in the fair value of loan commitments and a \$2,062,000 increase in the fair value of loans held for sale.

Insurance premiums and other considerations increased by \$2,901,000, or 11.2%, to \$28,813,000 for the three month period ended June 30, 2023, from \$25,912,000 for the comparable period in 2022. This increase was primarily due to an increase of \$2,829,000 in first year premiums and an increase of \$72,000 in renewal premiums.

Net investment income increased by \$4,201,000, or 26.3%, to \$20,172,000 for the three month period ended June 30, 2023, from \$15,971,000 for the comparable period in 2022. This increase was primarily attributable to a \$1,332,000 increase in fixed maturity securities income, an \$885,000 increase in real estate income, a \$672,000 increase in interest on cash and cash equivalents, a \$585,000 decrease in investment expenses, a \$368,000 increase in insurance assignment income, a \$223,000 increase in mortgage loan interest, a \$115,000 increase in other investment income, and a \$21,000 increase in equity securities income.

Net mortuary and cemetery sales decreased by \$82,000, or 1.1%, to \$7,169,000 for the three month period ended June 30, 2023, from \$7,250,000 for the comparable period in 2022. This decrease was primarily due to a \$617,000 decrease in cemetery at-need sales, which were partially offset by a \$517,000 increase in cemetery pre-need sales and an \$18,000 increase in mortuary at-need sales.

Gains on investments and other assets increased by \$1,731,000, or 189.3%, to \$817,000 in net gains for the three month period ended June 30, 2023, from \$914,000 in net losses for the comparable period in 2022. This increase in gains on investments and other assets was primarily due to a \$2,597,000 increase in gains on equity securities mostly attributable to increases in the fair value of these equity, which were partially offset by securities a \$558,000 decrease in gains on other assets, a \$199,000 decrease in gains on fixed maturity securities, and a \$109,000 decrease in gains on real estate.

Other revenues decreased by \$4,520,000, or 85.0%, to \$797,000 for the three month period ended June 30, 2023, from \$5,316,000 for the comparable period in 2022. This decrease was primarily attributable to a decrease in servicing fee revenue as a result of the sale of certain mortgage servicing rights in October 2022.

Total benefits and expenses were \$75,697,000, or 90.3% of total revenues, for the three month period ended June 30, 2023, as compared to \$90,837,000, or 95.1% of total revenues, for the comparable period in 2022.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$2,313,000 or 10.2%, to \$24,906,000 for the three month period ended June 30, 2023, from \$22,593,000 for the comparable period in 2022. This increase was primarily the result of a \$1,899,000 increase in future policy benefits and a \$616,000 increase in death benefits, which were partially offset by a \$203,000 decrease in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$198,000, or 4.9%, to \$4,251,000 for the three month period ended June 30, 2023, from \$4,053,000 for the comparable period in 2022. This increase was

primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs.

Selling, general and administrative expenses decreased by \$17,174,000, or 28.1%, to \$43,873,000 for the three month period ended June 30, 2023, from \$61,047,000 for the comparable period in 2022. This decrease was primarily the result of a \$7,661,000 decrease in commissions, a \$4,997,000 decrease in personnel expenses, a \$3,771,000 decrease in other expenses, a \$630,000 decrease in advertising expense, a \$203,000 decrease in costs related to funding mortgage loans, and a \$41,000 decrease in depreciation on property and equipment, which were partially offset by a \$129,000 increase in rent and rent related expenses.

Interest expense decreased by \$485,000, or 25.5%, to \$1,415,000 for the three month period ended June 30, 2023, from \$1,900,000 for the comparable period in 2022. This decrease was primarily due to a decrease of \$776,000 in interest expense on mortgage warehouse lines for loans held for sale, which was partially offset by an increase of \$291,000 in interest expense on bank loans.

#### **Six month period ended June 30, 2023, Compared to Six month period ended June 30, 2022**

Total revenues decreased by \$34,646,000, or 17.5%, to \$163,347,000 for the six month period ended June 30, 2023, from \$197,993,000 for the comparable period in 2022. Contributing to this decrease in total revenues was a \$38,308,000 decrease in mortgage fee income, a \$8,500,000 decrease in other revenues, and an \$816,000 decrease in net mortuary and cemetery sales, which were partially offset by a \$6,781,000 increase in net investment income, a \$4,527,000 increase in insurance premiums and other considerations, and a \$1,670,000 increase in gains on investments and other assets.

