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# **SECURITY NATIONAL FINANCIAL CORP**

## **FORM 10-Q**

(Quarterly Report)

Filed 08/14/20 for the Period Ending 06/30/20

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**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, 2020

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** **87-0345941**  
*(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)*

**121 West Election Road, Suite 100, Draper, Utah 84020**  
*(Address of principal executive offices) (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  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) 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 10, 2020, the registrant had 16,557,925 shares of Class A Common Stock, \$2.00 par value, outstanding and 2,551,445 shares of Class C Common Stock, \$2.00 par value, outstanding.

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

QUARTER ENDED JUNE 30, 2020

**Table of Contents**

	<u>Page</u> <u>No.</u>
<b>Part I - Financial Information</b>	
Item 1. Financial Statements	
Condensed Consolidated Balance Sheets as of June 30, 2020 (unaudited) and December 31, 2019	3-4
Condensed Consolidated Statements of Earnings for the three and six months ended June 30, 2020 and 2019 (unaudited)	5
Condensed Consolidated Statements of Comprehensive Income for the three and six months ended June 30, 2020 and 2019 (unaudited)	6
Condensed Consolidated Statements of Stockholders' Equity as of June 30, 2020 and June 30, 2019 (unaudited)	7
Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2020 and 2019 (unaudited)	8-9
Notes to Condensed Consolidated Financial Statements (unaudited)	10
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	55
Item 3. Quantitative and Qualitative Disclosures about Market Risk	62
Item 4. Controls and Procedures	62
<b>Part II - Other Information</b>	
Item 1. Legal Proceedings	63
Item 1A. Risk Factors	63
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	63
Item 3. Defaults Upon Senior Securities	64
Item 4. Mine Safety Disclosures	64
Item 5. Other Information	64
Item 6. Exhibits	64
Signature Page	66

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

**Part I - Financial Information**

**Item 1. Financial Statements.**

<b>Assets</b>	June 30 2020 (Unaudited)	December 31 2019
<b>Investments:</b>		
Fixed maturity securities, available for sale, at estimated fair value	\$ 348,628,792	\$ 355,977,820
Equity securities at estimated fair value	11,791,511	7,271,165
Mortgage loans held for investment (net of allowances for loan losses of \$2,443,557 and \$1,453,037 for 2020 and 2019)	260,418,004	236,694,546
Real estate held for investment (net of accumulated depreciation of \$12,801,555 and \$12,788,739 for 2020 and 2019)	113,192,422	102,756,946
Real estate held for sale	10,598,341	14,097,627
Other investments and policy loans (net of allowances for doubtful accounts of \$1,533,696 and \$1,448,026 for 2020 and 2019)	65,700,611	60,245,269
Accrued investment income	5,008,772	4,833,232
<b>Total investments</b>	<b>815,338,453</b>	<b>781,876,605</b>
Cash and cash equivalents	116,961,182	127,754,719
Loans held for sale at estimated fair value	356,949,958	213,457,632
Receivables (net of allowances for doubtful accounts of \$1,731,873 and \$1,724,156 for 2020 and 2019)	10,208,989	9,236,330
Restricted assets (including \$3,029,593 and \$2,985,347 for 2020 and 2019 at estimated fair value)	16,445,277	13,935,317
Cemetery perpetual care trust investments (including \$2,671,716 and \$2,581,124 for 2020 and 2019 at estimated fair value)	5,230,630	4,411,864
Receivable from reinsurers	15,858,896	15,747,768
Cemetery land and improvements	9,173,403	9,519,950
Deferred policy and pre-need contract acquisition costs	97,528,343	94,701,920
Mortgage servicing rights, net	21,695,123	17,155,529
Property and equipment, net	12,952,262	14,600,394
Value of business acquired	9,570,741	9,876,647
Goodwill	3,519,588	3,519,588
Other	29,628,897	18,649,812
		\$
<b>Total Assets</b>	<b>\$ 1,521,061,742</b>	<b>1,334,444,075</b>

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

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

	June 30 2020 (Unaudited)	December 31 2019
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Future policy benefits and unpaid claims	\$ 837,481,978	\$ 825,600,918
Unearned premium reserve	3,476,463	3,621,697
Bank and other loans payable	347,139,008	217,572,612
Deferred pre-need cemetery and mortuary contract revenues	12,930,466	12,607,978
Cemetery perpetual care obligation	4,003,169	3,933,719
Accounts payable	4,920,178	5,056,983
Other liabilities and accrued expenses	62,689,482	50,652,591
Income taxes	25,806,772	18,686,972
<b>Total liabilities</b>	<b><u>1,298,447,516</u></b>	<b><u>1,137,733,470</u></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; 20,000,000 shares authorized; issued 16,557,554 shares in 2020 and 16,107,779 shares in 2019	33,115,108	32,215,558
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$2.00 par value; 3,000,000 shares authorized; issued 2,551,445 shares in 2020 and 2,500,887 shares in 2019	5,102,890	5,001,774
Additional paid-in capital	48,917,891	46,091,112
Accumulated other comprehensive income, net of taxes	16,894,089	13,726,514
Retained earnings	120,126,524	101,256,229
Treasury stock at cost - 349,850 Class A shares in 2020 and 490,823 Class A shares in 2019	(1,542,276)	(1,580,582)
<b>Total stockholders' equity</b>	<b><u>222,614,226</u></b>	<b><u>196,710,605</u></b>
<b>Total Liabilities and Stockholders' Equity</b>	<b><u>\$ 1,521,061,742</u></b>	<b><u>\$ 1,334,444,075</u></b>

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Revenues:</b>				
Insurance premiums and other considerations	\$ 22,924,709	\$ 19,645,218	\$ 45,215,985	\$ 38,672,220
Net investment income	12,962,745	10,540,835	26,363,244	20,582,503
Net mortuary and cemetery sales	4,700,778	4,000,730	9,158,869	7,679,358
Gains (losses) on investments and other assets	2,238,279	(1,025,893)	(973,968)	780,768
Mortgage fee income	73,368,333	32,946,567	113,650,094	57,425,438
Other	2,466,898	2,337,725	4,856,467	4,798,730
Total revenues	118,661,742	68,445,182	198,270,691	129,939,017
<b>Benefits and expenses:</b>				
Death benefits	13,586,723	9,248,796	26,994,350	19,326,699
Surrenders and other policy benefits	838,191	763,978	1,908,666	1,629,909
Increase in future policy benefits	6,603,843	5,676,111	13,641,876	11,427,241
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	3,026,666	3,073,478	6,541,723	6,201,752
Selling, general and administrative expenses:				
Commissions	27,239,088	13,853,889	43,793,831	23,528,981
Personnel	20,538,655	15,699,260	39,258,653	30,730,596
Advertising	1,229,841	1,171,903	2,235,158	2,205,078
Rent and rent related	1,662,853	1,724,179	3,277,594	3,628,467
Depreciation on property and equipment	518,070	422,926	1,034,283	872,606
Costs related to funding mortgage loans	2,378,815	1,559,289	4,335,097	2,914,214
Other	11,303,388	8,154,367	21,378,930	15,799,494
Interest expense	1,881,440	1,782,557	3,700,049	3,274,444
Cost of goods and services sold-mortuaries and cemeteries	660,413	690,606	1,502,491	1,343,534
Total benefits and expenses	91,467,986	63,821,339	169,602,701	122,883,015
<b>Earnings before income taxes</b>	27,193,756	4,623,843	28,667,990	7,056,002
Income tax expense	(6,636,709)	(1,143,789)	(6,686,494)	(1,645,630)
<b>Net earnings</b>	\$ 20,557,047	\$ 3,480,054	\$ 21,981,496	\$ 5,410,372
<b>Net earnings per Class A Equivalent common share (1)</b>	\$1.10	\$0.19	\$1.18	\$0.29
<b>Net earnings per Class A Equivalent common share-assuming dilution (1)</b>	\$1.07	\$0.19	\$1.15	\$0.29
Weighted-average Class A equivalent common share outstanding (1)	18,764,831	18,576,031	18,703,390	18,567,907
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	19,183,491	18,810,276	19,036,249	18,807,576

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

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

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Net earnings	\$ 20,557,047	\$ 3,480,054	\$ 21,981,496	\$ 5,410,372
Other comprehensive income:				
Unrealized gains on fixed maturity securities available for sale	\$ 15,180,782	-	3,999,631	-
Unrealized gains on restricted assets	18,072	-	4,987	-
Unrealized gains on cemetery perpetual care trust investments	17,815	-	5,769	-
Foreign currency translation adjustments	165	954	(280)	2,046
Other comprehensive income, before income tax	15,216,834	954	4,010,107	2,046
Income tax expense	(3,196,946)	(238)	(842,532)	(510)
Other comprehensive income, net of income tax	12,019,888	716	3,167,575	1,536
		\$		\$
Comprehensive income	<u>\$ 32,576,935</u>	<u>3,480,770</u>	<u>25,149,071</u>	<u>5,411,908</u>

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

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

	Six Months Ended June 30, 2020						
	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
<b>January 1, 2020</b>	\$ 32,215,558	\$ 5,001,774	\$ 46,091,112	\$ 13,726,514	\$ 101,256,229	\$ (1,580,582)	\$ 196,710,605
Net earnings	-	-	-	-	1,424,449	-	1,424,449
Other comprehensive loss	-	-	-	(8,852,313)	-	-	(8,852,313)
Stock-based compensation expense	-	-	65,877	-	-	-	65,877
Exercise of stock options	44,822	-	(33,930)	-	-	-	10,892
Sale of treasury stock	-	-	218,280	-	-	264,081	482,361
Purchase of treasury stock	-	-	-	-	-	(129,608)	(129,608)
Stock dividends	2,322	(1,020)	2,292	-	(3,594)	-	-
Conversion Class C to Class A	22,324	(22,324)	-	-	-	-	-
<b>March 31, 2020</b>	\$ 32,285,026	\$ 4,978,430	\$ 46,343,631	\$ 4,874,201	\$ 102,677,084	\$ (1,446,109)	\$ 189,712,263
Net earnings	-	-	-	-	20,557,047	-	20,557,047
Other comprehensive income	-	-	-	12,019,888	-	-	12,019,888
Stock-based compensation expense	-	-	101,520	-	-	-	101,520
Exercise of stock options	22,726	-	(22,726)	-	-	-	-
Sale of treasury stock	-	-	319,676	-	-	664,546	984,222
Purchase of treasury stock	-	-	-	-	-	(760,713)	(760,713)
Stock dividends	807,356	124,460	2,175,790	-	(3,107,607)	-	(1)
Conversion Class C to Class A	-	-	-	-	-	-	-
<b>June 30, 2020</b>	\$ 33,115,108	\$ 5,102,890	\$ 48,917,891	\$ 16,894,089	\$ 120,126,524	\$ (1,542,276)	\$ 222,614,226
	Six Months Ended June 30, 2019						
	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
<b>January 1, 2019</b>	\$ 30,609,596	\$ 4,387,286	\$ 41,821,778	\$ (2,823)	\$ 95,201,732	\$ (206,396)	\$ 171,811,173
Net earnings	-	-	-	-	1,930,318	-	1,930,318
Other comprehensive income	-	-	-	820	-	-	820
Stock-based compensation expense	-	-	64,704	-	-	-	64,704
Exercise of stock options	8,936	-	8,444	-	-	-	17,380
Sale of treasury stock	-	-	295,153	-	-	42,343	337,496
Purchase of treasury stock	-	-	-	-	-	(112,404)	(112,404)
Stock dividends	282	(4)	489	-	(769)	-	(2)
Conversion Class C to Class A	6,560	(6,560)	-	-	-	-	-
<b>March 31, 2019</b>	\$ 30,625,374	\$ 4,380,722	\$ 42,190,568	\$ (2,003)	\$ 97,131,281	\$ (276,457)	\$ 174,049,485
Net earnings	-	-	-	-	3,480,054	-	3,480,054
Other comprehensive loss	-	-	-	716	-	-	716
Stock-based compensation expense	-	-	65,037	-	-	-	65,037
Exercise of stock options	20,274	-	9,519	-	-	-	29,793
Sale of treasury stock	-	-	92,605	-	-	25,190	117,795
Purchase of treasury stock	-	-	-	-	-	(174,704)	(174,704)
Conversion Class C to Class A	12	(14)	2	-	-	-	-
<b>June 30, 2019</b>	\$ 30,645,660	\$ 4,380,708	\$ 42,357,731	\$ (1,287)	\$ 100,611,335	\$ (425,971)	\$ 177,568,176

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

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

	Six Months Ended June 30	
	2020	2019
<b>Cash flows from operating activities:</b>		
Net cash used in operating activities	\$(109,561,903)	\$ (40,725,988)
<b>Cash flows from investing activities:</b>		
Purchases of fixed maturity securities	(49,243,362)	(4,570,527)
Sales, calls and maturities of fixed maturity securities	60,438,933	13,688,850
Purchases of equity securities	(13,396,648)	(2,046,346)
Sales of equity securities	7,841,952	763,548
Net changes in restricted assets	(1,476,279)	(1,380,216)
Net changes in perpetual care trusts	(120,904)	757,527
Mortgage loans held for investment, other investments and policy loans made	(313,439,255)	(273,167,834)
Payments received for mortgage loans held for investment, other investments and policy loans	291,577,885	269,379,815
Purchases of property and equipment	(910,429)	(367,466)
Sales of property and equipment	-	51,102
Purchases of real estate	(12,217,051)	(4,316,130)
Sales of real estate	6,584,359	4,945,323
Cash paid for purchase of subsidiaries, net of cash acquired	-	(3,261,788)
Net cash provided by (used in) investing activities	(24,360,799)	475,858
<b>Cash flows from financing activities:</b>		
Investment contract receipts	5,180,530	6,275,671
Investment contract withdrawals	(8,606,537)	(8,729,845)
Proceeds from stock options exercised	10,892	47,173
Purchases of treasury stock	(890,321)	(287,108)
Repayment of bank and other loans	(48,739,820)	(93,583,859)
Proceeds from bank borrowings	119,172,821	92,967,146
Net change in warehouse line borrowings for loans held for sale	59,048,513	29,203,601
Net cash provided by financing activities	125,176,078	25,892,779
<b>Net change in cash, cash equivalents, restricted cash and restricted cash equivalents</b>		
	(8,746,624)	(14,357,351)
Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of period		
	137,735,673	150,936,673
<b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of period</b>		
	<u>\$ 128,989,049</u>	<u>\$ 136,579,322</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid during the year for:		
Interest	\$ 3,732,031	\$ 3,219,201
Income taxes (net of refunds)	409,223	960,408
<b>Non Cash Operating, Investing and Financing Activities:</b>		
Transfer of loans held for sale to mortgage loans held for investment	\$ 8,933,676	\$ -
Right-of-use assets obtained in exchange for operating lease liabilities	4,641,238	11,860,956
Benefit plans funded with treasury stock	1,466,583	455,291
Accrued real estate construction costs and retainage	687,314	823,545
Mortgage loans held for investment foreclosed into real estate held for investment	686,124	755,000
Right-of-use assets obtained in exchange for finance lease liabilities	8,494	244,855
Receivable for maturities of fixed maturity securities	-	10,000,000
Mortgage loans held for investment foreclosed into receivables	-	155,347

See Note 15 regarding non cash transactions included in the acquisition of Probst Family Funeral and Cremations and Heber Valley Funeral Home.

