

Washington, D.C. 20549

Form 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the fiscal year ended December 31, 2002, 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 0-9341

Security National Financial Corporation (Exact name of registrant as specified in its Charter)

UTAH

87-034594

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification Number)

5300 South 360 West, Suite 250 Salt Lake City, Utah 84123

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: (801) 264-1060

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

Title of each Class Name of each exchange on which registered None None

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

Class A Common Stock, \$2.00 Par Value Class C Common Stock, \$0.20 Par Value (Title of Class) (Title of Class)

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 [X] No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 31, 2003, was approximately \$30,734,548.

As of March 31, 2003, registrant had issued and outstanding 4,642,681 shares of Class A Common Stock and 6,110,920 shares of Class C Stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement for the registrant's 2003 Annual Meeting of Stockholders are incorporated by reference into Part III hereof.

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Item 1. Business

Security National Financial Corporation (the "Company") operates in three main business segments: life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance. These products are marketed in 35 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment of the Company consists of five cemeteries in the state of Utah and one in the state of California and eight mortuaries in the state of Utah and five in the state of Arizona. The Company also engages in pre-need selling of funeral, cemetery and cremation services through its Utah operations. Many of the insurance agents also sell pre-need funeral, cemetery and cremation services. The mortgage loan segment is an approved governmental and conventional lender that originates and underwrites residential and commercial loans for new construction and existing homes and real estate projects. The mortgage loan segment operates through ten offices in six states.

The design and structure of the Company is that each segment is related to the others and contributes to the profitability of the other segments. Because of the cemetery and mortuary operations in Utah, California and Arizona, the

Company enjoys a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. Security National Life Insurance Company, a Utah domiciled life insurance company ("Security National Life") invests its assets (representing in part the pre-paid funerals) in investments authorized by the Insurance Departments of the States of Florida and Utah. One such investment authorized by the Insurance Departments is high quality mortgage loans. Thus, while each segment is a profit center on a stand-alone basis, this horizontal integration of each segment is planned to lead to improved profitability of the Company. The Company also pursues growth through acquisitions of both life insurance companies and cemeteries and mortuaries. The Company's acquisition business strategy is based on reducing the overhead cost of the acquired company by utilizing existing personnel, management, and technology while still providing quality service to customers and policyholders.

The Company was organized as a holding company in 1979 when Security National Life became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has grown through the direct sale of life insurance and annuities and through the acquisition of other insurance companies, including the acquisitions of Capital Investors Life Insurance Company in December 1994, Civil Service Employees Life Insurance Company in December 1995, Southern Security Life Insurance Company in December 1998. Most recently on December 23, 2002, the Company completed an asset purchase transaction with Acadian Life Insurance Company, a Louisiana domiciled life insurance company ("Acadian"), from which it acquired \$75,000,000 in assets and \$75,000,000 in insurance reserves. On January 1, 2003, the Company entered into an assumption reinsurance agreement in which Acadian agreed to transfer and assign to Security National Life all of its right, title and interest in the reinsured policies. The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies, including the acquisitions of Paradise Chapel Funeral Home, Inc. in 1989, Holladay Memorial Park, Inc., Cottonwood Mortuary, Inc. and Deseret Memorial, Inc. in 1991, Sunset Funeral Home in January 1994, Greer-Wilson Funeral Home, Inc. in April 1995 and Crystal Rose Funeral Home in February 1997. In July 1993, the Company formed Security National Mortgage Company ("Security National Mortgage") to originate and refinance mortgage loans. Since 1993 Security National Mortgage Company has opened ten branches in six states. See Notes to Consolidated Financial Statements for additional disclosure and discussion regarding segments of the business.

## Life Insurance

### Products

The Company, through its insurance subsidiaries, Security National Life and Southern Security Life Insurance Company, issues and distributes selected lines of life insurance and annuities. The Company's life insurance business includes funeral plans, interest-sensitive whole life insurance, as well as other traditional life and accident and health insurance products. The Company places specific marketing emphasis on funeral plans and traditional whole life products sold in association with the funding of higher education costs.

A funeral plan is a small face value life insurance policy that generally has a face coverage of up to \$5,000. The Company believes that funeral plans represent a marketing niche that has lower competition since most insurance companies do not offer similar coverages. 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 to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

Through the Company's higher education funding division the Company markets strategies for the funding of a child's education. Pursuant to those strategies the Company conducts scholarship searches and originates and funds government guaranteed student loans. The traditional whole life product marketed in conjunction with funding of higher education costs is a 10-Pay Whole Life with an Annuity Rider. Both the paid-up aspect of the Whole Life policy and the savings aspect of the Annuity Rider are marketed as a tool for parents to help fund the cost of their children's higher education. The product is offered to parents who have children generally under the age of 16.

#### Markets and Distribution

The Company is licensed to sell insurance in 35 states. The Company, in marketing its life insurance products, seeks to locate, develop and service specific "niche" markets. A "niche" market is an identifiable market, which the Company believes is not emphasized by most insurers. The Company generally sells its life insurance products to people of middle age who have a need for insurance to protect the income of the wage earner of the family, to pay off debts at the time of death and for other estate planning purposes.

Funeral plan policies are sold primarily to persons who range in age from 45 to 75. Even though people of all ages and income levels purchase funeral plans, the Company believes that the highest percentage of funeral plan purchasers are individuals who are older than 45 and have low to moderate income.

Higher education funding is for families that desire to prepare for their children's higher education needs. Such preparation can include searches for scholarships, grant applications, guaranteed student loan applications, and the purchase of life insurance and annuities. In 1965 the Higher Education Act ("HEA") created the guaranteed student loan programs participated in by the Company. Federal Family Education Loan ("FFEL") Program, which now comprises Federal Stafford Loans (formerly Guaranteed Student Loans), Federal PLUS Loans, and Federal Consolidation Loans. The FFEL Program makes these long-term loans available to students attending institutions of higher education, vocation, technical, business and trade schools and some foreign schools. State or private nonprofit guaranty agencies insure FFEL's and the Federal Government reimburses these agencies for all or part of the insurance claims they pay to lenders. The federal guaranty on a FFEL replaces the security (collateral) usually required for a long-term consumer loan. These government programs have numerous rules for qualification and have limits on how much you can borrow. The Company's whole life product has an Annuity Rider that can provide a way for families to save additional funds for their children's education. The Company has a student loan resource department, which is available to policyholders to help parents and students apply for various scholarships, grants and loans.

A majority of the Company's funeral plan premiums come from the states of Arizona, Colorado, Idaho, Mississippi, Nevada, Oklahoma, Texas and Utah. A majority of the Company's non-funeral plan life insurance premiums come from the states of Alabama, California, Florida, Georgia, Louisiana, New Mexico, South Carolina and Utah.

The Company sells its life insurance products through direct agents and brokers and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 10% to 100% of first year premiums. In those cases where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

In some instances, funeral plan insurance is marketed in conjunction with the Company's cemetery and mortuary sales force. When it is marketed by that group, the beneficiary is usually the Company. Thus, death benefits that become payable under the policy are paid to the Company's cemetery and mortuary subsidiaries to the extent of services performed and products purchased.

In marketing the funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs. The incentive for such businesses to share the costs is that these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2002:

	2002	2001	2000	1999	1998
	----	----	----	----	----
Life Insurance Policy/Cert					
Count as of December 31	341,909(2)	74,335	71,178	75,808	69,895(1)
Insurance in force as of December 31 (omitted 000)	\$2,635,436(2)	\$2,425,557	\$2,049,789	\$2,113,893	\$2,123,734(1)
Premiums Collected (omitted 000)	\$14,699	\$14,860	\$14,959	\$15,261(1)	\$5,718

(1) Includes acquisition of Southern Security Life Insurance Company on December 17, 1998.

(2) Includes asset purchase transaction with Acadian Life Insurance Company on December 23, 2002.

#### Underwriting

Factors considered in evaluating an application for insurance coverage can include the applicant's age, occupation, general health and medical history. Upon receipt of a satisfactory application, which contains pertinent medical questions, the Company writes insurance based upon its medical limits and requirements subject to the following general non-medical limits:

Age Nearest Birthday	Non-Medical Limits
0-50	\$75,000
51-up	Exam Required

When underwriting life insurance, the Company will sometimes issue policies with higher premium rates for substandard risks.

The Company also sells funeral plan insurance. This insurance is a small face amount, with a maximum policy size of \$10,000. It is written on a simplified medical application with underwriting requirements being a completed application, a phone inspection on each applicant and a Medical Information Bureau inquiry. There are several underwriting classes in which an applicant can be placed. If the Company receives conflicting or incomplete underwriting information, an attending physician's statement can be ordered.

#### Annuities

##### Products

The Company's annuity business includes single premium deferred annuities, flexible premium deferred annuities and immediate annuities. A single premium deferred annuity is a contract where the individual remits a sum of money to the Company which is retained on deposit until such time as the individual may wish to purchase an immediate annuity or surrender the contract for cash. A flexible premium deferred annuity gives the contract holder the right to make premium payments of varying amounts or to make no further premium payments after his initial

payment. These single and flexible premium deferred annuities can have initial surrender charges. The surrender charges act as a deterrent to individuals who may wish to surrender their annuity contracts. Annuities have guaranteed interest rates of 3% to 4 1/2% per annum. Above that, the interest rate credited is periodically determined by the Board of Directors at their discretion. An immediate annuity is a contract in which the individual remits to the Company a sum of money in return for the Company's obligation to pay a series of payments on a periodic basis over a designated period of time, such as an individual's life, or for such other period as may be designated.

Holders of annuities enjoy a significant benefit under the current federal income tax law in that interest accretions that are credited to the annuities do not incur current income tax expense on the part of the contract holder. Instead, the interest income is tax deferred until such time as it is paid out to the contract holder. In order for the Company to realize a profit on an annuity product, the Company must maintain an interest rate spread between its investment income and the interest rate credited to the annuities. From that spread must be deducted commissions, issuance expenses and general and administrative expenses. The Company's annuities currently have credited interest rates ranging from 3% to 5%.

#### Markets and Distribution

The general market for the Company's annuities is middle to older age individuals who wish to save or invest their money in a tax-deferred environment, having relatively high yields. The major source of annuity considerations comes from direct agents. Annuities are also sold in conjunction with other insurance sales. This is true in both the funeral planning and higher education planning areas. If an individual does not qualify for a funeral plan due to health considerations, the agent will often sell that individual an annuity to fund those final expenses. In the higher education planning area, most life insurance sales have as part of the transaction an annuity piece that is used to accumulate funds. The commission rates on annuities are up to 10%.

The following table summarizes the annuity business for the five years ended December 31, 2002:

	2002	2001	2000	1999	1998
	----	----	----	----	----
Annuities Policy/Cert					
Count as of December 31	7,711	8,021	8,443	8,369	7,890(1)
Deposits Collected (omitted 000)	\$3,215	\$2,550	\$3,039	\$3,906(1)	\$2,770

(1) Includes acquisition of Southern Security Life Insurance Company on December 17, 1998.

#### Accident and Health

##### Products

Prior to the acquisition of Capital Investors Life in December 1994, the Company did not actively market accident and health products. With the acquisition of Capital Investors Life, the Company acquired a block of accident and health policies which pay limited benefits to policyholders. The Company is currently offering a low-cost comprehensive diver's accident policy and a limited cancer benefit policy. The diver's policy provides worldwide coverage for medical expense reimbursement in the event of diving or water sports accidents. The cancer policy provides a lump sum payment for the occurrence of cancer.

## Markets and Distribution

The Company currently markets its diver's policy through water sports magazine advertising and dive shops throughout the world. The Company pays direct commissions ranging from 15% to 30% for new business generated.

The following table summarizes the accident and health business for the five years ended December 31, 2002:

	2002	2001	2000	1999	1998
	----	----	----	----	----
Accident and Health Policy/Cert. Count as of December 31	18,921	19,343	21,454	24,078	27,201(1)
Premiums Collected (omitted 000)	\$365	\$413	\$464	\$549(1)	\$375

(1) Includes acquisition of Southern Security Life Insurance Company on December 17, 1998.

## Reinsurance

When a given policy exceeds the Company's retention limits, the Company reinsures with other companies that portion of the individual life insurance and accident and health policies it has underwritten. The primary purpose of reinsurance is to enable an insurance company to write a policy in an amount larger than the risk it is willing to assume for itself. The Company remains obligated for amounts ceded in the event the reinsurers do not meet their obligations.

The Company's policy is to retain no more than \$75,000 of ordinary insurance per insured life. Excess risk is reinsured. The total amount of life insurance in force at December 31, 2002, reinsured by other companies aggregated \$220,749,000, representing approximately 9.1% of the Company's life insurance in force on that date.

The Company currently cedes and assumes certain risks with various authorized unaffiliated reinsurers pursuant to reinsurance treaties which are renewable annually. The premiums paid by the Company are based on a number of factors, primarily including the age of the insured and the risk ceded to the reinsurer.

## Investments

The investments that support the Company's life insurance and annuity obligations are determined by the Investment Committee of the Board of Directors of the various subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the investments must meet statutory requirements governing the nature and quality of permitted investments by insurance companies. The Company's interest-sensitive type products, primarily annuities and interest-sensitive whole life, compete with other financial products such as bank certificates of deposit, brokerage sponsored money market funds as well as competing life insurance company products. While it is not the Company's policy to offer the highest yield in this climate, in order to offer what the Company considers to be a competitive yield, it maintains a diversified portfolio consisting of common stocks, preferred stocks, municipal bonds, investment and non-investment grade bonds including high-yield issues, mortgage loans, real estate, short-term and other securities and investments.

See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding investments.

## Cemetery and Mortuary

### Products

The Company has six wholly-owned cemeteries and 13 wholly-owned mortuaries. The cemeteries are non-denominational. Through its cemetery and mortuary operations, the Company markets a variety of products and services both on a pre-need basis (prior to death) and an at-need basis (at the time of death). The products include grave spaces, interment vaults, mausoleum crypts and niches, markers, caskets, flowers and other related products. The services include professional services of funeral directors, opening and closing of graves, use of chapels and viewing rooms, and use of automobiles and clothing. The Company has a funeral chapel at each of its cemeteries, other than Holladay Memorial Park and Singing Hills Memorial Park, and has ten separate stand-alone mortuary facilities.

### Markets and Distribution

The Company's pre-need cemetery and mortuary sales are marketed to persons of all ages but are generally purchased by persons 45 years of age and older. The Company also markets its mortuary and cemetery products on an at-need basis. The Company is limited in its geographic distribution of these products to areas lying within an approximate 20-mile radius of its mortuaries and cemeteries. The Company's at-need sales are similarly limited in geographic area.

The Company actively seeks to sell its cemetery and funeral products to customers on a pre-need basis. The Company employs cemetery sales representatives on a commission basis to sell these products. Many of these pre-need cemetery and mortuary sales representatives are also licensed insurance salesmen and sell funeral plan insurance. In many instances, the Company's cemetery and mortuary facilities are the named beneficiary of the funeral plan policies.

The sales representatives of the Company's cemetery and mortuary operations are commissioned and receive no salary. The sales commissions range from 10% to 22% for cemetery products and services and 10% to 100% of first year premiums for funeral plan insurance. Potential customers are located via telephone sales prospecting, responses to letters mailed by the sales representatives, newspaper inserts, referrals, contacts made at funeral services, and door-to-door canvassing. The Company trains its sales representatives and generates leads for them. If a customer comes to one of the Company's cemeteries on an at-need basis, the sales representatives are compensated on a commission basis.

## Mortgage Loans

### Products

The Company, through its mortgage subsidiary, Security National Mortgage Company, originates and underwrites residential and commercial loans for new construction and existing homes and real estate projects. The Company is approved to underwrite and process government guaranteed and conventional loans. Most of the loans are sold directly to investors. The Company has available warehouse lines of credit with affiliated companies and unaffiliated financial institutions to fund mortgage loans prior to the purchase by investors.

### Markets and Distribution

The Company's mortgage lending services are marketed primarily to individual homeowners and has branch offices in Salt Lake City and Orem, Utah; Valencia and Sacramento, California; Orlando, Florida; Colorado Springs, Colorado; Phoenix, Arizona and Houston, Texas. The average loan size for residential loans is \$150,000. The Company's mortgage loan originations are through full time mortgage loan officers and wholesale brokers who are paid a sales commission ranging between .7% to 3.0% of the loan amount. Prospective customers are located through contacts with builders, real estate agents and regional sales representatives..

## Recent Acquisitions and Other Business Activities

### Acadian Life Insurance Company

On December 23, 2002, the Company completed an asset purchase transaction through its wholly owned subsidiary, Security National Life with Acadian from which it acquired \$75,000,000 in assets and \$75,000,000 in insurance reserves. The acquired assets consist primarily of approximately 275,000 funeral insurance policies in force in the state of Mississippi. The assets were originally acquired by Acadian from Gulf National Life Insurance Company ("GNLIC") on June 6, 2001, which, at that time consisted of all of GNLIC's insurance policies in force and in effect on June 1, 2001 (the "Reinsured Business").

As a part of the transaction, Security National Life entered into a Coinsurance Agreement with Acadian, in which Security National Life agreed to reinsure all the liabilities related to policies held by Mississippi policyholders. The terms included the payment of all legal liabilities, obligations, claims and commissions of the acquired policies. The effective date of the Coinsurance Agreement was September 30, 2002, subsequent to Acadian's recapture of the insurance in force from its reinsurer Scottish Re (U.S.) Inc. on September 30, 2002.

Under the terms of the Coinsurance Agreement, Security National Life agreed to assume all of the risks (including deaths, surrenders, disability, accidental deaths and dismemberment) on the reinsurance policies as of the effective date of the Agreement. Acadian represented and warranted that each of the reinsured policies was in force as of the effective date (including policies which may be lapsed subject to the right of reinstatement, policies not lapsed but in arrears, and policies in force and in effect as paid up and extended term

policies) with premiums paid and its face amount, insured, and all other characteristics accurately reflected. Security National Life accepted liability for all the risks under the reinsured policies on eligible lives for all benefits occurring on or after the effective date of the agreement. The liability of Security National Life under the coinsurance treaty began as of September 30, 2002.

The Coinsurance Agreement further provided Security National Life the right to assume all right, title and interest to the reinsured policies, as well as other similar policies written by Acadian under similar terms and conditions in the state of Mississippi from September 30, 2002, through termination of the Coinsurance Agreement, with an Assumption Reinsurance Agreement, at any time but in any event not later than nine months subsequent to December 16, 2002, subject to all regulatory approvals as required by law. In the event Acadian were to come under any supervision by a state regulator or in the event Acadian were to apply for or consent in the appointment of, or the taking of possession by, a receiver, custodian, regulator, trustee or liquidator of itself or of all or a substantial part of its assets, make a general assignment for the benefit of its creditors, commence a voluntary case under the Federal Bankruptcy Code, file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization or winding up, Security National Life and Acadian were to be deemed to have converted the Coinsurance Agreement to an Assumption Reinsurance Agreement one day prior to such insolvency or other actions and Security National Life was to be deemed to have assumed the reinsurance policies as of one day prior to the date thereof.

The Coinsurance Agreement further provided that Acadian was required to pay Security National Life an initial coinsurance premium in cash or assets acceptable to Security National Life in an amount equal to the full coinsurance reserves, not including the Incurred But Not Reported (IBNR) reserve as of the effective date. The ceding commission to be paid by Security National Life to Acadian for the reinsured policies is to be the recapture amount to be paid by Acadian to Scottish Re (U.S.), Inc., which was approximately \$10,000,000. After the initial coinsurance premium, the coinsurance premiums payable by Acadian to Security National Life are to be equal to all of the premiums collected by Acadian on the reinsurance policies subsequent to December 31, 2002.



Subsequent to the coinsurance agreement, Security National Life entered into an Assumption Agreement effective January 1, 2003, with Acadian, in which Security National Life agreed to assume certain of the liabilities related to the reinsurance policies. Under the terms of the Assumption Agreement, Acadian agreed to cede to Security National Life, and Security National Life agreed to assume the stated insurance risks and contractual obligations of Acadian relating to the Reinsured Business. Security National Life agreed to pay all legal liabilities and obligations, including claims and commissions, of Acadian with respect to the Reinsured Business arising on or after January 1, 2003, in accordance with the terms and conditions of the reinsured policies.

The Assumption Agreement also requires Security National Life to issue a certificate of assumption for each policy in force included in the Reinsured Business, reinsuring such policies according to the terms thereof, provided that Security National Life may be subrogated to and substituted for all rights, privileges and interests accruing under such policies, and provided further that all obligations and liabilities assumed by Security National Life are assumed subject to the terms, limitations and conditions of the insurance policies included in the Reinsured Business and all defenses, counterclaims and off-sets that are or might thereafter become available to Security National Life.

Under the Assumption Agreement Security National Life agreed to assume only those insurance risks in contractual obligations included within the Reinsured Business of Acadian. Security National Life did not agree to assume any extra contractual or other liability or obligations of Acadian. In addition, Security National Life did not agree to assume any policy issued to an insured whose death occurred prior to January 1, 2003, and for which a death claim had been received by Acadian prior to that date. However, Security National Life did agree to assume any valid claim of an insured whose death occurred prior to January 1, 2003, and for which a death claim was not received by Acadian prior to that date.

The Assumption Agreement further provided that as of January 1, 2003, Acadian was to transfer and assign to Security National Life all of its right, title and interest in the reinsured policies, including policies which may be lapsed subject to the right of reinstatement, and policies in force and in effect as paid up and extended term policies. Acadian further agreed to turn over to Security National Life, as of January 1, 2003, all policy owner service, underwriting and other files on hand that may be needed by Security National Life in the continuation of the Reinsured Business, and Acadian further agreed to turn over all such records and record books as may be necessary for carrying on the Reinsured Business, including all such permanent records of Acadian necessary for Security National Life to continue in force in effect the reinsured policies.

On December 23, 2002, Security National Life also entered into an Asset Purchase Agreement with Acadian, in which Acadian agreed to transfer and convey to Security National Life all of Acadian's right, title and interest in and to the certain assets of Acadian. The assets included the following: (i) computer hardware; (ii) licensed software from International Business Machines, Inc. ("IBM") for certain software utilized in the maintenance of Acadian's general ledger accounting records, for use on Acadian's AS400 computer; (iii) owned software developed by employees or contractors of Acadian or Gulf National Life Insurance Company and utilized by Acadian in accounting for premiums received, reserve computations, and for other purposes; (iv) certain furniture and equipment; (v) the use of the name "Gulf National Life Insurance Company" alone or as part of any other tradename, as well as the logo "GNL"; (vi) the sublease of certain real property located in Jackson, Mississippi; and (vii) the assignment and assumption of certain agreements and arrangements. Following the closing of the asset purchase transaction with Acadian, Security National Life intends to continue to operate the business it acquired from Acadian in the state of Mississippi.

#### Menlo Life Insurance Company

On June 30, 1999 the Company entered into a Coinsurance and Assumption Agreement (the "Agreement") with Menlo Life Insurance Company ("Menlo Life"), wherein the Company has assumed 100% of the policies in force of Menlo Life. The Agreement was not in effect until it was approved by Menlo Life's domiciled state of Arizona and the state of California. These approvals were obtained on September 9, 1999 for the Arizona Insurance Department, and on December 9, 1999 for the California Insurance Department.

#### SSLIC Holding Company

On December 17, 1998, the Company completed the acquisition of SSLIC Holding Company, (formerly Consolidare Enterprises, Inc.), a Florida corporation ("SSLIC Holding") pursuant to the terms of the Acquisition Agreement which the Company entered into on April 17, 1998 with SSLIC Holding and certain shareholders of SSLIC Holding for the purchase of all of the outstanding shares of common stock of SSLIC Holding and all of the outstanding shares of stock of Insuradyne Corp., a Florida Corporation ("Insuradyne"). As of December 31, 2002, SSLIC Holding owns approximately 75% of the outstanding shares of common stock of Southern Security Life Insurance Company, a Florida corporation ("Southern Security"). Southern Security is a Florida domiciled insurance company with total assets as of December 31, 2002, of approximately \$77.3 million. Southern Security is currently licensed to transact business in 14 states. Southern Security is also a reporting company under Section 13 of the Securities Exchange Act of 1934. Reference is made to Southern Security's annual report on Form 10-K for the year ended December 31, 2002, which was filed with the Securities Exchange Commission on March 31, 2003, Commission File No. 2-35669.

#### Crystal Rose Funeral Home

In February 1997, the Company purchased all of the outstanding shares of common stock of Crystal Rose Funeral Home, Inc. ("Crystal Rose"), an Arizona corporation. In connection with this transaction, the Company also acquired certain real estate and other assets related to the business of Crystal Rose from the sole stockholder of Crystal Rose. The Company continues to operate Crystal Rose, which is located in Tolleson, Arizona, as a funeral home and mortuary.

#### Regulation

The Company's insurance subsidiaries, Security National Life and Southern Security, are subject to comprehensive regulation in the jurisdictions in which they do business under statutes and regulations administered by state insurance commissioners. Such regulation relates to, among other things, prior approval of the acquisition of a controlling interest in an insurance company; standards of solvency which must be met and maintained; licensing of insurers and their agents; nature of and limitations on investments; deposits of securities for the benefit of policyholders; approval of policy forms and premium rates; periodic examinations of the affairs of insurance companies; annual and other reports required to be filed on the financial condition of insurers or for other purposes; and requirements regarding aggregate reserves for life policies and annuity contracts, policy claims, unearned premiums, and other matters. The Company's insurance subsidiaries are subject to this type of regulation in any state in which they are licensed to do business. Such regulation could involve additional costs, restrict operations or delay implementation of the Company's business plans.

The Company is currently subject to regulation in Utah and Florida under insurance holding company legislation, and other states where applicable. Generally, intercorporate transfers of assets and dividend payments from its insurance subsidiaries are subject to prior notice of approval from the State Insurance Department, if they are deemed "extraordinary" under these statutes. The insurance subsidiaries are required, under state insurance laws, to file detailed annual reports with the supervisory agencies in each of the states in which they do business. Their business and accounts are also subject to examination by these agencies.

The Company's cemetery and mortuary subsidiaries are subject to the Federal Trade Commission's comprehensive funeral industry rules and are subject to state regulations in the various states where such operations are domiciled. The morticians must be licensed by the respective state in which they provide their services. Similarly, the mortuaries and cemeteries are governed and licensed by state statutes and city ordinances in Utah, Arizona and California. Reports are required to be kept on file on a yearly basis which include financial information concerning the number of spaces sold and, where applicable, funds provided to the Endowment Care Trust Fund. Licenses are issued annually on the basis of such reports. The cemeteries maintain city or county licenses where they conduct business.

The Company's mortgage loan subsidiary, Security National Mortgage, is subject to the rules and regulations of the U.S. Department of Housing and Urban Development and to various state licensing acts and regulations. These regulations, among other things, specify minimum capital requirements, the procedures for the origination, the underwriting, the licensing of wholesale brokers, quality review audits and the amounts that can be charged to borrowers for all FHA and VA loans. Each year the Company must have an audit by an independent CPA firm to verify compliance under these regulations. In addition to the government regulations, the Company must meet loan requirements of various investors who purchase the loans.

#### Income Taxes

The Company's insurance subsidiaries, Security National Life and Southern Security, are taxed under the Life Insurance Company Tax Act of 1984. Pursuant thereto, life insurance companies are taxed at standard corporate rates on life insurance company taxable income. Life insurance company taxable income is gross income less general business deductions, reserves for future policyholder benefits (with modifications), and a small life insurance company deduction (up to 60% of life insurance company taxable income). The Company may be subject to the corporate Alternative Minimum Tax (AMT). The exposure to AMT is primarily a result of the small life insurance company deduction. Also, under the Tax Reform Act of 1986, distributions in excess of stockholder's surplus account or significant decrease in life reserves will result in taxable income.

Security National Life and Southern Security may continue to receive the benefit of the small life insurance company deduction. In order to qualify for the small company deduction, the combined assets of the Company must be less than \$500,000,000 and the taxable income of the life insurance companies must be less than \$3,000,000. To the extent that the net income limitation is exceeded, then the small life insurance company deduction is phased out over the next \$12,000,000 of life insurance company taxable income.

Since 1990, Security National Life and Southern Security have computed their life insurance taxable income after establishing a provision representing a portion of the costs of acquisition of such life insurance business. The effect of the provision is that a certain percentage of the Company's premium income is characterized as deferred expenses and recognized over a five to ten year period.

The Company's non-life insurance company subsidiaries are taxed in general under the regular corporate tax provisions. For taxable years beginning January 1, 1987, the Company may be subject to the Corporate Alternative Minimum Tax and the proportionate disallowance rules for installment sales under the Tax Reform Act of 1986.

#### Competition

The life insurance industry is highly competitive. There are approximately 2,000 legal reserve life insurance companies in business in the United States. These insurance companies differentiate themselves through marketing techniques, product features, price and customer service. The Company's insurance subsidiaries compete with a large number of insurance companies, many of which have greater financial resources, a longer business history, and a more diversified line of insurance coverage than the Company. In addition, such companies generally have a larger sales force. Further, many of the companies with which the Company competes are mutual companies which

may have a competitive advantage because all profits accrue to policyholders. Because the Company is small by industry standards and lacks broad diversification of risk, it may be more vulnerable to losses than larger, better-established companies. The Company believes that its policies and rates for the markets it serves are generally competitive.

The cemetery and mortuary industry is also highly competitive. In the Salt Lake City, Phoenix and San Diego areas in which the Company competes, there are a number of cemeteries and mortuaries which have longer business histories, more established positions in the community and stronger financial positions than the Company. In addition, some of the cemeteries with which the Company must compete for sales are owned by municipalities and, as a result, can offer lower prices than can the Company. The Company bears the cost of a pre-need sales program that is not incurred by those competitors that do not have a pre-need sales force. The Company believes that its products and prices are generally competitive with those in the industry.

The mortgage loan industry is highly competitive with a number of mortgage companies and banks in the same geographic area in which the Company is operating that are better capitalized, have longer business histories, and more established positions in the community. The mortgage market in general is sensitive to changes in interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

#### Employees

As of December 31, 2002, the Company employed 328 full-time and 45 part-time employees.