Mortgage fee income decreased by \$38,308,000, or 42.4%, to \$52,068,000, for the six month period ended June 30, 2023, from \$90,375,000 for the comparable period in 2022. This decrease was primarily due to a \$39,504,000 decrease in secondary gains from mortgage loans sold to third-party investors into the secondary market due to the decline in origination activity because of increasing interest rates and a \$4,505,000 decrease in loan fees and interest income net of a decrease in the provision for loan loss reserve, which were partially offset by a \$5,603,000 increase in the fair value of loans held for sale and a \$98,000 increase in the fair value of loan commitments.

Insurance premiums and other considerations increased by \$4,527,000, or 8.7%, to \$56,781,000 for the six month period ended June 30, 2023, from \$52,254,000 for the comparable period in 2022. This increase was primarily due to an increase of \$4,018,000 in first year premiums and an increase of \$509,000 in renewal premiums.

Net investment income increased by \$6,781,000, or 21.8%, to \$37,947,000 for the six month period ended June 30, 2023, from \$31,165,000 for the comparable period in 2022. This increase was primarily attributable to a \$2,709,000 increase in fixed maturity securities income, a \$1,384,000 increase in interest on cash and cash equivalents, a \$1,210,000 increase in real estate income, an \$883,000 decrease in investment expenses, a \$750,000 increase in mortgage loan interest, a \$173,000 increase in income from other investments, and a \$39,000 increase in equity securities income, which were partially offset by a \$261,000 decrease in insurance assignment income and a \$106,000 decrease in policy loan income.

Net mortuary and cemetery sales decreased by \$816,000, or 5.6%, to \$13,640,000 for the six month period ended June 30, 2023, from \$14,456,000 for the comparable period in 2022. This decrease was primarily due to an \$839,000 decrease in cemetery at-need sales and a \$472,000 decrease in mortuary at-need sales, which were partially offset by a \$495,000 increase in cemetery pre-need sales.

Gains on investments and other assets increased by \$1,670,000, or 225.00%, to \$928,000 in gains for the six month period ended June 30, 2023, from \$742,000 in losses for the comparable period in 2022. This increase in gains on investments and other assets was primarily due to a \$3,493,000 increase in gains on equity securities mostly attributable to increases in the fair value of these equity securities, which were partially offset by a \$980,000 decrease in gains on real estate, a \$464,000 decrease in gains on fixed maturity securities, and \$379,000 decrease in gains on other assets.

Other revenues decreased by \$8,500,000, or 81.1%, to \$1,984,000 for the six month period ended June 30, 2023, from \$10,484,000 for the comparable period in 2022. This decrease was primarily attributable to a decrease in servicing fee revenue as a result of the sale of certain mortgage servicing rights in October 2022.

Total benefits and expenses were \$153,613,000, or 94.0% of total revenues, for the six month period ended June 30, 2023, as compared to \$188,819,000, or 95.4% of total revenues, for the comparable period in 2022.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$3,200,000 or 6.7%, to \$50,772,000 for the six month period ended June 30, 2023, from \$47,572,000 for the comparable period in 2022. This increase was primarily the result of a \$3,183,000 increase in future policy benefits and a \$410,000 increase in death benefits, which was partially offset by a \$393,000 decrease in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$685,000, or 8.1%, to \$9,135,000 for the six month period ended June 30, 2023, from \$8,450,000 for the comparable period in 2022. This increase was primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs.

Selling, general and administrative expenses decreased by \$38,341,000, or 30.3%, to \$88,401,000 for the six month period ended June 30, 2023, from \$126,742,000 for the comparable period in 2022. This decrease was primarily the result of a \$17,890,000 decrease in commissions, a \$9,909,000 decrease in personnel expenses, a \$8,082,000 decrease in other expenses, a \$1,438,000 decrease in advertising expense, a \$1,200,000 decrease in costs related to funding mortgage loans, and a \$68,000 decrease in depreciation on property and equipment, which were partially offset by a \$246,000 increase in rent and rent related expenses.