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	
	2020	2019
Cash and cash equivalents	\$ 116,961,182	\$ 127,828,356
Restricted assets	9,992,953	7,076,341
Cemetery perpetual care trust investments	2,034,914	1,674,625
<b>Total cash, cash equivalents, restricted cash and restricted cash equivalents</b>	<b><u>\$ 128,989,049</u></b>	<b><u>\$ 136,579,322</u></b>

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (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, 2019, 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 six months ended June 30, 2020 are not necessarily indicative of the results that may be expected for the year ending December 31, 2020.

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. The novel coronavirus ("COVID-19") spread rapidly across the world in the first and second quarters of 2020 and was declared a pandemic (the "COVID-19 Pandemic") by the World Health Organization. The government and private sector responses to contain its spread began to affect the Company's operations in March, has continued to affect the Company's operations and will likely continue to affect nearly all of the Company's operations in the third quarter, although such effects may vary significantly. The duration and extent of the effects over longer terms cannot be reasonably estimated at this time. The risks and uncertainties resulting from the pandemic that may affect the Company's future earnings, cash flows, and financial condition include the nature and duration of the curtailment or closure of the Company's various facilities and the long-term effect on the demand for the Company's products and services. 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; those used in determining the liability for future policy benefits; those used in estimating other than temporary impairments on available for sale securities; those used in determining the value of mortgage servicing rights; those used in determining allowances for loan losses for mortgage loans held for investment; those used in determining loan loss reserve; and those used in determining deferred tax assets and liabilities. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

2) Recent Accounting Pronouncements

**Accounting Standards Adopted in 2020**

ASU No. 2018-13: "Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement" - Issued in August 2018, ASU 2018-13 modifies the disclosure requirements of Topic 820 by removing, modifying or adding certain disclosures. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 does not change the fair value measurements already required or permitted by existing standards. The Company adopted this standard on January 1, 2020. The adoption of this standard did not materially impact the Company's financial statements. See Note 8 for the Company's fair value disclosures.

2) Recent Accounting Pronouncements (Continued)

**Accounting Standards Adopted in 2019**

ASU No. 2016-02: "Leases (Topic 842)" - Issued in February 2016, ASU 2016-02 supersedes the requirements in Accounting Standards Codification ("ASC") Topic 840, "Leases", and was issued to increase transparency and comparability among organizations. The new standard sets forth the principles for the recognition, measurement, presentation, and disclosure of leases for both lessees and lessors. ASU 2016-02 requires lessees to classify leases as either finance or operating leases and to record on the balance sheet right-of-use assets and lease liabilities, equal to the present value of the remaining lease payments. The lease classification will determine whether the lease expense is recognized based on an effective interest rate method or a straight-line basis over the term of the leases. The FASB further clarified ASU 2016-02 and provided targeted improvements by issuing ASU 2018-01, ASU 2018-10, ASU 2018-11 and ASU 2018-20.

The Company adopted this standard on January 1, 2019 using the modified retrospective transition method with no cumulative-effect adjustment to the opening balance of retained earnings. Under this transition method, the application date was the beginning of the reporting period, January 1, 2019, in which the Company first applied the standard. Under this transition option, the Company will apply the legacy guidance in ASC 840, "Leases", including its disclosure requirements, in the comparative periods presented in the year of adoption. The Company has made an accounting policy election not to apply the recognition requirements to short-term leases, which are leases that, at the commencement date, have a lease term of 12 months or less and do not include an option to purchase the underlying assets that the lessee is reasonably certain to exercise. The new authoritative guidance allows for certain practical expedients to be utilized to assist with the implementation of the new standard. The Company has elected the transition package of practical expedients which allows the Company to not reassess whether any expired or existing contracts are or contain leases, to not reassess the lease classification for any expired or existing leases and to not reassess initial direct costs for any existing leases.

The Company implemented a third-party lease accounting system to assist with the measurement of the lease liabilities and the related right-of-use assets. The Company compiled an inventory of its leases, determined the appropriate discount rates and has determined the impact of this standard which is not material to the Company's results of operations, but has an effect on the balance sheet presentation for leased assets and obligations. The Company recognized a right-of-use asset and related lease liability for approximately \$12,076,000 on January 1, 2019. This standard did not impact the Company's accounting for leases where the Company is the lessor.

**Accounting Standards Issued But Not Yet Adopted**

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 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 in current GAAP and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP; however, Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. In October 2019, the FASB proposed an update to ASU No. 2016-13 that would make the ASU effective for the Company on January 1, 2023. The Company is in the process of evaluating the potential impact of this standard, especially as it relates to mortgage loans held for investment.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

2) Recent Accounting Pronouncements (Continued)

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 ASU will simplify and improve 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 October 2019, the FASB proposed an update to ASU No. 2018-12 that would make the ASU effective for the Company on January 1, 2024. The Company is in the process of evaluating the potential impact of this standard.

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, 2020 (Unaudited)

3) Investments

The Company's investments as of June 30, 2020 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>June 30, 2020:</u>				
Fixed maturity securities, available for sale, at estimated fair value:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 102,442,154	\$ 2,147,334	\$ -	\$ 104,589,488
Obligations of states and political subdivisions	5,878,900	269,394	(2,661)	6,145,633
Corporate securities including public utilities	182,731,042	21,371,660	(2,841,768)	201,260,934
Mortgage-backed securities	35,789,063	1,209,447	(734,173)	36,264,337
Redeemable preferred stock	364,339	21,561	(17,500)	368,400
				\$
Total fixed maturity securities available for sale	<u>\$ 327,205,498</u>	<u>\$ 25,019,396</u>	<u>\$ (3,596,102)</u>	<u>\$ 348,628,792</u>
Equity securities at estimated fair value:				
Common stock:				
				\$
Industrial, miscellaneous and all other	\$ 12,380,259	\$ 1,525,151	\$ (2,113,899)	\$ 11,791,511
				\$
Total equity securities at estimated fair value	<u>\$ 12,380,259</u>	<u>\$ 1,525,151</u>	<u>\$ (2,113,899)</u>	<u>\$ 11,791,511</u>
Mortgage loans held for investment at amortized cost:				
Residential	\$ 109,304,960			
Residential construction	106,890,366			
Commercial	49,613,367			
Less: Unamortized deferred loan fees, net	(1,730,243)			
Less: Allowance for loan losses	(2,443,557)			
Less: Net discounts	(1,216,889)			
Total mortgage loans held for investment	<u>\$ 260,418,004</u>			
Real estate held for investment - net of accumulated depreciation:				
Residential	\$ 19,973,537			
Commercial	93,218,885			
Total real estate held for investment	<u>\$ 113,192,422</u>			
Real estate held for sale:				
Residential	\$ 4,522,020			
Commercial	6,076,321			
Total real estate held for sale	<u>\$ 10,598,341</u>			
Other investments and policy loans at amortized cost:				
Policy loans	\$ 14,450,587			
Insurance assignments	43,276,682			
Federal Home Loan Bank stock (1)	4,056,600			
Other investments	5,450,438			
Less: Allowance for doubtful accounts	(1,533,696)			
Total policy loans and other investments	<u>\$ 65,700,611</u>			
Accrued investment income	<u>\$ 5,008,772</u>			
Total investments	<u>\$ 815,338,453</u>			

(1) Includes \$874,400 of Membership stock and \$3,182,200 of Activity stock due to short-term borrowings.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

The Company's investments as of December 31, 2019 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<b>December 31, 2019:</b>				
<b>Fixed maturity securities, available for sale, at estimated fair value:</b>				
U.S. Treasury securities and obligations of U.S. Government agencies				
	\$ 142,740,641	632,185	(25,215)	\$ 143,347,611
Obligations of states and political subdivisions				
	7,450,366	87,812	(9,026)	7,529,152
Corporate securities including public utilities				
	156,599,184	16,768,449	(463,413)	172,904,220
Mortgage-backed securities				
	31,475,280	597,395	(240,177)	31,832,498
Redeemable preferred stock				
	364,339	-	-	364,339
<b>Total fixed maturity securities available for sale</b>				
	<b>\$ 338,629,810</b>	<b>18,085,841</b>	<b>(737,831)</b>	<b>\$ 355,977,820</b>
<b>Equity securities at estimated fair value:</b>				
<b>Common stock:</b>				
Industrial, miscellaneous and all other				
	\$ 6,900,537	1,139,799	(769,171)	\$ 7,271,165
<b>Total equity securities at estimated fair value</b>				
	<b>\$ 6,900,537</b>	<b>1,139,799</b>	<b>(769,171)</b>	<b>\$ 7,271,165</b>
<b>Mortgage loans held for investment at amortized cost:</b>				
Residential				
	\$ 113,043,965			
Residential construction				
	89,430,237			
Commercial				
	38,718,220			
Less: Unamortized deferred loan fees, net				
	(2,391,567)			
Less: Allowance for loan losses				
	(1,453,037)			
Less: Net discounts				
	(653,272)			
<b>Total mortgage loans held for investment</b>				
	<b>\$ 236,694,546</b>			
<b>Real estate held for investment - net of accumulated depreciation:</b>				
Residential				
	\$ 12,530,306			
Commercial				
	90,226,640			
<b>Total real estate held for investment</b>				
	<b>\$ 102,756,946</b>			
<b>Real estate held for sale:</b>				
Residential				
	\$ 8,021,306			
Commercial				
	6,076,321			
<b>Total real estate held for sale</b>				
	<b>\$ 14,097,627</b>			
<b>Other investments and policy loans at amortized cost:</b>				
Policy loans				
	\$ 14,762,805			
Insurance assignments				
	41,062,965			
Federal Home Loan Bank stock (1)				
	894,300			
Other investments				
	4,973,225			
Less: Allowance for doubtful accounts				
	(1,448,026)			
<b>Total policy loans and other investments</b>				
	<b>\$ 60,245,269</b>			
<b>Accrued investment income</b>				
	<b>\$ 4,833,232</b>			
<b>Total investments</b>				
	<b>\$ 781,876,605</b>			

(1) Includes \$894,300 of Membership stock and \$-0- of Activity stock due to short-term borrowings.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

**Fixed Maturity Securities**

The following tables summarize unrealized losses on fixed maturity securities available for sale, which were carried at estimated fair value, at June 30, 2020 and December 31, 2019. The unrealized losses were primarily related to interest rate fluctuations and uncertainties relating to COVID-19. 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		Unrealized Losses for More than Twelve Months		Total Unrealized Loss	
		Fair Value		Fair Value		Fair Value
<b>At June 30, 2020</b>						
Obligations of States and Political Subdivisions	\$ 2,661	\$ 717,466	\$ -	\$ -	\$ 2,661	\$ 717,466
Corporate Securities	1,876,784	22,141,540	964,984	3,039,240	2,841,768	25,180,780
Mortgage and other asset-backed securities	710,364	10,024,319	23,809	504,583	734,173	10,528,902
Redeemable preferred stock	17,500	232,500	-	-	17,500	232,500
<b>Total unrealized losses</b>	<b>\$ 2,607,309</b>	<b>\$ 33,115,825</b>	<b>\$ 988,793</b>	<b>\$ 3,543,823</b>	<b>\$ 3,596,102</b>	<b>\$ 36,659,648</b>
<b>At December 31, 2019</b>						
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$ 20,211	\$ 30,629,288	\$ 5,004	\$ 10,000,400	\$ 25,215	\$ 40,629,688
Obligations of States and Political Subdivisions	9,026	3,062,889	-	-	9,026	3,062,889
Corporate Securities	118,746	7,184,311	344,667	3,950,509	463,413	11,134,820
Mortgage and other asset-backed securities	205,470	13,266,443	34,707	502,769	240,177	13,769,212
<b>Total unrealized losses</b>	<b>\$ 353,453</b>	<b>\$ 54,142,931</b>	<b>\$ 384,378</b>	<b>\$ 14,453,678</b>	<b>\$ 737,831</b>	<b>\$ 68,596,609</b>

There were 134 securities with fair value of 91.1% of amortized cost at June 30, 2020. There were 93 securities with fair value of 98.9% of amortized cost at December 31, 2019. No credit losses have been recognized for the three and six months ended June 30, 2020 and 2019.

On a quarterly basis, the Company evaluates its fixed maturity securities available for sale. This evaluation includes a review of current ratings by the National Association of Insurance Commissions ("NAIC"). Securities with a rating of 1 or 2 are considered investment grade and are not reviewed for impairment. Securities with ratings of 3 to 5 are evaluated for impairment. Securities with a rating of 6 are automatically determined to be impaired and are written down. The evaluation involves an analysis of the securities in relation 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. If it is unlikely that the security will meet contractual obligations, the loss is considered to be other than temporary, the security is written down to the new anticipated market value and an impairment loss is recognized. Impairment losses are treated as credit losses as the Company holds fixed maturity securities to maturity unless the underlying conditions have changed in the financial instrument to require an impairment.

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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities available for sale, at June 30, 2020, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Due in 1 year	\$ 61,039,649	\$ 61,451,128
Due in 2-5 years	73,278,818	76,149,038
Due in 5-10 years	82,777,913	88,468,598
Due in more than 10 years	73,955,716	85,927,291
Mortgage-backed securities	35,789,063	36,264,337
Redeemable preferred stock	364,339	368,400
<b>Total</b>	<b>\$ 327,205,498</b>	<b>\$ 348,628,792</b>

The Company is a member of the Federal Home Loan Bank of Des Moines and Dallas ("FHLB"). The Company pledged a total of \$100,000,000, par value, of United States Treasury fixed maturity securities with the FHLB at June 30, 2020. These securities are used as collateral on any cash borrowings from the FHLB. As of June 30, 2020, the Company owed \$79,000,000 to the FHLB and its estimated remaining maximum borrowing capacity was \$19,572,000.