#### Item 2. Properties

The following table sets forth the location of the Company's office facilities and certain other information relating to these properties.

Location -----	Function -----	Owned/ Leased -----	Approximate Square Footage -----
5300 So. 360 West Salt Lake City, UT	Corporate Headquarters	Owned (1)	33,000
1603 Thirteenth St Lubbock, TX	Insurance Sales	Owned (2)	10,000
755 Rinehart Rd Lake Mary, FL	Insurance Operations/ Mortgage Sales	Owned (3)	27,000
6522 Dogwood View Pkwy Jackson, MS	Insurance Operations	Leased (4)	5,300
1236 No. Spencer, Ste. 2 Mesa, AZ	Mortgage Sales	Leased (5)	3,700
27201 Tournay Rd., Ste. 121 Valencia, CA	Mortgage Sales	Leased (6)	1,600
12150 Tributary Pnt. Dr., Ste. 160 Gold River, CA	Mortgage Sales	Leased (7)	2,000
1901 No. Union, Ste. 104 Colorado Springs, CO	Mortgage Sales	Leased (8)	2,200

Item 2. Properties (Continued)

Location -----	Function -----	Owned/ Leased -----	Approximate Square Footage -----
10850 Richmond Ave., Ste 270 Houston, TX	Mortgage Sales	Leased (9)	1,600
595 West 800 North Orem, UT	Mortgage Sales	Leased (10)	2,000
970 East Holladay Rd. Murray, UT	Mortgage Sales	Leased (11)	6,600

- (1) The Company leases an additional 7,484 square feet of the facility to unrelated third parties for approximately \$70,300 per year, under leases expiring at various dates after 2002.
- (2) The Company leases an additional 7,265 square feet of the facility to unrelated third parties for approximately \$33,000 per year, under leases expiring at various dates after 2002.
- (3) The Company leases an additional 13,301 square feet of the facility to unrelated third parties for approximately \$232,600 per year, under leases expiring at various dates after 2002.
- (4) The Company leases this facility for \$84,000 per year. The lease expires in July 2005
- (5) The Company leases this facility for \$47,400 per year. The lease expires in August 2004.
- (6) The Company leases this facility for \$39,600 per year. The lease expires in November 2005.
- (7) The Company leases this facility for \$43,800 per year. The lease expires in July 2004.
- (8) The Company leases this facility for \$28,200 per year. The lease expires in July 2003.
- (9) The Company leases this facility for \$37,200 per year. The lease expires in November 2004.
- (10) The Company leases this facility for \$34,800 per year. The lease expires in February 2007.
- (11) The Company leases this facility for \$103,800 per year. The lease expires in December 2003.

The Company believes the office facilities it occupies are in good operating condition, are adequate for current operations and has no plan to build or acquire additional office facilities. The Company believes its office facilities are adequate for handling its business in the foreseeable future.

The following table summarizes the location and acreage of the six Company owned cemeteries:

Name of Cemetery -----	Location -----	Date Acquired -----	Developed Acreage(1) -----	Total Acreage(1) -----	Net Saleable Acreage	
					Acres Sold as Cemetery Spaces(2) -----	Total Available Acreage(1) -----
Memorial Estates, Inc.:						
Lakeview Cemetery(3)	1700 E. Lakeview Dr. Bountiful, UT	1973	7	40	7	33
Mountain View Cemetery(3)	3115 E. 7800 So. Salt Lake City, UT	1973	26	54	17	37
Redwood Cemetery(3)(5)	6500 So. Redwood Rd. West Jordan, UT	1973	40	78	35	43
Holladay Memorial Park(4)(5)	4800 So. Memory Lane Holladay, UT	1991	6	14	6	8
Lakehills Cemetery(4)	10055 So. State Sandy, UT	1991	12	41	6	35
Singing Hills Memorial Park(6)	2798 Dehesa Rd. El Cajon, CA	1995	6	35	3	32

- (1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports or the Company's inspection of the cemeteries.
- (2) Includes spaces sold for cash and installment contract sales.
- (3) As of December 31, 2002, there were mortgages of approximately \$45,000 collateralized by the property and facilities at Memorial Estates Lakeview, Mountain View and Redwood Cemeteries.
- (4) As of December 31, 2002, there were mortgages of approximately \$1,600,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, Lakehills Cemetery and Colonial Mortuary.
- (5) These cemeteries include two granite mausoleums.
- (6) As of December 31, 2002, there was a mortgage of approximately \$534,000 collateralized by the property.

The following table summarizes the location, square footage and the number of viewing rooms and chapels of the thirteen Company owned mortuaries:

Name of Mortuary -----	Location -----	Date Acquired -----	Viewing Room(s) -----	Chapel(s) -----	Square Footage -----
Memorial Mortuary	5850 South 900 East Salt Lake City, UT	1973	3	1	20,000
Memorial Estates, Inc.:					
Redwood Mortuary	6500 South Redwood Rd. West Jordan, UT	1973	2	1	10,000
Mountain View Mortuary	3115 East 7800 South Salt Lake City, UT	1973	2	1	16,000
Lakeview Mortuary	1700 East Lakeview Dr. Bountiful, UT	1973	0	1	5,500
Paradise Chapel Funeral Home	3934 East Indian School Road Phoenix, AZ	1989	2	1	9,800
Deseret Memorial, Inc.:					
Colonial Mortuary(2)	2128 South State St. Salt Lake City, UT	1991	1	1	14,500
Deseret Mortuary(2)	36 East 700 South Salt Lake City, UT	1991	2	2	36,300
Lakehills Mortuary	10055 South State St. Sandy, UT	1991	2	1	18,000
Cottonwood Mortuary(2)	4670 South Highland Dr. Salt Lake City, UT	1991	2	1	14,500
Camelback Sunset Funeral Home(1)	301 West Camelback Rd. Phoenix, AZ	1994	2	1	11,000



Name of Mortuary -----	Location -----	Date Acquired -----	Viewing Room(s) -----	Chapel(s) -----	Square Footage -----
Greer-Wilson:					
Greer-Wilson Funeral Home	5921 West Thomas Road Phoenix, AZ	1995	2	2	25,000
Avondale Funeral Home	218 North Central Avondale, AZ	1995	1	1	1,850
Crystal Rose Funeral Home(3)	9155 W. VanBuren Tolleson, AZ	1997	0	1	9,000

- (1) As of December 31, 2002 there were mortgages of approximately \$150,000 collateralized by the property and facilities of Camelback Sunset Funeral Home.
- (2) As of December 31, 2002, there were mortgages of approximately \$1,600,000 collateralized by the property and facilities at Deseret Mortuary, Cottonwood Mortuary, Holladay Memorial Park, Lakehills Cemetery and Colonial Mortuary.
- (3) As of December 31, 2002, there was a mortgage of approximately \$200,000, collateralized by the property and facilities of Crystal Rose Funeral Home.

### Item 3. Legal Proceedings

An action was brought against Southern Security Life Insurance Company in July 1999 by Dorothy Ruth Campbell in the Circuit Court of Escambia County, Alabama. The action arose out of a denial of coverage under a \$10,000 insurance policy. The claims were for breach of contract, bad faith and fraudulent misrepresentation. In the action, Campbell sought compensatory and punitive damages plus interest. The case was dismissed by order of summary judgment on January 21, 2003. The appeal time, if appeal is taken, is 42 days.

An action was brought against the Company in May 2001, by Glenna Brown Thomas individually and as personal representative of the Estate of Lynn W. Brown in the Third Judicial Court, Salt Lake County, Utah. The action asserts that Memorial Estates delivered to Lynn W. Brown six stock certificates representing 2,000 shares in 1970 and 1971. Mr. Brown died in 1972. It is asserted that at the time the 2,000 shares were issued and outstanding, such represented a 2% ownership of Memorial Estates. It is alleged Mr. Brown was entitled to preemptive rights and that after the issuance of the stock to Mr. Brown there were further issuances of stock without providing written notice to Mr. Brown or his estate with respect to an opportunity to purchase more stock. It is asserted among other things that the plaintiff "has the right to a transfer of Brown's shares to Thomas on defendants' (which includes Security National Financial Corporation as well as Memorial Estates, Inc.) books and to restoration of Brown's proportion of share ownership in Memorial at the time of his death by issuance and delivery to Thomas of sufficient shares of defendant's publicly traded and unrestricted stock in exchange for the 2,000 shares of Memorial stock and payment of all dividends from the date of Thomas's demand, as required by Article XV of the Articles of Incorporation." Based on present information, the Company intends to vigorously defend the matter, including an assertion that the statute of limitations bars the claims.

An action was brought against Southern Security Life Insurance Company by National Group Underwriters, Inc. ("NGU") in state court in the State of Texas. The case was removed by the Company to the United States District Court for the Northern District of Texas, Fort Worth Division, with Civil No. 4:01-CV-403-E. An Amended Complaint was filed on or about July 18, 2001. The Amended Complaint asserts that NGU had a contract with the Company wherein NGU would submit applications for certain policies of insurance to be issued by the Company. It is alleged that disputes have arisen between NGU and the Company with regard to the calculation and payment of certain advanced commissions as well as certain production bonuses.

NGU alleged that it has been damaged far in excess of the \$75,000 minimum jurisdictional limits of this Court. NGU also seeks attorney's fees and costs as well as prejudgment and postjudgment interest. A second amended complaint and a third amended complaint which included a fraud claim were filed. A motion was filed by the Company to dismiss the third amended complaint, including the fraud claim. The court denied the motion. The Company has counterclaimed for what it claims to be a debit balance owing to it pursuant to the relationship between the parties with said counterclaim seeking a substantial amount from NGU (the amount subject to reduction as premiums are received). The Company is also seeking to recover attorney's fees and costs, as well as punitive damages on three of its causes of action. The change of venue motion of the Company was denied. Certain discovery has taken place. The federal case was dismissed per stipulation. The matter was refiled in Texas state court, Tarrant County, Case No. 348 195490 02. The claims of the respective parties are essentially the

same as set forth above which claims include fraudulent inducement relative to entering into a contract, fraud, breach of contract, breach of duty of good faith and fair dealing, attorneys' fees and exemplary damages. Further discovery involving the parties is anticipated. The Company intends to vigorously defend the matter as well as prosecute its counterclaim.

An action was brought by Bernice Johnson against Southern Security Life Insurance Company in May, 2002 in the Circuit Court of Jefferson County, Alabama, Civil Action No. CV02 2963. The face amount of coverage under the policy is \$15,000. The insured died in July 2001. Claims are made for non-payment of the policy amount. The claims for relief include misrepresentation, mental anguish and emotional distress, fraud, intentional and bad faith non payment of the benefit, intentional and bad faith failure to investigate the claim for benefits, reckless and negligent and wanton action relative to misrepresentation and/or concealment of facts, negligence and the wanton hiring, training and supervision of agent. Compensatory and punitive damages are sought along with interest and costs. An answer has been filed by the Company and discovery is in process.

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

Item 4. Submission of Matters to a Vote of Security Holders

None

PART II

Item 5. Market for the Registrant's Common Stock and Related Security Holder Matters

The Company's Class A Common Stock trades on the Nasdaq National Market under the symbol "SNFCA." Prior to August 13, 1987, there was no active public market for the Class A and Class C Common Stock. As of March 31, 2003, the closing sales price of the Class A Common Stock was \$6.62 per share. The following are the high and low market closing sales prices for the Class A Common Stock by quarter as reported by Nasdaq since January 1, 2001:

Period (Calendar Year)	Price Range	
	High	Low
2001		
First Quarter	\$2.32	\$1.81
Second Quarter	2.27	1.82
Third Quarter	2.63	2.00
Fourth Quarter	2.63	2.09
2002		
First Quarter	2.81	2.20
Second Quarter	6.48	2.38
Third Quarter	6.10	2.74
Fourth Quarter	6.43	2.48
2003		
First Quarter	7.26	4.75

The above sales prices have been adjusted for the effect of annual stock dividends.

The Class C Common Stock is not actively traded, although there are occasional transactions in such stock by brokerage firms. (See Note 11 to the Consolidated Financial Statements.)

The Company has never paid a cash dividend on its Class A or Class C Common Stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C Common Stock in the foreseeable future. Any future determination as to cash dividends will depend upon the earnings and financial position of the Company and such other factors as the Board of Directors may deem appropriate. A 5% stock dividend on Class A and Class C Common Stock has been paid each year from 1989 through 2002.

As of December 31, 2002, there were 4,583 record holders of Class A Common Stock and 143 record holders of Class C Common Stock.

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated)

The following selected financial data for each of the five years in the period ended December 31, 2002, are derived from the audited consolidated financial statements. The data as of December 31, 2002 and 2001, and for the three years ended December 31, 2002, should be read in conjunction with the consolidated financial statements, related notes and other financial information included herein.

Consolidated Statement of Earnings Data:

	Year Ended December 31,				
	2002	2001	2000	1999(1)	1998
	----	----	----	-----	----
Revenue					
Premiums	\$14,077,000	\$13,151,000	\$12,876,000	\$13,176,000	\$5,916,000
Net investment income	12,540,000	12,947,000	12,136,000	10,631,000	7,459,000
Net mortuary and cemetery income	11,256,000	10,603,000	9,417,000	10,178,000	9,226,000
Realized gains on investments	1,021,000	10,000	424,000	313,000	74,000
Mortgage fee income	57,008,000	40,086,000	22,922,000	14,503,000	10,082,000
Other	479,000	152,000	305,000	856,000	63,000
Total revenue	96,381,000	76,949,000	58,080,000	49,657,000	32,820,000
Expenses					
Policyholder benefits	13,756,000	11,775,000	12,931,000	11,976,000	6,932,000
Amortization of deferred policy acquisition costs	3,994,000	3,870,000	3,189,000	4,858,000	1,274,000
General and administrative expenses	68,459,000	52,247,000	35,959,000	26,959,000	19,649,000
Interest expense	1,970,000	2,791,000	2,126,000	1,119,000	999,000
Cost of goods & services of the mortuaries & cemeteries	2,663,000	2,494,000	2,628,000	3,295,000	2,940,000
Total benefits & expenses	90,842,000	73,177,000	56,833,000	48,207,000	31,794,000
Income before income tax expense	5,539,000	3,772,000	1,247,000	1,450,000	1,026,000
Income tax expense	(1,565,000)	(913,000)	(305,000)	(230,000)	(255,000)
Minority interest in (income) loss of subsidiary	18,000	(18,000)	(46,000)	(244,000)	--
Net earnings	\$3,992,000	\$2,841,000	\$896,000	\$976,000	\$771,000
Net earnings per common share(3)	\$.83	\$.63	\$.21	\$.22	\$.18
Weighted average outstanding common shares	4,824,000	4,506,000	4,318,000	4,397,000	4,273,000
Net earnings per common share-assuming dilution(3)	\$.80	\$.63	\$.21	\$.22	\$.18
Weighted average outstanding common shares-assuming dilution	4,995,000	4,507,000	4,335,000	4,397,000	4,273,000

Item 6. Selected Financial Data - The Company and Subsidiaries (Consolidated)

Balance Sheet Data:

	2002(2)	2001	Year Ended December 31, 2000	1999	1998(1)
<b>Assets</b>					
Investments and restricted assets	\$106,162,000	\$94,514,000	\$108,810,000	\$113,208,000	\$126,332,000
Cash	38,199,000	8,757,000	11,275,000	12,423,000	6,671,000
Receivables	101,684,000	58,701,000	36,413,000	38,074,000	28,309,000
Other assets	61,112,000	51,088,000	52,249,000	50,593,000	51,953,000
<b>Total assets</b>	<b>\$307,157,000</b>	<b>\$213,060,000</b>	<b>\$208,747,000</b>	<b>\$214,298,000</b>	<b>\$213,265,000</b>
<b>Liabilities</b>					
Policyholder benefits	\$217,895,000	\$142,291,000	\$141,755,000	\$140,368,000	\$137,466,000
Notes & contracts payable	19,273,000	12,098,000	14,046,000	23,341,000	22,887,000
Cemetery & mortuary liabilities	10,076,000	9,344,000	8,659,000	6,638,000	6,917,000
Other liabilities	21,102,000	15,121,000	12,921,000	11,415,000	12,536,000
<b>Total liabilities</b>	<b>268,346,000</b>	<b>178,854,000</b>	<b>177,381,000</b>	<b>181,762,000</b>	<b>179,806,000</b>
Minority interest	4,298,000	4,237,000	4,625,000	6,046,000	6,779,000
Stockholders' equity	34,513,000	29,969,000	26,741,000	26,490,000	26,680,000
<b>Total liabilities and stockholders' equity</b>	<b>\$307,157,000</b>	<b>\$213,060,000</b>	<b>\$208,747,000</b>	<b>\$214,298,000</b>	<b>\$213,265,000</b>

(1) Reflects the acquisition of SSLIC Holding Company and subsidiaries as of December 17, 1998.

(2) Reflects the asset purchase transaction with Acadian Life Insurance Company on December 23, 2002.

## Item 7. 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: (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 lower interest rates by originating and refinancing mortgage loans.

During the years ending December 31, 2002 and 2001, Security National Mortgage Company (SNMC) experienced increases in revenue and expenses due to the increase in loan volume of its operations. SNMC is a mortgage lender incorporated under the laws of the State of Utah. SNMC is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SNMC obtains loans primarily from independent brokers and correspondents. SNMC funds the loans from internal cash flows and lines of credit from financial institutions. SNMC receives fees from the borrowers and other secondary fees from third party investors who purchase the loans from SNMC. SNMC sells all of its loans to third party investors and does not retain servicing to these loans. SNMC pays the brokers and correspondents a commission for loans that are brokered through SNMC. In 1999, SNMC opened new wholesale branches in Sacramento, California and Valencia, California. In 2000, SNMC opened new wholesale branches in Orlando, Florida; Colorado Springs, Colorado and Provo, Utah. In 2001, SNMC opened wholesale branches in Phoenix, Arizona and Houston, Texas. SNMC originated and sold 11,737 (\$1,721,000,000 loan amount), 8,738 (\$1,268,000,000 loan amount), and 4,845 (\$652,000,000 loan amount) loans in 2002, 2001 and 2000, respectively.

On December 17, 1998, the Company purchased all of the outstanding shares of common stock of SSLIC Holding Company ("SSLIC Holding") (formerly "Consolidare Enterprises, Inc.") and Insuradyne Corporation ("Insuradyne") for a total cost of \$12,248,194. As of December 31, 2002, SSLIC Holding held approximately 75% of the outstanding shares of common stock of Southern Security Life Insurance Company ("Southern Security").

On December 23, 2002, the Company completed an asset purchase transaction with Acadian Life Insurance Company, a Louisiana domiciled life insurance company ("Acadian"), in which it acquired from Acadian \$75,000,000 in assets and \$75,000,000 in insurance reserves through its wholly owned subsidiary, Security National Life Insurance Company, a Utah domiciled life insurance company. The acquired assets consist primarily of approximately 275,000 funeral insurance policies in force in the state of Mississippi. The assets were originally acquired by Acadian from Gulf National Life Insurance Company ("GNLIC") on June 6, 2001, consisting of all of GNLIC's insurance policies in force and in effect on June 1, 2001.

### Significant Accounting Policies and Estimates

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. For a complete description of our significant accounting policies, see Note 1 to our financial statements.

#### Insurance Operations

In accordance with accounting principles generally accepted in the United States of America (GAAP), premiums and considerations received for interest sensitive products such as universal life insurance and ordinary annuities are reflected as increases in liabilities for policyholder account balances and not as revenues. Revenues reported for these products consist of policy charges for the cost of insurance, administration charges, amortization of policy initiation fees and surrender charges assessed against policyholder account balances. Surrender benefits paid

relating to these products are reflected as decreases in liabilities for policyholder account balances and not as expenses. The Company receives investment income earned from the funds deposited into account balances, a portion of which is passed through to the policyholders in the form of interest credited. Interest credited to policyholder account balances and benefit claims in excess of policyholder account balances are reported as expenses in the financial statements.

Premium revenues reported for traditional life insurance products are recognized as revenues when due. Future policy benefits are recognized as expenses over the life of the policy by means of the provision for future policy benefits.

The costs related to acquiring new business, including certain costs of issuing policies and other variable selling expenses (principally commissions), defined as deferred policy acquisition costs, are capitalized and amortized into expense. For nonparticipating traditional life products, these costs are amortized over the premium paying period of the related policies, in proportion to the ratio of annual premium revenues to total anticipated premium revenues. Such anticipated premium revenues are estimated using the same assumption used for computing liabilities for future policy benefits and are generally "locked in" at the date the policies are issued. For interest sensitive products, these costs are amortized generally in proportion to expected gross profits from surrender charges and investment, mortality and expense margins. This amortization is adjusted when the Company revises the estimate of current or future gross profits or margins. For example, deferred policy acquisition costs are amortized earlier than originally estimated when policy terminations are higher than originally estimated or when investments backing the related policyholder liabilities are sold at a gain prior to their anticipated maturity.

Death and other policyholder benefits reflect exposure to mortality risk and fluctuate from year to year on the level of claims incurred under insurance retention limits. The profitability of the Company is primarily affected by fluctuations in mortality, other policyholder benefits, expense levels, interest spreads (i.e., the difference between interest earned on investments and interest credited to policyholders) and persistency. We have the ability to mitigate adverse experience through adjustments to credited interest rates, policyholder dividends or cost of insurance charges.

#### Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets - revenue and costs associated with the sales of pre-need funeral services and caskets are deferred until the services are performed.

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, "Accounting for the Sales of Real Estate" (FAS No. 66). Under FAS 66, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of FAS No. 66 described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sales of pre-need cemetery merchandise are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer obtaining costs - costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of Statement

of Financial Accounting Standards No. 60 "Accounting and Reporting by Insurance Enterprises" (FAS No. 60). Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Cemetery merchandise and services trust investment earnings - investment earnings generated by assets included in merchandise and services trusts are deferred until the associated merchandise is delivered or services performed.

The Company is required to place specified amounts into restricted asset accounts for products sold on a pre-need basis. Income from assets placed in these restricted asset accounts are used to offset required increases to the estimated future liability.

Revenues and costs for at-need sales are recorded when the services are performed.

#### Mortgage Operations

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is deferred until such loans are determined to be sold in accordance with FAS No. 140.

All loans are sold to third party investors and the Company does not retain servicing rights. The amounts sold to investors are shown on the balance sheet as due from sale of loans, and are shown on the basis of the amount of fees due from the investors.

#### Use of Significant Accounting Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosure of contingent assets and liabilities. It is reasonably possible that actual experience could differ from the estimates and assumptions utilized which could have a material impact on the financial statements. The following is a summary of our significant accounting estimates, and critical issues that impact them:

#### Fixed Maturities Available for Sale

Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in accumulated other comprehensive income which is included in stockholders' equity after adjustment for deferred income taxes and deferred acquisition costs related to universal life products.

The Company uses fair market values based on National Association of Insurance Commissioners (NAIC) values, versus values associated with normal marketing pricing services. The Company considers the difference to be immaterial.

The Company is required to exercise judgment to determine when a decline in the value of a security is other than temporary. When the value of a security declines and the decline is determined to be other than temporary, the carrying value of the investment is reduced to its fair value and a realized loss is recorded to the extent of the decline.

#### Deferred Acquisition Costs

Amortization of deferred policy acquisition costs for interest sensitive products is dependent upon estimates of current and future gross profits or margins on this business. Key assumptions used include the following: yield



on investments supporting the liabilities, amount of interest or dividends credited to the policies, amount of policy fees and charges, amount of expenses necessary to maintain the policies, and amount of death and surrender benefits and the length of time the policies will stay in force.

These estimates, which are revised periodically, are based on historical results and our best estimate of future expenses.

#### Cost of Insurance Acquired

Cost of insurance acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred acquisition costs. The critical issues explained for deferred acquisition costs would also apply for cost of insurance acquired.

#### Allowance for Doubtful Accounts

The Company accrues an estimate of potential losses for the collection of receivables. The significant receivables are the result of the Company's cemetery and mortuary operations and mortgage loan operations. The allowance is based upon the Company's experience. The critical issues that would impact the cemetery and mortuary operations is the overall economy. The critical issues for the mortgage loan operations would be interest rate risk and loan underwriting.

#### Future Policy Benefits

Reserves for future policy benefits for traditional life insurance products requires the use of many assumptions, including the duration of the policies, mortality experience, expenses, investment yield, lapse rates, surrender rates, and dividend crediting rates.

These assumptions are made based upon historical experience, industry standards and a best estimate of future results and, for traditional life products, include a provision for adverse deviation. For traditional life insurance, once established for a particular series of products, these assumptions are generally held constant.

#### Unearned Revenue

The universal life products the Company sells have a significant policy initiation fees (front-end load), which are deferred and amortized into revenues over the estimated expected gross profits from surrender charges and investment, mortality and expense margins. The same issues that impact deferred acquisition costs would apply to unearned revenue.

#### Deferred Pre-need Cemetery and Funeral Contracts Revenues and Estimated Future Cost of Pre-need Sales

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The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered. Also, trust investment earnings from any pre-need sales placed into trust are also deferred until the merchandise is delivered.

The Company, through its mortuary and cemetery operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy.

## Results of Operations

### 2002 Compared to 2001

Total revenues increased by \$19,432,000, or 25.3%, from \$76,949,000 for fiscal year 2001 to \$96,381,000 for fiscal year 2002. Contributing to this increase in total revenues was a \$16,922,000 increase in mortgage fee income, a \$653,000 increase in net mortuary and cemetery sales and a \$926,000 increase in insurance premiums and other considerations.

Insurance premiums and other considerations increased by \$926,000, from \$13,151,000 in 2001 to \$14,077,000 in 2002. This increase was primarily due to the additional premiums from increased sales of the Company's traditional life products.

Net investment income decreased by \$407,000, from \$12,947,000 in 2001 to \$12,540,000 in 2002. This decrease was primarily attributable to reduced interest earned as a result of lower interest rates during 2002.

Net mortuary and cemetery sales increased by \$653,000, from \$10,603,000 in 2001 to \$11,256,000 in 2002. This increase was primarily due to additional at-need cemetery and mortuary sales.

Mortgage fee income increased by \$16,922,000, from \$40,086,000 in 2001 to \$57,008,000 in 2002. This increase was primarily attributable to a greater number of loan originations during 2002 due to lower interest rates.

Total benefits and expenses were \$90,842,000 for 2002, which constituted 94.3% of the Company's total revenues, as compared to \$73,177,000, or 95.1% of the Company's total revenues for 2001.

During 2002, there was a net increase of \$902,000 in death benefits, surrenders and other policy benefits, and an increase of \$1,079,000 in future policy benefits from \$11,775,000 in 2001 to \$13,756,000 in 2002. This net increase was primarily the result of an increase in traditional life reserves.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$124,000, from \$3,870,000 in 2001 to \$3,994,000 in 2002. This increase was reasonable based on the underlying nature of assumptions.

General and administrative expenses increased by \$16,212,000, from \$52,247,000 in 2001 to \$68,459,000 in 2002. Contributing to this increase was a \$12,255,000 increase in commission expenses, from \$29,859,000 in 2001 to \$42,114,000 in 2002. Salaries increased \$1,386,000, from \$9,028,000 in 2001 to \$10,414,000 in 2002. Other expenses increased \$2,571,000, from \$13,360,000 in 2001 to \$15,931,000 in 2002. These increases were primarily the result of additional expenses due to increased numbers of loan originations made by the Company's mortgage subsidiary in 2002.

Interest expense decreased by \$821,000, from \$2,791,000 in 2001 to \$1,970,000 in 2002. This decrease was due to more loan originations from the Company's mortgage subsidiary being funded from internal sources of funds and lower interest rates from borrowings from third parties.

Cost of the mortuary and cemetery goods and services sold increased by \$169,000, from \$2,494,000 in 2001 to \$2,663,000 in 2002. This increase was primarily due to greater at-need cemetery and mortuary sales.

## 2001 Compared to 2000

Total revenues increased by \$18,870,000, or 32.5%, from \$58,079,000 for fiscal year 2000 to \$76,949,000, for fiscal year 2001. Contributing to this increase in total revenues was a \$17,165,000 increase in mortgage fee income, an \$810,000 increase in net investment income, a \$1,187,000 increase in net mortuary and cemetery sales and a \$275,000 increase in insurance premiums and other considerations.

Insurance premiums and other considerations increased by \$275,000, from \$12,876,000 in 2000 to \$13,151,000 in 2001. This increase was primarily due to the additional premiums from increased sales of the Company's traditional life products.

Net investment income increased by \$810,000, from \$12,136,000 in 2000 to \$12,946,000 in 2001. This increase was primarily attributable to additional interest earned as a result of a greater number of loan originations during 2001.

Net mortuary and cemetery sales increased by \$1,187,000, from \$9,417,000 in 2000 to \$10,603,000 in 2001. This increase was primarily due to additional at-need cemetery and mortuary sales.

Mortgage fee income increased by \$17,165,000, from \$22,921,000 in 2000 to \$40,086,000 in 2001. This increase was primarily attributable to a greater number of loan originations during 2001 due to lower interest rates, resulting in more borrowers refinancing their mortgage loans.

Total benefits and expenses were \$73,177,000 for 2001, which constituted 95.1% of the Company's total revenues, as compared to \$56,832,000, or 97.9% of the Company's total revenues for 2000.

During 2001, there was a net increase of \$1,160,000 in death benefits, surrenders and other policy benefits, and a decrease of \$2,316,000 in future policy benefits from \$12,931,000 in 2000 to \$11,775,000 in 2001. This net decrease was primarily the result of a decrease in traditional life reserves.

Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired increased by \$681,000, from \$3,189,000 in 2000 to \$3,870,000 in 2001. This increase was reasonable based on the underlying actuarial assumptions.

General and administrative expenses increased by \$16,288,000, from \$35,959,000 in 2000 to \$52,247,000 in 2001. Contributing to this increase was an \$11,458,000 increase in commission expenses, from \$18,401,000 in 2000 to \$29,859,000 in 2001. Salaries increased \$1,360,000, from \$7,667,000 in 2000 to \$9,028,000 in 2001. Other expenses increased \$3,470,000, from \$9,890,000 in 2000 to \$13,360,000 in 2001. These increases were primarily the result of additional expenses due to increased numbers of loan originations made by the Company's mortgage subsidiary in 2001.