Interest expense decreased by \$759,000, or 20.9%, to \$2,868,000 for the six month period ended June 30, 2023, from \$3,627,000 for the comparable period in 2022. This decrease was primarily due to a decrease of \$1,177,000 in interest expense on mortgage warehouse lines for loans held for sale, which was partially offset by an increase of \$418,000 in interest expense on bank loans.

### **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 sale or maturity of investments. The mortgage subsidiaries realize cash flow from fees generated by originating and refinancing mortgage loans and fees from mortgage loans held for sale that are sold to investors into the secondary market. It should be noted that current conditions in the financial markets and economy may affect the realization of these expected cash flows. 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. As of June 30, 2023, the Company was not in compliance with the net income covenant and has received or is in the process of receiving waivers from the warehouse banks. In the unlikely event the Company is required to repay the outstanding advances of approximately \$7,100,000 on the warehouse line that has not provided a covenant waiver, the Company has sufficient cash and borrowing capacity on the warehouse lines that have provided covenant waivers to fund its origination activities. The Company has done an internal analysis of its funding capacities of both internal and external sources and has determined that there are sufficient funds to continue its business model. The Company continues to negotiate other warehouse lines with other lenders.

During the six month periods ended June 30, 2023 and 2022, the Company's operations provided cash of \$2,181,000 and \$97,639,000, respectively. The decrease in cash provided by operations was due primarily to decreased proceeds from the sale of mortgage loans held for sale.

The Company's liability for future policy 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 policies that payout upon a person's death to cover funeral burial costs. Policyholders generally keep these policies in force and do not surrender them prior to 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 their 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 matching. 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, which 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 also to invest predominantly in fixed maturity securities, real estate, mortgage loans, and warehousing of mortgage loans held for sale 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 \$340,331,000 (at estimated fair value) and \$345,598,000 (at estimated fair value) as of June 30, 2023 and December 31, 2022, respectively. This represented 38.0% and 36.4% of the total investments as of June 30, 2023, and December 31, 2022, 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 June 30, 2023, 2.0% (or \$6,932,000) and at December 31, 2022, 2.2% (or \$7,833,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

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 June 30, 2023 and December 31, 2022, the life insurance subsidiaries were in compliance with the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank and other loans payable was \$402,064,000 as of June 30, 2023, as compared to \$454,499,000 as of December 31, 2022. Stockholders' equity as a percent of total capitalization was 74.3% and 64.4% as of June 30, 2023, and December 31, 2022, respectively. Bank loans and other loans payable decreased by \$58,411,000 as of June 30, 2023, as compared to December 31, 2022, which was partially offset by an increase in stockholders' equity of \$5,976,000 as of June 30, 2023 as compared to December 31, 2022, thus causing the increase in the stockholders' equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2022 was 4.3% as compared to a rate of 4.8% for 2021. The 2023 lapse rate to date has been approximately the same as 2022.

The combined statutory capital and surplus of the Company's life insurance subsidiaries was \$99,865,000 and \$94,254,000 as of June 30, 2023, and December 31, 2022, respectively. The life insurance subsidiaries cannot pay a dividend to their parent company without the approval of state insurance regulatory authorities.

### **Banking Environment**

On March 10, 2023 and March 12, 2023, Silicon Valley Bank and Signature Bank were placed in receivership with the Federal Deposit Insurance Corporation ("FDIC"). Normal banking activities resumed shortly thereafter. On May 1, 2023, First Republic bank was placed in receivership with the FDIC and was immediately purchased by a national bank.

The Company does not maintain any deposit or other accounts or credit facilities with Silicon Valley Bank, Signature Bank or First

Republic Bank. The Company may periodically transfer funds to these banks to pay for services rendered by third party vendors that continue to maintain banking relationships with these banks. The Company continues to monitor the banking industry and its relationships with regional and community banks.

**Item Quantitative and Qualitative Disclosures About Market Risk.**

**3.**

As a smaller reporting company, the Company is not required to provide information typically disclosed under this item.

---

64

---

**Item Controls and Procedures.**

**4.**

Disclosure Controls and Procedures

As of June 30, 2023, 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 executive officers have concluded that the Company's disclosure controls and procedures were effective as of June 30, 2023, 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

There have not been any significant changes in the Company's internal control over financial reporting during the most recently completed fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

**Part II - Other Information**

**Item Legal Proceedings.**

**1.**

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

**Item Risk Factors.**

**1A.**

As a smaller reporting company, the Company is not required to provide information typically disclosed under this item.