**Investment Related Earnings**

The Company's net realized gains and losses from sales, calls, and maturities, unrealized gains and losses on equity securities, and other than temporary impairments are summarized as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Fixed maturity securities:</b>				
Gross realized gains	\$ 55,138	\$ 163,038	\$ 150,959	\$ 248,626
Gross realized losses	(12,089)	(69,622)	(12,089)	(105,015)
<b>Equity securities:</b>				
Gains (losses) on securities sold	(50,029)	41,088	(107,471)	52,664
Unrealized gains and (losses) on securities held at the end of the period	1,738,059	14,016	(1,023,797)	775,224
<b>Other assets:</b>				
Gross realized gains	48,736	688,289	505,764	1,793,223
Gross realized losses	458,464	(1,862,702)	(487,334)	(1,983,954)
<b>Total</b>	<b>\$ 2,238,279</b>	<b>\$ (1,025,893)</b>	<b>\$ (973,968)</b>	<b>\$ 780,768</b>

The net 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.

On December 31, 2019, the Company changed the classification of its bond and preferred stock investments from held to maturity to available for sale based on the Company's need to be able to respond proactively to market risks in managing its portfolio. Proceeds received from the sale of fixed maturity available for sale securities for the six months ended June 30, 2020, were \$2,753,331, and resulted in gross realized gains and gross realized losses of \$133,339 and \$137, respectively. The carrying amount of held to maturity securities sold for the six months ended June 30, 2019 was \$662,972 and the net realized loss related to these sales was \$53,097.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

Major categories of net investment income are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Fixed maturity securities	\$ 3,143,072	\$ 2,528,689	\$ 6,067,786	\$ 5,032,554
Equity securities	111,122	74,730	203,164	152,651
Mortgage loans held for investment	5,582,152	4,525,817	11,236,042	8,629,184
Real estate held for investment	2,787,881	2,096,927	5,941,267	4,007,221
Policy loans	257,527	106,905	491,492	195,042
Insurance assignments	4,383,398	3,906,832	8,682,602	8,118,952
Other investments	398	52,130	25,421	106,678
Cash and cash equivalents	22,385	465,959	320,390	964,876
Gross investment income	16,287,935	13,757,989	32,968,164	27,207,158
Investment expenses	(3,325,190)	(3,217,154)	(6,604,920)	(6,624,655)
Net investment income	<u>\$ 12,962,745</u>	<u>\$ 10,540,835</u>	<u>\$ 26,363,244</u>	<u>\$ 20,582,503</u>

Net investment income includes income earned by the restricted assets cemeteries and mortuaries of \$140,093 and \$134,229 for the three months ended June 30, 2020 and 2019, respectively, and \$250,732 and \$220,516 for the six months ended June 30, 2020 and 2019, respectively.

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

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

Securities on deposit with regulatory authorities as required by law amounted to \$9,632,398 at June 30, 2020 and \$9,633,818 at December 31, 2019. 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, 2020, other than investments issued or guaranteed by the United States Government.

**Real Estate Held for Investment and Held for Sale**

The Company continues to strategically deploy resources into real estate to match the income and yield durations of its primary obligations. The sources for these real estate assets come through its various business units in the form of acquisition, development 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 reports. Geographic locations and asset classes of the investment activity is determined by senior management under the direction of the Board of Directors.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

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

The Company currently owns and operates 13 commercial properties in 5 states. These properties include office buildings, an assisted living facility, a funeral home, flex office space, and includes the redevelopment and expansion of its corporate campus ("Center53") in Salt Lake City, Utah. The Company also holds undeveloped land that may be used for future commercial developments. The Company uses bank debt in strategic cases to leverage established yields or to acquire a higher quality or different class of asset.

The aggregated net ending balance of commercial real estate that serves as collateral for bank borrowings was approximately \$70,578,000 and \$87,815,000 as of June 30, 2020 and December 31, 2019, respectively. The associated bank loan carrying values totaled approximately \$47,068,000 and \$54,917,000 as of June 30, 2020 and December 31, 2019, respectively.

During the three months ended June 30, 2020 and 2019, the Company recorded impairment losses on commercial real estate held for sale of \$15,551 and \$-0-, respectively. During the six months ended June 30, 2020 and 2019, the Company recorded impairment losses on commercial real estate held for sale of \$46,980 and \$1,867,197, respectively. These impairment losses relate to an office building held by the life insurance segment. Impairment losses are included in gains (losses) on investment and other assets on the condensed consolidated statements of earnings.

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

	Net Ending Balance		Total Square Footage	
	June 30 2020	December 31 2019	June 30 2020	December 31 2019
Louisiana	\$ 5,929,267	\$ 6,009,079	125,114	125,114
Mississippi	2,914,989	2,951,478	21,521	21,521
Utah (1)	84,374,629	81,266,083	462,730	462,730
	<u>\$93,218,885</u>	<u>\$ 90,226,640</u>	<u>609,365</u>	<u>609,365</u>

(1) Includes Center53 phase 1 completed in July 2017 and phase 2 which is under construction

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

	Net Ending Balance		Total Square Footage	
	June 30 2020	December 31 2019	June 30 2020	December 31 2019
Arizona (1)	\$ 2,500	\$ 2,500	-	-
Kansas	4,800,000	4,800,000	222,679	222,679
Mississippi	318,322	318,322	12,300	12,300
Nevada	655,499	655,499	4,800	4,800
Texas (2)	300,000	300,000	-	-
	<u>\$ 6,076,321</u>	<u>\$ 6,076,321</u>	<u>239,779</u>	<u>239,779</u>

(1) Undeveloped land

(2) Improved commercial pad

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

These properties are all actively being marketed with the assistance of commercial real estate brokers in the markets where the properties are located. The Company expects these properties to sell within the coming 12 months.

Residential Real Estate Held for Investment and Held for Sale

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

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

As of June 30, 2020, SNRE manages 24 residential properties in 6 states across the United States.

The net ending balance of foreclosed residential real estate included in residential real estate held for investment and sale is \$7,698,000 and \$12,434,000 as of June 30, 2020 and December 31, 2019, respectively.

During the three and six months ended June 30, 2020 and 2019 the Company did not record any impairment losses on residential 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.

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

	Net Ending Balance	
	June 30 2020	December 31 2019
Florida	\$ 1,269,577	\$ 2,487,723
Nevada	686,124	293,516
Utah (1)	17,731,655	9,462,886
Washington	286,181	286,181
	<u>\$ 19,973,537</u>	<u>\$ 12,530,306</u>

(1) Includes subdivision land developments

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

	Net Ending Balance	
	June 30 2020	December 31 2019
California	421,452	640,452
Florida	1,351,040	1,300,641
Nevada	293,516	-
Ohio	10,000	10,000
Utah	2,446,012	5,880,213
Washington	-	190,000
	<u>\$ 4,522,020</u>	<u>\$ 8,021,306</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

These properties are all actively being marketed with the assistance of residential real estate brokers in the markets where the properties are located. The Company expects these properties to sell within the coming 12 months.

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, 2020, real estate owned and occupied by the Company is summarized as follows:

Location	Business Segment	Approximate Square Footage	Square Footage Occupied by the Company
121 W. Election Rd., Draper, UT	Corporate Offices, Life Insurance and Cemetery/Mortuary Operations	78,979	18%
5201 Green Street, Salt Lake City, UT (1)	Life Insurance and Mortgage Operations	39,157	73%
1044 River Oaks Dr., Flowood, MS	Life Insurance Operations	19,694	28%
1818 Marshall Street, Shreveport, LA (1)(2)	Life Insurance Operations	12,274	100%
909 Foisy Street, Alexandria, LA (1)(2)	Life Insurance Sales	8,059	100%
812 Sheppard Street, Minden, LA (1)(2)	Life Insurance Sales	1,560	100%
1550 N 3rd Street, Jena, LA (1)(2)	Life Insurance Sales	1,737	100%

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

(2) See Note 15 regarding the acquisition of Kilpatrick Life Insurance Company

**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 are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At June 30, 2020, the Company had 54%, 15%, 8%, 5%, 5% and 3% of its mortgage loans from borrowers located in the states of Utah, Florida, Texas, Nevada, California, and Arizona, respectively. At December 31, 2019, the Company had 48%, 16%, 10%, 6%, 6% and 5% of its mortgage loans from borrowers located in the states of Utah, Florida, Texas, California, Nevada and Arizona, 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 loan 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 term 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 will fund a loan not to exceed 80% of the loan's collateral fair market value. Amounts over 80% will require additional collateral or mortgage insurance by an approved third-party insurer.

The Company provides for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account). The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment, the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. In addition, when a mortgage loan is past due more than 90

3) Investments (Continued)

days, the Company does not accrue any interest income. When a loan becomes delinquent, the Company proceeds to foreclose on the real estate and all expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as real estate held for investment or held for sale.

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

For purposes of determining the allowance for 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 secondary on the borrower's (or guarantors) ability to repay.

Residential - Secured by family dwelling units. These loans are secured by first mortgages on the unit, which are generally the primary residence of the borrower, generally at a loan-to-value ratio ("LTV") of 80% or less.

Residential construction (including land acquisition and development) - 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. These loans will rely on the value associated with the project upon completion. These cost and valuation estimates may be inaccurate. 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. Additionally, land is underwritten according to the Company's policies, which include independent appraisal valuations as well as the estimated value associated with the land upon completion of development into finished lots. These cost and valuation estimates may be inaccurate. 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

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

	Commercial	Residential	Residential Construction	Total
<b>June 30, 2020</b>				
Allowance for credit losses:				
Beginning balance - January 1, 2020	\$ 187,129	\$ 1,222,706	\$ 43,202	\$ 1,453,037
Charge-offs	-	-	-	-
Provision	-	990,520	-	990,520
Ending balance - June 30, 2020	<u>\$ 187,129</u>	<u>\$ 2,213,226</u>	<u>\$ 43,202</u>	<u>\$ 2,443,557</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 427,069</u>	<u>\$ -</u>	<u>\$ 427,069</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,786,157</u>	<u>\$ 43,202</u>	<u>\$ 2,016,488</u>
Mortgage loans:				
Ending balance	<u>\$ 49,613,367</u>	<u>\$ 109,304,960</u>	<u>\$ 106,890,366</u>	<u>\$ 265,808,693</u>
Ending balance: individually evaluated for impairment	<u>\$ 1,039,013</u>	<u>\$ 7,106,397</u>	<u>\$ 1,389,574</u>	<u>\$ 9,534,984</u>
Ending balance: collectively evaluated for impairment	<u>\$ 48,574,354</u>	<u>\$ 102,198,563</u>	<u>\$ 105,500,792</u>	<u>\$ 256,273,709</u>
<b>December 31, 2019</b>				
Allowance for credit losses:				
Beginning balance - January 1, 2019	\$ 187,129	\$ 1,125,623	\$ 35,220	\$ 1,347,972
Charge-offs	-	(32,692)	-	(32,692)
Provision	-	129,775	7,982	137,757
Ending balance - December 31, 2019	<u>\$ 187,129</u>	<u>\$ 1,222,706</u>	<u>\$ 43,202</u>	<u>\$ 1,453,037</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 195,993</u>	<u>\$ -</u>	<u>\$ 195,993</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,026,713</u>	<u>\$ 43,202</u>	<u>\$ 1,257,044</u>
Mortgage loans:				
Ending balance	<u>\$ 38,718,220</u>	<u>\$ 113,043,965</u>	<u>\$ 89,430,237</u>	<u>\$ 241,192,422</u>
Ending balance: individually evaluated for impairment	<u>\$ 4,488,719</u>	<u>\$ 3,752,207</u>	<u>\$ 655,000</u>	<u>\$ 8,895,926</u>
Ending balance: collectively evaluated for impairment	<u>\$ 34,229,501</u>	<u>\$ 109,291,758</u>	<u>\$ 88,775,237</u>	<u>\$ 232,296,496</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

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

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (1)	In Process of Foreclosure (1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Unamortized deferred loan fees, net	Unamortized discounts, net	Net Mortgage Loans
<b>June 30, 2020</b>											
Commercial	\$ 2,783,200	\$ 371,938	\$ 1,039,013	\$ -	\$ 4,194,151	\$ 45,419,216	\$ 49,613,367	\$ (187,129)	\$ (11,545)	\$ (849,914)	\$ 48,564,779
Residential	7,624,435	3,308,995	5,423,083	1,683,314	18,039,827	91,265,133	109,304,960	(2,213,226)	(1,258,346)	(366,975)	105,466,413
Residential Construction	-	-	1,389,574	-	1,389,574	105,500,792	106,890,366	(43,202)	(460,352)	-	106,386,812
<b>Total</b>	<b>\$ 10,407,635</b>	<b>\$ 3,680,933</b>	<b>\$ 7,851,670</b>	<b>\$ 1,683,314</b>	<b>\$ 23,623,552</b>	<b>\$ 242,185,141</b>	<b>\$ 65,808,693</b>	<b>\$(2,443,557)</b>	<b>\$ (1,730,243)</b>	<b>\$ (1,216,889)</b>	<b>\$ 260,418,004</b>
<b>December 31, 2019</b>											
Commercial	\$ 1,872,000	\$ -	\$ 4,488,719	\$ -	\$ 6,360,719	\$ 32,357,501	\$ 38,718,220	\$ (187,129)	\$ (88,918)	\$ (653,272)	\$ 37,788,901
Residential	10,609,296	4,085,767	2,100,742	1,651,465	18,447,270	94,596,695	113,043,965	(1,222,706)	(1,567,581)	-	110,253,678
Residential Construction	-	-	655,000	-	655,000	88,775,237	89,430,237	(43,202)	(735,068)	-	88,651,967
<b>Total</b>	<b>\$ 12,481,296</b>	<b>\$ 4,085,767</b>	<b>\$ 7,244,461</b>	<b>\$ 1,651,465</b>	<b>\$ 25,462,989</b>	<b>\$ 215,729,433</b>	<b>\$ 241,192,422</b>	<b>\$(1,453,037)</b>	<b>\$ (2,391,567)</b>	<b>\$ (653,272)</b>	<b>\$ 236,694,546</b>

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

Impaired Mortgage Loans Held for Investment

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

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>June 30, 2020</b>					
With no related allowance recorded:					
Commercial	\$ 1,039,013	\$ 1,039,013	\$ -	\$ 951,866	\$ -
Residential	4,683,807	4,683,807	-	3,466,388	-
Residential construction	1,389,574	1,389,574	-	694,787	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	2,422,590	2,422,590	427,069	2,355,231	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 1,039,013	\$ 1,039,013	\$ -	\$ 951,866	\$ -
Residential	7,106,397	7,106,397	427,069	5,821,619	-
Residential construction	1,389,574	1,389,574	-	694,787	-
<b>December 31, 2019</b>					
With no related allowance recorded:					
Commercial	\$ 4,488,719	\$ 4,488,719	\$ -	\$ 1,499,043	\$ -
Residential	2,254,189	2,254,189	-	3,367,151	-
Residential construction	655,000	655,000	-	1,457,278	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,498,018	1,498,018	195,993	665,270	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ 4,488,719	\$ 4,488,719	\$ -	\$ 1,499,043	\$ -
Residential	3,752,207	3,752,207	195,993	4,032,421	-
Residential construction	655,000	655,000	-	1,457,278	-

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

3) Investments (Continued)

Credit Risk Profile Based on Performance Status

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

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

	Commercial		Residential		Residential Construction		Total	
	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019	June 30, 2020	December 31, 2019
Performing	\$ 48,574,354	\$ 34,229,501	\$ 102,198,563	\$ 109,291,758	\$ 105,500,792	\$ 88,775,237	\$ 256,273,709	\$ 232,296,496
Non-performing	1,039,013	4,488,719	7,106,397	3,752,207	1,389,574	655,000	9,534,984	8,895,926
Total	\$ 49,613,367	\$ 38,718,220	\$ 109,304,960	\$ 113,043,965	\$ 106,890,366	\$ 89,430,237	\$ 265,808,693	\$ 241,192,422

Non-Accrual Mortgage Loans Held for Investment

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any interest income that had been accrued. Payments received for loans on a non-accrual status are recognized on a cash basis. Interest income recognized from any payments received for loans on a non-accrual status was immaterial. Accrual of interest resumes if a loan is brought current. Interest not accrued on these loans totals approximately \$384,000 and \$203,000 as of June 30, 2020 and December 31, 2019, respectively.