Interest expense increased by \$665,000, from \$2,126,000 in 2000 to \$2,791,000 in 2001. This increase was primarily due to more loan originations from the Company's mortgage subsidiary being funded by third parties in 2001.

Cost of the mortuary and cemetery goods and services sold decreased by \$134,000, from \$2,628,000 in 2000 to \$2,494,000 in 2001. This decrease was primarily due to additional sales of cemetery burial properties in 2001, which have a lower cost of goods sold than other funeral products.

## Liquidity and Capital Resources

The Company's life insurance subsidiaries and cemetery and mortuary subsidiaries realize cash flow from premiums, contract payments and sales on personal services rendered for cemetery and mortuary business, from interest and dividends on invested assets, and from the proceeds from the maturity of held-to-maturity investments or sale of other investments. The mortgage subsidiary realizes cash flow from fees generated by originating and refinancing

mortgage loans and interest earned on mortgages sold to investors. The Company considers these sources of cash flow to be adequate to fund future policyholder and cemetery and mortuary liabilities, which generally are long-term, and adequate to pay current policyholder claims, annuity payments, expenses on the issuance of new policies, the maintenance of existing policies, debt service, and to meet operating expenses.

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; however, to date, that has not been necessary. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

The Company's investment philosophy is intended to provide a rate of return which will persist during the expected duration of policyholder and cemetery and mortuary liabilities regardless of future interest rate movements.

The Company's investment policy is to invest predominately in fixed maturity securities, mortgage loans, and warehouse mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$51,530,000 as of December 31, 2002 compared to \$49,271,000 as of December 31, 2001. This represents 51% of the total insurance related investments in 2002 as compared to 55% in 2001. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners (NAIC). Under this rating system, there are six categories used for rating bonds. At December 31, 2002, 4% (\$1,903,000) and at December 31, 2001, 5% (\$2,534,000) of the Company's total bond investments were invested in bonds in rating categories three through six which are considered non-investment grade.

If market conditions were to cause interest rates to change, the market value of the fixed income portfolio (approximately \$73,458,000) could change by the following amounts based on the respective basis point swing (the change in the market values were calculated using a modeling technique):

	-200 bps -----	-100 bps -----	+100 bps -----	+200 bps -----
Change in Market Value (in thousands)	\$4,960	\$3,275	\$(4,335)	\$(10,258)

The Company has classified certain of its fixed income securities, including high-yield securities, in its portfolio as available for sale, with the remainder classified as held to maturity. However, in accordance with Company policy, any such securities purchased in the future will be classified as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher-yielding longer-term securities.

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 December 31, 2002 and 2001, the life subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity and bank debt and notes payable was \$53,787,000 and \$42,067,000 as of December 31, 2002 and 2001, respectively. Stockholders' equity as a percent of total capitalization was 64% and 71% as of December 31, 2002 and 2001, respectively.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2002 was 10.7%, as compared to a rate of 13.2% in 2001.

On December 17, 1998, the Company completed the acquisition of Consolidare Enterprises, Inc., a Florida corporation ("Consolidare") pursuant to the terms of the Acquisition Agreement which the Company entered into on April 17, 1998 with Consolidare and certain shareholders of Consolidare for the purchase of all of the outstanding shares of common stock of Consolidare. Consolidare owns approximately 75% of the outstanding shares of common stock of Southern Security Life Insurance Company, a Florida corporation ("SSLIC"), and all of the outstanding shares of stock of Insuradyne Corp., a Florida corporation ("Insuradyne").

As consideration for the purchase of the shares of Consolidare, the Company paid to the stockholders of Consolidare at closing an aggregate of \$12,248,194. In order to pay the purchase consideration, the Company obtained \$6,250,000 from bank financing, with the balance of \$5,998,194 obtained from funds then currently held by the Company. In addition to the purchase consideration, the Company caused SSLIC to pay, on the closing date, \$1,050,000 to George Pihakis, the President and Chief Executive Officer of SSLIC prior to closing, as a lump sum settlement of the executive compensation agreement between SSLIC and Mr. Pihakis.

In connection with the acquisition of Consolidare, the Company entered into an Administrative Services Agreement dated December 17, 1998 with SSLIC. Under the terms of the agreement, the Company has agreed to provide SSLIC with certain defined administrative and financial services, including accounting services, financial reports and statements, actuarial, policyholder services, underwriting, data processing, legal, building management, marketing advisory services and investment services. In consideration for the services to be provided by the Company, SSLIC shall pay the Company an administrative services fee of \$250,000 per month, provided, however, that such fee shall be reduced to zero for so long as the capital and surplus of SSLIC is less than or equal to \$6,000,000, unless SSLIC and the Company otherwise agree in writing and such agreement is approved by the Florida Department of Insurance.

The administrative services fee may be increased, beginning on January 1, 2002, to reflect increases in the Consumer Price Index, over the index amount as of January 1, 2001. The Administrative Services Agreement shall remain in effect for an initial term expiring on December 16, 2003. The term of the agreement may be automatically extended for additional one-year terms unless either the Company or SSLIC shall deliver a written notice on or before September 30 of any year stating to the other its desire not to extend the term of the agreement. However, in no event can the agreement be terminated prior to December 16, 2003.

On June 30, 1999, the Company entered into a Coinsurance and Assumption Agreement (the "Agreement") with Menlo Life Insurance Company ("Menlo Life"), wherein the Company has assumed 100% of the policies in force of Menlo Life. The Agreement was not in effect until it was approved by Menlo Life's domiciled state of Arizona and the state of California. These approvals were obtained on September 9, 1999 for the Arizona Insurance Department, and on December 9, 1999 for the California Insurance Department. Menlo Life paid consideration to the Company in the form of statutory admitted assets to equal the liabilities assumed. On September 25, 2001, Menlo Life paid to the Company \$308,978 in policy loans and \$2,269,403 in cash.

On December 23, 2002, the Company completed an asset purchase transaction through its wholly owned subsidiary, Security National Life with Acadian from which it acquired \$75,000,000 in assets and \$75,000,000 in insurance reserves. The acquired assets consist primarily of approximately 275,000 funeral insurance policies in force in the state of Mississippi. The assets were originally acquired by Acadian from Gulf National Life Insurance Company ("GNLIC") on June 6, 2001, which, at that time consisted of all of GNLIC's insurance policies in force and in effect on June 1, 2001 (the "Reinsured Business").

As a part of the transaction, Security National Life entered into a Coinsurance Agreement with Acadian, in which Security National Life agreed to reinsure all the liabilities related to policies held by Mississippi policyholders. The terms included the payment of all legal liabilities, obligations, claims and commissions of the acquired policies. The effective date of the Coinsurance Agreement was September 30, 2002, subsequent to Acadian's recapture of the insurance in force from its reinsurer Scottish Re (U.S.) Inc. on September 30, 2002.

Under the terms of the Coinsurance Agreement, Security National Life agreed to assume all of the risks (including deaths, surrenders, disability, accidental deaths and dismemberment) on the reinsurance policies as of the effective date of the Agreement. Acadian represented and warranted that each of the reinsured policies was in force as of the effective date (including policies which may be lapsed subject to the right of reinstatement, policies not lapsed but in arrears, and policies in force and in effect as paid up and extended term policies) with premiums paid and its face amount, insured, and all other characteristics accurately reflected. Security National Life accepted liability for all the risks under the reinsured policies on eligible lives for all benefits occurring on or after the effective date of the agreement. The liability of Security National Life under the coinsurance treaty began as of September 30, 2002.

The Coinsurance Agreement further provided Security National Life the right to assume all right, title and interest to the reinsured policies, as well as other similar policies written by Acadian under similar terms and conditions in the state of Mississippi from September 30, 2002, through termination of the Coinsurance Agreement, with an Assumption Reinsurance Agreement, at any time but in any event not later than nine months subsequent to December 16, 2002, subject to all regulatory approvals as required by law. In the event Acadian were to come under any supervision by a state regulator or in the event Acadian were to apply for or consent in the appointment of, or the taking of possession by, a receiver, custodian, regulator, trustee or liquidator of itself or of all or a substantial part of its assets, make a general assignment for the benefit of its creditors, commence a voluntary case under the Federal Bankruptcy Code, file a petition seeking to take advantage of any other law relating to bankruptcy, insolvency, reorganization or winding up, Security National Life and Acadian were to be deemed to have converted the Coinsurance Agreement to an Assumption Reinsurance Agreement one day prior to such insolvency or other actions and Security National Life was to be deemed to have assumed the reinsurance policies as of one day prior to the date thereof.

The Coinsurance Agreement further provided that Acadian was required to pay Security National Life an initial coinsurance premium in cash or assets acceptable to Security National Life in an amount equal to the full coinsurance reserves, not including the Incurred But Not Reported (IBNR) reserve as of the effective date. The ceding commission to be paid by Security National Life to Acadian for the reinsured policies is to be the recapture amount to be paid by Acadian to Scottish Re (U.S.), Inc., which was approximately \$10,000,000. After the initial coinsurance premium, the coinsurance premiums payable by Acadian to Security National Life are to be equal to all of the premiums collected by Acadian on the reinsurance policies subsequent to December 31, 2002.

Subsequent to the coinsurance agreement, Security National Life entered into an Assumption Agreement effective January 1, 2003, with Acadian, in which Security National Life agreed to assume certain of the liabilities related to the reinsurance policies. Under the terms of the Assumption Agreement, Acadian agreed to cede to Security National Life, and Security National Life agreed to assume the stated insurance risks and contractual obligations of Acadian relating to the Reinsured Business. Security National Life agreed to pay all legal liabilities and obligations, including claims and commissions, of Acadian with respect to the Reinsured Business arising on or after January 1, 2003, in accordance with the terms and conditions of the reinsured policies.

The Assumption Agreement also requires Security National Life to issue a certificate of assumption for each policy in force included in the Reinsured Business, reinsuring such policies according to the terms thereof, provided that Security National Life may be subrogated to and substituted for all rights, privileges and interests accruing under such policies, and provided further that all obligations and liabilities assumed by Security National Life are assumed subject to the terms, limitations and conditions of the insurance policies included in the Reinsured Business and all defenses, counterclaims and off-sets that are or might thereafter become available to Security National Life.

Under the Assumption Agreement Security National Life agreed to assume only those insurance risks in contractual obligations included within the Reinsured Business of Acadian. Security National Life did not agree to assume any extra contractual or other liability or obligations of Acadian. In addition, Security National Life did not agree to assume any policy issued to an insured whose death occurred prior to January 1, 2003, and for which a death claim had been received by Acadian prior to that date. However, Security National Life did agree to assume any valid claim of an insured whose death occurred prior to January 1, 2003, and for which a death claim was not received by Acadian prior to that date.

The Assumption Agreement further provided that as of January 1, 2003, Acadian was to transfer and assign to Security National Life all of its right, title and interest in the reinsured policies, including policies which may be lapsed subject to the right of reinstatement, and policies in force and in effect as paid up and extended term policies. Acadian further agreed to turn over to Security National Life, as of January 1, 2003, all policy owner service, underwriting and other files on hand that may be needed by Security National Life in the continuation of the Reinsured Business, and Acadian further agreed to turn over all such records and record books as may be necessary for carrying on the Reinsured Business, including all such permanent records of Acadian necessary for Security National Life to continue in force in effect the reinsured policies.

At December 31, 2002, \$22,964,225 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of insurance regulatory authorities.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, amortization of goodwill is precluded, however, its recoverability must be periodically (at least annually) reviewed and tested for impairment. Goodwill must be tested at the reporting unit level for impairment in the year of adoption, including an initial test performed within six months of adoption. If the initial test indicates a potential impairment, then a more detailed analysis to determine the extent of impairment must be completed within twelve months of adoption. SFAS No. 142 also requires that useful lives for intangibles other than goodwill be reassessed and remaining amortization periods be adjusted accordingly. The adoption of SFAS No. 142 did not have a material impact on the Company's financial condition or results of operations.

In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 establishes an accounting model for long-lived assets to be disposed of by sale that applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. Adoption of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations. In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Under historical guidance, all gains and losses resulting from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 rescinds that guidance and requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they are both unusual and infrequent in occurrence. SFAS No. 145 also amends SFAS No. 13, "Accounting for Leases" for the required accounting treatment of certain lease modifications that have economic effects similar to sale-leaseback transactions. SFAS No. 145 requires that those lease modifications be accounted for in the same manner as sale-leaseback transactions. The provisions of SFAS No. 145 related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. Adoption of the provisions of SFAS No. 145 related to SFAS No. 13 did not have a material impact on the Company's financial condition or results of operations. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Action (including Certain Costs Incurred in a Restructuring)" ("Issue 94-3"). The principal difference between SFAS No. 146 and Issue 94-3 is that SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities after December 31, 2002. Based upon a preliminary review, adoption of SFAS No. 146 would not have a material impact on the Company's financial condition or results of operations.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires certain guarantees to be recorded at fair value and also requires a guarantor to make new disclosures, even when the likelihood of making payments under the guarantee is remote. In general, the Interpretation applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or an equity security of the guaranteed party. The recognition provisions of FIN 45 are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. Based upon a preliminary review, adoption of FIN 45 would not have a material impact on the Company's financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure and Amendment to FASB No. 123", which provides three optional transition methods for entities that decide to voluntarily adopt the fair value recognition principles of SFAS No. 123, "Accounting for Stock Issued to Employees", and modifies the disclosure requirements of that Statement. Under the prospective method, stock-based compensation expense is recognized for awards granted after the beginning of the fiscal year in which the change is made. The modified prospective method recognizes stock-based compensation expense related to new and unvested awards in the year of change equal to that which would have been recognized had SFAS No. 123 been adopted as of its effective date, fiscal years beginning after December 15, 1994. The retrospective restatement method recognizes stock compensation costs for the year of change and restates financial statements for all prior periods presented as though the fair value recognition provisions of SFAS No. 123 had been adopted as of its effective date. Since the Company does not intend to voluntarily adopt the fair value presentation for FASB 123, adoption of SFAS 148 would not have a material effect on the financial condition or results of operations of the Company. However, pro forma disclosures required by SFAS 148 will be included in the Company's future interim financial statements when necessary.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires an enterprise to assess if consolidation of an entity is appropriate based upon its variable economic interests in a variable interest entity (VIE). The initial determination of whether an entity is a VIE shall be made on the date at which an enterprise becomes involved with the entity. A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. An enterprise shall consolidate a VIE if it has a variable interest that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur or both. A direct or indirect ability to make decisions that significantly affect the results of the activities of a VIE is a strong indication that an enterprise has one or both of the characteristics that would require consolidation of the VIE.

FIN 46 is effective for new VIE's established subsequent to January 31, 2003 and for existing VIE's as of July 1, 2003. Based upon a preliminary review, the adoption of FIN 46 would not have a material impact on the Company's financial condition or results of operations as there were no material VIE's identified which would require consolidation. FIN 46 further requires the disclosure of certain information related to VIE's in which the Company holds a significant variable interest. The Company does not believe that it owns any such interests that require disclosure at this time.



Item 8. Financial Statements and Supplementary Data

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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.

REPORT OF INDEPENDENT AUDITORS'

To The Board of Directors and Stockholders  
of Security National Financial Corporation

We have audited the accompanying consolidated balance sheet of Security National Financial Corporation and subsidiaries as of December 31, 2002 and 2001, and the related consolidated statements of earnings, stockholders' equity, and cash flows for the three years in the period ended December 31, 2002. In connection with our audits of the consolidated financial statements, we have also audited the amounts included in the consolidated financial statement schedules as listed in the accompanying index under Item 8. These consolidated financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Security National Financial Corporation and subsidiaries at December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, the related consolidated financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

/S/ TANNER + CO

Salt Lake City, Utah  
March 28, 2003

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Consolidated Balance Sheet

Assets:	December 31,	
-----	2002	2001
-----	----	----
Insurance-related investments:		
Fixed maturity securities held to maturity, at amortized cost (market \$33,927,051 and \$28,697,986 for 2002 and 2001)	\$33,015,097	\$27,799,909
Fixed maturity securities available for sale, at market (cost \$17,153,223 in 2002 and \$20,565,833 in 2001)	18,514,943	21,470,729
Equity securities available for sale, at market (cost \$1,929,540 and \$1,605,980 for 2002 and 2001)	2,642,093	2,641,549
Mortgage loans on real estate	21,016,008	15,479,305
Real estate, net of accumulated depreciation and allowances for losses of \$3,728,539 and \$3,523,912 for 2002 and 2001	9,331,248	9,051,691
Policy, student and other loans	10,974,165	11,277,975
Short-term investments	5,335,478	1,453,644
	-----	-----
Total insurance-related investments	100,829,032	89,174,802
Restricted assets of cemeteries and mortuaries	5,332,736	5,339,436
Cash	38,199,041	8,757,246
Receivables:		
Trade contracts	11,358,027	6,945,274
Mortgage loans sold to investors	89,455,105	50,695,073
Receivable from agents	2,054,071	2,061,541
Receivable from officers	70,290	102,200
Other	1,131,977	1,183,927
	-----	-----
Total receivables	104,069,470	60,988,015
Allowance for doubtful accounts	(2,385,309)	(2,287,241)
	-----	-----
Net receivables	101,684,161	58,700,774
Policyholder accounts on deposit with reinsurer	6,955,691	7,148,068
Land and improvements held for sale	8,429,215	8,346,448
Accrued investment income	928,287	1,059,789
Deferred policy and pre-need acquisition costs	15,917,257	14,453,023
Property, plant and equipment, net	10,921,635	10,802,387
Cost of insurance acquired	15,984,340	7,615,348
Excess of cost over net assets of acquired subsidiaries	1,029,562	1,065,045
Other	945,805	597,209
	-----	-----
Total assets	\$307,156,762	\$213,059,575
	=====	=====

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Consolidated Balance Sheet (Continued)

	December 31,	
	2002	2001
	-----	-----
Liabilities:		
-----		
Future life, annuity, and other policy benefits	\$215,980,207	\$140,504,866
Unearned premium reserve	1,914,700	1,785,977
Bank loans payable	16,113,227	8,461,900
Notes and contracts payable	3,160,009	3,635,776
Deferred pre-need cemetery and funeral contracts revenues and estimated future cost of pre-need sales	10,002,396	9,338,353
Accounts payable	1,553,777	1,319,319
Funds held under reinsurance treaties	1,334,964	1,379,640
Other liabilities and accrued expenses	10,182,382	5,552,799
Income taxes	8,103,882	6,874,597
	-----	-----
Total liabilities	268,345,544	178,853,227
Commitments and contingencies	--	--
Minority interest	4,297,807	4,237,030
Stockholders' Equity:		
-----		
Common stock:		
Class A: \$2 par value, authorized 10,000,000 shares, issued 5,794,492 shares in 2002 and 5,363,591 shares in 2001	11,588,984	10,727,182
Class C: \$0.20 par value, authorized 7,500,000 shares, issued 6,182,669 shares in 2002 and 6,113,430 shares in 2001	1,236,533	1,222,686
	-----	-----
Total common stock	12,825,517	11,949,868
Additional paid-in capital	11,280,842	10,168,523
Accumulated other comprehensive income, net of deferred taxes of \$293,519 and \$212,734 for 2002 and 2001	1,191,863	1,223,930
Retained earnings	11,992,542	9,989,230
Treasury stock at cost (1,151,811 Class A shares and 71,749 Class C shares in 2002; 1,294,716 Class A shares and 68,332 Class C shares in 2001, held by affiliated companies)	(2,777,353)	(3,362,233)
	-----	-----
Total stockholders' equity	34,513,411	29,969,318
	-----	-----
Total liabilities and stockholders' equity	\$307,156,762	\$213,059,575
	=====	=====

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Consolidated Statement of Earnings

	Year Ended December 31,		
	2002	2001	2000
Revenues:			
-----			
Insurance premiums and other considerations	\$14,076,652	\$13,150,875	\$12,875,585
Net investment income	12,539,430	12,946,499	12,136,072
Net mortuary and cemetery sales	11,256,069	10,603,451	9,416,927
Realized gains on investments and other assets	1,020,820	10,428	423,805
Mortgage fee income	57,008,283	40,086,097	22,921,585
Other	479,424	151,945	304,886
	96,380,678	76,949,295	58,078,860
Benefits and expenses:			
-----			
Death benefits	5,637,217	5,354,522	3,959,811
Surrenders and other policy benefits	2,086,829	1,467,323	1,702,251
Increase in future policy benefits	6,031,685	4,953,008	7,268,720
Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired	3,993,393	3,870,158	3,188,752
General and administrative expenses:			
Commissions	42,114,240	29,859,295	18,401,314
Salaries	10,414,392	9,027,523	7,667,263
Other	15,930,804	13,360,362	9,890,197
Interest expense	1,970,342	2,790,627	2,126,169
Cost of goods and services sold of the mortuaries and cemeteries	2,662,791	2,494,367	2,628,260
	90,841,693	73,177,185	56,832,737
Earnings before income taxes	5,538,985	3,772,110	1,246,123
Income tax expense	(1,565,393)	(913,539)	(304,640)
Minority interest	17,688	(17,791)	(45,754)
Net earnings	\$3,991,280	\$2,840,780	\$895,729
Net earnings per common share	\$.83	\$.63	\$.21
Weighted average outstanding common shares	4,823,914	4,506,476	4,317,779
Net earnings per common share- assuming dilution	\$.80	\$.63	\$.21
Weighted average outstanding common shares assuming-dilution	4,995,285	4,506,858	4,335,044

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Consolidated Statement of Stockholders' Equity

	Class A	Class C	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
	-----	-----	-----	-----	-----	-----	-----
Balance at January 1, 2000	\$9,727,462	\$1,111,070	\$10,015,942	\$665,691	\$7,516,640	\$(2,547,112)	\$26,489,693
Comprehensive income:							
Net earnings	--	--	--	--	895,729	--	895,729
Unrealized gain on securities	--	--	--	171,060	--	--	171,060
Total comprehensive income	--	--	--	--	--	--	1,066,789
Stock dividends	486,786	55,503	38,774	--	(581,063)	--	--
Conversion Class C to Class A	1,014	(1,012)	(2)	--	--	--	--
Purchase of treasury stock	--	--	--	--	--	(815,121)	(815,121)
Balance at December 31, 2000	\$10,215,262	\$1,165,561	\$10,054,714	\$836,751	\$7,831,306	\$(3,362,233)	\$26,741,361
Comprehensive income:							
Net earnings	\$ --	\$ --	\$ --	\$ --	\$2,840,780	\$ --	\$2,840,780
Unrealized gain on securities	--	--	--	387,179	--	--	387,179
Total comprehensive income	--	--	--	--	--	--	3,227,959
Stock dividends	510,826	58,221	113,809	--	(682,856)	--	--
Conversion Class C to Class A	1,094	(1,096)	--	--	--	--	(2)
Balance at December 31, 2001	\$10,727,182	\$1,222,686	\$10,168,523	\$1,223,930	\$9,989,230	\$(3,362,233)	\$29,969,318
Comprehensive income:							
Net earnings	\$ --	\$ --	\$ --	\$ --	\$3,991,280	\$ --	\$3,991,280
Unrealized gain on securities	--	--	--	(32,067)	--	--	(32,067)
Total comprehensive income	--	--	--	--	--	--	3,959,213
Stock dividends	552,024	58,883	--	--	(610,907)	--	--
Conversion Class C to Class A	45,036	(45,036)	--	--	--	--	--
Exercise of stock options	264,742	--	1,112,319	--	(1,377,061)	--	--
Sale of treasury stock	--	--	--	--	--	584,880	584,880
Balance at December 31, 2002	\$11,588,984	\$1,236,533	\$11,280,842	\$1,191,863	\$11,992,542	\$(2,777,353)	\$34,513,411

See accompanying notes to consolidated financial statements

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Consolidated Statement of Cash Flows

	Year Ended December 31,		
	2002	2001	2000
	----	----	----
Cash flows from operating activities:			
Net earnings	\$3,991,280	\$2,840,780	\$895,729
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:			
Realized gains on investments and other assets	(1,020,820)	(10,428)	(423,805)
Depreciation	1,553,399	1,350,372	1,202,158
Provision for losses on real estate accounts and loans receivable	96,520	793,194	219,269
Amortization of goodwill, premiums, and discounts	121,329	197,793	214,355
Provision for deferred income taxes	970,139	522,047	259,952
Policy and pre-need acquisition costs deferred	(4,462,624)	(3,834,432)	(5,365,417)
Policy and pre-need acquisition costs amortized	3,256,076	3,045,996	2,320,710
Cost of insurance acquired amortized	737,317	824,162	868,042
Change in assets and liabilities net of effects from purchases and disposals of subsidiaries:			
Land and improvements held for sale	626,688	139,075	37,164
Future life and other benefits	5,349,152	5,734,205	7,023,493
Receivables for mortgage loans sold	(38,760,032)	(24,786,179)	2,185,751
Other operating assets and liabilities	578,750	2,400,265	1,028,892
Net cash provided by (used in) operating activities	(26,962,826)	(10,783,150)	10,466,293
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(4,147,878)	(402,995)	(4,801,309)
Calls and maturities - fixed maturity securities	8,025,610	12,086,818	5,137,323
Securities available for sale:			
Purchases - equity securities	(327,726)	--	(418,365)
Sales - equity securities	3,303,095	2,826,094	4,797,396
Purchases of short-term investments	(13,819,476)	(14,301,717)	(7,523,432)
Sales of short-term investments	9,937,642	13,876,000	7,785,815
Purchases of restricted assets	(56,899)	(497,617)	(604,345)
Mortgage, policy, and other loans made	(10,129,993)	(3,114,060)	(3,016,125)
Payments received for mortgage, policy, and other loans	4,939,374	5,626,747	4,782,778
Purchases of property, plant, and equipment	(1,348,752)	(1,006,824)	(1,719,120)
Disposal of property and equipment	--	--	625,507
Purchases of real estate	(3,153,299)	(784,677)	(1,329,347)
Sale of real estate	2,825,666	195,562	--
Cash received in assumed reinsurance	55,827,793	--	--
Net cash provided by investing activities	51,875,157	14,503,331	3,716,776

See accompanying notes to the consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Consolidated Statement of Cash Flows (Continued)

	Year Ended December 31,		
	2002	2001	2000
	-----	-----	-----
Cash flows from financing activities:			
Annuity and pre-need contract receipts	7,635,422	9,707,844	8,714,642
Annuity and pre-need contract withdrawals	(10,866,398)	(13,997,537)	(13,935,567)
Repayment of bank loans and notes and contracts payable	(1,824,440)	(2,698,272)	(1,652,036)
Proceeds from borrowings on bank loans and notes and contracts payable	9,000,000	750,000	1,044,202
Sale (purchase) of treasury stock	584,880	--	(815,121)
Net change in line of credit for financing of mortgage loans	--	--	(8,687,023)
	-----	-----	-----
Net cash provided by (used in) financing activities	4,529,464	(6,237,965)	(15,330,903)
	-----	-----	-----
Net change in cash	29,441,795	(2,517,784)	(1,147,834)
Cash at beginning of year	8,757,246	11,275,030	12,422,864
	-----	-----	-----
Cash at end of year	\$38,199,041	\$8,757,246	\$11,275,030
	=====	=====	=====

Supplemental Schedule of Cash Flow Information:

The following information shows the non-cash items in connection with the assumption of reinsurance from Acadian Life Insurance Company on December 23, 2002:

Liabilities assumed	\$74,199,194
Less non-cash items:	
Cost of insurance acquired	(9,106,309)
Bonds received	(9,032,818)
Policy loans received	(82,126)
Premiums due and unpaid	(150,148)
	-----
Cash received	\$55,827,793
	=====

See accompanying notes to the consolidated financial statements.



SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the "Company") operates in three main business segments; life insurance, cemetery and mortuary, and mortgage loans. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products and accident and health insurance marketed primarily in the intermountain west, California, Florida, Mississippi, Oklahoma and Texas. The cemetery and mortuary segment of the Company consists of five cemeteries in Utah, one cemetery in California, eight mortuaries in Utah and five mortuaries in Arizona. The mortgage loan segment is an approved governmental and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects primarily in California, Colorado, Florida, Utah, Arizona and Texas.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles which, for the life insurance subsidiaries, differ from statutory accounting principles prescribed or permitted by regulatory authorities.

Risks

The following is a description of the most significant risks facing the Company and how it mitigates those risks:

**Legal/Regulatory Risk** - the risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and/or risks not anticipated by the Company in developing and pricing its products. That is, regulatory initiatives designed to reduce insurer profits, new legal theories or insurance company insolvencies through guaranty fund assessments may create costs for the insurer beyond those recorded in the consolidated financial statements. In addition, changes in tax law with respect to mortgage interest deductions or other public policy or legislative changes may affect the Company's mortgage sales. Also, the Company may be subject to further regulations in the cemetery/mortuary business. The Company mitigates this risk by offering a wide range of products and by diversifying its operations, thus reducing its exposure to any single product or jurisdiction, and also by employing underwriting practices which identify and minimize the adverse impact of such risk.

**Credit Risk** - the risk that issuers of securities owned by the Company or mortgagors of mortgage loans on real estate owned by the Company will default or that other parties, including reinsurers and holders of cemetery/ mortuary contracts which owe the Company money, will not pay. The Company minimizes this risk by adhering to a conservative investment strategy, by maintaining sound reinsurance and credit and collection policies and by providing for any amounts deemed uncollectible.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)

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Interest Rate Risk - the risk that interest rates will change which may cause a decrease in the value of the Company's investments or impair the ability of the Company to market its mortgage and cemetery/mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and/or by attempting to match the maturity schedule of its assets with the expected payouts of its liabilities. To the extent that liabilities come due more quickly than assets mature, the Company might have to borrow funds or sell assets prior to maturity and potentially recognize a gain or loss.

Mortality/Morbidity Risk - the risk that the Company's actuarial assumptions may differ from actual mortality/morbidity experience may cause the Company's products to be underpriced, may cause the Company to liquidate insurance or other claims earlier than anticipated and other potentially adverse consequences to the business. The Company minimizes this risk through sound underwriting practices, asset/liability duration matching, and sound actuarial practices.

Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

The estimates susceptible to significant change are those used in determining the liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are adequate.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts and operations of the Company. The Company's subsidiaries at December 31, 2002, are as follows:

Security National Life Insurance Company  
Security National Mortgage Company  
Memorial Estates, Inc.  
Memorial Mortuary  
Paradise Chapel Funeral Home  
Singing Hills Memorial Park  
Cottonwood Mortuary, Inc.  
Deseret Memorial, Inc.  
Holladay Cottonwood Memorial Foundation  
Holladay Memorial Park  
Camelback Sunset Funeral Home, Inc.  
Greer-Wilson Funeral Home  
Crystal Rose Funeral Home  
Hawaiian Land Holdings  
SSLIC Holding Company  
Insuradyne Corporation  
Southern Security Life Insurance Company (75%)

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)

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All significant intercompany transactions and accounts have been eliminated in consolidation.

On December 17, 1998, the Company purchased all of the outstanding shares of common stock of SSLIC Holding Company (formerly Consolidare Enterprises, Inc.), (SSLIC Holding) and Insuradyne Corporation (Insuradyne) for a total cost of \$12,248,194. SSLIC Holding owns approximately 75% of the outstanding shares of common stock of Southern Security Life Insurance Company (Southern Security). The acquisition was accounted for using the purchase method.

On December 23, 2002, the Company, through its wholly-owned subsidiary Security National Life Insurance Company completed the asset purchase transaction with Acadian Life Insurance Company ("Acadian") from which it acquired from Acadian \$75,000,000 in assets and \$75,000,000 in statutory insurance reserves. Security National Life paid a ceding commission of \$10,254,803. On January 1, 2003, Security National entered into an assumption agreement in which Acadian transferred and assigned to Security National Life all of its right, title and interest in the reinsured policies and Security National Life took over the operations of this block of business. The assets and liabilities acquired have been included in the Company's consolidated balance sheet as of December 31, 2002. Since the Company did not take over the operations from Acadian until January 1, 2003, nothing was included in the consolidated statement of earnings.

The unaudited consolidated pro forma results of operations assuming consummation of the purchase as of January 1, 2001 are summarized as follows:

	Pro Forma	
	2002	2001
	----	----
	(In thousands except earnings per share)	
Total revenues	\$109,678	\$90,518
Net earnings	5,397	3,543
Earnings per share	1.12	.77

Investments

Investments are shown on the following basis:

Fixed maturity securities held to maturity - at cost, adjusted for amortization of premium or accretion of discount. Although the Company has the ability and intent to hold these investments to maturity, infrequent and unusual conditions could occur under which it would sell certain of these securities. Those conditions include unforeseen changes in asset quality, significant changes in tax laws, and changes in regulatory capital requirements or permissible investments.

Fixed maturity and equity securities available for sale - at fair value, which is based upon quoted trading prices. Changes in fair values net of income taxes are reported as unrealized appreciation or depreciation and recorded as an adjustment directly to stockholders' equity and, accordingly, have no effect on net income.

Mortgage loans on real estate - at unpaid principal balances, adjusted for amortization of premium or accretion of discount, less allowance for possible losses.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)

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Real estate - at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, and net of allowance for impairment in value, if any.

Policy, student, and other loans - at the aggregate unpaid balances, less allowances for possible losses.

Short-term investments at cost - consists of certificates of deposit and commercial paper with maturities of up to one year.

Restricted assets of cemeteries and mortuaries - consists of cash, participations in mortgage loans with Security National Life Insurance Company, and mutual funds carried at cost; fixed maturity securities carried at cost adjusted for amortization of premium or accretion of discount; and equity securities carried at fair market value.

Realized gains and losses on investments - realized gains and losses on investments and declines in value considered to be other than temporary, are recognized in operations on the specific identification basis.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Property, Plant and Equipment

Property, plant and equipment is recorded at cost. Depreciation is calculated principally on the straight-line method over the estimated useful lives of the assets which range from three to thirty years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Recognition of Insurance Premiums and Other Considerations

Premiums for traditional life insurance products (which include those products with fixed and guaranteed premiums and benefits and consist principally of whole life insurance policies, limited-payment life insurance policies, and certain annuities with life contingencies) are recognized as revenues when due from policyholders. Revenues for interest-sensitive insurance policies (which include universal life policies, interest-sensitive life policies, deferred annuities, and annuities without life contingencies) consist of policy charges for the cost of insurance, policy administration charges, and surrender charges assessed against policyholder account balances during the period.

Deferred Policy Acquisition Costs and Cost of Insurance Acquired

Commissions and other costs, net of commission and expense allowances for reinsurance ceded, that vary with and are primarily related to the production of new insurance business have been deferred. Deferred policy acquisition costs for traditional life insurance are amortized over the premium-paying period of the related policies using assumptions consistent with those used in computing policy benefit reserves. For interest-sensitive insurance products, deferred policy acquisition costs are amortized generally in proportion to the present value of expected

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)  
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gross profits from surrender charges, investment, mortality and expense margins. This amortization is adjusted when estimates of current or future gross profits to be realized from a group of products are reevaluated. Deferred acquisition costs are written off when policies lapse or are surrendered.

Cost of insurance acquired is the present value of estimated future profits of the acquired business and is amortized similar to deferred policy acquisition costs.

Future Life, Annuity and Other Policy Benefits

Future policy benefit reserves for traditional life insurance are computed using a net level method, including assumptions as to investment yields, mortality, morbidity, withdrawals, and other assumptions based on the life insurance subsidiaries experience, modified as necessary to give effect to anticipated trends and to include provisions for possible unfavorable deviations. Such liabilities are, for some plans, graded to equal statutory values or cash values at or prior to maturity. The range of assumed interest rates for all traditional life insurance policy reserves was 4.5% to 10%. Benefit reserves for traditional limited-payment life insurance policies include the deferred portion of the premiums received during the premium-paying period. Deferred premiums are recognized as income over the life of the policies. Policy benefit claims are charged to expense in the period the claims are incurred.

Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 4% to 6.5%.

Participating Insurance

Participating business constitutes 2%, 2%, and 2% of insurance in force for 2002, 2001 and 2000, respectively. The provision for policyholders' dividends included in policyholder obligations is based on dividend scales anticipated by management. Amounts to be paid are determined by the Board of Directors.

Reinsurance

The Company follows the procedure of reinsuring risks in excess of \$75,000 to provide for greater diversification of business, allow management to control exposure to potential losses arising from large risks, and provide additional capacity for growth. The Company remains liable for amounts ceded in the event the reinsurers are unable to meet their obligations.

The Company has entered into coinsurance agreements with unaffiliated insurance companies under which the Company assumed 100% of the risk for certain life insurance policies and certain other policy-related liabilities of the insurance company.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)

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Reinsurance premiums, commissions, expense reimbursements, and reserves related to reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Expense allowances received in connection with reinsurance ceded are accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly.

Cemetery and Mortuary Operations

Pre-need sales of funeral services and caskets - revenue and costs associated with the sales of pre-need funeral services and caskets are deferred until the services are performed.

Pre-need sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sales of pre-need cemetery interment rights are recognized in accordance with the retail land sales provisions of Statement of Financial Accounting Standards No. 66, "Accounting for the Sales of Real Estate" (FAS No. 66). Under FAS 66, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected. Revenues related to the pre-need sale of unconstructed cemetery property will be deferred until such property is constructed and meets the criteria of FAS No. 66 described above.

Pre-need sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sales of pre-need cemetery merchandise are deferred until the merchandise is delivered.

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees) - revenue and costs associated with the sales of pre-need cemetery services are deferred until the services are performed.

Prearranged funeral and pre-need cemetery customer obtaining costs - costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of Statement of Financial Accounting Standards No. 60 "Accounting and Reporting by Insurance Enterprises" (FAS No. 60). Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral business, are deferred until the merchandise is delivered or services are performed.

Cemetery merchandise and services trust investment earnings - investment earnings generated by assets included in merchandise and services trusts are deferred until the associated merchandise is delivered or services performed.

The Company is required to place specified amounts into restricted asset accounts for products sold on a pre-need basis. Income from assets placed in these restricted asset accounts are used to offset required increases to the estimated future liability.

Revenues and costs for at-need sales are recorded when the services are performed.

The Company, through its mortuary and cemetery operations, provides a guaranteed funeral arrangement wherein a prospective customer can receive future goods and services at guaranteed prices. To accomplish this, the Company, through its life insurance operations, sells to the customer an increasing benefit life insurance policy that is assigned

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

1) Significant Accounting Principles (Continued)

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to the mortuaries. If, at the time of need, the policyholder/potential mortuary customer utilizes one of the Company's facilities, the guaranteed funeral arrangement contract that has been assigned will provide the funeral goods and services at the contracted price. The increasing life insurance policy will cover the difference between the original contract prices and current prices. Risks may arise if the difference cannot be fully met by the life insurance policy. However, management believes that given current inflation rates and related price increases of goods and services, the risk of exposure is minimal.

Mortgage Operations

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is deferred until such loans are determined to be sold in accordance with FAS No. 140.

Substantially all loans are sold to third party investors and the Company does not retain servicing rights. The amounts sold to investors are shown on the balance sheet as due from sale of loans, and are shown on the basis of the amount of fees due from the investors. Any impairment to sold loans or possible loan losses are included in a separate provision for loan losses. At December 31, 2002 and 2001 the provision for loan losses was \$906,000 and \$509,000, respectively.

Excess of Cost Over Net Assets of Acquired Businesses

Previous acquisitions have been accounted for as purchases under which assets acquired and liabilities assumed were recorded at the fair values. The Company periodically evaluates the recoverability of amounts recorded. In accordance with FAS 142 the Company no longer amortizes excess of cost over net assets of acquired business ("goodwill"). Pro forma information related to the amortization of goodwill has not been presented since it is not material.

Income Taxes

Income taxes include taxes currently payable plus deferred taxes related to the tax effect of temporary differences in the financial reporting basis and tax basis of assets and liabilities. Such temporary differences are related principally to the deferral of policy acquisition costs and the provision for future policy benefits in the insurance operations, and unrealized gains on fixed maturity and equity securities available for sale.

Earnings Per Common Share

The Company computes earnings per share in accordance with Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings Per Share". This Standard requires presentation of two new amounts, basic and diluted earnings per share. Basic earnings per share are computed by dividing net earnings by the weighted average number of common shares outstanding during each year presented, after the effect of the assumed conversion of Class C Common Stock to Class A Common Stock, the acquisition of treasury stock, and the retroactive effect of stock dividends declared. Diluted earnings per share is computed by dividing net earnings by the weighted average number of common shares outstanding during the year plus the incremental shares that would have been outstanding under certain deferred compensation plans.

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1) Significant Accounting Principles (Continued)

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Stock Compensation

The Company has adopted SFAS No. 123, "Accounting for Stock-Based Compensation". In accordance with the provisions of SFAS 123, the Company has elected to continue to apply Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB Opinion No. 25"), and related interpretations in accounting for its stock option plans.

The Company has two fixed option plans (the "1993 Plan" and the "2000 Plan"). In accordance with APB Opinion No. 25, no compensation cost has been recognized for these plans. Had compensation cost for these plans been determined based upon the fair value at the grant date consistent with the methodology prescribed under SFAS No. 123, the Company's net income would have been reduced by approximately \$533,520, \$3,143, and \$0 in 2002, 2001, and 2000, respectively. As a result, basic and diluted earnings per share would have been reduced by \$.07, \$0, and \$0 in 2002, 2001 and 2000, respectively.

The weighted average fair value of each option granted in 2002 under the 1993 Plan is estimated at \$2.88 as of the grant date using the Black Scholes option-pricing model with the following assumptions: dividend yield of 5%, volatility of 74%, risk-free interest rate of 3.8%, and an expected life of five to ten years.

The weighted average fair value of options granted in 2001 under the 1993 Plan and the 2000 Plan is estimated at \$1.25 as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 31.8%, risk-free interest rate of 5.14%, and an expected life of five to ten years.

The weighted average fair value of options granted in 2000 under the 1993 Plan and the 2000 Plan is estimated at \$1.50 as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 30.8%, risk-free interest rate of 6.6%, and an expected life of five to ten years.

The Company also has one variable option plan (the "1987 Plan"). In accordance with APB Opinion No. 25, compensation cost related to options granted and outstanding under these plans is estimated and recognized over the period of the award based on changes in the current market price of the Company's stock over the vesting period. Options granted under the 1987 Plan are exercisable for a period of ten years from the date of grant.

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. The Company has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets". Under SFAS No. 142, amortization of goodwill is precluded, however, its recoverability must be periodically (at least annually) reviewed and tested for



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1) Significant Accounting Principles (Continued)  
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impairment. Goodwill must be tested at the reporting unit level for impairment in the year of adoption, including an initial test performed within six months of adoption. If the initial test indicates a potential impairment, then a more detailed analysis to determine the extent of impairment must be completed within twelve months of adoption. SFAS No. 142 also requires that useful lives for intangibles other than goodwill be reassessed and remaining amortization periods be adjusted accordingly. The adoption of SFAS No. 142 did not have a material impact on the Company's financial condition or results of operations. In August 2001, the FASB issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets". SFAS No. 144 establishes an accounting model for long-lived assets to be disposed of by sale that applies to all long-lived assets, including discontinued operations. SFAS No. 144 requires that those long-lived assets be measured at the lower of carrying amount or fair value less cost to sell, whether reported in continuing operations or in discontinued operations. The provisions of SFAS No. 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001. Adoption of SFAS No. 144 did not have a material impact on the Company's financial condition or results of operations. In April 2002, FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections". Under historical guidance, all gains and losses resulting from the extinguishment of debt were required to be aggregated and, if material, classified as an extraordinary item, net of related income tax effect. SFAS No. 145 rescinds that guidance and requires that gains and losses from extinguishments of debt be classified as extraordinary items only if they are both unusual and infrequent in occurrence. SFAS No. 145 also amends SFAS No. 13, "Accounting for Leases" for the required accounting treatment of certain lease modifications that have economic effects similar to sale-leaseback transactions. SFAS No. 145 requires that those lease modifications be accounted for in the same manner as sale-leaseback transactions. The provisions of SFAS No. 145 related to SFAS No. 13 are effective for transactions occurring after May 15, 2002. Adoption of the provisions of SFAS No. 145 related to SFAS No. 13 did not have a material impact on the Company's financial condition or results of operations. In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities", which addresses financial accounting and reporting for costs associated with exit or disposal activities and nullifies EITF Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Action (including Certain Costs Incurred in a Restructuring)" ("Issue 94-3"). The principal difference between SFAS No. 146 and Issue 94-3 is that SFAS No. 146 requires that a liability for a cost associated with an exit or disposal activity be recognized when the liability is incurred, rather than at the date of an entity's commitment to an exit plan. SFAS No. 146 is effective for exit or disposal activities after December 31, 2002. Based upon a preliminary review, adoption of SFAS No. 146 would not have a material impact on the Company's financial condition or results of operations.

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1) Significant Accounting Principles (Continued)

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In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). FIN 45 requires certain guarantees to be recorded at fair value and also requires a guarantor to make new disclosures, even when the likelihood of making payments under the guarantee is remote. In general, the Interpretation applies to contracts or indemnification agreements that contingently require the guarantor to make payments to the guaranteed party based on changes in an underlying that is related to an asset, liability, or an equity security of the guaranteed party. The recognition provisions of FIN 45 are effective on a prospective basis for guarantees issued or modified after December 31, 2002. The disclosure requirements are effective for financial statements of interim and annual periods ending after December 15, 2002. Based upon a preliminary review, adoption of FIN 45 would not have a material impact on the Company's financial condition or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation -- Transition and Disclosure and Amendment to FASB No. 123", which provides three optional transition methods for entities that decide to voluntarily adopt the fair value recognition principles of SFAS No. 123, "Accounting for Stock Issued to Employees", and modifies the disclosure requirements of that Statement. Under the prospective method stock-based compensation expense is recognized for awards granted after the beginning of the fiscal year in which the change is made. The modified prospective method recognizes stock-based compensation expense related to new and unvested awards in the year of change equal to that which would have been recognized had SFAS No. 123 been adopted as of its effective date, fiscal years beginning after December 15, 1994. The retrospective restatement method recognizes stock compensation costs for the year of change and restates financial statements for all prior periods presented as though the fair value recognition provisions of SFAS No. 123 had been adopted as of its effective date. Since the Company does not intend to voluntarily adopt the fair value presentation for FASB 123, adoption of SFAS 148 would not have a material effect on the financial condition or results of operations of the Company. However, pro forma disclosures by SFAS 148 will be included in the Company's future interim financial statements when necessary.

In January 2003, the FASB issued Interpretation 46, "Consolidation of Variable Interest Entities" ("FIN 46"), which requires an enterprise to assess if consolidation of an entity is appropriate based upon its variable economic interests in a variable interest entity (VIE). The initial determination of whether an entity is a VIE shall be made on the date at which an enterprise becomes involved with the entity. A VIE is an entity in which the equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. An enterprise shall consolidate a VIE if it has a variable interest that will absorb a majority of the VIE's expected losses if they occur, receive a majority of the entity's expected residual returns if they occur or both. A direct or indirect ability to make decisions that significantly affect the results of the activities of a VIE is a strong indication that an enterprise has one or both of the characteristics that would require consolidation of the VIE.

FIN 46 is effective for new VIE's established subsequent to January 31, 2003 and for existing VIE's as of July 1, 2003. Based upon a preliminary review, the adoption of FIN 46 would not have a material impact on the Company's financial condition or results of operations as there were no material VIE's identified which would require consolidation. FIN 46 further requires the disclosure of certain information related to VIE's in which the Company holds a significant variable interest. The Company does not believe that it owns any such interests that require disclosure at this time.

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2) Investments  
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The Company's investments in fixed maturity securities held to maturity and equity securities available for sale are summarized as follows:

	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Estimated Fair Value -----
December 31, 2002: -----				
Fixed maturity securities held to maturity:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,835,420	\$ 214,146	\$ (1,964)	\$3,047,602
Obligations of states and political subdivisions	188,303	21,805	(725)	209,383
Corporate securities including public utilities	21,106,651	806,023	(254,369)	21,658,305
Mortgage-backed securities	8,856,718	125,310	--	8,982,028
Redeemable preferred stock	28,005	8,775	(7,047)	29,733
	-----	-----	-----	-----
Total fixed maturity securities held to maturity	\$33,015,097	\$1,176,059	\$(264,105)	\$33,927,051
	=====	=====	=====	=====
Securities available for sale:				
Bonds				
U.S. Treasury securities and obligations of U.S. Government agencies	\$594,439	\$ 103,697	\$ --	\$698,136
Corporate securities including public utilities	16,558,784	1,258,023	--	17,816,807
Non-redeemable preferred stock	56,031	33,810	(7,256)	82,585
Common stock	1,873,509	1,281,528	(595,529)	2,559,508
	-----	-----	-----	-----
Total securities available for sale	\$19,082,763	\$2,677,058	\$(602,785)	\$21,157,036
	=====	=====	=====	=====

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2) Investments (Continued)  
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	Amortized Cost -----	Gross Unrealized Gains -----	Gross Unrealized Losses -----	Estimated Fair Value -----
December 31, 2001: -----				
Fixed maturity securities held to maturity:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$4,212,280	\$227,446	\$ --	\$4,439,726
Obligations of states and political subdivisions	180,660	12,507	(7,684)	185,484
Corporate securities including public utilities	19,206,038	736,038	(168,158)	19,773,918
Mortgage-backed securities	4,172,926	98,203	(578)	4,270,550
Redeemable preferred stock	28,005	7,350	(7,047)	28,308
	-----	-----	-----	-----
Total fixed maturity securities held to maturity	\$27,799,909	\$1,081,544	\$(183,467)	\$28,697,986
	=====	=====	=====	=====
Securities available for sale:				
Bonds				
U.S. Treasury securities and obligations of U.S. Government agencies	\$594,568	\$58,415	\$ --	\$652,983
Corporate securities including public utilities	19,971,265	846,481	--	20,817,746
Non-redeemable preferred stock	56,031	32,150	(6,931)	81,250
Common stock	1,549,949	1,523,382	(513,032)	2,560,299
	-----	-----	-----	-----
Total securities available for sale	\$22,171,813	\$2,460,428	\$(519,963)	\$24,112,278
	=====	=====	=====	=====

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2) Investments (Continued)  
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The fair values for 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.

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2002, 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.

Held to Maturity:	Amortized Cost	Estimated Fair Value
	-----	-----
Due in 2003	\$8,026,827	\$8,166,873
Due in 2004 through 2007	8,077,359	8,578,724
Due in 2008 through 2012	7,048,229	7,150,450
Due after 2012	977,959	1,019,243
Mortgage-backed securities	8,856,718	8,982,028
Redeemable preferred stock	28,005	29,733
	-----	-----
	\$33,015,097	\$33,927,051
	=====	=====

Available for Sale:	Amortized Cost	Estimated Fair Value
	-----	-----
Due in 2003	\$3,852,677	\$3,969,924
Due in 2004 through 2007	9,973,676	10,829,215
Due in 2008 through 2012	3,229,099	3,598,364
Due after 2012	97,771	117,440
Mortgage-backed securities	--	--
	-----	-----
	\$17,153,223	\$18,514,943
	=====	=====

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2) Investments (Continued)

The Company's realized gains and losses in investments are summarized as follows:

	2002	2001	2000
	----	----	----
Fixed maturity securities held to maturity:			
Gross realized gains	\$37,172	\$20,228	\$3,125
Gross realized losses	(557)	(565)	(53)
Securities available for sale:			
Gross realized gains	354	6	884,199
Gross realized losses	(1,424)	(111)	(463,466)
Other assets	985,275	(9,130)	--
	-----	-----	-----
Total	\$1,020,820	\$10,428	\$423,805
	=====	=====	=====

Generally gains and losses from held to maturity securities are a result of early calls and related amortization of premiums or discounts.

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 7% to 15%, maturity dates range from one to 29 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 and commercial 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. The Company has 68% of its mortgage loans in the state of Utah.

Investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available for sale securities) at December 31, 2002, other than investments issued or guaranteed by the United States Government, are as follows:

	Carrying Amount
Dean Witter Discover	\$4,457,852
Philip Morris, Inc.	\$5,834,031

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Major categories of net investment income are as follows:

	2002	2001	2000
	----	----	----
Fixed maturity securities	\$3,228,042	\$3,776,132	\$4,629,916
Equity securities	53,889	49,281	235,491
Mortgage loans on real estate	1,350,882	1,570,478	1,735,590
Real estate	1,501,534	1,548,507	1,507,239
Policy loans	663,554	630,352	641,272
Short-term investments	189,894	379,562	402,350
Other	6,501,763	5,973,092	3,962,362
	-----	-----	-----
Gross investment income	13,489,558	13,927,404	13,114,220
Investment expenses	(950,128)	(980,905)	(978,148)
	-----	-----	-----
Net investment income	\$12,539,430	\$12,946,499	\$12,136,072
	=====	=====	=====

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of approximately \$924,000, \$872,000 and \$717,000 for 2002, 2001, and 2000, respectively.

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

Securities on deposit for regulatory authorities as required by law amounted to \$7,819,262 at December 31, 2002 and \$8,829,559 at December 31, 2001.

3) Cost of Insurance Acquired

Information with regard to cost of insurance acquired is as follows:

	2002	2001	2000
	----	----	----
Balance at beginning of year	\$7,615,348	\$8,729,264	\$9,597,306
Cost of insurance acquired	9,106,309	(289,754)	--
Imputed interest at 7%	507,268	572,061	641,325
Amortization	(1,244,585)	(1,396,223)	(1,509,367)
	-----	-----	-----
Net amortization charged to income	(737,317)	(824,162)	(868,042)
	-----	-----	-----
Balance at end of year	\$15,984,340	\$7,615,348	\$8,729,264
	=====	=====	=====

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$1,281,286, \$1,177,041, \$1,081,769, \$983,719, and \$915,240 for the years 2003 through 2007. Actual amortization may vary based on changes in assumptions or experience.

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4) Property, Plant and Equipment

The cost of property, plant and equipment is summarized below:

	December 31, -----	
	2002 -----	2001 -----
Land and Buildings	\$11,098,907	\$10,930,790
Furniture and equipment	8,725,925	7,557,210
	-----	-----
Less accumulated depreciation	19,824,832 (8,903,197)	18,488,000 (7,685,613)
	-----	-----
Total	\$10,921,635 =====	\$10,802,387 =====

5) Bank Loans Payable and Lines of Credit

Bank loans payable are summarized as follows:

	December 31, -----	
	2002 -----	2001 -----
6.59% note payable in monthly installments of \$34,680 including principal and interest, collateralized by 15,000 shares of Security National Life stock, due December 2004.	\$727,524	\$1,101,543
10% note payable in monthly installments of \$8,444 including principal and interest, collateralized by real property, which book value is approximately \$982,000, due January 2013.	645,124	680,020
One-year treasury constant maturity plus 2.75% (8.03% at December 31, 2001) note payable in monthly installments of \$6,000, including principal and interest, collateralized by real property, which book value is approximately \$332,000, paid in full October 2002.	--	48,971
6.93% note payable in monthly installments of \$20,836, including principal and interest, collateralized by real property, which book value is approximately \$952,537, due November 2007.	1,472,560	1,590,487
\$4,171,803 revolving line of credit at 6.15% interest payable monthly and a reduction in principal due in semi-annual installments collateralized by 15,000 shares of Security National Life Insurance Company stock, due December 2005.	3,144,673	3,703,767
Bank prime rate plus 1/2% (4.75% at December 31, 2002) note payable in monthly installments of \$7,235 including principal and interest, collateralized by real property, which book value is approximately \$771,061, due August 2004.	150,564	235,450



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5) Bank Loans Payable and Lines of Credit (Continued)

	December 31,	
	2002	2001
Bank prime rate less 1.35% (3.40% at December 31, 2002) note payable in monthly installments of \$2,736 including principal and interest, collateralized by 15,000 shares of Security National Life Insurance Company stock, due December 2005.	128,738	156,549
7.35% note payable in monthly installments of \$14,975 including principal and interest collateralized by 15,000 shares of Security National Life Insurance Company stock, due December 2006.	610,170	750,000
Bank prime rate less .28% (4.22% at December 31, 2002) Note payable interest only to July 1, 2003, thereafter interest plus monthly principal payments of \$116,883, collateralized by 15,000 shares of Security National Life Insurance Company Stock, due January 2010.	9,000,000	--
Other collateralized bank loans payable	233,874	195,113
Total bank loans	16,113,227	8,461,900
Less current installments	2,282,575	1,677,683
Bank loans, excluding current installments	\$ 13,830,652	\$ 6,784,217

In addition to the lines of credit described above, the Company has line of credit agreements with banks for \$2,000,000 and \$5,000,000, of which none were outstanding at December 31, 2002 or 2001. The lines of credit are for general operating purposes. The \$2,000,000 line of credit bears interest at the bank's prime rate and must be repaid every 30 days. The \$5,000,000 line of credit bears interest at a variable rate with interest payable monthly and is collateralized by student loans equaling 115% of the unpaid principal balance.

See Note 6 for summary of maturities in subsequent years.

6) Notes and Contracts Payable

Notes and contracts payable are summarized as follows:

	December 31,	
	2002	2001
Due to former stockholders of Deseret Memorial, Inc. resulting from the acquisition of such entity. Amount represents the present value discounted at 8% of monthly annuity payments ranging from \$4,600 to \$5,000 plus an index adjustment in the 7th through the 12th years, due September 2011.	\$574,526	\$604,265

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6) Notes and Contracts Payable (Continued)

	December 31,	
	-----	-----
	2002	2001
	----	----
Due to former stockholders of Greer Wilson resulting from the acquisition of such entity. Amount represents the present value discounted at 10% of monthly annuity payments of \$7,000, due March 2005.	168,621	232,259
Due to former stockholders of Civil Service Employees Life Insurance Company resulting from the acquisition of such entity. 7% note payable in seven annual installments with principal payments of \$151,857, paid in full December 2002.	--	151,857
Due to former stockholders of Crystal Rose Funeral Home resulting from the acquisition of such entity. Amount represents the present value discounted at 9% of monthly annuity payments of \$2,675 due February 2007.	5,296	35,420
9% note payable in monthly installments of \$10,000 including principal and interest collateralized by real property, which book value is approximately \$2,908,000, due July 2008.	534,111	602,653
Due to Memorial Estates Endowment Care Trust Fund for the remodel of the Cottonwood Funeral Home. 6% note payable in monthly installments of \$5,339 including principal and interest collateralized by the Funeral Home, which book value is approximately \$881,631 due March 2030.	951,807	861,748
Due to former shareholders of Southern Security Life Insurance Company resulting from the acquisition of such entity. 6.5% note payable in five annual installments with principal payments of \$158,840 due April 2005	476,520	635,361

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6) Notes and Contracts Payable (Continued)

	December 31,	
	2002	2001
Other notes payable	449,128	512,213
Total notes and contracts payable	3,160,009	3,635,776
Less current installments	447,569	600,894
	-----	-----
Notes and contracts, excluding current installments	\$2,712,440	\$3,034,882
	=====	=====

The following tabulation shows the combined maturities of bank loans payable, lines of credit and notes and contracts payable:

2003	\$2,730,144
2004	3,801,840
2005	3,325,101
2006	2,145,441
2007	1,929,913
Thereafter	5,340,797
	-----
Total	\$19,273,236
	=====

Interest paid approximated interest expense in 2002, 2001 and 2000.

7) Cemetery and Mortuary Endowment Care and Pre-need Merchandise Funds

- -The Company owns and operates several endowment care cemeteries, for which it has established and maintains an endowment care fund. The Company records a liability to the fund for each space sold at current statutory rates. The Company is not required to transfer assets to the fund until the spaces are fully paid for. As of December 31, 2001 the Company had transferred \$5,586 in excess of the required contribution to the fund, and as of December 31, 2002, the Company owed the fund \$73,151.

