

SECURITY NATIONAL FINANCIAL CORP  
Form 10-Q  
May 15, 2017

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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 quarter ended March 31, 2017, or

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

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

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

UTAH

(State or other jurisdiction of incorporation or organization)

87-0345941

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

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

(Address of principal executive offices)

84123

(Zip Code)

(801) 264-1060

(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer

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

Accelerated filer

Smaller reporting  
company

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

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

<u>Class A Common Stock, \$2.00 par value</u>	<u>13,820,079</u>
Title of Class	Number of Shares Outstanding as of May 11, 2017
<u>Class C Common Stock, \$2.00 par value</u>	<u>2,005,026</u>
Title of Class	Number of Shares Outstanding as of May 11, 2017

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
FORM 10-Q

QUARTER ENDED MARCH 31, 2017

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SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

## Part I - Financial Information

## Item 1. Financial Statements.

	March 31 2017 (Unaudited)	December 31 2016
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$186,445,498	\$184,979,644
Equity securities, available for sale, at estimated fair value	10,735,239	10,573,356
Mortgage loans on real estate and construction loans, held for investment net of allowances for loan losses of \$1,955,443 and \$1,748,783 for 2017 and 2016	134,123,773	149,181,578
Real estate held for investment, net of accumulated depreciation of \$16,732,122 and \$16,138,439 for 2017 and 2016	151,417,470	145,165,921
Policy loans and other investments, net of allowances for doubtful accounts of \$1,050,111 and \$1,119,630 for 2017 and 2016	41,773,152	40,937,146
Short-term investments	28,346,922	27,560,040
Accrued investment income	3,008,839	2,972,596
Total investments	555,850,893	561,370,281
Cash and cash equivalents	85,069,717	38,987,430
Mortgage loans sold to investors	54,401,522	82,491,091
Receivables, net	15,736,045	18,870,119
Restricted assets	10,230,360	10,391,394
Cemetery perpetual care trust investments	4,211,337	4,131,885
Receivable from reinsurers	13,227,385	13,079,668
Cemetery land and improvements	10,641,141	10,672,836
Deferred policy and pre-need contract acquisition costs	71,643,040	69,118,745
Mortgage servicing rights, net	19,432,993	18,872,362
Property and equipment, net	8,478,347	8,791,522
Value of business acquired	7,375,084	7,570,300
Goodwill	2,765,570	2,765,570
Other	8,141,683	6,891,468
Total Assets	\$867,205,117	\$854,004,671

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

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

	March 31 2017 (Unaudited)	December 31 2016
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 589,405,726	\$ 585,610,063
Unearned premium reserve	4,405,472	4,469,771
Bank and other loans payable	61,548,686	53,718,548
Deferred pre-need cemetery and mortuary contract revenues	12,350,470	12,360,249
Cemetery perpetual care obligation	3,624,895	3,598,580
Accounts payable	3,113,519	4,213,109
Other liabilities and accrued expenses	34,128,938	33,950,503
Income taxes	28,717,508	27,904,294
Total liabilities	737,295,214	725,825,117
Stockholders' Equity		
Preferred Stock - non-voting - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 13,820,078 shares in 2017 and 13,819,006 shares in 2016	27,640,156	27,638,012
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$2.00 par value; 3,000,000 shares authorized; issued 1,901,624 shares in 2017 and 1,902,229 shares in 2016	3,803,248	3,804,458
Additional paid-in capital	35,095,594	34,813,246
Accumulated other comprehensive income, net of taxes	286,114	264,822
Retained earnings	64,494,807	63,029,627
Treasury stock at cost - 686,549 Class A shares in 2017 and 704,122 Class A shares in 2016	(1,410,016 )	(1,370,611 )
Total stockholders' equity	129,909,903	128,179,554
Total Liabilities and Stockholders' Equity	\$ 867,205,117	\$ 854,004,671