The following is a summary of mortgage loans held for investment on a non-accrual status for the periods presented.

	As of June 30 2020	As of December 31 2019
Commercial	\$ 1,039,013	\$ 4,488,719
Residential	7,106,397	3,752,207
Residential construction	1,389,574	655,000
Total	\$ 9,534,984	\$ 8,895,926

4) Loans Held for Sale

The Company has 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. There is one loan with an unpaid principal balance of \$227,794 that is 90 or more days past due and on a nonaccrual status as of June 30, 2020. See Note 8 to the condensed consolidated financial statements for additional disclosures regarding loans held for sale.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

4) Loans Held for Sale (Continued)

The following is a summary of the aggregate fair value and the aggregate unpaid principal balance of loans held for sale for the periods presented:

	As of June 30 2020	As of December 31 2019
Aggregate fair value	\$ 356,949,958	\$ 213,457,632
Unpaid principal balance	344,480,058	206,417,122
Unrealized gain	12,469,900	7,040,510

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 as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Loan fees	\$ 15,226,536	\$ 8,626,163	\$ 22,940,750	\$ 13,437,482
Interest income	2,601,605	1,690,098	4,282,063	2,904,730
Secondary gains	49,422,815	21,201,216	77,269,683	38,585,201
Change in fair value of loan commitments	5,278,099	603,797	8,553,132	1,536,324
Change in fair value of loans held for sale	2,363,713	977,799	2,742,010	1,216,586
Provision for loan loss reserve	(1,524,435)	(152,506)	(2,137,544)	(254,885)
Mortgage fee income	<u>\$ 73,368,333</u>	<u>\$ 32,946,567</u>	<u>\$ 113,650,094</u>	<u>\$ 57,425,438</u>

Loan Loss Reserve

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

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

	As of June 30 2020	As of December 31 2019
Balance, beginning of period	\$ 4,046,288	\$ 3,604,869
Provision on current loan originations (1)	1,524,435	643,284
Charge-offs, net of recaptured amounts	(784,357)	(201,865)
Balance, end of period	<u>\$ 4,786,366</u>	<u>\$ 4,046,288</u>

(1) Included in mortgage fee income

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

4) Loans Held for Sale (Continued)

The Company maintains reserves for estimated losses on current production volumes. For the six months ended June 30, 2020, \$1,768,968 in reserves were added at a rate of 8.6 basis points per loan, the equivalent of \$860 per \$1,000,000 in loans originated. This is an increase over the six months ended June 30, 2019, when reserves were added at a rate of 2.5 basis points per loan originated, the equivalent of \$250 per \$1,000,000 in loans originated. The economic impact of COVID-19 and subsequent government action has increased the potential for losses due to early payoff penalties and potential for losses due to increased delinquency. The unique nature of these current events creates significant difficulty for forecasting potential future losses. Based on the Company's best estimate for potential loan losses and considering published industry data, a loss reserve of 8 basis points per loan originated will continue in the third quarter 2020. The Company will continue to monitor data and economic conditions in order to maintain adequate loss reserves on current production.

As of June 30, 2020, the loan loss reserve includes approximately \$3,000,000 for remaining losses still to be settled on loans originated between 2004 and 2007. On July 30, 2020, a settlement agreement with an investor was executed which covered all remaining anticipated claims against this population of loans. Loss reserves are sufficient to cover the settlement expense, and the reserves will be reduced by that amount during the third quarter 2020. No additional loss reserves are being held for loans originated between 2004 and 2007.

Thus, the Company believes that the final loan loss reserve as of June 30, 2020, represents its best estimate for adequate loss reserves on loans sold.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

5) Stock Compensation Plans

The Company has two fixed option plans (the “2013 Plan” and the “2014 Director Plan”). Compensation expense for options issued of \$101,520 and \$65,037 has been recognized for these plans for the three months ended June 30, 2020 and 2019, respectively, and \$167,397 and \$129,741 has been recognized for these plans for the six months ended June 30, 2020 and 2019, respectively. As of June 30, 2020, the total unrecognized compensation expense related to the options issued was \$227,269, which is expected to be recognized over the vesting period of one year.

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.

A summary of the status of the Company’s stock compensation plans as of June 30, 2020, and the changes during the six months ended June 30, 2020, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at January 1, 2020	1,086,053	\$ 4.41	594,132	\$ 5.36
Adjustment for effect of stock dividends	29,099		22,544	
Granted	77,000		180,000	
Exercised	(78,803)		-	
Cancelled	-		-	
Outstanding at June 30, 2020	<u>1,113,349</u>	\$ 4.27	<u>796,676</u>	\$ 4.87
As of June 30, 2020:				
Options exercisable	<u>1,013,955</u>	\$ 4.27	<u>561,440</u>	\$ 5.11
As of June 30, 2020:				
Available options for future grant	<u>325,372</u>		<u>266,500</u>	
Weighted average contractual term of options				
outstanding at June 30, 2020	5.97 years		6.18 years	
Weighted average contractual term of options				
exercisable at June 30, 2020	5.61 years		5.32 years	
Aggregated intrinsic value of options				
outstanding at June 30, 2020 (1)	<u>\$2,568,502</u>		<u>\$1,360,855</u>	
Aggregated intrinsic value of options				
exercisable at June 30, 2020 (1)	<u>\$2,338,090</u>		<u>\$823,712</u>	

(1) The Company used a stock price of \$6.58 as of June 30, 2020 to derive intrinsic value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

5) Stock Compensation Plans (Continued)

A summary of the status of the Company's stock compensation plans as of June 30, 2019, and the changes during the three months ended June 30, 2019, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at January 1, 2019	1,011,274	\$ 4.49	577,280	\$ 5.15
Granted	2,000		-	
Exercised	(15,328)		-	
Cancelled	-		-	
Outstanding at June 30, 2019	<u>997,946</u>	<u>\$ 4.50</u>	<u>577,280</u>	<u>\$ 5.15</u>
As of June 30, 2019:				
Options exercisable	<u>921,895</u>	<u>\$ 4.42</u>	<u>530,030</u>	<u>\$ 5.14</u>
As of June 30, 2019:				
Available options for future grant	<u>299,351</u>		<u>146,425</u>	
Weighted average contractual term of options				
outstanding at June 30, 2019	5.65 years		3.46 years	
Weighted average contractual term of options				
exercisable at June 30, 2019	5.53 years		2.93 years	
Aggregated intrinsic value of options				
outstanding at June 30, 2019 (1)	<u>\$822,875</u>		<u>\$218,010</u>	
Aggregated intrinsic value of options				
exercisable at June 30, 2019 (1)	<u>\$822,875</u>		<u>\$218,010</u>	

(1) The Company used a stock price of \$5.02 as of June 30, 2019 to derive intrinsic value.

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the six months June 30, 2020 and 2019 was \$191,656 and \$15,220, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

6) Earnings Per Share

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

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
Numerator:				
Net earnings	\$ 20,557,047	\$ 3,480,054	\$ 21,981,496	\$ 5,410,372
Denominator:				
Basic weighted-average shares outstanding	18,764,831	18,576,031	18,703,390	18,567,907
Effect of dilutive securities:				
Employee stock options	418,660	234,245	332,859	239,669
Diluted weighted-average shares outstanding	<u>19,183,491</u>	<u>18,810,276</u>	<u>19,036,249</u>	<u>18,807,576</u>
Basic net earnings per share	<u>\$1.10</u>	<u>\$0.19</u>	<u>\$1.18</u>	<u>\$0.29</u>
Diluted net earnings per share	<u>\$1.07</u>	<u>\$0.19</u>	<u>\$1.15</u>	<u>\$0.29</u>

Net earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. For the six months June 30, 2020 and 2019, there were -0- and 857,227 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net earnings per common share as their effect would be anti-dilutive.

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, 2019. 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

7) Business Segment Information (Continued)

	Life Insurance	Cemetery/ Mortuary	Mortgage	Intercompany Eliminations	Consolidated
For the Three Months Ended					
<u>June 30, 2020</u>					
Revenues from external customers	\$ 37,788,593	\$ 5,306,305	\$ 75,566,844	\$ -	\$ 118,661,742
Intersegment revenues	1,816,185	89,799	190,701	(2,096,685)	-
Segment profit before income taxes	3,670,369	1,548,452	21,974,935	-	27,193,756
For the Three Months Ended					
<u>June 30, 2019</u>					
Revenues from external customers	\$ 28,607,056	\$ 4,543,007	\$ 35,295,119	\$ -	\$ 68,445,182
Intersegment revenues	1,080,347	113,622	124,921	(1,318,890)	-
Segment profit before income taxes	1,219,001	1,023,782	2,381,060	-	4,623,843
For the Six Months Ended					
<u>June 30, 2020</u>					
Revenues from external customers	\$ 70,994,355	\$ 9,320,001	\$ 117,956,335	\$ -	\$ 198,270,691
Intersegment revenues	2,724,353	193,313	391,033	(3,308,699)	-
Segment profit before income taxes	601,202	1,653,253	26,413,535	-	28,667,990
Identifiable Assets	1,206,815,231	75,048,428	346,286,603	(110,608,108)	1,517,542,154
Goodwill	2,765,570	754,018	-	-	3,519,588
Total Assets	<u>1,209,580,801</u>	<u>75,802,446</u>	<u>346,286,603</u>	<u>(110,608,108)</u>	<u>1,521,061,742</u>
For the Six Months Ended					
<u>June 30, 2019</u>					
Revenues from external customers	\$ 59,112,424	\$ 8,902,292	\$ 61,924,301	\$ -	\$ 129,939,017
Intersegment revenues	1,975,719	230,273	251,279	(2,457,271)	-
Segment profit before income taxes	3,304,342	2,208,647	1,543,013	-	7,056,002
Identifiable Assets	929,442,236	87,450,987	202,723,000	(116,673,063)	1,102,943,160
Goodwill	2,765,570	754,018	-	-	3,519,588
Total Assets	<u>932,207,806</u>	<u>88,205,005</u>	<u>202,723,000</u>	<u>(116,673,063)</u>	<u>1,106,462,748</u>

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 investments), 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.

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.

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 Endowment 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.

8) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

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

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 comparables 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, 2020 (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, 2020.

	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	\$ 348,628,792	\$ -	\$ 346,407,400	\$ 2,221,392
Equity securities	11,791,511	11,791,511	-	-
Loans held for sale	356,949,958	-	-	356,949,958
Restricted assets (1)	1,041,792	-	1,041,792	-
Restricted assets (2)	1,987,801	1,987,801	-	-
Cemetery perpetual care trust investments (1)	1,003,687	-	1,003,687	-
Cemetery perpetual care trust investments (2)	1,668,029	1,668,029	-	-
Derivatives - loan commitments (3)	12,702,945	-	-	12,702,945
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 735,774,515</b>	<b>\$ 15,447,341</b>	<b>\$ 348,452,879</b>	<b>\$ 371,874,295</b>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (4)	\$ (73,451)	\$ (73,451)	\$ -	\$ -
Derivatives - put options (4)	(49,136)	(49,136)	-	-
Derivatives - loan commitments (4)	(1,658,581)	-	-	(1,658,581)
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ (1,781,168)</b>	<b>\$ (122,587)</b>	<b>\$ -</b>	<b>\$ (1,658,581)</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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (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 December 31, 2019.