The Company has established and maintains certain restricted asset accounts to provide for future merchandise obligations incurred in connection with its pre-need sales. Such amounts are reported as restricted assets of cemeteries and mortuaries in the accompanying consolidated balance sheet.

Assets in the restricted asset account are summarized as follows:

	December 31,	
	2002	2001
Cash and cash equivalents	\$378,388	\$475,712
Mutual funds	188,732	188,732
Fixed maturity securities	301,928	348,737
Equity securities	77,778	77,778
Participation in mortgage loans		
with Security National Life	4,352,214	4,214,781
Time certificate of deposit	33,696	33,696
	-----	-----
Total	\$5,332,736	\$5,339,436
	=====	=====

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8) Income Taxes

The Company's income tax liability at December 31 is summarized as follows:

	December 31,	
	2002	2001
Current	\$45,702	\$(86,569)
Deferred	8,058,180	6,961,166
<b>Total</b>	<b>\$8,103,882</b>	<b>\$6,874,597</b>

Significant components of the Company's deferred tax assets and liabilities at December 31 are approximately as follows:

	2002	2001
<b>Assets</b>		
Future policy benefits	\$(1,849,395)	\$(1,727,742)
Unearned premium	(1,717,492)	(1,829,505)
Difference between book and tax basis of bonds	(34,178)	(43,176)
Net operating loss carryforwards expiring in the years 2003 through 2011	(1,132,874)	(84,350)
Other	(575,788)	(631,375)
<b>Total deferred tax assets</b>	<b>(5,309,727)</b>	<b>(4,316,148)</b>
<b>Liabilities</b>		
Deferred policy acquisition costs	5,235,909	5,140,228
Cost of insurance acquired	2,643,596	1,553,301
Installment sales	1,997,256	1,838,465
Depreciation	883,667	643,243
Trusts	1,184,382	1,162,077
Tax on unrealized appreciation	644,148	583,213
Other	778,949	356,789
<b>Total deferred tax liabilities</b>	<b>13,367,907</b>	<b>11,277,316</b>
<b>Net deferred tax liability</b>	<b>\$8,058,180</b>	<b>\$6,961,166</b>

The Company paid \$462,983, \$564,327 and \$94,365 in income taxes for 2002, 2001 and 2000, respectively. The Company's income tax expense (benefit) is summarized as follows:

	2002	2001	2000
Current	\$595,254	\$391,492	\$44,688
Deferred	970,139	522,047	259,952
<b>Total</b>	<b>\$1,565,393</b>	<b>\$913,539</b>	<b>\$304,640</b>

The reconciliation of income tax expense at the U.S. federal statutory rates is as follows:

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8) Income Taxes (Continued)

	2002	2001	2000
	-----	-----	-----
Computed expense at statutory rate	\$1,883,255	\$1,282,517	\$423,682
Special deductions allowed			
small life insurance companies	(315,923)	(356,734)	(68,769)
Dividends received deduction	(737)	(6,405)	(24,418)
Minority interest taxes	7,429	(7,466)	(19,222)
Other, net	(8,631)	1,627	(6,633)
	-----	-----	-----
Tax expense	\$1,565,393	\$913,539	\$304,640
	=====	=====	=====

A portion of the life insurance income earned prior to 1984 was not subject to current taxation but was accumulated for tax purposes, in a "policyholders' surplus account." Under provisions of the Internal Revenue Code, the policyholders' surplus account was frozen at its December 31, 1983 balance and will be taxed generally only when distributed. As of December 31, 2002, the policyholders' surplus accounts approximated \$4,500,000. Management does not intend to take actions nor does management expect any events to occur that would cause federal income taxes to become payable on that amount. However, if such taxes were accrued, the amount of taxes payable would be approximately \$1,500,000.

The insurance companies have remaining loss carry forwards of approximately \$8,300,000, approximately \$286,000 of which is subject to an annual limitation of approximately \$300,000.

9) Reinsurance, Commitments and Contingencies

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from \$30,000 to \$75,000 at December 31, 2002 and 2001. 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 having insurance in force amounting to \$1,174,604,000 at December 31, 2002 and \$838,421,000 at December 31, 2001.

As part of the acquisition of Southern Security, the Company has a co-insurance agreement with The Mega Life and Health Insurance Company ("MEGA"). On December 31, 1992 Southern Security ceded to MEGA 18% of all universal life policies in force at that date. MEGA is entitled to 18% of all future premiums, claims, policyholder loans and surrenders relating to the ceded policies. In addition, Southern Security receives certain commission and mortgage loans originated and sold to unaffiliated investors are sold subject to certain recourse provisions.

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.

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10) Retirement Plans

The Company and its subsidiaries have a noncontributory Employee Stock Ownership Plan (ESOP) for all eligible employees. Eligible employees are primarily those with more than one year of service, who work in excess of 1,040 hours per year. Contributions, which may be in cash or stock of the Company, are determined annually by the Board of Directors. The Company's contributions are allocated to eligible employees based on the ratio of each eligible employee's compensation to total compensation for all eligible employees during each year. ESOP contribution expense totaled \$99,612, \$191,557, and \$0 for 2002, 2001, and 2000, respectively. At December 31, 2002 the ESOP held 507,490 shares of Class A and 1,408,653 shares of Class C common stock of the Company. All shares held by the ESOP have been allocated to the participating employees and all shares held by the ESOP are considered outstanding for purposes of computing earnings per share.

The Company has a 401(k) savings plan covering all eligible employees, as defined above, which includes employer participation in accordance with the provisions of Section 401(k) of the Internal Revenue Code. The plan allows participants to make pretax contributions up to the lesser of 15% of total annual compensation or the statutory limits. The Company may match up to 50% of each employee's investment in Company stock, up to 1/2% of the employee's total annual compensation. The Company's match will be Company stock and the amount of the match will be at the discretion of the Company's Board of Directors. The Company's matching 401(k) contributions for 2002, 2001, and 2000 were \$7,975, \$18,458, and \$0 respectively. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) savings plan. The Employer Profit Sharing Contribution shall be divided among three different classes of participants in the plan based upon the participant's title in the Company. The Company contributions for 2002, 2001 and 2000 were \$142,218, \$260,350, and \$0, respectively. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee.

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The Board has appointed a Committee of the Company to be the Plan Administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company's contribution for 2002 and 2001 was \$100,577 and \$220,038, respectively.

The Company has Deferred Compensation Agreements with its Chief Executive Officer and its past Senior Vice President. The Deferred Compensation is payable on the retirement or death of these individuals either in monthly installments (120 months) or in a lump sum settlement, if approved by the Board of Directors. The amount payable

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10) Retirement Plans (Continued)

is \$60,000 per year with cost of living adjustments each anniversary. The Compensation Agreements also provides that any remaining balance will be payable to their heirs in the event of their death. In addition the Agreement provides that the Company will pay the Group Health coverages for these individuals and/or their spouses. In 2002 the Company increased its liability for these future obligations by \$31,000. The current balance as of December 31, 2002 is \$702,000.

11) Capital Stock

The following table summarizes the activity in shares of capital stock for the three-year period ended December 31, 2002:

	Class A	Class C
	-----	-----
Balance at January 1, 2000	4,863,731	5,555,350
Stock Dividends	243,393	277,515
Conversion of Class C to Class A	507	(5,060)
	-----	-----
Balance at December 31, 2000	5,107,631	5,827,805
Stock Dividends	255,413	291,104
Conversion of Class C to Class A	547	(5,479)
	-----	-----
Balance at December 31, 2001	5,363,591	6,113,430
Exercise of stock options	132,371	--
Stock Dividends	276,012	294,419
Conversion of Class C to Class A	22,518	(225,180)
	-----	-----
Balance at December 31, 2002	5,794,492	6,182,669
	=====	=====

The Company has two classes of common stock with shares outstanding, Class A and Class C. Class C shares vote share for share with the Class A shares on all matters except election of one-third of the directors who are elected solely by the Class A shares, but generally are entitled to a lower dividend participation rate. Class C shares are convertible into Class A shares at any time on a ten to one ratio.

Stockholders of both classes of common stock have received 5% stock dividends in the years 1989 through 2002, as authorized by the Company's Board of Directors.

The Company has Class B Common Stock of \$1.00 par value, 5,000,000 shares authorized, of which none are issued. Class B shares are non-voting stock except to any proposed amendment to the Articles of Incorporation which would affect Class B Common Stock.

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11) Capital Stock (Continued)

In accordance with SFAS 128, the basic and diluted earnings per share amounts were calculated as follows:

	2002	2001	2000
	----	----	----
Numerator:			
Net income	\$3,991,280	\$2,840,780	\$895,729
	=====	=====	=====
Denominator:			
Denominator for basic earnings per share-weighted-average shares	4,823,914	4,506,476	4,317,779
Effect of dilutive securities:			
Employee stock options	169,543	382	17,265
Stock appreciation rights	1,828	--	--
	-----	-----	-----
Dilutive potential common shares	171,371	382	17,265
	-----	-----	-----
Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions	4,995,285	4,506,858	4,335,044
	=====	=====	=====
Basic earnings per share	\$.83	\$.63	\$.21
	=====	=====	=====
Diluted earnings per share	\$.80	\$.63	\$.21
	=====	=====	=====

12) Deferred Compensation Plans

In 1987, the Company adopted the 1987 Incentive Stock Option Plan (the 1987 Plan). The 1987 Plan provides that shares of the Class A Common Stock of the Company may be optioned to certain officers and key employees of the Company. The 1987 Plan establishes a Stock Option Plan Committee which selects the employees to whom the options will be granted and determines the price of the stock. The 1987 Plan establishes the minimum purchase price of the stock at an amount which is not less than 100% of the fair market value of the stock (110% for employees owning more than 10% of the total combined voting power of all classes of stock).

The 1987 Plan provides that if additional shares of Class A Common Stock are issued pursuant to a stock split or a stock dividend, the number of shares of Class A Common Stock then covered by each outstanding option granted hereunder shall be increased proportionately with no increase in the total purchase price of the shares then covered, and the number of shares of Class A Common Stock reserved for the purpose of the 1987 Plan shall be increased by the same proportion.

In the event that the shares of Class A Common Stock of the Company from time to time issued and outstanding are reduced by a combination of shares, the number of shares of Class A Common Stock then covered by each outstanding option granted hereunder shall be reduced proportionately with no reduction in the total price of the shares then so covered, and the number of shares of Class A Common Stock reserved for the purposes of the 1987 Plan shall be reduced by the same proportion.



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12) Deferred Compensation Plans (Continued)

The 1987 Plan terminated in 1997 and options granted are non-transferable. Options granted and outstanding under the 1987 Plan include Stock Appreciation Rights which permit the holder of the option to elect to receive cash, amounting to the difference between the option price and the fair market value of the stock at the time of the exercise, or a lesser amount of stock without payment, upon exercise of the option.

Activity of the 1987 Plan is summarized as follows:

	Number of Shares	Option Price
Outstanding at January 1, 2000	171,329	\$3.89 - \$4.28
Dividend Exercised	8,566	
	-----	
Outstanding at December 31, 2000	179,895	\$3.70 - \$4.07
Dividend Exercised	8,995	
	-----	
Outstanding at December 31, 2001	188,890	\$3.53 - \$3.88
Dividend Exercised	576	
Expired	(119,974)	
	(58,773)	
	-----	
Outstanding at December 31, 2002	10,719	\$3.36
	=====	
Exercisable at end of year	10,719	\$3.36
	=====	
Available options for future grant 1987 Stock Incentive Plan	--	
	=====	

On June 21, 1993, the Company adopted the Security National Financial Corporation 1993 Stock Incentive Plan (the "1993 Plan"), which reserved 300,000 shares of Class A Common Stock for issuance thereunder.

The 1993 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 1993 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both "incentive stock options," as defined under Section 422A of the Internal Revenue Code of 1986 (the "Code"), and "non-qualified options" may be granted pursuant to the 1993 Plan. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Code, including a requirement that the option exercise price be not less than the fair market value of the option shares on the date of grant. The 1993 Plan provides that the exercise price for non-qualified options will be not less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company's Board of Directors.

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12) Deferred Compensation Plans (Continued)  
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The options were granted to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers by providing them with an additional incentive to contribute to the success of the Company.

The 1993 Plan is administered by the Board of Directors or by a committee designated by the Board. The 1993 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend. No options may be exercised for a term of more than ten years from the date of grant.

The 1993 Plan has a term of ten years. The Board of Directors may amend or terminate the 1993 Plan at any time, subject to approval of certain modifications to the 1993 Plan by the shareholders of the Company as may be required by law or the 1993 Plan.

On November 7, 1996, the Company amended the Plan as follows: (i) to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 300,000 Class A shares to 600,000 Class A shares; and (ii) to provide that the stock subject to options, awards and purchases may include Class C common stock.

On October 14, 1999, the Company amended the 1993 Plan to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 746,126 Class A shares to 1,046,126 Class A shares.

Activity of the 1993 Plan is summarized as follows:

	Number of Shares	Option Price
	-----	-----
Outstanding at January 1, 2000	519,998	\$2.22 - \$3.96
Dividend	27,313	
Granted	26,000	
	-----	
Outstanding at December 31, 2000	573,311	\$2.12 - \$3.77
Dividend	36,765	
Granted	172,500	
Expired	(10,513)	
	-----	
Outstanding at December 31, 2001	772,063	\$2.02 - \$3.59
Dividend	21,077	
Granted	185,250	
Expired	(190,018)	
Exercised	(283,703)	
	-----	
Outstanding at December 31, 2002	504,669	\$2.02 - \$4.46
	=====	
Exercisable at end of year	358,588	\$2.02 - \$4.46
	=====	
Available options for future grant 1993 Stock Incentive Plan	388,361	
	=====	

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12) Deferred Compensation Plans (Continued)

On October 16, 2000, the Company adopted the Security National Financial Corporation 2000 Director Stock Option Plan (the "2000 Plan"), which reserved 50,000 shares of Class A Common Stock for issuance thereunder. Effective November 1, 2000, and on each anniversary date thereof during the term of the 2000 Plan, each outside Director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside Director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the 2000 Plan. The options granted to outside Directors shall vest in their entirety on the first anniversary date of the grant.

The primary purposes of the 2000 Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

The 2000 Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivisions, combination or stock dividend.

The term of the 2000 Plan will be five years.

Activity of the 2000 Plan is summarized as follows:

	Number of Shares	Option Price
Outstanding at December 31, 1999	0	
Dividend Granted	200 4,000	
	-----	
Outstanding at December 31, 2000	4,200	\$2.14
Dividend Granted	410 4,000	
	-----	
Outstanding at December 31, 2001	8,610	\$2.04 - \$2.43
	-----	
Dividend Granted	631 4,000	
	-----	
Outstanding at December 31, 2002	13,241	\$1.94 - \$2.86
	=====	
Exercisable at end of year	9,041	\$1.94 - \$2.31
	=====	
Available options for future grant 2000 Director Plan	44,641	
	=====	

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13) Statutory-Basis Financial Information

The Company's life insurance subsidiaries are domiciled in Utah and Florida and prepare their statutory-basis financial statements in accordance with accounting practices prescribed or permitted by the Utah and Florida Insurance Departments. "Prescribed" or "Permitted" statutory accounting practices are interspersed throughout state insurance laws and regulations. The National Association of Insurance Commissioners ("NAIC") Accounting Practices and Procedures Manual version effective January 1, 2001, has been adopted as a prescribed or permitted practices by the States of Utah and Florida.

Statutory net income and statutory stockholder's equity for the life subsidiaries as reported to state regulatory authorities, is presented below:

	Statutory Net Income (Loss)		
	December 31,		
	2002	2001	2000
	----	----	----
Security National Life	\$1,547,253	\$1,732,018	\$796,047
Southern Security Life	(427,439)	(429,143)	80,477

	Statutory Stockholders' Equity		
	December 31,		
	2002	2001	2000
	----	----	----
Security National Life	\$14,381,257	\$16,316,605	\$14,309,515
Southern Security Life	8,582,968	8,459,700	8,405,211

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts that the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices, exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

The Utah and Florida Insurance Departments impose minimum risk-based capital requirements that were developed by the NAIC on insurance enterprises. The formulas for determining the risk-based capital ("RBC") specify various factors that are applied to financial balances or various levels of activity based on the perceived degree of risk. Regulatory compliance is determined by a ratio (the "Ratio") of the enterprise's regulatory total adjusted capital, as defined by the NAIC, to its authorized control level, as defined by the NAIC. Enterprises below specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. The life insurance subsidiaries have a Ratio that is greater than 569% of the first level of regulatory action.

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14) Business Segment Information

Description of Products and Services by Segment

The Company has three reportable segments: life insurance, cemetery and mortuary, and mortgage loans. 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 and the net investment income from investing segment surplus funds. The Company's mortgage loan segment consists of loan originations fee income and expenses from the originations of residential mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

The accounting policies of the reportable segments are the same as those described in the Significant Accounting Principles. Intersegment revenues are recorded at cost plus an agreed upon intercompany profit.

Factors Management Used to Identify the Enterprise's Reportable Segments

The Company's reportable segments are business units that offer different products and are managed separately due to the different products and the need to report to the various regulatory jurisdictions.

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14) Business Segment Information (Continued)

	2002				
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	Consolidated
Revenues:					
From external sources:					
Revenue from customers	\$14,076,652	\$11,256,069	\$57,008,283	\$ --	\$82,341,004
Net investment income	6,065,652	1,011,786	5,461,992	--	12,539,430
Realized gains on investments	311,365	709,455	--	--	1,020,820
Other revenues	69,741	85,146	324,537	--	479,424
Intersegment revenues:					
Net investment income	4,741,338	--	--	(4,741,338)	--
	-----	-----	-----	-----	-----
	25,264,748	13,062,456	62,794,812	(4,741,338)	96,380,678
Expenses:					
Death and other policy benefits	7,724,046	--	--	--	7,724,046
Increase in future policy benefits	6,031,685	--	--	--	6,031,685
Amortization of deferred policy acquisition costs and cost of insurance acquired	3,718,627	274,766	--	--	3,993,393
Depreciation	383,139	678,851	167,513	--	1,229,503
General, administrative and other costs:					
Intersegment	--	36,672	173,872	(210,544)	--
Other	5,670,217	10,604,689	53,617,818	--	69,892,724
Interest expense:					
Intersegment	90,000	201,118	4,239,676	(4,530,794)	--
Other	321,896	428,498	1,219,948	--	1,970,342
	-----	-----	-----	-----	-----
	23,939,610	12,224,594	59,418,827	(4,741,338)	90,841,693
Earnings (losses) before income taxes					
	\$1,325,138	\$837,862	\$ 3,375,985	\$ --	\$5,538,985
	=====	=====	=====	=====	=====
Identifiable assets	\$295,177,565	\$42,255,381	\$14,055,057	\$(44,331,241)	\$307,156,762
	=====	=====	=====	=====	=====
Expenditures for long-lived assets	\$189,156	\$677,561	\$ 482,035	\$ --	\$ 1,348,752
	=====	=====	=====	=====	=====

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14) Business Segment Information (Continued)

	2001				
Revenues:	Life Insurance -----	Cemetery/ Mortuary -----	Mortgage -----	Reconciling Items -----	Consolidated -----
From external sources:					
Revenue from customers	\$13,150,875	\$10,603,451	\$40,086,097	\$ --	\$63,840,423
Net investment income	7,018,047	959,655	4,968,797	--	12,946,499
Realized gains on investments	10,428	--	--	--	10,428
Other revenues	53,053	42,356	56,536	--	151,945
Intersegment revenues:					
Net investment income	3,679,133	--	--	(3,679,133)	--
	-----	-----	-----	-----	-----
	23,911,536	11,605,462	45,111,430	(3,679,133)	76,949,295
Expenses:					
Death and other policy benefits	6,821,845	--	--	--	6,821,845
Increase in future policy benefits	4,953,008	--	--	--	4,953,008
Amortization of deferred policy and pre-need acquisition costs and cost of insurance acquired	3,561,895	308,263	--	--	3,870,158
Depreciation	330,892	595,082	103,162	--	1,029,136
General, administrative and other costs:					
Intersegment	--	36,672	136,867	(173,539)	--
Other	7,035,455	9,396,691	37,280,266	--	53,712,412
Interest expense:					
Intersegment	98,095	243,732	3,163,767	(3,505,594)	--
Other	317,988	418,488	2,054,150	--	2,790,626
	-----	-----	-----	-----	-----
	23,119,178	10,998,928	42,738,212	(3,679,133)	73,177,185
Earnings (losses) before income taxes	\$792,358	\$606,534	\$2,373,218	\$ --	3,772,110
	=====	=====	=====	=====	=====
Identifiable assets	\$201,193,249	\$38,915,291	\$6,411,222	\$(33,460,187)	\$213,059,575
	=====	=====	=====	=====	=====
Expenditures for long-lived assets	\$219,762	\$505,045	\$323,014	\$ --	\$1,047,821
	=====	=====	=====	=====	=====

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14) Business Segment Information (Continued)

	2000				
	Life Insurance -----	Cemetery/ Mortuary -----	Mortgage -----	Reconciling Items -----	Consolidated -----
Revenues:					
From external sources:					
Revenue from customers	\$12,875,585	\$9,416,927	\$22,921,585	\$ --	\$45,214,097
Net investment income	8,222,688	716,813	3,196,571	--	12,136,072
Realized gains on investments	423,805	--	--	--	423,805
Other revenues	85,927	23,479	195,480	--	304,886
Intersegment revenues:					
Net investment income	2,551,644	--	--	(2,551,644)	--
	-----	-----	-----	-----	-----
	24,159,649	10,157,219	26,313,636	(2,551,644)	58,078,860
	-----	-----	-----	-----	-----
Expenses:					
Death and other policy benefits	5,662,062	--	--	--	5,662,062
Increase in future policy benefits	7,268,720	--	--	--	7,268,720
Amortization of deferred policy acquisition costs and cost of insurance acquired	3,188,752	--	--	--	3,188,752
Depreciation	322,418	451,259	61,744	--	835,421
General, administrative and other costs:					
Intersegment	--	36,672	101,288	(137,960)	--
Other	5,585,178	9,369,839	22,796,596	--	37,751,613
Interest expense:					
Intersegment	--	210,984	2,202,700	(2,413,684)	--
Other	394,868	518,845	1,212,456	--	2,126,169
	-----	-----	-----	-----	-----
	22,421,998	10,587,599	26,374,784	(2,551,644)	56,832,737
	-----	-----	-----	-----	-----
Earnings (losses) before income taxes	\$1,737,651	\$(430,380)	\$(61,148)	--	\$1,246,123
	=====	=====	=====	=====	=====
Identifiable assets	\$199,694,971	\$36,704,436	\$3,495,907	\$(31,148,813)	\$208,746,501
	=====	=====	=====	=====	=====
Expenditures for long-lived assets	\$260,836	\$680,626	\$220,856	--	\$1,162,318
	=====	=====	=====	=====	=====



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15) Related Party Transactions

On December 19, 2001, the Company entered into an option agreement with Monument Title, LLC, a Utah limited liability company ("Monument Title") in which the Company made available a \$100,000 line of credit to Monument Title at an interest rate of 8% per annum. The line of credit is secured by the assets of Monument Title. From December 28, 2001 to June 14, 2002, the Company advanced Monument Title a total of \$77,953 under the line of credit. The amount advanced under the line of credit plus accrued interest are payable upon demand. The owners of Monument Title are brother-in-laws of the President and Chief Operating Officer of the Company. The Company has the right under the option agreement for a period of five years from the date thereof to acquire 100% of the outstanding common shares of Monument Title for the sum of \$10. The Company believes that it is currently prohibited from directly owning shares of stock representing control of a title company. The purpose of the transaction, which was approved by the Company's board of directors, is to insure that the title and escrow work performed for Security National Mortgage Company in connection with its mortgage loans are completed as accurately as possible by Monument Title to avoid any economic losses to the Company.

The Company has a non-interest bearing note receivable from the Chairman of the Board and Chief Executive Officer. No installment payments are required under the terms of the note, but the note must be paid in full as of December 31, 2007. The outstanding balance of the note was approximately \$70,000 and \$102,000 at December 31, 2002 and 2001, respectively.

16) Disclosure about Fair Value of Financial Instruments

The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 2. The following methods and assumptions were used by the Company in estimating the "fair value" disclosures related to other significant financial instruments:

Cash, Receivables, Short-term Investments, and Restricted Assets of the Cemeteries and Mortuaries: The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Mortgage, Policy, Student, and Collateral Loans: The fair values are estimated using interest rates currently being offered for similar loans to borrowers with similar credit ratings. Loans with similar characteristics are aggregated for purposes of the calculations. The carrying amounts reported in the accompanying balance sheets for these financial instruments approximate their fair values.

Investment Contracts: The fair values for the Company's liabilities under investment-type insurance contracts are estimated based on the contracts' cash surrender values. The carrying amount and fair value as of December 31, 2002 and December 31, 2001, were approximately \$87,351,000 and \$86,544,000, respectively.

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.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2002, 2001, and 2000

17) Other Comprehensive Income

The following summarizes other comprehensive income:

	2002	2001	2000
	----	----	----
Unrealized gains (losses)			
on available for-sale securities	\$84,263	\$769,684	\$736,803
Less: reclassification			
adjustment for net realized			
gains in net income	(35,544)	(10,428)	(420,739)
	-----	-----	-----
Net unrealized gains (losses)	48,719	759,256	316,064
Tax expense on net unrealized			
gain (losses)	(80,786)	(372,077)	(145,004)
	-----	-----	-----
Other comprehensive income (loss)	\$(32,067)	\$387,179	\$171,060
	=====	=====	=====

## Schedule I

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Summary of Investments  
Other than Investments in Related Parties

As of December 31, 2002:

Type of Investment -----	Amortized Cost -----	Estimated Fair Value -----	Amount at Which Shown in the Balance Sheet -----
Fixed maturity securities held to maturity:			
Bonds:			
U.S. Treasury securities and obligations of U.S. Government agencies	\$2,835,420	\$3,047,602	\$2,835,420
Obligations of states and political subdivisions	188,303	209,383	188,303
Corporate securities including public utilities	21,106,651	21,658,305	21,106,651
Mortgage backed securities	8,856,718	8,982,028	8,856,718
Redeemable preferred stocks	28,005	29,733	28,005
	-----	-----	-----
Total Fixed Securities held to maturity	33,015,097	33,927,051	33,015,097
	-----	-----	-----
Securities available for sale:			
Bonds:			
U.S. Treasury securities and obligations of U.S. Government agencies	594,439	698,136	698,136
Corporate securities including public utilities	16,558,784	17,816,807	17,816,807
Mortgage-backed securities	--	--	--
Nonredeemable preferred stock	56,031	82,585	82,585
Common stock:			
Public utilities	314,014	375,570	375,570
Banks, trusts and insurance companies	520,683	818,146	818,146
Industrial, miscellaneous and all other	1,038,812	1,365,792	1,365,792
	-----	-----	-----
Total Securities available for sale	19,082,763	21,157,036	21,157,036
	-----	-----	-----
Mortgage loans on real estate	21,016,008		21,016,008
Real estate	9,331,248		9,331,248
Policy loans	10,974,165		10,974,165
Other investments	5,335,478		5,335,478
	-----		-----
Total investments	\$98,754,759		\$100,829,032
	=====		=====

## Schedule I (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Summary of Investments  
Other than Investments in Related Parties

As of December 31, 2001:

Type of Investment -----	Amortized Cost -----	Estimated Fair Value -----	Amount at Which Shown in the Balance Sheet -----
Fixed maturity securities held to maturity:			
Bonds:			
U.S. Treasury securities and obligations of U.S. Government agencies	\$4,212,280	\$4,439,726	\$4,212,280
Obligations of states and political subdivisions	180,660	185,484	180,660
Corporate securities including public utilities	19,206,038	19,773,918	19,206,038
Mortgage backed securities	4,172,926	4,270,550	4,172,926
Redeemable preferred stocks	28,005	28,308	28,005
	-----	-----	-----
Total Fixed Securities held to maturity	27,799,909	28,697,986	27,799,909
	-----	-----	-----
Securities available for sale:			
Bonds:			
U.S. Treasury securities and obligations of U.S. Government agencies	594,568	652,983	652,983
Corporate securities including public utilities	19,971,265	20,817,746	20,817,746
Mortgage-backed securities	--	--	--
Nonredeemable preferred stock	56,031	81,250	81,250
Common stock:			
Public utilities	315,068	504,243	504,243
Banks, trusts and insurance companies	195,983	389,210	389,210
Industrial, miscellaneous and all other	1,038,898	1,666,846	1,666,846
	-----	-----	-----
Total Securities available for sale	22,171,813	24,112,278	24,112,278
	-----	-----	-----
Mortgage loans on real estate	15,479,305		15,479,305
Real estate	9,051,691		9,051,691
Policy loans	11,277,975		11,277,975
Other investments	1,453,644		1,453,644
	-----		-----
Total investments	\$87,234,337		\$89,174,802
	=====		=====

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)

## Balance Sheets

	December 31,	
	2002	2001
	-----	-----
Assets		
Cash	\$(3,870)	\$1,065
Investment in subsidiaries (equity method)	50,069,998	46,128,864
Receivables:		
Receivable from affiliates	10,662,465	1,664,955
Other	(74,653)	(42,743)
Total receivables	----- 10,587,812	----- 1,622,212
Property, plant and equipment, at cost, net of accumulated depreciation of \$575,724 for 2002 and \$457,338 for 2001	415,144	427,345
Other assets	66,915	21,366
Total assets	----- \$61,135,999 =====	----- \$48,200,852 =====

See accompanying notes to parent company only financial statements.

## Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)

## Balance Sheets (Continued)

	December 31,	
	2002	2001
Liabilities:		
Bank loans payable:		
Current installments	\$2,082,175	\$1,386,857
Long-term	11,400,191	4,168,453
Notes and contracts payable:		
Current installments	961	152,818
Long-term	--	--
Advances from affiliated companies	10,031,968	10,431,231
Other liabilities and accrued expenses	965,555	996,228
Income taxes	2,141,738	1,095,947
	-----	-----
Total liabilities	26,622,588	18,231,534
	-----	-----
Stockholders' equity:		
Common Stock:		
Class A: \$2 par value, authorized 10,000,000 shares, issued 5,794,492 shares in 2002 and 5,363,591 shares in 2001	11,588,984	10,727,182
Class C: \$0.20 par value, authorized 7,500,000 shares, issued 6,182,669 shares in 2002 and 6,113,430 shares in 2001	1,236,533	1,222,686
	-----	-----
Total common stock	12,825,517	11,949,868
Additional paid-in capital	11,280,842	10,168,523
Accumulated other comprehensive income	1,191,863	1,223,930
Retained earnings	11,992,542	9,989,230
Treasury stock at cost (1,151,811 Class A shares and 71,749 Class C shares in 2002; 1,294,716 Class A shares and 68,332 Class C shares in 2001, held by affiliated companies)	(2,777,353)	(3,362,233)
	-----	-----
Total stockholders' equity	34,513,411	29,969,318
	-----	-----
Total liabilities and stockholders' equity	\$61,135,999	\$48,200,852
	=====	=====

See accompanying notes to parent company only financial statements.

## Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)

## Statements of Earnings

	Year Ended December 31,		
	2002	2001	2000
Revenue:			
Net investment income	\$34,053	\$188	\$96
Fees from affiliates	3,772,293	3,824,259	3,878,458
Total revenue	<u>\$3,806,346</u>	<u>3,824,447</u>	<u>3,878,554</u>
Expenses:			
General and administrative Expenses	3,287,683	4,082,438	1,873,323
Interest expense	351,599	373,815	593,228
Total expenses	<u>3,639,282</u>	<u>4,456,253</u>	<u>2,466,551</u>
Earnings (loss) before income taxes, and earnings of subsidiaries	167,064	(631,806)	1,412,003
Income tax expense	(1,045,791)	(531,270)	(373,075)
Equity in earnings (loss) of subsidiaries	4,870,007	4,003,856	(143,199)
Net earnings	<u>\$3,991,280</u>	<u>\$2,840,780</u>	<u>\$895,729</u>

See accompanying notes to parent company only financial statements.

## Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Statements of Cash Flow

	Year Ended December 31,		
	2002	2001	2000
Cash flows from operating activities:			
Net earnings	\$3,991,280	\$2,840,780	\$895,729
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Depreciation and amortization	118,386	113,042	29,904
Undistributed (earnings) losses of affiliates	(4,870,007)	(4,003,856)	143,199
Provision for income taxes	1,045,791	531,271	373,075
Change in assets and liabilities:			
Accounts receivable	31,909	60,751	558
Other assets	(45,549)	25,638	25,637
Other liabilities	(30,673)	282,349	1,836
Net cash provided by operating activities	241,137	(150,025)	1,469,938
Cash flows from investing activities:			
Dividends received from subsidiaries	2,381,687	--	--
Purchase of equipment	(106,185)	(2,954)	(556,802)
Investment in subsidiaries	(900,000)	--	--
Net cash used in investing activities	1,375,502	(2,954)	(556,802)
Cash flows from financing activities:			
Proceeds from advances from affiliates	(9,396,773)	1,922,758	303,299
Payments of advances to affiliates	--	(28,998)	(101,514)
Payments of notes and contracts payable	(1,224,801)	(1,676,940)	(1,128,972)
Purchase of treasury stock	--	(783,086)	--
Proceeds from borrowings on notes and contracts payable	9,000,000	750,000	--
Net cash provided (used) by financing activities	(1,621,574)	183,734	(927,187)
Net change in cash	(4,935)	30,755	(14,051)
Cash at beginning of year	1,065	(29,690)	(15,639)
Cash at end of year	\$(3,870)	\$1,065	\$(29,690)

See accompanying notes to parent company only financial statements.



## Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
Notes to Parent Company Only Financial Statements

## 1) Bank Loans Payable

Bank loans payable are summarized as follows:

	December 31,	
	2002	2001
\$4,171,803 revolving line of credit at 6.15% interest payable monthly and a reduction in principal due in semi-annual installments collateralized by 15,000 shares of Security National Life Insurance Company stock, due December 2005.	\$ 3,144,672	\$ 3,703,767
6.59% note payable in monthly installments of \$34,680 including principal and interest, collateralized by 15,000 shares of Security National Life stock, due December 2004.	727,524	1,101,543
7.35% note payable in monthly installments of \$14,975 including principal and interest collateralized by 15,000 shares of Security National Life Insurance Company stock, due December 2006.	610,170	750,000
Bank prime rate less .28% (4.22% at December 31, 2002) Note payable interest only to July 2, 2003, thereafter interest plus monthly principal payment of \$116,883, collateralized by 15,000 shares of Security National Life Insurance Company stock, due January 2010.	9,000,000	--
	-----	-----
Total bank loans	13,482,366	5,555,310
Less current installments	2,082,175	1,386,857
	-----	-----
Bank loans, excluding current installments	<u>\$11,400,191</u>	<u>\$4,168,453</u>
	=====	=====

## 2) Notes and Contracts Payable

Notes and contracts are summarized as follows:

	December 31,	
	2002	2001
Due to former stockholders of Civil Service Employees Life Insurance Company resulting from the acquisition of such entity. 7% note payable in seven annual principal payments of \$151,857 paid in full December 2002	\$ --	\$ 151,857
Other	961	961
	-----	-----
Total notes and contracts	961	152,818
Less current installments	961	152,818
	-----	-----
Notes and contracts, excluding current installments	<u>\$ --</u>	<u>\$ --</u>
	=====	=====

Schedule II (Continued)

SECURITY NATIONAL FINANCIAL CORPORATION  
Notes to Parent Company Only Financial Statements

The following tabulation shows the combined maturities of bank loans payable and notes and contracts payable:

2003	\$ 2,083,136
2004	3,019,075
2005	2,715,818
2006	1,574,384
2007	1,402,596
Thereafter	2,688,318
	-----
Total	\$13,483,327
	=====

3) Advances from Affiliated Companies

	2002	December 31, 2001
Non-interest bearing advances from affiliates:		
Cemetery and Mortuary subsidiary	\$ 1,366,930	\$ 1,366,930
Life Insurance subsidiary	8,655,038	9,054,301
Mortgage subsidiary	10,000	10,000
	-----	-----
	\$10,031,968	\$10,431,231
	=====	=====

4) Dividends

In 2002 Security National Life Insurance Company, a wholly owned subsidiary of the Registrant, paid to the registrant cash dividends of \$2,381,687. There were no dividends paid for years 2001 and 2000 by any subsidiaries.

## Schedule IV

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

## Reinsurance

	Direct Amount	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
2002					
- - - - -					
Life Insurance in force (\$000)	\$1,460,832	\$220,749	\$1,174,604	\$2,414,687	48.6%
	=====	=====	=====	=====	=====
Premiums:					
Life Insurance	\$13,678,397	\$889,401	\$922,158	\$13,711,154	6.7%
Accident and Health Insurance	364,275	380	1,603	365,498	.4%
	-----	-----	-----	-----	-----
Total premiums	\$14,042,672	\$889,781	\$923,761	\$14,076,652	6.6%
	=====	=====	=====	=====	=====
2001					
- - - - -					
Life Insurance in force (\$000)	\$1,587,136	\$216,369	\$838,421	\$2,209,188	37.9%
	=====	=====	=====	=====	=====
Premiums:					
Life Insurance	\$12,930,418	\$1,035,984	\$845,736	\$12,740,170	6.6%
Accident and Health Insurance	406,393	285	4,597	410,705	1.1%
	-----	-----	-----	-----	-----
Total premiums	\$13,336,811	\$1,036,269	\$850,333	\$13,150,875	6.5%
	=====	=====	=====	=====	=====
2000					
- - - - -					
Life Insurance in force (\$000)	\$1,469,502	\$253,698	\$580,287	\$1,796,091	32.3%
	=====	=====	=====	=====	=====
Premiums:					
Life Insurance	\$12,934,701	\$1,151,262	\$634,899	\$12,418,338	5.11%
Accident and Health Insurance	454,656	427	3,018	457,247	.66%
	-----	-----	-----	-----	-----
Total premiums	\$13,389,357	\$1,151,689	\$637,917	\$12,875,585	4.95%
	=====	=====	=====	=====	=====

## Schedule V

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Valuation and Qualifying Accounts

	Balance at Beginning of Year -----	Additions Charged to Costs and Expenses -----	Deductions Disposals and Write-offs -----	Balance at End of Year -----
For the Year Ended December 31, 2002				
Accumulated depreciation on real estate	\$3,404,644	\$323,895	\$ --	\$3,728,539
Accumulated depreciation on property, plant and equipment	7,685,613	1,229,504	(11,920)	8,903,197
Allowance for doubtful accounts	2,287,241	517,299	(419,231)	2,385,309
Allowance for real estate losses	119,269	--	(119,269)	--
For the Year Ended December 31, 2001				
Accumulated depreciation on real estate	\$3,088,761	\$321,234	\$(5,352)	\$3,404,643
Accumulated depreciation on property, plant and equipment	6,699,141	1,029,137	(42,665)	7,685,613
Allowance for doubtful accounts	1,656,223	832,798	(201,780)	2,287,241
Allowance for real estate losses	--	119,269	--	119,269
For the Year Ended December 31, 2000				
Accumulated depreciation on real estate	\$2,722,024	\$366,737	\$ --	\$3,088,761
Accumulated depreciation on property, plant and equipment	5,989,643	835,421	(125,923)	6,699,141
Allowance for doubtful accounts	1,467,954	190,930	(2,661)	1,656,223

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

None

PART III

Item 10. Directors and Executive Officers

The Company's Board of Directors consists of seven persons, four of whom are not employees of the Company. There is no family relationship between or among any of the directors, except that Scott M. Quist and G. Robert Quist are the sons of George R. Quist. The following table sets forth certain information with respect to the directors and executive officers of the Company.

Name	Age	Position with the Company
George R. Quist	82	Chairman of the Board and Chief Executive Officer
Scott M. Quist	49	President, General Counsel, Chief Operating Officer and Director
Stephen M. Sill	57	Vice President, Treasurer and Chief Financial Officer
G. Robert Quist	51	First Vice President and Secretary
J. Lynn Beckstead, Jr.	49	Vice President and Director
Charles L. Crittenden	82	Director
Robert G. Hunter	43	Director
H. Craig Moody	51	Director
Norman G. Wilbur	64	Director

Committees of the Board of Directors include an executive committee, on which Messrs. George Quist, Scott Quist, and Moody serve; an audit committee, on which Messrs. Crittenden, Moody, and Wilbur serve; and a compensation committee, on which Messrs. Crittenden, Wilbur, and George Quist serve.

Directors

The following is a description of the business experience of each of the Company's directors.

George R. Quist has been Chairman of the Board and Chief Executive Officer of the Company since October 1979. In addition, he served as President of the Company from October 1979 until July 2002. Mr. Quist has also served as Chairman of the Board and Chief Executive Officer of Southern Security Life Insurance Company since December 1998, and as its President from December 1998 to July 2002. From 1960 to 1964, he was Executive Vice President and Treasurer of Pacific Guardian Life Insurance Company. From 1946 to 1960, he was an agent, District Manager and Associate General Agent for various insurance companies. Mr. Quist also served from 1981 to 1982 as the President of The National Association of Life Companies, a trade association of 642 life insurance companies, and from 1982 to 1983 as its Chairman of the Board.

Scott M. Quist has been President of the Company since July 2002, its Chief Operating Officer since October 2001 and its General Counsel and a director since May 1986. Mr. Quist served as First Vice President of the Company from May 1986 to July 2002. Mr. Quist has also served as President of Southern Security Life Insurance Company since July 2002, its Chief Operating Officer since October 2001, and its General Counsel and a director since December 1998. Mr. Quist also served as First Vice President of Southern Security Life Insurance Company from December 1998 to July 2002. From 1980 to 1982, Mr. Quist was a tax specialist with Peat, Marwick, Mitchell, & Co., in Dallas, Texas. From 1986 to 1991, he was a treasurer and director of The National Association of Life Companies, a trade association of 642 insurance companies until its merger with the American Council of Life Companies. Mr. Quist has been a member of the Board of Governors of the Forum 500 Section (representing small insurance companies) of the American Council of Life Insurance. Mr. Quist has also served as regional director of Key Bank of Utah since November 1993. Mr. Quist is currently a director and past president of the National Alliance of Life Companies, a trade association of over 200 life companies.

J. Lynn Beckstead Jr. has been a Vice President and a director of the Company since March 2002. Mr. Beckstead has also served as Vice President and director of Southern Security Life Insurance Company since March 2002. In addition, he is President of Security National Mortgage Company, an affiliate of the Company, and has served in this position since July 1993. From 1980 to 1993, Mr. Beckstead was Vice President and a director of Republic Mortgage Corporation. From 1983 to 1990, Mr. Beckstead was Vice President and director of Richards Woodbury Mortgage Corporation. From 1980 to 1983, he was a principal broker for Boardwalk Properties. From 1978 to 1980, Mr. Beckstead was a residential loan officer for Medallion Mortgage Company. From 1977 to 1978, he was a residential construction loan manager of Citizens Bank.

Charles L. Crittenden has been a director of the Company since October 1979. Mr. Crittenden is also a director of Southern Security Life Insurance Company and has served in this position since December 1998. Mr. Crittenden has been sole stockholder of Crittenden Paint & Glass Company since 1958. He is also an owner of Crittenden Enterprises, a real estate development company, and Chairman of the Board of Linco, Inc.

Robert G. Hunter, M.D. has been a director of the Company since October 1998. Dr. Hunter is also a director of Southern Security Life Insurance Company and has served in this position since December 1998. Dr. Hunter is currently a practicing physician in private practice. Dr. Hunter created the State Wide E.N.T. Organization (Rocky Mountain E.N.T., Inc.) where he is currently a member of the Executive Committee. He is Chairman of Surgery at Cottonwood Hospital, a delegate to the Utah Medical Association and a delegate representing the State of Utah to the American Medical Association, and a member of several medical advisory boards.

H. Craig Moody has been a director of the Company since September 1995. Mr. Moody is also a director of Southern Security Life Insurance Company and has served in this position since December 1998. Mr. Moody is owner of Moody & Associates, a political consulting and real estate company. He is a former Speaker and House Majority Leader of the House of Representatives of the State of Utah.

Norman G. Wilbur has been a director of the Company since October 1998. Mr. Wilbur is also a director of Southern Security Life Insurance Company and has served in this position since December 1998. Mr. Wilbur worked for J.C. Penny's regional offices in budget and analysis. His final position was Manager of Planning and Reporting for J.C. Penney's stores. After 36 years with J.C. Penny's, he took an option of an early retirement in 1997. Mr. Wilbur is a past board member of a homeless organization in Plano, Texas.

#### Executive Officers

The following is a description of the Company's executive officers, who are not also directors of the Company.

Stephen M. Sill has been Vice President, Treasurer and Chief Financial Officer of the Company since March 2002. From 1997 to March 2002, Mr. Sill was Vice President and Controller of the Company. He has also served as Vice President, Treasurer and Chief Financial Officer of Southern Security Life Insurance Company since March 2002. From 1998 to March 2002, Mr. Sill also served as Vice President and Controller of Southern Security Life Insurance Company. From 1994 to 1997, Mr. Sill was Vice President and Controller of Security National Life Insurance Company. From 1989 to 1993, he was Controller of Flying J. Inc. From 1978 to 1989, Mr. Sill was Senior Vice President and Controller of Surety Life Insurance Company. From 1975 to 1978, he was Vice President and Controller of Sambo's Restaurant, Inc. From 1974 to 1975, Mr. Sill was Director of Reporting for Northwest Pipeline Corporation. From 1970 to 1974, he was an auditor with Arthur Andersen & Co. Mr. Sill is the President and a director of the Insurance Accounting and Systems Association (IASA), a national association of over 1,300 insurance companies and associate members.

G. Robert Quist has been First Vice President and Secretary of the Company since March 2002. Mr. Quist also served as a director of Southern Security Life Insurance Company since April 1999 and has been Vice President and Secretary since March 2002. Mr. Quist has also served as First Vice President of Singing Hills Memorial Park since 1996. Mr. Quist has also served as Vice President of Memorial Estates since 1982; he began working for Memorial Estates in 1978. Mr. Quist has also served as President and a director of Big Willow Water Company since 1987 and was a director of Investors Equity Life Insurance Company of Hawaii in 1987. He has also served as a director and Secretary-Treasurer of the Utah Cemetery Association since 1987. From 1976 to 1978 he worked for Wyoming Minerals and from 1974 to 1976 for Rocky Mountain Geochemical Corp.

The Board of Directors of the Company has a written procedure which requires disclosure to the board of any material interest or any affiliation on the part of any of its officers, directors or employees which is in conflict or may be in conflict with the interests of the Company.

No director, officer or 5% stockholder of the Company or its subsidiaries, or any affiliate thereof has had any transactions with the Company or its subsidiaries during 2002 or 2001.

Each of the Directors of the Company are directors of Southern Security Life Insurance Company, which has a class of equity securities registered under the Securities Exchange Act of 1934. In addition, Scott M. Quist is an advisory director of Key Bank of Utah. All directors of the Company hold office until the next annual meeting of stockholders and until their successors have been duly elected and qualified.

#### Item 11. Executive Officer Compensation

The following table sets forth, for each of the last three fiscal years, the compensation received by George R. Quist, the Company's President and Chief Executive Officer, and all other executive officers (collectively, the "Named Executive Officers") at December 31, 2002 whose salary and bonus for all services in all capacities exceed \$100,000 for the fiscal year ended December 31, 2002.

Summary Compensation Table								
Name and Principal Position	Year	Annual Compensation		Other Annual Compensation(\$)(2)	Long-Term Compensation			
		Salary(\$)	Bonus(\$)		Restricted Stock Awards(\$)	Securities Underlying Options/SARs(#)	Long-Term Incentive Payout(\$)	All Other Compensation(\$)(3)
George R. Quist (1) Chairman of the Board and Chief Executive Officer	2002	\$165,600	\$25,000	\$2,400	0	0	0	\$31,186
	2001	148,737	20,200	2,400	0	50,000	0	37,358
	2000	147,204	20,200	2,400	0	50,000	0	5,281
Scott M. Quist (1) President, Chief Operating Officer and Director	2002	\$179,400	\$35,000	\$7,200	0	0	0	\$24,066
	2001	152,525	20,000	7,200	0	35,000	0	34,739
	2000	140,400	18,770	7,200	0	35,000	0	637

- (1) George R. Quist is the father of Scott M. Quist.
- (2) The amounts indicated under "Other Annual Compensation" consist of payments related to the operation of automobiles by the Named Executive Officers. However, such payments do not include the furnishing of an automobile by the Company to George R. Quist and Scott M. Quist nor the payment of insurance and property taxes with respect to the automobiles operated by the Named Executive Officers.
- (3) The amounts indicated under "All Other Compensation" consist of (a) amounts contributed by the Company into a trust for the benefit of the Named Executive Officers under the Security National Financial Corporation Deferred Compensation Plan (for the years 2002, 2001, and 2000 such amounts were George R. Quist, \$16,207, \$32,077, and \$0 respectively; and Scott M. Quist, \$19,219, \$34,102, and \$0 respectively); (b) insurance premiums paid by the Company with respect to a group life insurance plan for the benefit of the Named Executive Officers (for the years 2002, 2001 and 2000, such amounts were for George R. Quist \$125, \$637, and \$637 respectively; for Scott M. Quist \$642, \$637, and \$637 respectively); (c) life insurance premiums paid by the Company for the benefit of the family of George R. Quist (\$4,644 for each of the years 2002, 2001 and 2000); Scott M. Quist (\$4,205 for the year 2002, \$0 for 2001 and \$0 for 2000); (d) compensation paid for the cashless exercise of 50,000 shares of Company stock exercised by George R. Quist (\$10,210). The amounts under "All Other Compensation" do not include the no interest loan in the amount of \$172,000 that the Company made to George R. Quist on April 29, 1998, to exercise stock options. See "Item 13 Certain Relationships and Related Transactions".

The following table sets forth information concerning the exercise of options to acquire shares of the Company's Common Stock by the Named Executive Officers during the fiscal year ended December 31, 2002, as well as the aggregate number and value of unexercised options held by the Named Executive Officers on December 31, 2002.

Aggregated Option/SAR Exercised in Last Fiscal Year and Fiscal Year-End Option/SAR Values:

Name	Shares Acquired on Exercise (#)	Value Realized	Number of Securities Underlying Unexercised Options/SARs at December 31, 2002(#)		Value of Unexercised In-the-Money Options/SARs at December 31, 2002	
			Exercisable	Unexercisable	Exercisable	Unexercisable
George R. Quist	44,946	\$233,719	84,000	44,100	\$192,120	\$192,075
Scott M. Quist	56,341	\$292,975	42,000	44,100	\$113,100	\$201,675

#### Retirement Plans

George R. Quist, who has been Chairman and Chief Executive Officer of the Company since 1979, and President from 1979 to July 2002, has a Deferred Compensation Agreement, dated December 8, 1988, with the Company (the "Compensation Agreement"). This Compensation Agreement was amended effective January 2, 2001, to reflect the following benefits. The employment agreements between the Company and George R. Quist be amended to adjust for inflation in accordance with the United States Consumer Index commencing January 2, 2002, and for each year thereafter of the term of the agreement and that for the year 2001 the adjustment for his retirement is \$60,000 per year instead of \$50,000 per year. The agreements shall also be amended to provide his spouse, in the event of his pre-mature death, with health insurance coverage equivalent to that carried on executive personnel with the coverage for the entire period of the agreement. In the event of death of George R. Quist and his spouse prior to the expiration of the terms of the agreement, payments shall be paid to his estate or as otherwise directed by him in writing.



The Compensation Agreement further provides that the Board of Directors may elect to pay the entire amount of deferred compensation in the form of a single lump-sum payment or other installment payments, so long as the term of such payments do not exceed 10 years. However, in the event Mr. Quist's employment with the Company is terminated for any reason other than retirement, death or disability, the entire deferred compensation shall be forfeited by him. The Company has accrued a liability for the Compensation Agreement at December 31, 2002 of \$294,000.

#### Employment Agreement

The Company maintains an employment agreement with Scott M. Quist. The agreement, which has a five-year term, was entered into in 1996, and renewed in 1997 and 2002. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its President, General Counsel and Chief Operating Officer at not less than his current salary and benefits, and to include \$500,000 of life insurance protection. In the event of disability, Mr. Quist's salary would be continued for up to five years at 50% of its current level. In the event of a sale or merger of the Company, and Mr. Quist were not retained in his current position, the Company would be obligated to continue Mr. Quist's current compensation and benefits for seven years following the merger or sale.

#### Director Compensation

Directors of the Company (but not including directors who are employees) are paid a director's fee of \$12,000 per year by the Company for their services and are reimbursed for their expenses in attending board and committee meetings. No additional fees are paid by the Company for committee participation or special assignments. However, each director is provided with an annual grant of stock options to purchase 1,000 shares of Class A Common Stock under the 2000 Director Stock Option Plan.

#### Employee 401(k) Retirement Savings Plan

In 1995, the Company's Board of Directors adopted a 401(k) Retirement Savings Plan. Under the terms of the 401(k) plan, effective as of January 1, 1995, the Company may make discretionary employer matching contributions to its employees who choose to participate in the plan. The plan allows the board to determine the amount of the contribution at the end of each year. The Board adopted a contribution formula specifying that such discretionary employer matching contributions would equal 50% of the participating employee's contribution to the plan to purchase Company stock up to a maximum discretionary employee contribution of 1/2% of a participating employee's compensation, as defined by the plan.

All persons who have completed at least one year's service with the Company and satisfy other plan requirements are eligible to participate in the 401(k) plan. All Company matching contributions are invested in the Company's Class A Common Stock. The Company's matching contributions for 2002, 2001, and 2000 were approximately \$7,975, \$18,458, and 0, respectively. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) plan. The Employer Profit Sharing Contribution shall be divided among three different classes of participants in the plan based upon the participant's title in the Company. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee. The Company's contributions to the plan for 2002, 2001 and 2000, were \$142,218, \$260,350, and 0, respectively.

#### Employee Stock Ownership Plan

Effective January 1, 1980, the Company adopted an employee stock ownership plan (the "Ownership Plan") for the benefit of career employees of the Company and its subsidiaries. The following is a description of the Ownership Plan, and is qualified in its entirety by the Ownership Plan, a copy of which is available for inspection at the Company's offices.

Under the Ownership Plan, the Company has discretionary power to make contributions on behalf of all eligible employees into a trust created under the Ownership Plan. Employees become eligible to participate in the Ownership Plan when they have attained the age of 19 and have completed one year of service (a twelve-month period in which the Employee completes at least 1,040 hours of service). The Company's contributions under the Ownership Plan are allocated to eligible employees on the same ratio that each eligible employee's compensation bears to total compensation for all eligible employees during each year. To date, the Ownership Plan has approximately 170 participants and had \$99,612 contributions payable to the Plan in 2002. Benefits under the Ownership Plan vest as follows: 20% after the third year of eligible service by an employee, an additional 20% in the fourth, fifth, sixth and seventh years of eligible service by an employee.

Benefits under the Ownership Plan will be paid out in one lump sum or in installments in the event the employee becomes disabled, reaches the age of 65, or is terminated by the Company and demonstrates financial hardship. The Ownership Plan Committee, however, retains discretion to determine the final method of payment. Finally, the Company reserves the right to amend or terminate the Ownership Plan at any time. The trustees of the trust fund under the Ownership Plan are George R. Quist, Scott M. Quist and Robert G. Hunter, who each serve as a director of the Company.

#### Deferred Compensation Plan

In 2001, the Company's Board of Directors adopted a Deferred Compensation Plan. Under the terms of the Deferred Compensation Plan, the Company will provide deferred compensation for a select group of management or highly compensated employees, within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of the Employee Retirement Income Security Act of 1974, as amended. The board has appointed a committee of the Company to be the plan administrator and to determine the employees who are eligible to participate in the plan. The employees who participate may elect to defer a portion of their compensation into the plan. The Company may contribute into the plan at the discretion of the Company's Board of Directors. The Company's contribution for 2002 and 2001 was \$100,577 and \$220,038, respectively.

#### 1987 Incentive Stock Option Plan

In 1987, the Company adopted the 1987 Incentive Stock Option Plan (the 1987 Plan). The 1987 Plan provides that shares of the Class A Common Stock of the Company may be optioned to certain officers and key employees of the Company. The Plan establishes a Stock Option Plan Committee which selects the employees to whom the options will be granted and determines the price of the stock. The Plan establishes the minimum purchase price of the stock at an amount which is not less than 100% of the fair market value of the stock (110% for employees owning more than 10% of the total combined voting power of all classes of stock).

The Plan provides that if additional shares of Class A Common Stock are issued pursuant to a stock split or a stock dividend, the number of shares of Class A Common Stock then covered by each outstanding option granted hereunder shall be increased proportionately with no increase in the total purchase price of the shares then so covered, and the number of shares of Class A Common Stock reserved for the purpose of the Plan shall be increased by the same proportion. In the event that the shares of Class A Common Stock of the Company from time to time issued and outstanding are reduced by a combination of shares, the number of shares of Class A Common Stock then covered by each outstanding option granted hereunder shall be reduced proportionately with no reduction in the total price of the shares then so covered, and the number of shares of Class A Common Stock reserved for the purposes of the Plan shall be reduced by the same proportion.

The Plan terminated in 1997 and options granted are non-transferable. The Plan permits the holder of the option to elect to receive cash, amounting to the difference between the option price and the fair market value of the stock at the time of the exercise, or a lesser amount of stock without payment, upon exercise of the option.

#### 1993 Stock Option Plan

On June 21, 1993, the Company adopted the Security National Financial Corporation 1993 Stock Incentive Plan (the "1993 Plan"), which reserves shares of Class A Common Stock for issuance thereunder. The 1993 Plan was approved at the annual meeting of the stockholders held on June 21, 1993. The 1993 Plan allows the Company to grant options and issue shares as a means of providing equity incentives to key personnel, giving them a proprietary interest in the Company and its success and progress.

The 1993 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both "incentive stock options," as defined under Section 422A of the Internal Revenue Code of 1986 (the "Code"), and "non-qualified options" may be granted pursuant to the 1993 Plan. The exercise prices for the options granted are equal to or greater than the fair market value of the stock subject to such options as of the date of grant, as determined by the Company's Board of Directors. The options granted under the 1993 Plan, were to reward certain officers and key employees who have been employed by the Company for a number of years and to help the Company retain these officers by providing them with an additional incentive to contribute to the success of the Company.

The 1993 Plan is to be administered by the Board of Directors or by a committee designated by the Board. The terms of options granted or stock awards or sales effected under the 1993 Plan are to be determined by the Board of Directors or its committee. The Plan provides that if the shares of Common Stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of Common Stock as a stock dividend on its outstanding Common Stock, the number of shares of Common Stock deliverable upon the exercise of Options shall be increased or decreased proportionately, and appropriate adjustments shall be made in the purchase price per share to reflect such subdivision, combination or stock dividend. In addition, the number of shares of Common Stock reserved for purposes of the Plan shall be adjusted by the same proportion. No options may be exercised for a term of more than ten years from the date of grant.

Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 1993 Plan provides that the exercise price for non-qualified options will be not less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company's Board of Directors.

The 1993 Plan has a term of ten years. The Board of Directors may amend or terminate the 1993 Plan at any time, subject to approval of certain modifications to the 1993 Plan by the shareholders of the Company as may be required by law or the 1993 Plan. On November 7, 1996, the Company amended the 1993 Plan as follows: (i) to increase the number of shares of Class A Common Stock reserved for issuance under the 1993 Plan from 300,000 Class A shares to 600,000 Class A shares; and (ii) to provide that the stock subject to options, awards and purchases may include Class C common stock.

On October 14, 1999, the Company amended the 1993 Plan to increase the number of shares of Class A Common Stock reserved for issuance under the plan from 746,126 Class A shares to 1,046,126 Class A shares.