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

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

	Three Months Ended March 31	
	2017	2016
Revenues:		
Insurance premiums and other considerations	\$ 17,357,124	\$ 14,451,575
Net investment income	9,563,282	8,992,191
Net mortuary and cemetery sales	3,358,973	3,245,856
Realized gains on investments and other assets	145,330	97,922
Other than temporary impairments on investments	(52,139 )	(73,630 )
Mortgage fee income	37,050,926	39,110,967
Other	2,028,873	1,530,426
Total revenues	69,452,369	67,355,307
Benefits and expenses:		
Death benefits	8,794,598	7,824,001
Surrenders and other policy benefits	857,531	518,321
Increase in future policy benefits	5,182,449	4,160,260
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	2,264,039	2,212,836
Selling, general and administrative expenses:		
Commissions	15,721,074	16,842,270
Personnel	18,589,687	17,197,372
Advertising	1,310,674	1,078,010
Rent and rent related	2,139,538	2,064,325
Depreciation on property and equipment	625,812	521,455
Provision for loan loss reserve	426,634	586,778
Costs related to funding mortgage loans	2,065,134	2,154,397
Other	7,430,951	6,480,711
Interest expense	1,254,039	1,064,195
Cost of goods and services sold-mortuaries and cemeteries	521,919	458,619
Total benefits and expenses	67,184,079	63,163,550
Earnings before income taxes	2,268,290	4,191,757
Income tax expense	(799,826 )	(1,580,220 )
Net earnings	\$ 1,468,464	\$ 2,611,537
Net earnings per Class A Equivalent common share (1)	\$0.10	\$0.18
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$0.09	\$0.17
Weighted-average Class A equivalent common share outstanding (1)	15,058,153	14,656,450
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	15,527,996	15,112,278

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

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

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

	Three Months Ended	
	March 31	
	2017	2016
Net earnings	\$1,468,464	\$2,611,537
Other comprehensive income:		
Net unrealized gains on derivative instruments	973	1,669
Net unrealized gains on available for sale securities	20,319	297,897
Other comprehensive income	21,292	299,566
Comprehensive income	\$1,489,756	\$2,911,103

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

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

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2015	\$26,218,200	\$3,419,280	\$30,232,582	\$ (499,358 )	\$54,054,950	\$(2,179,429)	\$111,246,225
Net earnings	-	-	-	-	2,611,537	-	2,611,537
Other comprehensive income	-	-	-	299,566	-	-	299,566
Grant of stock options	-	-	84,452	-	-	-	84,452
Exercise of stock options	56,920	-	4,367	-	-	-	61,287
Sale of treasury stock	-	-	136,826	-	-	149,639	286,465
Dividends	274	12,768	30,779	-	(43,821 )	-	-
Balance at March 31, 2016	\$26,275,394	\$3,432,048	\$30,489,006	\$ (199,792 )	\$56,622,666	\$(2,029,790)	\$114,589,532
Balance at December 31, 2016	\$27,638,012	\$3,804,458	\$34,813,246	\$ 264,822	\$63,029,627	\$(1,370,611)	\$128,179,554
Net earnings	-	-	-	-	1,468,464	-	1,468,464
Other comprehensive income	-	-	-	21,292	-	-	21,292
Grant of stock options	-	-	101,996	-	-	-	101,996
Sale of treasury stock	-	-	178,002	-	-	146,065	324,067
Purchase of treasury stock	-	-	-	-	-	(185,470 )	(185,470 )
Dividends	930	4	2,350	-	(3,284 )	-	-
Conversion Class C to Class A	1,214	(1,214 )	-	-	-	-	-
Balance at March 31, 2017	\$27,640,156	\$3,803,248	\$35,095,594	\$ 286,114	\$64,494,807	\$(1,410,016)	\$129,909,903