	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	\$ 355,977,820	\$ -	\$ 352,761,438	\$ 3,216,382
Equity securities	7,271,165	7,271,165	-	-
Loans held for sale	213,457,632	-	-	213,457,632
Restricted assets (1)	1,008,867	-	1,008,867	-
Restricted assets (2)	1,976,480	1,976,480	-	-
Cemetery perpetual care trust investments (1)	975,673	-	975,673	-
Cemetery perpetual care trust investments (2)	1,605,451	1,605,451	-	-
Derivatives - loan commitments (3)	2,722,580	-	-	2,722,580
<b>Total assets accounted for at fair value on a recurring basis</b>	<b>\$ 584,995,668</b>	<b>\$ 10,853,096</b>	<b>\$ 354,745,978</b>	<b>\$ 219,396,594</b>
Liabilities accounted for at fair value on a recurring basis				
Derivatives - call options (4)	\$ (62,265)	\$ (62,265)	\$ -	\$ -
Derivatives - put options (4)	(22,282)	(22,282)	-	-
Derivatives - loan commitments (4)	(231,347)	-	-	(231,347)
<b>Total liabilities accounted for at fair value on a recurring basis</b>	<b>\$ (315,894)</b>	<b>\$ (84,547)</b>	<b>\$ -</b>	<b>\$ (231,347)</b>

(1) Fixed maturity securities available for sale

(2) Mutual funds and equity securities

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

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (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, 2020, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at 6/30/2020	Valuation Technique	Significant Unobservable Input(s)	Range of Inputs		Weighted Average
				Minimum	Maximum	
				Value	Value	
Loans held for sale	\$ 356,949,958	Market approach	Investor contract pricing as a percentage of unpaid principal balance	99.0%	109.0%	104.0%
Derivatives - loan commitments (net)	11,044,365	Market approach	Fall-out factor	1.0%	92.0%	80.0%
			Initial-Value	N/A	N/A	N/A
			Servicing	0 bps	190 bps	58 bps
Fixed maturity securities available for sale	2,221,392	Broker quotes	Pricing quotes	\$ 91.49	\$ 119.33	\$ 113.29

For Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2019, the significant unobservable inputs used in the fair value measurements were as follows:

	Fair Value at 12/31/2019	Valuation Technique	Significant Unobservable Input(s)	Range of Inputs		Weighted Average
				Minimum	Maximum	
				Value	Value	
Loans held for sale	\$ 213,457,632	Market approach	Investor contract pricing as a percentage of unpaid principal balance	98.0%	109.0%	103.0%
Derivatives - loan commitments (net)	2,491,233	Market approach	Fall-out factor	1.0%	92.0%	81.0%
			Initial-Value	N/A	N/A	N/A
			Servicing	0 bps	318 bps	79 bps
Fixed maturity securities available for sale	3,216,382	Broker quotes	Pricing quotes	\$ 95.02	\$ 115.80	\$ 107.98

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

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

	Net Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2019	\$ 2,491,233	\$ 213,457,632	\$ 3,216,382
Originations and purchases	-	2,105,048,030	-
Sales, maturities and paydowns	-	(2,017,976,791)	(1,020,800)
Transfer to mortgage loans held for investment	-	(8,933,676)	-
<b>Total gains (losses):</b>			
Included in earnings	8,553,132 (1)	65,354,763 (1)	1,672 (2)
Included in other comprehensive income	-	-	24,138
<b>Balance - June 30, 2020</b>	<b>\$ 11,044,365</b>	<b>\$ 356,949,958</b>	<b>\$ 2,221,392</b>

(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

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

	Net Derivatives Loan Commitments	Loans Held for Sale	Fixed Maturity Securities Available for Sale
Balance - December 31, 2018	\$ 1,591,816	\$ 136,210,853	\$ -
Originations/purchases	-	2,606,839,175	-
Sales	-	(2,580,875,055)	-
Transfer to mortgage loans held for investment	-	(31,881,851)	-
Transfer from fixed maturity securities held to maturity	-	-	3,216,382
<b>Total gains (losses):</b>			
Included in earnings (1)	899,417	83,164,510	-
<b>Balance - December 31, 2019</b>	<b>\$ 2,491,233</b>	<b>\$ 213,457,632</b>	<b>\$ 3,216,382</b>

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (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 nonrecurring basis by their classification in the condensed consolidated balance sheet at June 30, 2020.

	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	\$ 1,995,521	\$ -	\$ -	\$ 1,995,521
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 1,995,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,995,521</u>

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at December 31, 2019.

	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	\$ 1,302,025	\$ -	\$ -	\$ 1,302,025
Impaired real estate held for investment	8,375,884	-	-	8,375,884
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 9,677,909</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,677,909</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

8) Fair Value of Financial Instruments (Continued)

**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, 2020 and December 31, 2019.

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, 2020:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
Mortgage loans held for investment					
Residential	\$ 105,466,412	\$ -	\$ -	\$ 110,991,353	\$ 110,991,353
Residential construction	106,386,812	-	-	106,386,812	106,386,812
Commercial	48,564,780	-	-	48,187,935	48,187,935
Mortgage loans held for investment, net	\$ 260,418,004	\$ -	\$ -	\$ 265,566,100	\$ 265,566,100
Policy loans	14,450,587	-	-	14,450,587	14,450,587
Insurance assignments, net (1)	41,742,986	-	-	41,742,986	41,742,986
Restricted assets (2)	3,422,731	-	-	3,422,731	3,422,731
Cemetery perpetual care trust investments (2)	524,000	-	-	524,000	524,000
Mortgage servicing rights, net	21,695,123	-	-	22,921,824	22,921,824
<b>Liabilities</b>					
Bank and other loans payable	\$ (347,139,008)	\$ -	\$ -	\$ (347,139,008)	\$ (347,139,008)
Policyholder account balances (3)	(44,656,276)	-	-	(41,469,707)	(41,469,707)
Future policy benefits - annuities (3)	(111,726,731)	-	-	(115,708,414)	(115,708,414)

(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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (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, 2019:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
<b>Assets</b>					
Mortgage loans held for investment					
Residential	\$ 110,253,678	\$ -	\$ -	\$ 115,320,638	\$ 115,320,638
Residential construction	88,651,967	-	-	88,651,967	88,651,967
Commercial	37,788,901	-	-	39,289,462	39,289,462
Mortgage loans held for investment, net	\$ 236,694,546	\$ -	\$ -	\$ 243,262,067	\$ 243,262,067
Policy loans	14,762,805	-	-	14,762,805	14,762,805
Insurance assignments, net (1)	39,614,939	-	-	39,614,939	39,614,939
Restricted assets (2)	2,275,756	-	-	2,289,679	2,289,679
Cemetery perpetual care trust investments (2)	524,000	-	-	536,553	536,553
Mortgage servicing rights, net	17,155,529	-	-	22,784,571	22,784,571
<b>Liabilities</b>					
Bank and other loans payable	\$ (217,572,612)	\$ -	\$ -	\$ (217,572,612)	\$ (217,572,612)
Policyholder account balances (3)	(45,154,180)	-	-	(41,828,469)	(41,828,469)
Future policy benefits - annuities (3)	(113,579,830)	-	-	(117,304,614)	(117,304,614)

(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

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.

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) Allowance for Doubtful Accounts

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

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

10) 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

10) Derivative Instruments (Continued)

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. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued and is shown net of expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans.

Forward Sale Commitments

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

The net changes in fair value of 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**

The Company uses a strategy of selling "out of the money" call options on its equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company uses the strategy of selling put options as a means of generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for options is adjusted to fair value at each reporting date. In the event a call option is exercised, the Company sells the equity security at a favorable price enhanced by the value of the option that was sold. If the option expires unexercised, the Company recognizes a gain from the expired option. In the event a put option is exercised, the Company acquires an equity security at the strike price of the option reduced by the value received from the sale of the put option. The equity security is then treated as a normal equity security in the Company's portfolio. 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 notional amount and fair value of derivatives as of June 30, 2020 and December 31, 2019.

		Fair Values and Notional Values of Derivative Instruments					
		June 30, 2020			December 31, 2019		
Balance Sheet Location	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	\$839,341,522	\$12,702,945	\$ 1,658,581	\$224,202,514	\$2,722,580	\$231,347
Call options	Other liabilities	3,126,800	-	73,451	1,813,500	-	62,265
Put options	Other liabilities	2,755,200	-	49,136	1,573,100	-	22,282
Total		<u>\$845,223,522</u>	<u>\$12,702,945</u>	<u>\$ 1,781,168</u>	<u>\$227,589,114</u>	<u>\$2,722,580</u>	<u>\$315,894</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

10) Derivative Instruments (Continued)

The following table shows the gains and losses on derivatives for the periods presented.

Derivative	Classification	Net Amount Gain (Loss)		Net Amount Gain (Loss)	
		Three Months Ended June 30		Six Months Ended June 30	
		2020	2019	2020	2019
Loan commitments	Mortgage fee income	\$ 5,278,099	\$ 603,797	\$ 8,553,132	\$ 1,536,324
Call and put options	Gains on investments and other assets	\$ 828,205	\$ 114,939	\$ 90,346	\$ 404,967

11) Reinsurance, Commitments and Contingencies

**Reinsurance**

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

**Mortgage Loan Loss Settlements**

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of June 30, 2020 and December 31, 2019, the balances were \$4,786,000 and \$4,046,000, respectively.

As of June 30, 2020, the loan loss reserve includes an estimate of approximately \$3,000,000 for remaining losses still to be settled on loans originated between 2004 and 2007. On July 30, 2020, a settlement agreement was executed which covered all potential asserted claims against the population of loans referenced above. Loss reserves are sufficient to cover the settlement expense and the reserves will be reduced by that amount during the third quarter 2020. No additional loss reserves are being held for loans originated between 2004 and 2007.

Thus, the Company believes that the final loan loss reserve as of June 30, 2020, represents its best estimate for adequate loss reserves on loans sold.

**Mortgage Loan Loss Litigation**

**Lehman Brothers Holdings Litigation - Delaware and New York**

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

11) Reinsurance, Commitments and Contingencies (Continued)

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

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

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

On December 27, 2016, pursuant to the Case Management Order, Lehman Holdings filed a Second Amended Complaint against SecurityNational Mortgage, which eliminates the declaratory judgment claim but retains a similar claim for damages as in the Complaint. Many of the defendants, including SecurityNational Mortgage, filed a joint motion in the case asserting that the Bankruptcy Court does not have subject matter jurisdiction concerning the matter and that venue is improper. Lehman Holdings' response memorandum was filed on May 31, 2017 and a reply memorandum of the defendants filing the motion was filed on July 14, 2017. A hearing on the motion was held on June 12, 2018.

On August 13, 2018, the Court issued its Memorandum Decision and Order ("Decision") denying the motion. On August 27, 2018, a number of the defendants, including SecurityNational Mortgage, filed a joint motion with the United States District Court (Case No. 18-mc-00392(VEC)) requesting that the Bankruptcy Court's Decision be treated as findings of fact and conclusions of law, and for the District Court to review the Decision *de novo* as to jurisdiction. Included with the motion were proposed objections to the Bankruptcy Court's Decision. On September 18, 2018, Lehman Holdings filed its response to the joint motion, and defendants' reply was filed on October 2, 2018.

On September 17, 2018, certain defendants, including SecurityNational Mortgage, also filed a notice of appeal, and thereafter a motion for leave to file an interlocutory appeal as to the Bankruptcy Court's Decision pertaining to jurisdiction and improper venue as a "protective" appeal should the District Court decide not to treat the Decision as findings of fact and conclusions of law. Separately, certain other defendants also filed a notice of appeal and motion for leave to file an interlocutory appeal with respect to the Bankruptcy Court's Decision concerning improper venue. Lehman Holdings filed its response on October 22, 2018, and defendants filed a joint reply to Lehman Holdings' response on November 26, 2018. The motions to file appeals were consolidated before Valerie Caproni, U.S. District Court Judge, Case No. 18-cv-08986 (VEC). Case No. 18-mc-00392 (VEC) was also before Judge Caproni.

11) Reinsurance, Commitments and Contingencies (Continued)

On May 8, 2019, Judge Caproni issued her Opinion and Order denying the motion for an interlocutory appeal of the bankruptcy court's ruling relative to jurisdiction and venue. Further, the judge denied the motion for immediate *de novo* review of the bankruptcy court's ruling indicating that *de novo* review can be left for the future.

On October 1, 2018, Lehman Holdings filed a motion for leave to file Third Amended Complaints against numerous defendants including SecurityNational Mortgage. In addition to the Fannie Mae and Freddie Mac related loans, the amendments and supplements include additional mortgage loans sold to Lehman Holdings that were packaged for securitization ("RMBS loans"). The RMBS loans had allegedly been sold by defendants to Lehman Bank that, in turn, sold them to Lehman Holdings. The allegations pertaining to the RMBS loans include, e.g., purported breaches of representations and warranties made to the securitization trusts by Lehman Holdings. Lehman Holdings asserts that it made representations and warranties purportedly based in part by representations and warranties made to Lehman Bank by loan originators, including SecurityNational Mortgage.

The alleged RMBS loans in dispute with SecurityNational Mortgage allegedly involve millions of dollars pertaining to approximately 577 mortgage loans in addition to the Fannie Mae and Freddie Mac related loans. Lehman Holdings also moved the Court to simultaneously allow alternative dispute resolution procedures to take place including potential mediation. Over objections, at a hearing on October 29, 2018, the Court granted Lehman Holdings' motion to amend or supplement its complaints adding the RMBS loans, and also to mandate alternative dispute resolution procedures affecting many defendants, including SecurityNational Mortgage.

Instead of filing a Third Amended Complaint to include the RMBS loans referenced above, Lehman Holdings filed the matter against SecurityNational Mortgage as a new complaint ("RMBS Complaint") (United States Bankruptcy Court, Southern District of New York, Adversary Proceeding 18-01819) pertaining to the approximately 577 RMBS loans, in addition to the Second Amended Complaint already on file. The RMBS Complaint seeks alleged damages relating to obligations under alleged contractual indemnification provisions in an amount to be determined at trial, interest, costs and expenses incurred by LBHI in enforcing alleged obligations, including attorneys' fees and costs and any expert witness fees incurred in litigation; and such other relief as the Court deems just and proper.

In response to a Court order, certain defendants referenced in the Second Amended Complaint and the RMBS Complaints negotiated with Lehman Holdings concerning an amended case management order pertaining to certain case procedures and management for both lawsuits including, but not limited to, timing for filing motions and answering the complaints, and provisions concerning discovery such as document production, taking depositions, and use of experts. At a hearing held on March 7, 2019, the Court considered differences of the parties as to the content of an amended case management order, and thereafter signed an amended case management order dated March 13, 2019. SecurityNational Mortgage filed an answer and amended answer in the Fannie Mae and Freddie Mac case, and in the RMBS case. Discovery is in process.

Lehman Holdings sent an Indemnification Alternative Dispute Resolution Notice to SecurityNational Mortgage dated August 1, 2019. SecurityNational Mortgage sent its Statement of Position to Lehman Brothers Holdings dated September 3, 2019 in response to the notice. Thereafter, Lehman Holdings sent its Reply dated October 2, 2019 to SecurityNational Mortgage. On January 9, 2020, SecurityNational Mortgage submitted further information to the mediator. Mediation was set to take place on January 23, 2020 in New York. In view of SecurityNational Mortgage's motion dated January 15, 2020, Lehman Holdings requested that the mediation be continued.