#### 2000 Director Stock Option Plan

On October 16, 2000, the Company adopted the 2000 Directors Stock Option Plan (the "Director Plan") effective November 1, 2000. The Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 50,000 shares of Class A Common Stock for issuance thereunder. The Director Plan provides that each member of the Company's Board of Directors who is not an employee or paid consultant of the Company automatically is eligible to receive options to purchase the Company's Class A Common Stock under the Director Plan.

Effective as of November 1, 2000, and on each anniversary date thereof during the term of the Director Plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A Common Stock. In addition, each new outside director who shall first join the Board after the effective date shall be granted an option to purchase 1,000 shares upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares on each anniversary date thereof during the term of the Director Plan. The options granted to outside directors shall vest in their entirety on the first anniversary date of the grant. The primary purposes of the Director Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option becomes exercisable in full, unless such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the "Continuing Directors" (as defined in the Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

Item 12 - Security Ownership of Certain Beneficial Owners and Management

The following table sets forth security ownership information of the Company's Class A and Class C Common Stock as of March 31, 2003, (i) for persons who own beneficially more than 5% of the Company's outstanding Class A or Class C Common Stock, (ii) each director of the Company, (iii) each of the Company's named executive officers, and (iv) for all executive officers and directors of the Company as a group.

Name and Address of Beneficial Owner	Class A Common Stock		Class C Common Stock		Class A and Class C Common Stock	
	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class
George R. Quist (1)(2)(3)(4)(5) 4491 Wander Lane Salt Lake City, UT 84124	288,728	5.8%	428,207	7.0%	716,935	6.4%
George R. and Shirley C Quist Family Partnership, Ltd.(6) 4491 Wander Lane Salt Lake City, UT 84124	383,899	7.6%	3,045,052	49.8%	3,428,951	30.8%
Employee Stock Ownership Plan (7) 5300 S. 360 W., Suite 250 Salt Lake City, UT 84123	507,490	10.1%	1,408,653	23.1%	1,916,143	17.2%
Scott M. Quist (1)(3)(4)(8) 7 Wanderwood Way Sandy, UT 84092	229,106	4.6%	233,178	3.8%	462,284	4.2%
Associated Investors (9) 5300 S. 360 W. Suite 250 Salt Lake City, UT 84123	84,170	1.7%	594,658	9.7%	678,828	6.1%

Item 12 - Security Ownership of Certain Beneficial Owners and Management (Continued)

Name and Address of Beneficial Owner	Class A Common Stock		Class C Common Stock		Class A and Class C Common Stock	
	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class	Amount Beneficially Owned	Percent of Class
G. Robert Quist (10) 2678 Cave Hollow Way Bountiful, UT 84010	68,794	1.4%	221,363	3.6%	290,157	2.6%
Stephen M. Sill (11) 1595 North Fort Lane Layton, UT 84041	35,261	*			35,261	*
J. Lynn Beckstead, Jr. (12) 190 Matterhorn Drive Alpine, UT 84004	74,449	1.5%			74,449	*
Charles L. Crittenden(13) 2334 Fillmore Avenue Ogden, UT 84401	3,321	*			3,321	*
H. Craig Moody(14) 1782 East Faunsdale Dr. Sandy, Utah 84092	3,100	*			3,100	*
Norman G. Wilbur (15) 2520 Horseman Drive Plano, TX 75025	3,357	*			3,357	*
Robert G. Hunter, M.D (1)(3)(16) 2 Ravenwood Lane Sandy, UT 84092	4,563	*			4,563	*
All directors and executive officers (9 persons)(1)(2)(3)(4)	1,094,578	21.8%	3,927,800	64.3%	5,022,378	45.1%

\* Less than one percent

(1) Does not include 507,490 shares of Class A Common Stock and 1,408,653 shares of Class C Common Stock owned by the Company's Employee Stock Ownership Plan (ESOP), of which George R. Quist, Scott M. Quist, and Robert G. Hunter are the trustees and accordingly, exercise shared voting and investment powers with respect to such shares.

(2) Does not include 84,170 shares of Class A Common Stock and 594,658 shares of Class C Common Stock owned by Associated Investors, a Utah general partnership, of which George R. Quist is the managing partner and, accordingly, exercises voting and investment powers with respect to such shares.

(3) Does not include 171,222 shares of Class A Common Stock owned by the Company's 401(k) Retirement Savings Plan, of which George R. Quist, Scott M. Quist, and Robert G. Hunter are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.

(4) Does not include 76,997 shares of Class A Common Stock owned by the Company's Deferred Compensation Plan, of which George R. Quist and Scott M. Quist are members of the Investment Committee and, accordingly, exercise shared voting and investment powers with respect to such shares.

(5) Includes options to purchase 84,000 shares of Class A common stock granted to George R. Quist, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(6) This stock is owned by the George R. and Shirley C. Quist Family Partnership, Ltd., of which George R. Quist is the general partner.

(7) The trustees of the Employee Stock Ownership Plan (ESOP) are George R. Quist, Scott M. Quist, and Robert G. Hunter, who exercise shared voting and investment powers.

(8) Includes options to purchase 42,000 shares of Class A common stock granted to Scott M. Quist, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(9) The managing partner of Associated Investors is George R. Quist, who exercises voting and investment powers.

(10) Includes options to purchase 5,250 shares of Class A common stock granted to G. Robert Quist, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(11) Includes options to purchase 5,250 shares of Class A common stock granted to Mr. Sill, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(12) Includes options to purchase 43,076 shares of Class A common stock granted to Mr. Beckstead, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(13) Includes options to purchase 2,261 shares of Class A common stock granted to Mr. Crittenden, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(14) Includes options to purchase 2,261 shares of Class A common stock granted to Mr. Moody, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(15) Includes options to purchase 2,261 shares of Class A common stock granted to Mr. Wilbur, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

(16) Includes options to purchase 2,261 shares of Class A common stock granted to Mr. Hunter, that are currently exercisable or will become exercisable within 60 days of March 31, 2003.

The Company's officers and directors, as a group, own beneficially approximately 45.1% of the outstanding shares of the Company's Class A and Class C Common Stock.

#### Item 13. Certain Relationships and Related Transactions

The Company has made a loan in the amount of \$172,000 to George R. Quist, the Company's Chief Executive Officer, without requiring the payment of any interest. The loan was made under a Promissory Note dated April 29, 1998 in order for Mr. Quist to exercise stock options which were granted to him under the 1993 Stock Option Plan. No installment payments are required under the terms of the note, but the note must be paid in full as of December 31, 2007. Mr. Quist has the right to make prepayments on the note at any time. As of March 31, 2003, the outstanding balance of the note was \$62,790. The loan was approved by the Company's directors on March 12, 1999, with Mr. Quist abstaining, at a special meeting of the Board of Directors.

On December 19, 2001, the Company entered into an option agreement with Monument Title, LLC, a Utah limited liability company ("Monument Title") in which the Company made available a \$100,000 line of credit to Monument Title at an interest rate of 8% per annum. The line of credit is secured by the assets of Monument Title. From December 28, 2001 to June 14, 2002, the Company advanced Monument Title a total of \$77,953 under the line of credit. The amount advanced under the line of credit plus accrued interest are payable upon demand. Ron Motzkus and Troy Lashley, who own 90% and 10% of the outstanding shares of Monument Title, respectively are brother-in-laws of Scott M. Quist, President and Chief Operating Officer of the Company. The Company has the right under the option agreement for a period of five years from the date thereof to acquire 100% of the outstanding common shares of Monument Title for the sum of \$10. The Company believes that it is currently prohibited from directly owning shares of stock representing control of a title company. The purpose of the transaction, which was approved by the Company's board of directors, is to insure that the title and escrow work performed for Security National Mortgage Company in connection with its mortgage loans are completed as accurately as possible by Monument Title to avoid any economic losses to the Company.

The Company's Board of Directors has a written procedure which requires disclosure to the Board of any material interest or any affiliation on the part of any of its officers, directors or employees which is in conflict or may be in conflict with the interests of the Company.

#### Item 14. Controls and Procedures

(a) Evaluation of disclosure controls and procedures - The Company's Principal Executive Officer and Principal Financial Officer have reviewed and evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 240.13a-14(c) and 15d-14(c) under the Securities and Exchange Act of 1934 (the "Exchange Act") as of a date within ninety days before the filing date of this annual report. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer have concluded that the Company's disclosure controls and procedures are effective, providing them with material information relating to the Company as required to be disclosed in the reports the Company files or submits under the Exchange Act on a timely basis.

(b) Changes in internal controls - There were no significant changes in the Company's controls or in other factors that could significantly affect the Company's disclosure controls and procedures subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in the Company's internal controls. As a result, no corrective actions were required or undertaken.



PART IV

Item 15. Exhibits, Financial Statement Schedules, and Reports on Form 8-K

(a)(1)(2) Financial Statements and Schedules

See "Index to Consolidated Financial Statements and Supplemental Schedules" under Item 8 above.

(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.

Exhibit

Table No Document

(a)(3) Exhibits:

3.A. Articles of Restatement of Articles of Incorporation (8)

B. Bylaws (1)

4.A. Specimen Class A Stock Certificate (1)

B. Specimen Class C Stock Certificate (1)

C. Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)

10. A. Restated and Amended Employee Stock Ownership Plan and Trust Agreement(1)

B. Deferred Compensation Agreement with George R. Quist (2)

C. 1993 Stock Option Plan (3)

D. 2000 Director Stock Option Plan (12)

E. Promissory Note with Key Bank of Utah (4)

F. Loan and Security Agreement with Key Bank of Utah (4)

G. General Pledge Agreement with Key Bank of Utah (4)

H. Note Secured by Purchase Price Deed of Trust and Assignment of Rents with the Carter Family Trust and the Leonard M. Smith Family Trust (5)

I. Deed of Trust and Assignment of Rents with the Carter Family Trust and the Leonard M. Smith Family Trust (5)

J. Promissory Note with Page and Patricia Greer (6)

K. Pledge Agreement with Page and Patricia Greer (6)

L. Promissory Note with Civil Service Employees Insurance Company (7)

- M. Deferred Compensation Agreement with William C. Sargent (8)
  - N. Employment Agreement with Scott M. Quist. (8)
  - O. Acquisition Agreement with Consolidare Enterprises, Inc., and certain shareholders of Consolidare. (9)
  - P. Agreement and Plan of Merger between Consolidare Enterprises, Inc., and SSLIC Holding Company. (10)
  - Q. Administrative Services Agreement with Southern Security Life Insurance Company. (11)
  - R. Promissory Note with George R. Quist (13)
  - S. Deferred Compensation Plan (14)
  - T. Coinsurance Agreement between Security National Life and Acadian (15)
  - U. Assumption Agreement among Acadian, Acadian Financial Group, Inc., Security National Life and the Company (15)
  - V. Asset Purchase Agreement between Acadian, Acadian Financial Group, Inc., Security National Life and the Company (15)
  - W. Promissory Note with Key Bank of Utah
  - X. Loan and Security Agreement with Key Bank of Utah
- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on June 29, 1987.
  - (2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989.
  - (3) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1994.
  - (4) Incorporated by reference from Report on Form 8-K, as filed on February 24, 1995.
  - (5) Incorporated by reference from Annual Report on Form 10K, as filed on March 31, 1995.
  - (6) Incorporated by reference from Report on Form 8-K, as filed on May 1, 1995.
  - (7) Incorporated by reference from Report on Form 8-K, as filed on January 16, 1996.
  - (8) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1998.
  - (9) Incorporated by reference from Report on Form 8-K, as filed on May 11, 1998.
  - (10) Incorporated by reference from Report on Form 8-K, as filed on January 4, 1999.
  - (11) Incorporated by reference from Report on Form 8-K, as filed on March 4, 1999.
  - (12) Incorporated by reference from Schedule 14A Definitive Proxy Statement, filed August 29, 2000, relating to the Company's Annual Meeting of Shareholders.

- (13) Incorporated by reference from Report on Form 10-K, as filed on April 16, 2001.
- (14) Incorporated by reference from Report on Form 10-K, as filed on April 3, 2002.
- (15) Incorporated by reference from Report on Form 8-K-A as filed on January 8, 2003.

21. Subsidiaries of the Registrant

(b) Reports on Form 8-K:

Asset purchase transaction with Acadian Life Insurance Company on December 23, 2002:

Form 8-K filed on January 7, 2003  
Form 8-K/A filed on January 8, 2003  
Form 8-K /A-2 filed on March 10, 2003

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

SECURITY NATIONAL FINANCIAL CORPORATION

Dated: April 15, 2003

By: George R. Quist,  
-----  
Chairman of the Board and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934 as amended, this report has been signed by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

SIGNATURE	TITLE	DATE
George R. Quist	Chairman of the Board and Chief Executive Officer (Principal Executive Officer)	April 15, 2003
Scott M. Quist	President, General Counsel, Chief Operating Officer and Director	April 15, 2003 April 15, 2003
Stephen M. Sill	Vice President, Treasurer and Chief Financial Officer (Principal Financial and Accounting Officer)	April 15, 2003
G. Robert Quist	First Vice President and Secretary	April 15, 2003
J. Lynn Beckstead, Jr.	Vice President and Director	April 15, 2003
Charles L. Crittenden	Director	April 15, 2003
H. Craig Moody	Director	April 15, 2003
Norman G. Wilbur	Director	April 15, 2003
Robert G. Hunter	Director	April 15, 2003

CERTIFICATIONS

I, George R. Quist, certify that:

1. I have reviewed this annual report on Form 10-K of Security National Financial Corporation.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 15, 2003

By: George R. Quist  
Chairman of the Board and  
Chief Executive Officer

## CERTIFICATIONS

I, Stephen M. Sill, certify that:

1. I have reviewed this annual report on Form 10-K of Security National Financial Corporation.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - (a) Designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
  - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
  - (c) Presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: April 15, 2003

By: Stephen M. Sill  
Vice President, Treasurer and  
Chief Financial Officer

EXHIBIT 99.1  
CERTIFICATION PURSUANT TO  
18 U.S.C.ss.1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Security National Financial Corporation (the "Company") on Form 10K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

George R. Quist  
Chief Executive Officer  
April 15, 2003

EXHIBIT 99.2  
CERTIFICATION PURSUANT TO  
18 U.S.C.ss.1350,  
AS ADOPTED PURSUANT TO  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Security National Financial Corporation (the "Company") on Form 10K for the period ending December 31, 2002, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. ss. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Stephen M. Sill  
Chief Financial Officer  
April 15, 2003

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-K  
Year Ended December 31, 2003

SECURITY NATIONAL FINANCIAL CORPORATION  
Commission File No. 0-9341

E X H I B I T S



Exhibit Index

Exhibit No.	Document Name
21	Subsidiaries of the Registrant
10	Promissory Note
10	Loan Agreement

EXHIBIT 21

Subsidiaries of Security National  
Financial Corporation  
as of March 31, 2003

Exhibit 21

Subsidiaries of Security National Financial Corporation (as of March 31, 2003)

Security National Life Insurance Company

Security National Mortgage Company

Memorial Estates, Inc.

Memorial Mortuary

Paradise Chapel Funeral Home, Inc.

California Memorial Estates, Inc.

Cottonwood Mortuary, Inc.

Deseret Memorial, Inc.

Holladay Cottonwood Memorial Foundation

Holladay Memorial Park, Inc.

Camelback Sunset Funeral Home, Inc.

Greer-Wilson Funeral Home, Inc.

Crystal Rose Funeral Home, Inc.

Hawaiian Land Holdings

SSLIC Holding Company

Insuradyne Corporation

Southern Security Life Insurance Company

Exhibit W  
Promissory Note

Exhibit W

Exhibit X

Loan and Security Agreement with KeyBank National Association

Exhibit X

## PROMISSORY NOTE

This Promissory Note is made and given on the day first written above by SECURITY NATIONAL FINANCIAL CORPORATION, a Utah corporation ("Borrower"), as maker, to and for the benefit of KEYBANK NATIONAL ASSOCIATION, a national banking association, and its successors and assigns ("Lender") as payee. Borrower and Lender are parties to that certain "Loan and Security Agreement" of even or recent date herewith (the "Agreement") pursuant to which Lender agreed to make a loan to Borrower in the original principal amount of \$9,000,000.00 (the "Loan") upon the terms and conditions therein set forth. This Promissory Note is made in connection with the Agreement and is the Promissory Note referred to therein. Capitalized terms used in this Promissory Note which are not defined herein shall have the meanings given them in the Agreement.

1. Promise to Pay Principal and Interest. For value received, Borrower promises to pay to Lender the principal sum of NINE MILLION DOLLARS AND NO/100 DOLLARS (\$9,000,000.00), together with interest on the unpaid principal balance at a variable or floating rate equal to the sum of an index and a margin, where the index is Lender's Prime Rate and the margin is a minus twenty-eight (-28) basis points (i.e., -.28%) per annum, the sum of which is the "Effective Rate". Changes to the Effective Rate will be made on the same day as changes occur to Lender's Prime Rate. Lender need not give Borrower prior notice of any changes in the Prime Rate. Interest will be calculated on a basis of 360-day year and charged for the actual number of days elapsed. As used herein, the term "Prime Rate" means the interest rate established and designated as such from time to time by Lender. Such rate is an index based on certain factors selected from time to time by Lender such as the prime or the base lending rates announced by other financial institutions. The Prime Rate serves as the basis upon which effective rates of interest are calculated for variable-rate loans made by Lender which use that term as an index. Prime Rate does not necessarily mean the lowest or best rate at which Lender may make a loan or otherwise extend credit.

2. Repayment. Borrower shall pay accrued interest on the outstanding principal balance monthly commencing on February 1, 2003, and continuing on the first day of each month thereafter to and including July 1, 2003. Commencing on August 1, 2003, and continuing on the first day of each month thereafter, Borrower shall make monthly payments equal to the sum of (a) \$125,000.00 principal reduction, and (b) accrued interest; provided, however, if Borrower enters into an interest rate hedge or "swap" agreement with Lender or one of Lender's affiliates, the monthly payment of amount shall be adjusted based on such swap agreement, and Borrower and Lender shall attach a payment schedule as an exhibit to this Promissory Note to reflect such monthly payment amounts. Notwithstanding anything in the Agreement, this Promissory Note, or the other Loan Documents to the contrary, the entire unpaid principal balance of the Loan and this Promissory Note, together with all accrued interest and other unpaid charges due to Lender pursuant to the Agreement, this Promissory Note, and the other Loan Documents, shall be due and payable on January 1, 2010. All payments shall be made in lawful currency of the United States of America at KeyBank Tower, Suite 2007, 50 South Main Street, Salt Lake City, Utah 84144, or such other place as the holder of the Promissory Note may designate. Payments falling due on a day that is a Saturday, Sunday, or other day on which commercial banks in the State of Utah are required or authorized to be closed for the general transaction of banking business shall be due on the next succeeding business day; provided, however, for purposes of determining late charges or other matters that are determined or calculated with respect to the date a payment is due, all payments shall be considered to

be due on the originally-scheduled payment date. All payments received by Lender under the Promissory Note or otherwise on account of the obligations or indebtedness evidenced hereby, shall be applied in the following priority: First, to the payment of late charges; Second, to the payment of any costs and expenses incurred by Lender under the Promissory Note for which Borrower has agreed to pay or reimburse Lender; Third, to the payment of accrued interest; and Fourth, to the payment of principal. Notwithstanding, the foregoing, upon the occurrence of an Event of Default, as hereinafter defined, Lender may, in its sole discretion, alter the priority of payments among the above-described categories.

3. Late Charges. If any payment is not paid within ten (10) days after its scheduled payment date, Borrower agrees to pay a late charge equal to the greater of \$50 or five percent (5%) of the amount of the delinquent payment. The late charge is intended to cover, in part, the extra expense of Lender in handling such delinquent payment and its loss opportunity costs. Borrower acknowledges that it would be impractical for the Borrower and Lender to determine the exact amount of damages Lender will incur if a payment is delinquent, and that the amount set forth in this Paragraph 3 is a good faith estimate of, and shall be presumed to be, the amount of damages that will be sustained by Lender as a result of a delinquent payment. Acceptance by Lender of any late charge shall not be construed as a waiver any other right or remedy Lender may have with respect to a delinquent payment.

4. Default Interest Rate. Upon the occurrence of an Event of Default and during the continuance thereof, the margin used to compute the Effective Rate shall, at Lender's sole option and without prior notice to Borrower, immediately increase by an additional four hundred (400) basis points (i.e., 4%) and shall continue at such rate, both before and after judgment, until the Loan has been repaid in full and all of Borrower's other obligations to Lender under this Promissory Note, the Agreement, and the other Loan Documents have been fully paid and discharged.



5. Collateral. The obligations and liabilities of Borrower under this Promissory Note are secured by Collateral described in the Agreement.

6. Events of Default; Remedies. The occurrence of an Event of Default under the Agreement shall constitute a default under this Promissory Note. Upon the occurrence of an Event of Default, Lender shall have all of the rights and remedies set forth in the Agreement. Without limiting the foregoing, Lender may accelerate the entire unpaid principal balance of this Promissory Note, together with accrued interest thereon, and declare the same to be immediately due and payable without presentment, demand, protest, or other notice of any kind. Without waiving any right or remedy available to it, Lender may proceed against Borrower, Guarantor, or any Collateral simultaneously or in any order it chooses. To the fullest extent permitted by law, Borrower waives any rights to presentment, demand, protest, or notice of any kind in connection with the Agreement, this Promissory Note, or the other Loan Documents. No failure or delay on the part of Lender in exercising any right, power, or privilege hereunder will preclude any other or further exercise thereof or the exercise of any other right, power, or privilege.

7. Governing Law. This Promissory Note is deemed to be negotiated, delivered, and to be performed in Salt Lake City, Utah, and shall be governed and construed in accordance with the laws of the State of Utah.

8. Conflicts with Loan Agreement. In the event of a conflict or inconsistency between any term or provision contained in this Promissory Note and any term or provision contained in the Agreement, the terms and provisions of this Promissory Note shall have priority over the terms and provisions of the Agreement.

SECURITY NATIONL FINANCIAL  
CORPORATION, a Utah corporation

By: s/s Scott M. Quist  
President

This Loan and Security Agreement (this "Agreement") is made and entered into in Salt Lake City, Utah, this 24th day of December, 2002, by and between KEYBANK NATIONAL ASSOCIATION, a national banking association ("Lender"), and SECURITY NATIONAL FINANCIAL CORPORATION, a Utah corporation ("Borrower"). Borrower and Lender are sometimes referred to herein, collectively, as the "Parties."

In consideration of the mutual covenants and agreements contained herein, the Parties agree as follows:

1. Term Loan. Subject to all of the terms and conditions contained in this Agreement, Lender agrees to make a loan (the "Loan") to Borrower in the principal amount of NINE MILLION AND NO/100 DOLLARS (\$9,000,000). The Loan is a non-revolving line of credit that will be fully disbursed at the time of closing. In connection herewith, and as further evidence of the Loan, Borrower, as maker, shall execute and deliver to Lender, as payee, a promissory note (the "Promissory Note") for the amount of Loan, which Promissory Note shall be in form and content satisfactory to Lender. All sums advanced on the Loan pursuant to the terms of this Agreement shall be deemed advances or disbursements of principal under the Promissory Note.

2. Commercial Purpose of Loan. The purpose of the Loan is to provide funds for the acquisition by Borrower or one or more of its subsidiaries of the capital stock in, or the book of insurance business, of Gulf National Life. No other use of the proceeds of this Promissory Note shall be made without Lender's prior written consent.

3. Interest; Default Interest. All sums advanced or disbursed pursuant to this Agreement and the Promissory Note shall bear interest from the date hereof until paid in full, both before and after judgment, at a variable or floating rate equal to the sum of an index and a margin (the sum of which is the "Effective Rate") where the index is the Prime Rate and the margin is a minus twenty-eight (28) basis points (i.e., - .28%) per annum. Adjustments to the Effective Rate shall be made on and as of the same day that changes occur to the Prime Rate. As used herein, "Prime Rate" means the percentage rate of interest designated from time to time by Lender as its "prime" or base lending rate. The Prime Rate is based on certain factors which Lender selects from time to time, such as the prime or base lending rates of other financial institutions. The Prime Rate is an index used by Lender to establish the effective interest rate for variable-rate loans made by it which use that term as an index. Prime Rate does not necessarily mean the lowest or best rate at which Lender may make loans or extend credit. Interest will be calculated on the basis of a 360-day year and charged for the actual number of days elapsed. Upon the occurrence of an Event of Default (as hereinafter defined) and during the continuance thereof, the margin used to compute the Effective Rate shall, at Lender's sole option and without prior notice to Borrower, immediately increase by an additional four hundred (400) basis points (i.e., 4%) and shall continue at such rate, both before and after judgment, until the Loan and the Promissory Note have been repaid in full and all of Borrower's other obligations to Lender thereunder have been fully paid and discharged.

4. Payments. Borrower shall make payments in the amounts, at the times, and in the manner set forth in the Promissory Note. The Parties contemplate that Borrower will enter into an interest rate hedge, derivative, or "swap" agreement with Lender or an affiliate of Lender in connection with the Loan, upon terms and conditions as may be mutually satisfactory to them. If Borrower and Lender enter into such interest rate hedge, derivative, or swap agreement, the monthly payment amount due under the Promissory Note shall be adjusted in accordance with a schedule or exhibit or be attached thereto.

5. Late Charges. If any payment is not paid within five (5) days after its scheduled payment date, Borrower agrees to pay a late charge equal to the greater of \$50 or five percent (5%) of the amount of the delinquent payment. The late charge is intended to cover, in part, the extra expense of Lender in handling such delinquent payment and loss opportunity costs. Borrower acknowledges that it would be impractical for the Parties to determine the exact amount of damages Lender will incur if a payment is delinquent, and that the amount set forth in this Paragraph 5 is a good faith estimate of, and shall be presumed to be, the amount of damages that will be sustained by Lender as a result of a delinquent payment. Nothing herein shall be construed to waive any other right or remedy Lender may have with respect to a delinquent payment.

6. Loan Fees and Other Expenses. Borrower agrees to pay to Lender a loan or commitment fee in the amount of \$9,000.00 upon execution of this Agreement. Such loan or commitment fee shall be deemed fully earned and non-refundable. In addition, Borrower agrees to pay or reimburse Lender for all of Lender's costs and expenses incurred by Lender in connection with the transaction contemplated herein, including without limitation filing fees and reasonable attorney's fees and expenses. Such costs and expenses shall be due and payable upon execution of this Agreement, or if incurred thereafter, upon demand by Lender.

7. Collateral. The obligations, undertakings, liabilities and indebtedness of Borrower with respect to the Loan or in any manner arising under this Agreement, the Promissory Note, the other Loan Documents (as hereinafter defined), and any obligation or liability that Borrower may now or hereafter owe to Lender in connection with or arising from any interest rate hedge, derivative, or "swap" agreement made with respect to the Loan, including without limitation obligations which may arise pursuant to any "ISDA Master Agreement" and any schedules thereto, whether presently existing or hereafter arising or entered into, and any early termination fees (collectively, the "Obligation") shall be secured by, and Borrower hereby assigns, transfers, and conveys to Lender, and grants Lender a security interest in and to, the following (collectively, the "Collateral"):

(a) All of the issued and outstanding capital stock (the "Pledged Stock") of Security National Life Insurance Company, a Utah corporation

("SNLIC"), a wholly owned subsidiary of Borrower. Without limiting the foregoing, Lender shall have a security interest in that certain stock certificate Number 1 representing 15,000 shares of common stock in SNLIC (the "Pledged Stock Certificate")

(b) All shares and associated rights and interests resulting or derived from the Pledged Stock, including without limitation stock issued in connection with forward and reverse stock splits, stock dividends, warrants, stock appreciation rights, and stock and other consideration or distributions received with respect to or on account of Pledged Stock in any merger, consolidation, reorganization, recapitalization, or similar transaction.

(c) All dividends and distributions, whether in cash or kind, made with respect to, or on account of, the Pledged Stock.

(d) All products and proceeds from any of the foregoing.

Borrower shall execute and deliver to Lender, or shall cause to be executed and delivered to Lender, such assignments, security agreements, UCC financing statements (including continuation statements and amendments), pledges, hypothecations, consents, acknowledgments, and other documents and instruments, and shall take such other action, as Lender may request to further effect or perfect its security interest in the Collateral. Such documents, together with this Agreement, the Promissory Note, and the Guaranty (as hereinafter defined) are referred to as the "Loan Documents". Borrower agrees that the Pledged Stock, together with any additional stock that may be issued with respect thereto or issued in conversion or exchange thereof, shall be delivered to and held by Lender or its nominee at all times, and agrees to take all necessary action to effect such delivery. Notwithstanding the foregoing, the Parties acknowledge that Lender is currently holding the Pledge Stock Certificate in its possession pursuant to a "Commercial Pledge and Security Agreement" dated December 8, 1998 (the "Pledge Agreement"), and is holding the same as security for certain other loans and extensions of credit made by Lender to Borrower. The Parties agree that the term "Indebtedness" as used in the Pledge Agreement shall include, without limitation, the Obligations, and that the Pledge Agreement constitutes one of the Loan Documents.

8. Guarantor. The Obligation of Borrower to Lender shall be absolutely and unconditionally guaranteed by SECURITY NATIONAL LIFE INSURANCE COMPANY, a Utah corporation ("Guarantor"), using a form of guaranty agreement satisfactory to Lender (the "Guaranty").

9. Conditions Precedent. Lender shall not be required to make any disbursement on the Loan or under the Promissory

Note unless and until the following conditions have been, and continue to be, met to the satisfaction of the Lender:

(a) This Agreement, the Promissory Note, the Guaranty, and any other Loan Documents required by Lender shall have been duly executed by the parties thereto, acknowledged (if required), and delivered to Lender, and the same shall be in full force and effect.

(b) Borrower shall have provided evidence satisfactory to Lender that Borrower and any other person signing any Loan Document (other than Lender) have the authority to do so.

(c) The representations and warranties contained in this Agreement and the other Loan Documents executed by Borrower (including without limitation the Pledge Agreement) shall be true and correct in all material respects.

(d) The security interest of Lender in and to the Collateral shall be valid, perfected, in full force and effect, and shall constitute a first lien position senior in interest and right to all other liens, claims, and encumbrances.