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

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

	Three Months Ended	
	March 31	
	2017	2016
Cash flows from operating activities:		
Net cash provided by operating activities	\$24,054,637	\$25,863,034
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(2,575,997 )	(4,481,397 )
Calls and maturities - fixed maturity securities	830,595	2,470,005
Securities available for sale:		
Purchase - equity securities	(4,190,458 )	(1,651,302 )
Sales - equity securities	4,092,734	1,487,110
Purchase of short-term investments	(3,053,797 )	(3,258,070 )
Sales of short-term investments	2,266,915	2,364,571
Purchase of restricted assets	174,197	1,242,342
Changes in assets for perpetual care trusts	(104,731 )	(51,461 )
Amount received for perpetual care trusts	26,315	11,735
Mortgage loans, policy loans, and other investments made	(108,649,435)	(112,920,364)
Payments received for mortgage loans, policy loans and other investments	127,506,014	99,348,725
Purchase of property and equipment	(312,640 )	(1,084,975 )
Purchase of real estate	(3,103,471 )	(3,432,051 )
Sale of real estate	2,891,887	843,701
Net cash provided by (used in) investing activities	15,798,128	(19,111,431 )
Cash flows from financing activities:		
Annuity contract receipts	3,051,883	2,516,596
Annuity contract withdrawals	(4,468,624 )	(3,025,833 )
Proceeds from stock options exercised	-	61,287
Purchase of treasury stock	(185,470 )	-
Repayment of bank loans on notes and contracts	(673,454 )	(390,168 )
Proceeds from borrowing on bank loans	7,255,187	737,232
Change in line of credit borrowings	1,250,000	-
Net cash provided by (used in) financing activities	6,229,522	(100,886 )
Net change in cash and cash equivalents	46,082,287	6,650,717
Cash and cash equivalents at beginning of period	38,987,430	40,053,242
Cash and cash equivalents at end of period	\$85,069,717	\$46,703,959
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest (net of amount capitalized)	\$1,234,420	\$1,079,891
Income taxes (net of refunds)	(3,215 )	12,321

Non Cash Investing and Financing Activities:

Mortgage loans foreclosed into real estate	\$204,839	\$87,000
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See accompanying notes to condensed consolidated financial statements (unaudited).

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

1) Basis of Presentation

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

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

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

2) Recent Accounting Pronouncements

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

ASU No. 2016-02: "Leases (Topic 842)" - Issued in February 2016, ASU 2016-02 supersedes the leases requirements in ASC Topic 840, "Leases", and was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing

arrangements. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is in the process of evaluating the potential impact of this standard.

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

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

2) Recent Accounting Pronouncements (Continued)

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

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

3) Investments

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

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



Residential construction	33,917,309
Commercial	37,532,001
Less: Allowance for loan losses	(1,955,443 )
Total mortgage loans on real estate and construction loans held for investment	\$ 134,123,773
Real estate held for investment - net of depreciation	\$ 151,417,470
Policy loans and other investments are shown at amortized cost:	
Policy loans	\$6,666,500
Insurance assignments	33,857,966
Promissory notes	48,797
Other investments	2,250,000
Less: Allowance for doubtful accounts	(1,050,111 )
Total policy loans and other investments	\$41,773,152
Short-term investments at amortized cost	\$28,346,922

## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

3) Investments (Continued)

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

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

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Promissory notes	48,797
Other investments	1,765,752
Less: Allowance for doubtful accounts	(1,119,630 )
Total policy loans and other investments	\$40,937,146
Short-term investments at amortized cost	\$27,560,040

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## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

3) Investments (Continued)Fixed Maturity Securities

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

	Unrealized Losses for Less than Twelve Months		Unrealized Losses for More than Twelve Months		Total Unrealized	
	Fair Value	Fair Value	Fair Value	Fair Value	Loss	Fair Value
At March 31, 2017						
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$57,240	\$1,345,231	\$-	\$-	\$57,240	\$1,345,231
Obligations of states and political subdivisions	132,140	3,270,595	-	-	132,140	3,270,595
Corporate securities	1,094,907	29,075,748	1,348,331	12,362,900	2,443,238	41,438,648
Mortgage-backed securities	126,828	1,745,284	106,758	1,470,559	233,586	3,215,843
Redeemable preferred stock	8,627	98,110	-	-	8,627	98,110
Total unrealized losses	\$1,419,742	\$35,534,968	\$1,455,089	\$13,833,459	\$2,874,831	\$49,368,427
At December 31, 2016						
U.S. Treasury Securities and Obligations of U.S. Government Agencies	\$66,111	\$1,342,088	\$-	\$-	\$66,111	\$1,342,088
Obligations of states and political subdivisions	133,249	3,686,856	-	-	133,249	3,686,856
Corporate securities	1,728,312	41,796,016	1,998,701	12,969,135	3,727,013	54,765,151
Mortgage-backed securities	176,715	4,176,089	104,156	940,278	280,871	5,116,367
Total unrealized losses	\$2,104,387	\$51,001,049	\$2,102,857	\$13,909,413	\$4,207,244	\$64,910,462

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

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



## SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

## Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

3) Investments (Continued)Equity Securities

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

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES

Notes to Condensed Consolidated Financial Statements

March 31, 2017 (Unaudited)

3) Investments (Continued)

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

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
D		