11) Reinsurance, Commitments and Contingencies (Continued)

On January 15, 2020, SecurityNational Mortgage filed a motion to dismiss Lehman Holdings' RMBS action in the Bankruptcy Court for lack of subject matter jurisdiction and standing. It was not filed in the Bankruptcy Court but in the United States District Court for the Southern District of New York. The District Court referred the matter to a magistrate judge for general pretrial, which "includes scheduling, discovery, non-dispositive pretrial motions, and settlement," as well as for "a Report and Recommendation" as to the pending motion. The final disposition of the motion will be with the District Court judge. Lehman Holdings has asked the District Court to transfer the case to one of two other judges allegedly due to related matters. No action has been taken by the District Court to transfer the case.

However, Lehman Holdings filed its response brief to the motion and SecurityNational Mortgage filed its reply so the matter is now fully briefed. On July 10, 2020, the magistrate judge filed a report and recommendation with the District Court judge recommending that SecurityNational Mortgage's motion to dismiss be denied on the basis that the motion should not be in the District Court, but the Bankruptcy Court. SecurityNational Mortgage filed an objection to the report and recommendation to which Lehman Holdings is entitled to respond. A ruling relative to the issue as to the proper court will be made by the District Court, and if the motion is retained by the District Court, the matter of dismissal for lack of subject matter jurisdiction and standing will be before the District Court.

On March 17, 2020, Lehman Holdings filed a motion for partial summary judgment against dozens of defendants asserting that sufficient notice was given defendants concerning the settlement of the RMBS claims so that Lehman Holdings, as an indemnitee, would not have to prove that it (Lehman Holdings) had liability to the RMBS Trustees, but only that its settlement was reasonable and in good faith. Defendants involved filed a response brief that for various reasons Lehman Holdings cannot establish sufficient notice as required by law. Certain defendants, excluding SecurityNational Mortgage, also filed a cross motion to seek an affirmative ruling on the issue of Lehman Holdings' motion. Thereafter, Lehman Holdings filed a reply brief in support of its motion, and also a response brief to certain defendants' cross motion. Defendants that filed a cross motion have the opportunity to file a reply brief in support of the cross motion. Even if Lehman Holdings were to prevail on its motion, it does not absolve Lehman Holdings of its burden to prove indemnity liability to the defendants. SecurityNational Mortgage denies any liability to Lehman Holdings and intends to vigorously protect and defend its position.

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

The Company, through its subsidiary SecurityNational Mortgage, has a \$150,000,000 line of credit with Wells Fargo Bank N.A. The agreement charges interest at the 1-Month LIBOR rate plus 2.1% and matures on June 24, 2021. 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, also uses 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 LIBOR rate plus 3% and matures on September 9, 2020. 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, also uses a line of credit with Comerica Bank. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$40,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month LIBOR rate plus 2.5% and matures on May 27, 2021. 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.

11) Reinsurance, Commitments and Contingencies (Continued)

The Company, through its subsidiary EverLEND Mortgage, also uses a line of credit with Texas Capital Bank N.A. This agreement with the bank allows EverLEND Mortgage to borrow up to \$10,000,000 for the sole purpose of funding mortgage loans. The agreement charges interest at the 1-Month LIBOR rate plus 2.5% and matures on August 1, 2020. 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 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, 2020, the Company believes that it was in compliance with all debt covenants.

**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, 2020, the Company's commitments were approximately \$161,213,000 for these loans, of which \$108,801,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees and interest for these loans and the interest rate is generally fixed 5.50% to 8.00% per annum. Maturities range between six and eighteen months.

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 will have a material effect on the Company's financial position or results of operations. Based on management's assessment and legal counsel's representations concerning the likelihood of unfavorable outcomes, no amounts have been accrued for the above claims in the consolidated financial statements.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

12) Mortgage Servicing Rights

The Company initially records these MSRs at 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 is a summary of the MSR activity for the periods presented.

	As of June 30 2020	As of December 31 2019
Amortized cost:		
Balance before valuation allowance at beginning of year	\$ 17,155,529	\$ 20,016,822
MSR additions resulting from loan sales	9,488,179	4,194,502
Amortization (1)	(4,948,585)	(7,055,795)
Application of valuation allowance to write down MSRs		
with other than temporary impairment	-	-
Balance before valuation allowance at end of period	\$ 21,695,123	\$ 17,155,529
Valuation allowance for impairment of MSRs:		
Balance at beginning of year	\$ -	\$ -
Additions	-	-
Application of valuation allowance to write down MSRs		
with other than temporary impairment	-	-
Balance at end of period	\$ -	\$ -
<b>Mortgage servicing rights, net</b>	<b>\$ 21,695,123</b>	<b>\$ 17,155,529</b>
Estimated fair value of MSRs at end of period	\$ 22,921,824	\$ 22,784,571

(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, 2020 (Unaudited)

12) Mortgage Servicing Rights (Continued)

The following table summarizes the Company's estimate of future amortization of its existing MSR's carried at amortized cost:

	Estimated MSR Amortization
2020	3,370,190
2021	2,535,104
2022	1,999,989
2023	1,608,753
2024	1,317,529
Thereafter	10,863,558
<b>Total</b>	<b>\$ 21,695,123</b>

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	
	2020	2019	2020	2019
Contractual servicing fees	\$ 1,929,565	\$ 1,858,599	\$ 3,714,509	\$ 3,668,013
Late fees	71,704	87,291	169,512	178,890
<b>Total</b>	<b>\$ 2,001,269</b>	<b>\$ 1,945,890</b>	<b>\$ 3,884,021</b>	<b>\$ 3,846,903</b>

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

	As of June 30 2020	As of December 31 2019
Servicing UPB	\$ 3,430,482,161	\$ 2,804,139,415

The following key assumptions were used in determining MSR value:

	Prepayment Speeds	Average Life (Years)	Discount Rate
June 30, 2020	18.90	4.57	9.51
December 31, 2019	15.30	5.27	9.51

13) Income Taxes

The Company's overall effective tax rate for the three months ended June 30, 2020 and 2019 was 24.4% and 24.7%, respectively, which resulted in a provision for income taxes of \$6,636,709 and \$1,143,789, respectively. The Company's overall effective tax rate for the six months ended June 30, 2020 and 2019 was 23.3% and 23.3%, respectively, which resulted in a provision for income taxes of \$6,686,494 and \$1,645,630, respectively. The Company's effective tax rates differ from the U.S. federal statutory rate of 21% partially due to its provision for state income taxes. The effective tax rate in the current period decreased when compared to the prior year period partly due to the Company's provision for state income taxes.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

14) 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.

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 (1/1/2020)	\$ 2,778,879	\$ -	\$ 12,607,978
Closing (6/30/2020)	3,575,456	-	12,930,466
Increase/(decrease)	796,577	-	322,488

	Contract Balances		
	Receivables (1)	Contract Asset	Contract Liability
Opening (1/1/2019)	\$ 2,816,225	\$ -	\$ 12,508,625
Closing (12/31/2019)	2,778,879	-	12,607,978
Increase/(decrease)	(37,346)	-	99,353

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

14) Revenues from Contracts with Customers (Continued)

The amount of revenue recognized and included in the opening contract liability balance for the three months ended June 30, 2020 and 2019 was \$880,633 and \$889,578, respectively, and for the six months ended June 30, 2020 and 2019 was \$1,831,406 and \$1,631,098, 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 for the periods presented:

	Three Months Ended June 30		Six Months Ended June 30	
	2020	2019	2020	2019
<b>Major goods/service lines</b>				
At-need	\$ 3,257,705	\$ 3,025,783	\$ 6,642,896	\$ 5,994,850
Pre-need	1,443,073	974,947	2,515,973	1,684,508
	<u>\$ 4,700,778</u>	<u>\$ 4,000,730</u>	<u>\$ 9,158,869</u>	<u>\$ 7,679,358</u>
<b>Timing of Revenue Recognition</b>				
Goods transferred at a point in time	\$ 3,088,616	\$ 2,754,230	\$ 6,082,320	\$ 5,144,840
Services transferred at a point in time	1,612,162	1,246,500	3,076,549	2,534,518
	<u>\$ 4,700,778</u>	<u>\$ 4,000,730</u>	<u>\$ 9,158,869</u>	<u>\$ 7,679,358</u>

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	
	2020	2019	2020	2019
Net mortuary and cemetery sales	\$ 4,700,778	\$ 4,000,730	\$ 9,158,869	\$ 7,679,358
Gains (losses) on investments and other assets	482,383	354,500	(177,740)	853,097
Net investment income	71,647	162,562	276,493	275,371
Other revenues	51,497	25,215	62,379	94,466
Revenues from external customers	<u>5,306,305</u>	<u>4,543,007</u>	<u>9,320,001</u>	<u>8,902,292</u>

15) Acquisitions

**Probst Family Funerals and Cremations and Heber Valley Funeral Home**

On February 15, 2019, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed an asset purchase transaction with Probst Family Funerals and Cremations, LLC. ("Probst Family Funerals") and Heber Valley Funeral Home, Inc. ("Heber Valley Funeral Home"). These funeral homes are both located in Heber Valley, a community situated about 45 miles southeast of Salt Lake City.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated February 15, 2019, Memorial Mortuary Inc. paid a net purchase price of \$3,315,647 for the business and assets of Probst Family Funerals and Heber Valley Funeral Home, subject to a \$150,000 holdback. In August 2019, this escrow account was settled and \$137,550 was paid to the prior owners.

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

Cash	\$ 53,859
Property and equipment	2,475,526
Receivables	13,620
Goodwill	754,018
Other	21,800
Total assets acquired	<u>3,318,823</u>
Bank and other loans payable	(3,176)
Total liabilities assumed	<u>(3,176)</u>
Fair value of net assets acquired/consideration paid	<u>\$ 3,315,647</u>

15) Acquisitions (Continued)

**Kilpatrick Life Insurance Company**

On December 13, 2019, the Company, through its wholly owned subsidiary, Security National Life Insurance Company (“Security National Life”) completed a stock purchase transaction with Kilpatrick Life Insurance Company, a Louisiana domiciled life insurance company (“Kilpatrick Life”) and its shareholders, which resulted in the purchase of all the outstanding shares of common stock of Kilpatrick Life. The closing of the transaction was subject to approval by the Louisiana Department of Insurance of the change of control of Kilpatrick Life, which was received on December 12, 2019. Under the terms of the transaction, the total Purchase Price that Security National Life paid for all the shares held by the Kilpatrick shareholders was \$23,779,940 subject to a \$1,400,000 holdback, as agreed with the shareholders.

Kilpatrick Life has been in operation since 1932 and provides life insurance products and services through insurance plans such as permanent and term life insurance, asset protection plans, graded whole life insurance, and annuities. Additionally, it provides insurance services for emergencies and pre-arranged funeral services. Kilpatrick Life is based in Shreveport, Louisiana with additional offices in Jena, Alexandria, Minden, and Arcadia, Louisiana.

Kilpatrick Life employs a staff of almost 120 associates in four offices in Louisiana and is licensed to operate in Louisiana, Texas, Arkansas, Oklahoma, and Mississippi with the home office located in Shreveport, LA. It is the mission of Kilpatrick Life to continue providing the utmost service and protection for its policyholders for generations to come.

Prior to the stock purchase transaction, Security National life and Kilpatrick Life entered into a coinsurance agreement, effective October 1, 2019. After the effective date, Security National Life, as coinsurer, agreed to be responsible for and was obligated with respect to 100% of the contractual liabilities under the Kilpatrick Life’s life insurance policies in accordance with the terms and conditions of the policies and applicable law. Unless otherwise directed by Security National Life, as coinsurer, Kilpatrick Life continued to administer the policies on behalf of Security National Life, as coinsurer, for the duration of the coinsurance agreement.

As part of the coinsurance agreement, effective October 1, 2019, Security National Life acquired the following assets and assumed the following contractual liabilities.

Other investments and policy loans	\$ 9,124,459
Real estate held for investment	2,850,000
Mortgage loans held for investment	200,000
Receivables	131,258
<b>Total assets acquired</b>	<b>12,305,717</b>
Future policy benefits and unpaid claims	(165,404,970)
Other liabilities and accrued expenses	(5,259,341)
<b>Total liabilities assumed</b>	<b>(170,664,311)</b>
Cash received for reinsurance assumed	<u>\$ 158,358,594</u>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Condensed Consolidated Financial Statements  
June 30, 2020 (Unaudited)

15) Acquisitions (Continued)

Contemporaneous with the stock purchase transaction, both Kilpatrick Life and Security National Life, as coinsurer, agreed to terminate the coinsurance agreement, to require the recapture of the life insurance policies by Kilpatrick Life and provided notification to the Louisiana Department of Insurance. The final settlement and transfer of the coinsurance trust assets from Security National Life back to Kilpatrick Life occurred shortly thereafter.

The estimated fair values of the assets acquired and liabilities assumed as of the date of acquisition, on December 13, 2019, are shown in the following table. At the time of acquisition some of these assets and liabilities became intercompany items, and the Company has eliminated them for consolidation.

Fixed maturity securities, available for sale	\$ 22,766,520
Fixed maturity securities, held to maturity	16,436
Mortgage loans held for investment	8,011,660
Real estate held for investment	2,708,557
Other investments	446,655
Accrued investment income	183,527
<b>Total investments</b>	<u>34,133,355</u>
Cash and cash equivalents	6,900,654
Receivables, net	5,407,736 (1)
Receivables from reinsurers	168,105,064 (1)
Property and equipment, net	1,498,245
Value of business acquired	4,962,831
Deferred taxes	167,344
Other	712,323
<b>Total assets acquired</b>	<u>221,887,552</u>
Future policy benefits and unpaid claims	(189,071,407)
Accounts payable	(283,304)
Other liabilities and accrued expenses	(7,870,944)
Income taxes	(881,957)
<b>Total liabilities assumed</b>	<u>(198,107,612)</u>
<b>Fair value of net assets acquired/consideration paid</b>	<u>\$ 23,779,940</u>
<b>Fair value of net assets acquired/consideration paid, net of cash acquired</b>	<u>\$ 16,879,286</u>

(1) Receivable from reinsurers of \$162,907,008 and receivables, net of \$5,000,000 were settled with the recapture of the coinsurance agreement by Kilpatrick Life from Security National Life.

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

### Overview

The Company’s operations over the last several years generally reflect three trends or events which the Company expects to continue to focus on: (i) increased attention to “niche” insurance products, such as the Company’s funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on an improving housing market by originating mortgage loans. The Company has adjusted its strategy to respond to the changing economic circumstances resulting from the COVID-19 pandemic.

### Insurance Operations

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

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that 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.