---

65

---

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

**2.**

**Recent Sales of Unregistered Securities and Use of Proceeds from Registered Securities**

None.

**Issuer Purchases of Equity Securities**

On December 27, 2022, the Company executed a 10b5-1 agreement with a broker to repurchase shares of the Company's Class A Common Stock. Under the terms of the agreement, the broker is permitted to repurchase up to 1,000,000 shares of the Company's Class A Common Stock. The agreement is subject to the daily time, price and volume conditions of Rule 10b-18. The initial term of the agreement is for one year.

The following table shows the Company's repurchase activity during the three month period ended June 30, 2023 under the 10b5-1 agreement.

Period	(a) Total Number of Class A Shares Purchased	(b) Average Price Paid per Class A Share (1)	(c) Total Number of Class A Shares Purchased as Part of Publicly Announced Plan or Program	(d) Maximum Number (or Approximate Dollar Value) of Class A Shares that May Yet Be Purchased Under the Plan or Program (2)
4/1/2023-4/30/2023	-	\$ -	-	318,043
5/1/2023-5/31/2023	-	-	-	318,043
6/1/2023-6/30/2023	-	-	-	318,043
<b>Total</b>	<b>-</b>	<b>\$ -</b>	<b>-</b>	<b>318,043</b>

(1) Includes fees and commissions paid on stock repurchases.

(2) In September 2018, the Board of Directors of the Company approved a Stock Repurchase Plan that authorized the repurchase of 300,000 shares of the Company's Class A Common Stock in the open market. The Company amended the Stock Repurchase Plan on December 4, 2020. The amendment authorized the repurchase of a total of 1,000,000 shares of the Company's Class A Common Stock in the open market. Any repurchased shares of Class A common stock are to be held as treasury shares to be used as the Company's employer matching contribution to the Employee 401(k) Retirement Savings Plan and for shares held in the Deferred Compensation Plan.

**Item Defaults Upon Senior Securities.**

**3.**

None.

**Item Mine Safety Disclosures.**

**4.**

None.

**Item Other Information.**

**5.**

During the three-month period ended June 30, 2023, none of the Company's directors or officers adopted or terminated a "Rule 10b5-1 trading arrangement" or "non-Rule 10b5-1 trading arrangement," as those terms are defined in Regulation S-K, Item 408.

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

**6.**

(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 [Amended and Restated Articles of Incorporation \(4\)](#)
- 3.2 [Amended and Restated Bylaws \(6\)](#)
- 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 Employee Stock Ownership Plan, as amended and restated (ESOP) and Trust Agreement (1)
- 10.2 [Amended and Restated 2013 Stock Option and Other Equity Incentive Awards Plan \(3\)](#)
- 10.3 [Amended and Restated 2014 Director Stock Option Plan \(7\)](#)
- 10.4 [Employment Agreement with Scott M. Quist \(2\)](#)
- 10.5 [Stock Repurchase Plan \(5\)](#)
- 14 [Code of Business Conduct and Ethics \(6\)](#)
- 21 [Subsidiaries of the Registrant](#)
- 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.INS Inline XBRL Instance Document  
101.SCH Inline XBRL Taxonomy Extension Schema Document  
101.CAL Inline XBRL Taxonomy Extension Calculation Linkbase Document  
101.DEF Inline XBRL Taxonomy Extension Definition Linkbase Document  
101.LAB Inline XBRL Taxonomy Extension Label Linkbase Document  
101.PRE Inline XBRL Taxonomy Extension Presentation Linkbase Document  
104 Cover Page Interactive Data File (embedded within the Inline XBRL document)

- 
- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on June 29, 1987  
(2) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2015  
(3) Incorporated by reference from Report on Form 10-Q, as filed on August 15, 2016  
(4) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2017  
(5) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2018  
(6) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2019  
(7) Incorporated by reference from Report on Form 10-Q, as filed on August 14, 2020

### **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 14, 2023 /s/ Scott M. Quist

Scott M. Quist  
Chairman, President and Chief Executive Officer  
(Principal Executive Officer)

Dated: August 14, 2023 /s/ Garrett S. Sill

Garrett S. Sill  
Chief Financial Officer and Treasurer  
(Principal Financial Officer and Principal Accounting Officer)