(e) No Event of Default shall have occurred and be continuing, and no condition shall exist or event shall have occurred which, with the giving of notice or the lapse of time or both, would constitute an Event of Default.

Notwithstanding anything in this Agreement or the other Loan Documents to the contrary, the foregoing conditions are solely for the benefit and protection of Lender. Lender may, in its sole discretion, waive or defer the performance of any condition on one or more occasions. Any such waiver or deferral shall not establish a course of dealings or otherwise obligate Lender to waive or defer any condition on other occasions.

10. Representations and Warranties. In order to induce Lender to enter into this Agreement and to make the Loan, Borrower represents and warrants to Lender as follows:

(a) Borrower is a corporation, duly organized, validly existing, and in good standing under the laws of the State of Utah with the power to own its assets and to transact business in Utah, and in such other states where its business is conducted and it is required to be registered or otherwise qualified to transact business.

(b) Borrower has all requisite authority and power to execute and deliver this Agreement, the Promissory Note, and any other Loan Document to which it is a party, and to perform its obligations thereunder and any condition or obligation imposed under the terms thereof.

(c) The execution, delivery and performance by Borrower of this Agreement, the Promissory Note, and other Loan Document, and each document incident hereto will not violate any provision of any applicable law, regulation, order, judgment, decree, article of incorporation, by-law, indenture, contract, agreement, or other undertaking to which Borrower is a party, or which purports to be binding on Borrower or its assets and will not result in the creation or imposition of a lien on any of its assets, other than the security interest granted to Lender and the Permitted Encumbrances.

(d) There is no action, suit, investigation, or proceeding pending or, to the knowledge of Borrower, threatened, against or affecting Borrower or any of its assets which, if adversely determined, would have a material adverse effect on the financial condition of Borrower or the operation of its business.

(e) Any financial statements which have heretofore been provided to Lender by Borrower or at Borrower's request, are correct and complete in all material respects, and truly, fairly, and accurately represent the financial position of Borrower as of the date of such financial statements. Since the date of such statements there have been no material adverse changes

(f) No information or report furnished by Borrower to Lender in connection with its request or application for the Loan or in the negotiation of this Agreement or any other Loan Document contained any material misstatement of fact or omitted to state a material fact or any fact necessary to make the statements contained therein not misleading.

(g) Borrower has (1) filed all applicable federal, state, and local tax returns or other statements required to be filed in connection with its business, including those for income taxes, sales taxes, property taxes, payroll taxes, payroll withholding amounts, FICA contributions, and similar items; (2) maintained appropriate reserves for the accrual of the same; and (3) paid when due all such taxes, or sums or assessments made in connection therewith. Provided, however, that (until distraint, foreclosure, sale, or similar proceedings have been commenced) nothing herein will require Borrower to pay any sum or assessment, the validity of which is being contested in good faith by proceedings diligently pursued and as to which adequate reserves have been made.

(h) Lender's security interest in the Collateral is in a first lien position senior in right and title to all other liens, claims, and encumbrances of any kind.

(i) Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (as defined in Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of the Loan will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carry margin stock in violation of Regulation U.

(j) As used in this Agreement, "ERISA" means the Employee Retirement Income Security Act of 1974, as amended, together with all regulations issued pursuant thereto; "ERISA Affiliate" means each trade or business (whether or not incorporated) which, together with Borrower, will be treated as a single employer under ERISA; "Plan" means any plan defined in Section 4021(a) of the Internal Revenue Code or in respect of which Borrower is an "employer" or a "substantial employer" as said terms are defined in ERISA; and "Prohibited Transaction" means any transaction described in Section 406 of ERISA which is not otherwise exempt and any transaction described in Section 4975(c) of the Internal Revenue Code which is not otherwise exempt. Except as has been disclosed to Lender in writing on or before the date hereof, neither Borrower nor any of its ERISA Affiliates nor any Plan is in material violation of any provision of ERISA or any other applicable state or federal law, including the requirements of the Internal Revenue Code; no Prohibited Transaction or reportable event has occurred with respect to any Plan; no notice of intent to terminate a Plan has been filed within the twenty-four (24) month period preceding the date hereof nor has any Plan been terminated under Section 4041(c) of ERISA since September 2, 1974; no proceeding has been instituted by the Pension Benefit Guaranty Corporation ("PBGC") to terminate or appoint a trustee to administer a Plan; and to the best of Borrower's knowledge, no event has occurred or condition exists which might constitute grounds for the termination of or appointment of a trustee to administer any Plan; each Plan meets the minimum funding requirements of Internal Revenue Code Section 412 and no waiver from the minimum funding requirement has been applied for or approved; and neither Borrower nor any ERISA Affiliate has incurred or expects to incur any withdrawal liability to any multi-employer Plan within the meaning of Section 4001(a)(3) of ERISA.

(k) The Pledged Stock Certificate represents all of the issued and outstanding capital stock of SNLIC. The Pledged Stock has been duly authorized, validly issued, fully paid and is non-assessable. There is no agreement or arrangement restricting the transfer of the Pledged Stock or the transfer of any other Collateral. SNLIC is not a party to any document, option, warrant, or other agreement, however designated, pertaining to the issuance of any additional capital stock in SNLIC.

11. Affirmative Covenants. So long as any of the Obligation remains unpaid, Borrower covenants and agrees that, except with the prior written consent of Lender, it shall do the following:

(a) Borrower shall furnish to Lender such financial statements as Lender may from time to time reasonably request. Without limiting the foregoing, Borrower shall, at a minimum, provide the following financial information to Lender:

(i) within 120 days after the end of each fiscal year, copies of Borrower's audited financial statements, including all notes thereto and the opinion of Borrower's independent auditors.;

(ii) within 45 days after the end of each fiscal quarter, copies of Borrower's internally prepared financial statements, including balance sheet and income statement; and

(iii) annually, within 30 days after filing, copies of Borrower's federal income tax returns (or requests for filing extensions, if applicable), including all schedules and exhibits thereto.

(b) Borrower shall promptly notify Lender in writing of any Event of Default under the terms hereof, or the existence of any condition or the occurrence of any event which, with the giving of notice of the lapse of time or both, would constitute an Event of Default, or of any litigation, proceeding, or development which may have a material adverse effect on Borrower's ability to perform under the terms of this Agreement. Such notice shall include a description of the matter requiring the notice to be given and the actions that Borrower intends to take with respect thereto.

(c) Borrower shall duly and timely observe and conform to all valid requirements or any governmental authority relative to the conduct of its business, its properties, or its asset. Borrower shall maintain and keep in full force and effect (1) all licenses and permits necessary to the proper conduct of its business, and (2) its existence in good standing as corporation.

(d) Borrower shall keep proper books of records and accounts in which full, true, and correct entries will be made of all dealings or transactions relating to its business and activities.

(e) Borrower shall (1) file all applicable federal, state, and local tax returns or other statements required to be filed in connection with its business, including those for income taxes, sales taxes, property taxes, payroll taxes, payroll withholding amounts, FICA contributions, and similar items; (2) maintained appropriate reserves for the accrual of the same; and (3) paid when due all such taxes, or sums or assessments made in connection therewith. Provided, however, that (until distraint, foreclosure, sale, or similar proceedings have been commenced) nothing herein will require Borrower to pay any sum or assessment, the validity of which is being contested in good faith by proceedings diligently pursued and as to which adequate reserves have been made.

(f) Borrower shall permit any person designated in writing by Lender to visit and inspect any of the corporate books and financial records of Borrower and to discuss its affairs and finances with its principal officers, all at such reasonable times and as often as Lender may in good faith request, subject to any reasonable conditions imposed by Borrower.

(g) Borrower will materially comply with all applicable provisions of ERISA and, promptly after the filing or receiving thereof, will provide copies of all reports and notices which Borrower or any ERISA Affiliate files with or receives from the PBGC or the U.S. Department of Labor under ERISA. As soon as possible, and in any event within thirty (30) days after the Borrower or any ERISA Affiliate knows or has reason to know that any reportable event or Prohibited Transaction has occurred with respect to any Plan or the PBGC, or Borrower or an ERISA Affiliate has instituted or will institute a proceeding under Title IV of ERISA to terminate any Plan, Borrower will deliver to Lender a certificate of the Chief Financial Officer of Borrower setting forth details as to such reportable event, Prohibited Transaction or planned termination and the action that Borrower proposes to take with respect thereto.

(h) Borrower shall, on a consolidated basis, at all times maintain the following financial covenants and ratios:

(i) Borrower shall maintain a Net Worth of not less than \$20,000,000. As used herein, "Net Worth" means Borrower's total tangible and intangible assets less Total Debt; and "Total Debt" means all of Borrower's liabilities, including debt which has been subordinated to this Loan in a manner approved by Lender on a case-by-case basis. Compliance with the foregoing covenant shall be tested at the end of each fiscal quarter.

(ii) Borrower shall maintain a ratio of Operating Cash Flow to Fixed Charges of not less than 1.25 to 1.00. As used herein, "Operating Cash Flow" means net income after taxes and exclusive of extraordinary gains and losses, gains on the sale of fixed assets, and other extraordinary income, plus depreciation, amortization, interest expense, and lease expense, less dividends and distributions; and "Fixed Charges" means the sum of interest expense, lease expense, current maturities of long-term debt, and current maturities of capital leases (all calculated for the preceding 12-month period). Compliance with the foregoing ratio shall be tested at the end of each fiscal quarter for the preceding 12-month period.

(f) Borrower shall maintain a ratio of Total Liabilities less outstanding balances on revolving credit lines relating to mortgage operations to Net Worth of not more than 6.50 to 1. As used herein, "Total Liabilities" means all liabilities of Borrower, and Net Worth shall have the meaning in clause (i) above. Compliance with the foregoing ratio shall be tested at the end of each fiscal quarter.

7. In addition to the foregoing, Guarantor shall be required to maintain the following ratio and covenant:

(i) Guarantor shall maintain a ratio of Total Adjusted Capital to Required Risk Based Capital of not less than 3 to 1 (i.e. 300%). As used herein, "Total Adjusted Capital" shall have the meaning given thereto by statutory accounting principles applicable to insurance companies. Compliance with the foregoing ratio shall be tested at the end of each fiscal year.

(ii) Guarantor shall maintain a Net Change in Capital Surplus of not less than 5%. As used herein, "Net Change in Capital Surplus" shall have the meaning given thereto by statutory accounting principles applicable to insurance companies. Compliance with the foregoing covenant shall be tested annually at the end of each fiscal year.

12. Negative Covenants. So long as any of the Obligation remains unpaid, Borrower covenants that, except with the prior written consent of Lender, it will not do any of the following:

(a) Borrower shall not enter into any transaction of merger or consolidation, or acquire all or substantially all of the assets or business of a person or other legal entity without the prior written consent of Lender.

(b) Borrower shall not create or permit to exist any lien, claim, or encumbrance on the Collateral or any part thereof, except as granted to Lender. Borrower shall not do or refrain from doing any act which may in any manner adversely affect Lender's interest in the Collateral or diminish the value thereof.

(c) Borrower will not at any time permit any Plan maintained by it to engage in any Prohibited Transaction; incur any "accumulated funding deficiency" as such term is defined in ERISA; or terminate any such Plan in a manner which could result in the imposition of a lien on any property of Borrower pursuant to ERISA.

13. Covenants as to the Pledged Stock So long as any of the Obligation remains unpaid, Borrower covenants and agrees as follows:

(a) Perfection. Concurrently with the execution and delivery of this Agreement, Borrower shall (i) deliver to Lender ----- all certificates representing the Pledged Stock, accompanied by undated stock powers duly executed in blank and medallion guaranteed, and (ii) take all such other actions as shall be necessary or as Lender may reasonably request to perfect and establish the priority of the lien in the Collateral granted by this Agreement. Notwithstanding the generality of the foregoing, and in addition to the Lender's physical possession of any certificates as provided for herein, Borrower hereby expressly consents (x) to the filing of any UCC-1 financing statement by Lender in any jurisdiction Lender deems necessary or appropriate, or (y) the delivery to SNLIC or any other third party of any notice or correspondence deemed appropriate by Lender in order to perfect the priority of the liens granted by this Agreement.

(b) Preservation and Protection of Security Interests. Borrower shall:

(i) upon the acquisition after the date hereof by Borrower of any Collateral, promptly either (x) transfer and deliver to Lender all such Collateral (together with the certificates (if any) representing such Collateral duly endorsed in blank or accompanied by updates stock powers duly executed in blank), or (y) take such other action as Lender shall reasonably deem necessary or appropriate to perfect, and establish the priority of, the lien granted by this Agreement in such Collateral; and

(ii) give, execute, deliver, file or record any and all financing statements, notices, contracts, agreements or other instruments, obtain any and all governmental approvals and take any and all steps that may be necessary or as Lender may reasonably request to create, perfect, establish the priority of, or to preserve the validity, perfection or priority of, the lien granted by this Agreement or to enable Lender to exercise and enforce its rights, remedies, powers and privileges under this Agreement with respect to such lien.

(c) Grant of Proxy; Appointment of Lender as Attorney-in-Fact.

(i) Borrower hereby grants to Lender a proxy to vote all shares of the Pledged Stock, so long as an Event of Default has occurred and is continuing. Such proxy, being coupled with an interest, is irrevocable until the earlier of (x) the date when the Event of Default shall cease to exist, or (y) that date on which all of the Obligation has been indefeasibly paid in full.

(ii) So long as an Event of Default has occurred and is continuing, Borrower hereby appoints Lender and any designee of Lender as Borrower's attorney-in-fact and authorizes Lender or such designee, at Borrower's sole expense, to exercise at any time in Lender's or such designee's discretion all or any of the following powers (such power of attorney, being coupled with an interest, being irrevocable until all of the Obligation has been indefeasibly paid in full); (A) to ask, demand, collect, sue for, recover, receive and give receipt and discharge for amounts due and to become due under and in respect of all or any part of the Collateral; (B) to receive, endorse and collect any drafts, instruments, documents and chattel paper in connection with clause (A) above; (C) to file any claims or take any action or proceeding that Lender may deem necessary or advisable for the collection of all or any part of the Collateral; (D) to execute, in connection with any sale or disposition of the Collateral permitted hereunder, any endorsements, assignments, bills of sale or other instruments of conveyance or transfer with respect to all or any part of the Collateral; (E) to enter and remain upon the premises of Borrower and take possession of all or any part of the Collateral, with or without judicial process; (F) to use the materials, services, and books and records of Borrower for the purpose of liquidating or collecting the Collateral, whether by foreclosure, auction, or otherwise; (G) to remove the same to the premises of Lender or any designated agent for such time as Lender may desire in order effectively collect or liquidated the Collateral; and (H) to exercise (1) all voting, consensual, and other rights and powers pertaining to the Collateral (whether or not transferred into the name of Lender), at any meeting of shareholders, exchange, subscription, and any other rights, privileges, or options pertaining to the Collateral as if it were the absolute owner thereof.

(d) Special Provisions Relating to Stock Collateral.

(i) So long as no Event of Default shall have occurred and be continuing, Borrower shall have the right to exercise all voting, consensual and other powers of ownership pertaining to the stock Collateral for all purposes, provided that Borrower agrees that it will not vote the stock Collateral in any manner that is inconsistent with any covenant by it in this Agreement or any other Loan Document. Lender shall, at Borrower's expense, execute and deliver to Borrower, or cause to be executed and delivered to Borrower, all such proxies, powers of attorney, dividend and other orders and other instruments, without recourse, as Borrower may reasonably request for the purpose of enabling Borrower to exercise the rights and powers which it is entitled to exercise in this Paragraph 13(d)(i).



(ii) If any Event of Default shall have occurred and be continuing, and whether or not Lender exercises any available right to declare the Obligations or any part thereof due and payable or seeks or pursues any other right, remedy, power or privilege available to it under applicable law, this Agreement, the Promissory Note, or the other Loan Documents, Lender shall be entitled to vote the proxy granted to it pursuant to Paragraph 13 (c)(i).

(iii) Borrower shall be entitled to receive and retain any interest, income, cash dividends, cash distributions and other amounts paid or payable in respect of any Collateral (including stock Collateral); providing, however, that, if an Event of Default shall have occurred and be continuing, and whether or not Lender exercises any available right to declare the Obligation due and payable or seeks or pursues any other right, remedy, power or privilege available to it under applicable law, this Agreement or the other Loan Documents, all interest, dividends, distributions, and other amounts paid or payable in respect of the Collateral shall be paid directly to Lender and be retained by Lender as part of the Collateral (except to the extent applied upon receipt to the payment of the Obligation). Upon the occurrence and during the continuation of an Event of Default, Lender shall also be entitled to receive directly: (A) all interest, income, dividends, distributions, or other amounts paid or payable in cash or other property in respect of any Collateral in connection with the dissolution, liquidation, recapitalization or reclassification or the capital of SNLIC to the extent representing (in the reasonable judgment of Lender) an extraordinary, liquidating, or other distribution in return of capital; (B) all additional membership interests, warrants, options, or other securities or property (other than cash) paid or payable or distributed or distributable in respect of any Collateral in connection with any noncash dividend, distribution, return of capital, spin-off, stock split, split-up, reclassification, combination of shares or interests or similar arrangement; and (C) without affecting any restrictions against such actions otherwise contained herein, all additional membership interests, warrants, options, or other securities or property (including cash) paid or payable or distributed or distributable in respect of any Collateral in connection with any consolidation, merger, exchange of securities, liquidation, or other reorganization. All interest, income, dividends, distributions, or other amounts that are received by Borrower in violation of provisions hereof shall be received in trust for the benefit of Lender, shall be segregated from other property or funds of Borrower, and shall be forthwith delivered to Lender as Collateral in the same form as so received (with any necessary endorsements).

(iv) Borrower shall cause SNLIC to not issue any additional capital stock, or enter into any agreement for the issuance of additional capital stock, or to grant an option, warrant, or other right to acquire any of the capital stock, and Borrower shall vote against any such proposal.

14. Events of Default. The occurrence of any of the following events or conditions shall constitute an "Event of Default" hereunder:

(a) Borrower fails to make any payment of principal or interest on the Promissory Note or under this Agreement within ten (10) days after the same becomes due.

(b) Any representation or warranty made by Borrower in this Agreement or the Promissory Note, or in any certificate, financial statement, or other statement furnished by Borrower to Lender, is untrue in any material respect at the time when made.

(c) Borrower defaults in the observance or performance of any other covenant or agreement contained in this Agreement, other than a default constituting a separate and distinct Event of Default under this Paragraph 14, and such default continues unremedied for a period of twenty (20) days after notice thereof is given to Borrower.

(d) Borrower defaults in the observance or performance of any other covenant or agreement contained in any other Loan Document or other document or agreement made and given in connection with this Agreement, other than a default constituting a separate and distinct Event of Default under this Paragraph 14, and the continuance of the same unremedied for a period of thirty (30) days after notice thereof is given to Borrower.

(e) Any of the Loan Documents or other instrument executed and delivered in connection herewith for any reason ceases to be valid or in full force and effect or the validity or enforceability of which is challenged or disputed by any signer thereof, other than Lender.

(f) Borrower defaults in the payment of principal or interest on any other obligation for borrowed money other than hereunder, or defaults in the payment of the deferred purchase price of property beyond the period of grace, if any, provided with respect thereto, or defaults in the performance or observance of any obligation or in any agreement relating thereto, if the effect of such default is to cause or permit the holder or holders of such obligation (or trustee on behalf of such holder or holders) to cause such obligation to become due prior to the stated maturity.

(g) Borrower or Guarantor files a voluntary petition in bankruptcy seeking reorganization, arrangement or readjustment of debts, or any other relief under the Bankruptcy Code as amended or under any other insolvency act or law, state or federal, now or hereafter existing.

(h) An involuntary petition is filed against Borrower or Guarantor in bankruptcy seeking reorganization, arrangement or readjustment of debts, or any other relief under the Bankruptcy Code as amended, or under any other insolvency act or law, state or federal, now or hereafter existing, and the continuance thereof for sixty (60) days undismissed, unbonded, or undischarged.

(i) All or any substantial part of the property of Borrower or Guarantor shall be condemned, seized, or otherwise appropriated, or custody or control of such property is assumed by any governmental agency or any court of competent jurisdiction, and is retained for a period of thirty (30) days.

(j) Guarantor shall default in any term, condition, of covenant contained in the Guaranty or in any other agreement or undertaking it may now or hereafter have with Lender.

(k) Lender otherwise in good faith deems itself to be insecure, or the value of the Collateral to have significantly declined from the date hereof, or the prospect of timely payment or performance to be impaired, provided, however, Lender shall have given Borrower written notice of the grounds thereof, and Borrower shall have failed to correct such matter or given Lender other assurance satisfactory to Lender within twenty (20) days thereof.

15. Remedies

(a) Upon the occurrence of an Event of Default, Lender may accelerate the entire unpaid principal balance of the Promissory Note, together with accrued interest thereon, and declare the same to be immediately due and payable without presentment, demand, protest, or other notice of any kind. Without waiving any right or remedy available to it, Lender may proceed against Borrower, Guarantor, or any Collateral simultaneously or in any order it chooses. To the fullest extent permitted by law, Borrower waives any rights to presentment, demand, protest, or notice of any kind in connection with this Agreement, the Promissory Note, or the other Loan Documents. No failure or delay on the part of Lender in exercising any right, power, or privilege hereunder will preclude any other or further exercise thereof or the exercise of any other right, power or privilege.

(b) The rights and remedies provided herein are cumulative and not exclusive of any other rights or remedies provided at law or in equity. Without limiting the foregoing, upon the occurrence and during the continuation of an Event of Default, Lender shall have the right in Lender's sole and absolute discretion to determine which rights, security, liens, or remedies Lender shall at any time pursue, relinquish, subordinate, modify or take any other action with respect thereto, without in any way modifying or affecting any of them or any of Lender's rights hereunder or the Obligation, and Lender, among its other rights and remedies, shall have all of the rights and remedies of a secured party under the Uniform Commercial Code of the State of Utah (as amended, the "UCC"). Without in any way limiting the generality of the foregoing, Lender may, upon the --- occurrence and during the continuation of an Event of Default: (A) subject to compliance with the terms of Section 70A-9a-609 of the UCC, cause the Collateral to be transferred to Lender's name or in the name of a nominee and, thereafter, exercise all of the rights, powers, and remedies of an owner thereof; and (B) sell, resell, assign and deliver, in its sole discretion, all or any of the Collateral, in on or more lots or parcels, subject to applicable federal and state securities laws, at public or private sale, at any of the Lender's offices or elsewhere, for cash, upon credit, or for future delivery, at such time or times and at such price or prices and upon such other terms as Lender may deem satisfactory. If any of the Collateral is sold by Lender upon credit or for future delivery, Lender shall not be liable for the failure of the purchaser to purchase or pay for the same and, in the event of any such failure, Lender may resell such Collateral. In no event shall Borrower be credited with any part of the proceeds of sale of any Collateral until and to the extent cash payment in respect thereof has actually been received by Lender. Each purchaser at any such sale shall hold the property sold absolutely free from any claim or right of any kind whatsoever, including any equity or right of redemption of Borrower, and Borrower expressly waives, to the fullest extent permitted by applicable law, all rights of redemption, stay or appraisal, and all rights to require Lender to marshal any assets in favor of Borrower or any other person or against or in payment of any or all of the Obligation, that it has or may have under any rule of law or statute now existing or hereafter adopted. No demand, presentment, protest, advertisement, or notice of any kind (except any notice required by law, as referred to below), all of which are hereby expressly waived by Borrower, shall be required in connection with any sale or other disposition of all or any part of the Collateral. If any notice of a proposed sale or other disposition of all or any part of the Collateral shall be required under applicable law, Lender shall give Borrower at least ten (10) days' prior notice of the time and place of any public sale and of the time after which any private sale or other disposition is to be made, which notice Borrower agrees is commercially reasonable. Lender shall not be obligated to make any sale of Collateral if it shall determine not to do so, regardless of the fact that notice of sale may have been given. Lender may, without notice or publication, adjourn any public or private sale or cause the same to be adjourned from time to time by announcement at the time and place fixed for sale, and such sale may, without further notice, be made at the time and place to which the same was so adjourned. Upon each public sale and, to the extent permitted by applicable law, upon each private sale, Lender may purchase all or any of the Collateral being sold, free from any equity, right of redemption, or other claim or demand, and may make payment therefore by endorsement and application (without recourse) of the

Obligation in lieu of cash as a credit on account of the purchase price for such Collateral. If, following the occurrence and during the continuation of an Event of Default, Lender seeks to take possession of any or all of the Collateral by judicial process, Borrower hereby irrevocably waives: (x) any bond and any surety or security relating thereto by any statute, court rule or otherwise as an incident to such possession; (y) any demand for possession prior to the commencement of any suit or action to recover possession thereof; and (z) any requirement that Lender retain possession of and not dispose of any such Collateral until after trial or final judgment. The enumeration of the rights and remedies of Lender in this Paragraph 15 is not intended to be exhaustive and the exercise of any such rights or remedies shall not preclude the exercise of any other rights or remedies, all of which shall be cumulative.

(c) Lender shall incur no liability as a result of the sale, lease, or other disposition of all or any part of the Collateral at any private sale pursuant to this Paragraph 15 conducted in a commercially reasonable manner. Borrower hereby waives any claims against Lender arising by reason of the fact that the price at which all or any portion of the Collateral may have been sold at such private sale was less than the price which might have been obtained at a public sale or was less than the aggregate amount of the Obligation, even if Lender accepts the first offer received and does not offer such Collateral to more than one offeree, provided that such sale is in all other respects conducted in a commercially reasonable manner.

(d) Borrower recognizes that, by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state or foreign securities laws, Lender may be compelled, with respect to any sale of all or any portion of the Collateral to limit purchasers to those who will agree, among other things, to acquire the Collateral (or any portion thereof) for their own account, for investment, and not with a view to distribution or sale. Borrower acknowledges that any such private sale may be at prices and on terms less favorable to Lender than those obtained through a public sale without such restrictions, and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner and that Lender shall have no obligation to engage in public sales. Borrower further acknowledges that SNLIC is under no legal or contractual obligation to register any of the Collateral under the Securities Act.

(e) Subject to the provisions of the Promissory Note, the proceeds from any sale or other disposition of Collateral by Lender shall first be applied to any costs and expenses incurred by Lender, or any of its agents or representatives (i) in securing possession thereof or in storing, repairing, and finishing same for sale, or (ii) in connection with any sale thereof, with the balance, if any, of such proceeds to be applied toward the payment of the Obligation in any manner deemed appropriate by Lender Party in its sole and absolute discretion. Application of the net proceeds as to any particular portion of the Obligation or as to principal or interest shall be in the Lender's sole and absolute discretion, notwithstanding any contrary instructions which Lender may have received or receive from any other person. Any deficiency will be paid to Lender forthwith upon demand. Any surplus will be paid by Lender, subject to the claims of third persons, to Borrower.

(f) Borrower agrees to pay all costs and expenses incurred by Lender by reason of the default, including court costs and reasonable attorney's fees whether incurred prior to, during, or subsequent to any bankruptcy, reorganization, receivership, liquidation, legal, judicial, appellate, or other proceeding involving Borrower or any of its assets.

16. Notices. Unless otherwise specifically provided herein, all notices required to be given shall be in writing addressed to the respective party as set forth below and shall be either personally served, sent by overnight courier service, or sent by registered or certified United States mail, return receipt requested. Such notices shall be deemed to have been given: (a) if delivered in person, when delivered; (b) if delivered by overnight courier, on the first business day after depositing the same with the overnight courier; or (c) if by United States mail, on the first date that delivery was attempted or three (3) business days after depositing in the United States mail, postage prepaid and properly addressed, whichever first occurs. Notices shall be addressed as follows:

If to Lender:                   KeyBank National Association  
Attn: Commercial Loan Dept.  
KeyBank Tower, Suite 2007  
50 South Main Street  
Salt Lake City, Utah 84144

If to Borrower:               Security National Financial Corporation  
Attn: President  
5300 South 360 West, Suite 310  
Salt Lake City, Utah 84123

or to such other address as the party to whom such notice is intended shall have previously designated by written notice to the serving party.

17. General Provisions. All representations and warranties made in this Agreement, the Promissory Note, any other Loan Document, and in any certificate delivered pursuant thereto shall survive the execution and delivery of this Agreement and the making of the Loan hereunder. This Agreement will be binding upon and inure to the benefit of Borrower and Lender, their respective successors and assigns, except that Borrower may not assign or transfer its rights or delegate its duties hereunder without the prior written consent of Lender. This Agreement, the Promissory Note, the other Loan Documents, and all documents and instruments associated herewith will be governed by and construed and interpreted in accordance with the laws of the State of Utah. Time is of the essence hereof. Lender may set off against any debt or account it owns Borrower, now existing or hereafter arising, in accordance with its rules and regulations governing deposit accounts then in existence, and for such purposes is hereby granted a security interest in all such accounts.

18. Waiver of Jury Trial. BORROWER AND LENDER EACH WAIVE ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION OR PROCEEDING TO ENFORCE OR DEFEND ANY RIGHTS UNDER THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS OR RELATING THERETO OR ARISING FROM THE LENDING RELATIONSHIP WHICH IS THE SUBJECT OF THIS AGREEMENT AND AGREE THAT ANY SUCH ACTION OR PROCEEDING SHALL BE TRIED BEFORE A COURT AND NOT BEFORE A JURY.

19. Entire Agreement. This Agreement, together with the Promissory Note and the other Loan Documents, constitutes the entire understanding and agreement of the Parties with respect to the general subject matter hereof; supersede all prior negotiations and agreements with respect thereto; and may not be contradicted by evidence of any alleged oral agreement. This Agreement, the Promissory Note, and the other Loan Documents may not be amended, modified, or rescinded in any manner except by a written agreement signed by Lender which clearly and unequivocally expresses an intent to amend, modify, or rescind the same.

EXECUTED on the day and year first written above.

SECURITY NATIONAL FINANCIAL  
CORPORATION, a Utah corporation

By: s/s Scott M. Quist  
President

KEYBANK NATIONAL ASSOCIATION  
A national banking association

By: s/s Roger L. Ford  
Vice President