In response to the COVID-19 pandemic, the life insurance sales force has transitioned to virtual and tele sales processes and transitioned approximately 95% of office staff to work remotely.

The following table shows the condensed financial results of the insurance operations for three and six months ended June 30, 2020 and 2019. 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)		
	2020	2019	% Increase (Decrease)	2020	2019	% Increase (Decrease)
Revenues from external customers						
Insurance premiums	\$ 22,925	\$ 19,645	17%	\$ 45,216	\$ 38,672	17%
Net investment income	12,782	10,119	26%	25,834	19,872	30%
Gains (losses) on investments and other assets	1,756	(1,471)	(219%)	(789)	(128)	516%
Other	325	314	4%	734	696	5%
Total	\$ 37,788	\$ 28,607	32%	\$ 70,995	\$ 59,112	20%
Intersegment revenue	\$ 1,816	\$ 1,080	68%	\$ 2,724	\$ 1,976	38%
Earnings before income taxes	\$ 3,670	\$ 1,219	201%	\$ 601	\$ 3,304	(82%)

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company (“SecurityNational Mortgage”). Profitability for the six months ended June 30, 2020 has decreased due to a \$7,946,000 increase in death, surrenders and other policy benefits, a \$4,920,000 increase in selling, general and administrative expenses, a \$2,215,000 increase in future policy benefits, a \$661,000 decrease in gains on investments and other assets primarily due to a decrease in the fair value of equity securities due to the recent downturn of the economy caused by the COVID-19 Pandemic offset by a decrease in impairment losses on commercial real estate, and a \$231,000 increase in amortization of deferred policy acquisition costs primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs. This decrease was partially offset by a \$6,544,000 increase in insurance premiums and a \$5,961,000 increase in net investment income. The Company acquired Kilpatrick Life Insurance Company (“Kilpatrick Life”) in December 2019. See Note 15 to the condensed consolidated financial statements. This acquisition is the primary reason for the increases in insurance premiums, net investment income, death, surrenders and other policy benefits, and selling, general and administrative expenses.

## Cemetery and Mortuary Operations

The Company sells mortuary services and products through its eight mortuaries in Utah. The Company also sells cemetery products and services through its five cemeteries in Utah and one cemetery in San Diego County, California. 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.

As a result of the COVID-19 pandemic, the Company has seen a decrease in its average case size as funeral services have been limited. The Company has transitioned its pre-need sales force to virtual selling and has done in home sales as local regulations permit.

The following table shows the condensed financial results of the cemetery and mortuary operations for the three and six months ended June 30, 2020 and 2019. 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)		
	2020	2019	% Increase (Decrease)	2020	2019	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	\$ 1,687	\$ 1,595	6%	\$ 3,449	\$ 3,228	7%
Cemetery revenues	3,014	2,405	25%	5,710	4,451	28%
Net investment income	72	163	(56%)	276	275	0%
Gains (losses) on investments and other assets	482	355	36%	(178)	853	(121%)
Other	51	25	104%	62	95	(35%)
<b>Total</b>	<b>\$ 5,306</b>	<b>\$ 4,543</b>	<b>(87%)</b>	<b>\$ 9,319</b>	<b>\$ 8,902</b>	<b>(98%)</b>
Earnings before income taxes	\$ 1,548	\$ 1,024	51%	\$ 1,653	\$ 2,209	(25%)

Profitability in the six months ended June 30, 2020 has decreased due to a \$1,031,000 decrease in gains on investments and other assets primarily attributable to a \$746,000 decrease in gains on real estate sales, a \$285,000 decrease in the fair value of equity securities classified as restricted assets and cemetery perpetual care trust investments due to the recent downturn of the economy caused by the COVID-19 Pandemic. Also contributing to the decrease in profitability was a \$702,000 increase in selling, general and administrative expenses and a \$159,000 increase in costs of goods sold. This decrease was partially offset by a \$831,000 increase in cemetery pre-need sales, a \$428,000 increase in cemetery at-need sales, and a \$220,000 increase in mortuary at-need sales.

## Mortgage Operations

The Company's wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage Company, are mortgage lenders incorporated under the laws of the State of Utah and approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), which originate mortgage loans that qualify for government insurance in the event of default by the borrower, in addition to various conventional mortgage loan products. SecurityNational Mortgage and EverLEND Mortgage originate and refinance mortgage loans on a retail basis. Mortgage loans originated or refinanced by the Company's mortgage subsidiaries are funded through loan purchase agreements with Security National Life and unaffiliated financial institutions.

The Company's mortgage subsidiaries 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 originated by the mortgage subsidiaries. Mortgage loans originated by the mortgage subsidiaries are generally sold with mortgage servicing rights released to third-party investors or retained by SecurityNational Mortgage. SecurityNational Mortgage currently retains the mortgage servicing rights on approximately 77% of its loan origination volume. These mortgage loans are serviced by either SecurityNational Mortgage or an approved third-party sub-servicer.

For the six months ended June 30, 2020 and 2019, SecurityNational Mortgage originated 8,105 loans (\$2,037,850,000 total volume) and 4,605 loans (\$1,021,464,000 total volume), respectively. For the six months ended June 30, 2020

and 2019, EverLEND Mortgage originated 240 loans (\$67,198,000 total volume) and 110 loans (\$28,792,000 total volume), respectively.

During the COVID-19 pandemic, the appetite for mortgage loans has remained steady. The Company has seen most markets increase their demand for new homes and refinances on existing homes. The Company has transitioned 90% of its processes to a work from home environment. The largest hurdle that the Company faces is being able to process all applications in a timely manner.

The following table shows the condensed financial results of the mortgage operations for the three and six months ended June 30, 2020 and 2019. 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)		
	2020	2019	% Increase (Decrease)	2020	2019	% Increase (Decrease)
Revenues from external customers						
Income from loan originations	\$ 23,945	\$ 11,745	104%	\$ 36,380	\$ 18,840	93%
Secondary gains from investors	49,423	21,201	133%	77,270	38,585	100%
Net investment income	109	259	(58%)	253	435	(42%)
Gains on investments and other assets	-	91	(100%)	(7)	56	(113%)
Other	2,090	1,999	5%	4,060	4,008	1%
<b>Total</b>	<b>\$ 75,567</b>	<b>\$ 35,295</b>	<b>(94%)</b>	<b>\$ 117,956</b>	<b>\$ 61,924</b>	<b>(93%)</b>
Earnings before income taxes	\$ 21,975	\$ 2,381	823%	\$ 26,414	\$ 1,543	1612%

Included in other revenues is service fee income. The increase in earnings for the six months ended June 30, 2020 was due to an increase in mortgage loan originations and refinancings, and subsequent sales of mortgage loans into the secondary market.

#### Mortgage Loan Loss Settlements

Future mortgage loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on mortgage loans sold. The estimated liability for indemnification losses was included in other liabilities and accrued expenses and, as of June 30, 2020 and December 31, 2019, the balances were \$4,786,000 and \$4,046,000, respectively.

#### Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers Holdings, see Part I, Item 1. Notes to Condensed Consolidated Financial Statements (unaudited) in Note 11.

#### **Consolidation**

##### **Three Months Ended June 30, 2020 Compared to Three Months Ended June 30, 2019**

Total revenues increased by \$50,216,000, or 73.4%, to \$118,662,000 for the three months ended June 30, 2020, from \$68,445,000 for the comparable period in 2019. Contributing to this increase in total revenues was a \$40,422,000 increase in mortgage fee income, a \$3,279,000 increase in insurance premiums and other considerations, a \$3,264,000 increase in gains on investments and other assets, a \$2,422,000 increase in net investment income, a \$700,000 increase in net mortuary and cemetery sales, and a \$129,000 increase in other revenues.

Insurance premiums and other considerations increased by \$3,280,000, or 16.7%, to \$22,925,000 for the three months ended June 30, 2020, from \$19,645,000 for the comparable period in 2019. This increase was primarily due to \$2,880,000 from the acquisition of Kilpatrick Life in December 2019. See Note 15 to the condensed consolidated financial statements. This increase was also due to an increase in renewal premiums due to the growth of the Company in recent years, particularly in whole life products, which resulted in more premium paying business in force.

Net investment income increased by \$2,422,000, or 23.0%, to \$12,963,000 for the three months ended June 30, 2020, from \$10,541,000 for the comparable period in 2019. This increase was primarily attributable to a \$1,056,000 increase in mortgage loan interest (\$486,000 due to the acquisition of Kilpatrick Life), a \$691,000 increase in rental income from real estate held for investment, a \$614,000 increase in fixed maturity securities income (\$609,000 due to the acquisition of Kilpatrick Life), a \$477,000 increase in insurance assignment income, a \$151,000 increase in policy loan income (\$133,000 due to the acquisition of Kilpatrick Life), and a \$36,000 increase in equity securities income. This increase was partially offset by a \$443,000 decrease in interest on cash and cash equivalents, a \$108,000 increase in investment expenses, and a \$52,000 decrease in other investment income.

Net mortuary and cemetery sales increased by \$700,000, or 17.5%, to \$4,701,000 for the three months ended June 30, 2020, from \$4,001,000 for the comparable period in 2019. This increase was primarily due to a \$468,000 increase in cemetery pre-need sales, a \$140,000 increase in cemetery at-need sales, and a \$92,000 increase in mortuary at-need sales.

Gains on investments and other assets increased by \$3,264,000, or 318.2%, to gains of \$2,238,000 for the three months ended June 30, 2020, from losses of \$1,026,000 for the comparable period in 2019. This increase in gains on investments and other assets was primarily due to a \$1,682,000 increase in gains on other assets mostly attributable to increases in the fair value of call and put option derivatives and a decrease in impairment losses on commercial real estate. This increase in gains on investments and other assets was also due to a \$1,633,000 increase in gains on equity securities (\$303,000 due to the acquisition of Kilpatrick Life) mostly attributable to increases in the fair value of these equity securities. Due to the adoption of Accounting Standards Update ("ASU") 2016-01 on January 1, 2019, these changes in fair value are recognized in earnings instead of other comprehensive income. This decrease in gains on investments and other assets was partially offset by a \$51,000 decrease in gains on fixed maturity securities.

Mortgage fee income increased by \$40,422,000, or 122.7%, to \$73,368,000, for the three months ended June 30, 2020, from \$32,946,000 for the comparable period in 2019. This increase was primarily due to a \$28,222,000 increase in secondary gains from loans sold to third-party investors, a \$7,512,000 increase in loan fees and interest income, and a \$6,060,000 increase in the fair value of loans held for sale and loan commitments. This increase in mortgage fee income was partially offset by a \$1,372,000 increase in the provision for loan loss reserve.

Other revenues increased by \$129,000, or 5.5%, to \$2,467,000 for the three months ended June 30, 2020, from \$2,338,000 for the comparable period in 2019. This increase was primarily attributable to an increase in servicing fee revenue.

Total benefits and expenses were \$91,468,000, or 77.1% of total revenues, for the three months ended June 30, 2020, as compared to \$63,821,000, or 93.2% of total revenues, for the comparable period in 2019.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$5,340,000 or 34.0%, to \$21,029,000 for the three months ended June 30, 2020, from \$15,689,000 for the comparable period in 2019. This increase was primarily the result of a \$4,338,000 increase in death benefits (\$2,305,000 due to the acquisition of Kilpatrick Life and \$1,150,000 for COVID-19 related deaths), a \$928,000 increase in future policy benefits (\$1,000,000 due to the acquisition of Kilpatrick Life) and a \$74,000 increase in surrender and other policy benefits (\$284,000 due to the acquisition of Kilpatrick Life).

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$47,000, or 1.5%, to \$3,027,000 for the three months ended June 30, 2020, from \$3,074,000 for the comparable period in 2019.

Selling, general and administrative expenses increased by \$22,285,000, or 52.3%, to \$64,871,000 for the three months ended June 30, 2020, from \$42,586,000 for the comparable period in 2019. This increase was primarily the result of a \$13,385,000 increase in commissions, a \$4,839,000 increase in personnel expenses, a \$3,149,000 increase in other expenses, a \$820,000 increase in costs related to funding mortgage loans, a \$95,000 increase in depreciation on property and equipment, and a \$58,000 increase in advertising expenses. This increase was partially offset by a \$61,000 decrease in rent and rent related expenses. Most of these increases are attributable to the mortgage segment due to the increase in mortgage loan originations and refinancings, most notably \$12,954,000 in commissions,

\$3,099,000 in personnel expenses, and \$3,04,000 in other expenses. Also, these increases are attributable to the acquisition of Kilpatrick Life, most notably \$484,000 in personnel expenses, \$398,000 in other expenses, and \$371,000 in commissions.

Interest expense increased by \$99,000, or 5.5%, to \$1,881,000 for the three months ended June 30, 2020, from \$1,782,000 for the comparable period in 2019. This increase was primarily due to an increase in interest expense on mortgage warehouse lines for loans held for sale.

Cost of goods and services sold-mortuaries and cemeteries decreased by \$30,000, or 4.4%, to \$660,000 for the three months ended June 30, 2020, from \$690,000 for the comparable period in 2019. This decrease was primarily due to a \$32,000 decrease in cemetery pre-need sales and a \$31,000 decrease in mortuary at-need sales. This decrease was partially offset by a \$33,000 increase in cemetery at-need sales.

#### **Six Months Ended June 30, 2020 Compared to Six Months Ended June 30, 2019**

Total revenues increased by \$68,332,000, or 52.6%, to \$198,271,000 for the six months ended June 30, 2020, from \$129,939,000 for the comparable period in 2019. Contributing to this increase in total revenues was a \$56,225,000 increase in mortgage fee income, a \$6,544,000 increase in insurance premiums and other considerations, a \$5,781,000 increase in net investment income, a \$1,480,000 increase in net mortuary and cemetery sales, and a \$57,000 decrease in other revenues. This increase in total revenues was partially offset by a \$1,755,000 decrease in gains on investments and other assets.

Insurance premiums and other considerations increased by \$6,544,000, or 16.9%, to \$45,216,000 for the six months ended June 30, 2020, from \$38,672,000 for the comparable period in 2019. This increase was primarily due to \$5,733,000 from the acquisition of Kilpatrick Life in December 2019. See Note 15 to the condensed consolidated financial statements. This increase was also due to an increase in renewal premiums due to the growth of the Company in recent years, particularly in whole life products, which resulted in more premium paying business in force.

Net investment income increased by \$5,781,000, or 28.1%, to \$26,363,000 for the six months ended June 30, 2020, from \$20,582,000 for the comparable period in 2019. This increase was primarily attributable to a \$2,607,000 increase in mortgage loan interest (\$1,066,000 due to the acquisition of Kilpatrick Life), a \$1,934,000 increase in rental income from real estate held for investment, a \$1,035,000 increase in fixed maturity securities income (\$1,080,000 due to the acquisition of Kilpatrick Life), a \$564,000 increase in insurance assignment income, a \$296,000 increase in policy loan income (\$268,000 due to the acquisition of Kilpatrick Life), a \$51,000 increase in equity securities income, and a \$19,000 decrease in investment expenses (\$118,000 increase due to the acquisition of Kilpatrick Life). This increase was partially offset by a \$644,000 decrease in interest on cash and cash equivalents (\$116,000 increase due to the acquisition of Kilpatrick Life) and a \$81,000 decrease in other investment income (\$25,000 increase due to the acquisition of Kilpatrick Life).

Net mortuary and cemetery sales increased by \$1,480,000, or 19.3%, to \$9,159,000 for the six months ended June 30, 2020, from \$7,679,000 for the comparable period in 2019. This increase was primarily due to a \$832,000 increase in cemetery pre-need sales, a \$428,000 increase in cemetery at-need sales, and a \$220,000 increase in mortuary at-need sales.

Gains on investments and other assets decreased by \$1,755,000, or 224.7%, to losses of \$974,000 for the six months ended June 30, 2020, from gains of \$781,000 for the comparable period in 2019. This decrease in gains on investments and other assets was primarily due a \$1,959,000 decrease in gains on equity securities mostly attributable to decreases in the fair value of these equity securities, due to the recent downturn of the economy caused by the COVID-19 Pandemic. Due to the adoption of Accounting Standards Update ("ASU") 2016-01 on January 1, 2019, these changes in fair value are recognized in earnings instead of other comprehensive income. This decrease in gains on investments and other assets was also due to a \$290,000 decrease in gains on other assets mostly attributable to decreases in the fair value of call and put option derivatives and a \$5,000 decrease in gains on fixed maturity securities.

Mortgage fee income increased by \$56,225,000, or 97.9%, to \$113,650,000, for the six months ended June 30, 2020, from \$57,425,000 for the comparable period in 2019. This increase was primarily due to a \$38,684,000 increase in secondary gains from loans sold to third-party investors, a \$10,881,000 increase in loan fees and interest income, and a \$8,542,000 increase in the fair value of loans held for sale and loan commitments. This increase in mortgage fee income was partially offset by a \$1,882,000 increase in the provision for loan loss reserve.

Other revenues increased by \$57,000, or 1.2%, to \$4,856,000 for the six months ended June 30, 2020, from \$4,799,000 for the comparable period in 2019. This increase was primarily attributable to an increase in servicing fee revenue.

Total benefits and expenses were \$169,603,000, or 85.5% of total revenues, for the six months ended June 30, 2020, as compared to \$122,883,000, or 94.6% of total revenues, for the comparable period in 2019.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$10,161,000 or 31.4%, to \$42,545,000 for the six months ended June 30, 2020, from \$32,384,000 for the comparable period in 2019. This increase was primarily the result of a \$7,668,000 increase in death benefits (\$4,826,000 due to the acquisition of Kilpatrick Life and \$1,150,000 for COVID-19 related deaths), a \$2,215,000 increase in future policy benefits (\$1,930,000 due to the acquisition of Kilpatrick Life) and a \$278,000 increase in surrender and other policy benefits (\$561,000 due to the acquisition of Kilpatrick Life).

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$340,000, or 5.5%, to \$6,542,000 for the six months ended June 30, 2020, from \$6,202,000 for the comparable period in 2019. This increase was primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs and \$26,000 due to the acquisition of Kilpatrick Life.

Selling, general and administrative expenses increased by \$35,634,000, or 44.7%, to \$115,313,000 for the six months ended June 30, 2020, from \$79,679,000 for the comparable period in 2019. This increase was primarily the result of a \$20,265,000 increase in commissions, a \$8,528,000 increase in personnel expenses, a \$5,579,000 increase in other expenses, a \$1,421,000 increase in costs related to funding mortgage loans, a \$162,000 increase in depreciation on property and equipment, and a \$30,000 increase in advertising expenses. This increase was partially offset by a \$351,000 decrease in rent and rent related expenses. Most of these increases are attributable to the mortgage segment due to the increase in mortgage loan originations and refinancings, most notably \$19,405,000 in commissions, \$5,207,000 in personnel expenses, and \$4,619,000 in other expenses. Also, these increases are attributable to the acquisition of Kilpatrick Life, most notably \$1,218,000 in personnel expenses, \$959,000 in other expenses, and \$915,000 in commissions.

Interest expense increased by \$426,000, or 13.0%, to \$3,700,000 for the six months ended June 30, 2020, from \$3,274,000 for the comparable period in 2019. This increase was primarily due to a \$525,000 increase in interest expense on mortgage warehouse lines for loans held for sale offset by a decrease in interest on bank loans.

Cost of goods and services sold-mortuaries and cemeteries increased by \$159,000, or 11.8%, to \$1,502,000 for the six months ended June 30, 2020, from \$1,344,000 for the comparable period in 2019. This increase was primarily due to a \$120,000 increase in cemetery at-need sales and a \$48,000 increase in cemetery pre-need sales. This increase was partially offset by a \$10,000 decrease in mortuary at-need sales.

### **Liquidity and Capital Resources**

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

should be noted that current conditions in the financial markets and economy caused by the COVID-19 Pandemic may affect the cash flows of the Company.

During the six months ended June 30, 2020 and 2019, the Company's operations used cash of \$109,562,000 and \$40,726,000, respectively. This decrease was due primarily to originations 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 that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities, the Company is able to hold to maturity its bonds, real estate, and mortgage loans, thus reducing the risk of having to liquidate 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. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products. The Company's investment philosophy is intended to provide a rate of return that will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominantly in fixed maturity securities, real estate, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries and classified as fixed maturity securities available for sale carried at estimated fair value amounted to \$348,260,000 and \$355,613,000 as of June 30, 2020 and December 31, 2019, respectively. This represents 42.7% and 45.5% of the total investments as of June 30, 2020 and December 31, 2019, 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, 2020, 3.3% (or \$11,630,000) and at December 31, 2019, 2.2% (or \$7,633,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which were considered non-investment grade.

The Company 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, 2020 and December 31, 2019, 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 \$569,753,000 as of June 30, 2020, as compared to \$414,283,000 as of December 31, 2019. Stockholders' equity as a percent of total capitalization was 39.1% and 47.5% as of June 30, 2020 and December 31, 2019, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2019 was 9.8% as compared to a rate of 9.9% for 2018. The 2020 lapse rate to date has been approximately the same as 2019.

At June 30, 2020, the combined statutory capital and surplus of the Company's life insurance subsidiaries was \$71,161,000. The life insurance subsidiaries cannot pay a dividend to its parent company without approval of state insurance regulatory authorities.

#### **COVID-19 Pandemic**

During the first and second quarters 2020, the outbreak of COVID-19 had spread worldwide and was declared a global pandemic by the World Health Organization on March 11, 2020. COVID-19 poses a threat to the health and economic well-being of the Company's employees, customers, and vendors. The Company is closely monitoring developments relating to the COVID-19 pandemic and assessing its impact on the Company's business. The COVID-19 Pandemic has had and continues to have a major impact on the global economy and financial markets. Governments and businesses have taken numerous measures to try to contain the virus, which include the implementation of travel bans, self-imposed quarantine periods, and social distancing. These measures have disrupted and will continue to disrupt

businesses globally. Governments and central banks have reacted with significant monetary and fiscal interventions designed to stabilize the economic conditions.

Like most businesses, COVID-19 has impacted the Company. However, the Company cannot, with certainty, presently predict the severity or duration with which COVID-19 will impact the Company's business, financial condition, results of operations, and cash flows. To the extent the COVID-19 pandemic adversely affects the Company's business, financial condition and results of operations, it may also have the effect of heightening many of the other risks described in the Company's Management's Discussion and Analysis of Financial Condition and Results of Operations in the Annual Report on Form 10-K for the year ended December 31, 2019 under the heading "Risks." These uncertainties have the potential to negatively affect the risk of credit default for the issuers of the Company's fixed maturity debt securities and individual borrowers with mortgage loans held by the Company.

The Company has implemented risk management, business continuity plans and has taken preventive measures and other precautions, such as business travel restrictions and remote work arrangements. Such measures and precautions have enabled the Company to continue to conduct business.

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

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

### **Item 4 Controls and Procedures.**

#### Disclosure Controls and Procedures

As of June 30, 2020, 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 not effective as of June 30, 2020, and that the unaudited condensed consolidated financial statements included in this Quarterly Report on Form 10-Q fairly present, in all material respects, the Company's financial condition, results of operations, and cash flows for the periods presented in conformity with United States Generally Accepted Accounting Principles (GAAP).

#### Changes in Internal Control over Financial Reporting

Except for the material weakness discussed in the Company's Annual Report on Form 10-K for the year ended December 31, 2019, 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.

#### Remediation Efforts to Address the Material Weakness

The Company acquired Kilpatrick Life in December 2019. Prior to the acquisition, the Company identified a material weakness in Kilpatrick Life's internal control over financial reporting. The material weakness identified had not been remediated as of June 30, 2020. Specifically, the Company determined that Kilpatrick Life's controls related to change management and segregation of duties for the policy administration system did not operate effectively. As a result of the control deficiency, a risk exists that inappropriate system changes could potentially result in a material misstatement of Kilpatrick Life's financial information, which is consolidated with the Company's results.

Prior to the closing of the acquisition, the Company's management developed and initiated a plan to remediate these internal control deficiencies.

As of August 14, 2020, the Company had not fully assessed Kilpatrick Life's internal controls over financial reporting and is currently testing new and revised internal controls for design and operating effectiveness. The Securities and Exchange Commission permits companies to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition, and the Company has elected to exclude Kilpatrick Life from its assessment. The Company has performed additional analysis and procedures to conclude that it believes the condensed consolidated financial statements included in this Form 10-Q present fairly, in all material respects, the Company's financial position, results of operations, comprehensive income (loss) and cash flows for the periods presented in conformity with U.S. GAAP.

The Company has implemented controls to remediate the underlying causes that gave rise to the material weakness. As of August 14, 2020, the known deficiencies have been remediated to the extent that they no longer give rise to a material weakness.

The following controls have been implemented by management:

- Execution of a formal consultant agreement with the former system developer.
- Creation of unique login credentials for system users.
- Implementation of system change control processes, including the installation of a third-party database logging software.

In addition to the steps taken above, the Company will also transition Kilpatrick Life's policies to its own Policy Administration System, which has appropriate controls in place.

The Company is committed to continuous improvement of its internal control processes and will continue to diligently review its financial reporting controls and procedures as it works to remedy Kilpatrick Life's material weakness in internal controls.

## **Part II - Other Information**

### **Item 1. Legal Proceedings.**

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers Holdings, see Part I, Item 1. Notes to Condensed Consolidated Financial Statements (unaudited) in Note 11.

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

### **Item 1A Risk Factors.**

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

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

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

None.

#### **Issuer Purchases of Equity Securities**

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 repurchased shares of Class A common stock will be held as treasury shares to be used as the Company's employer matching contribution to the Employee 401(k) Retirement Savings Plan.

The following table shows the Company's repurchase activity during the three months ended June 30, 2020 under the Stock Repurchase Plan.

Period	(a) Total Number of Class A Shares Purchased	(b) Average Price Paid per Class A Share	(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
4/1/2020-4/30/2020	10,000	\$ 4.64	-	135,667
5/1/2020-5/31/2020	6,780	6.10	-	128,887
6/1/2020-6/30/2020	6,960	6.48	-	121,927
<b>Total</b>	<b>23,740</b>	<b>\$ 5.58</b>	<b>-</b>	<b>121,927</b>

**Item 3 Defaults Upon Senior Securities.**

None.

**Item 4 Mine Safety Disclosures.**

None.

**Item 5 Other Information.**

None.

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

(a)(1) Financial Statements

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

(a)(2) Financial Statement Schedules

None

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

(a)(3) Exhibits

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

- 3.1 [Amended and Restated Articles of Incorporation](#) (5)
- 3.2 [Amended and Restated Bylaws](#) (9)
- 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](#)
- 10.4 [Employment Agreement with Scott M. Quist](#) (2)
- 10.5 [Stock Purchase Agreement among Security National Financial Corporation, Beta Capital Corp., and Ronald D. Maxson, sole shareholder](#) (6)
- 10.6 [Stock Repurchase Plan](#) (7)
- 10.7 [Asset Purchase Agreement among SN Probst LLC, Probst Family Funerals and Cremations, L.L.C., Heber Valley Funeral Home, Inc., Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha J. Probst](#) (8)

- 10.8 [Coinsurance Agreement between Kilpatrick Life Insurance Company and Security National Life Insurance Company](#) (10)
- 10.9 [Stock Purchase Agreement among Security National Financial Corporation, Kilpatrick Life Insurance Company, and the Shareholders of Kilpatrick Life Insurance Company](#) (10)
- 10.10 [Consolidated Statement of Assets Acquired and Liabilities Assumed at December 13, 2019](#) (11)
- 14 [Code of Business Conduct and Ethics](#) (9)
- 21 [Subsidiaries of the Registrant](#)
- 23.1 [Consent of Eide Bailly LLP](#) (4)
- 23.2 [Consent of Mackey Price & Mecham](#) (4)
- 31.1 [Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 31.2 [Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002](#)
- 32.1 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 32.2 [Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002](#)
- 101.xml Instance Document
- 101.xsd Taxonomy Extension Schema Document
- 101.cal Taxonomy Extension Calculation Linkbase Document
- 101.def Taxonomy Extension Definition Linkbase Document
- 101.lab Taxonomy Extension Label Linkbase Document
- 101.pre Taxonomy Extension Presentation Linkbase Document

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on 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 Registration Statement on Form S-8, as filed on September 7, 2016
- (5) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2017
- (6) Incorporated by reference from Report on Form 8-K, as filed on June 6, 2018
- (7) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2018
- (8) Incorporated by reference from Report on Form 8-K, as filed on February 28, 2019
- (9) Incorporated by reference from Report on Form 10-Q, as filed on May 15, 2019
- (10) Incorporated by reference from Report on Form 8-K, as filed on November 12, 2019
- (11) Incorporated by reference from Report on Form 8-K/A, as filed on February 26, 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, 2020

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

Dated: August 14, 2020

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