



Security National
Financial Corporation

2014 Annual Report



MORTGAGES | MORTUARIES & CEMETERIES | LIFE INSURANCE | REAL ESTATE

My Fellow Shareholders:



Scott M. Quist

Chairman of the Board
President
Chief Executive Officer

I am pleased to report to you on the affairs of your Company for the year ended December 31, 2014 and invite you to attend the annual stockholders meeting to be held Wednesday, July 1, 2015 in Salt Lake City, Utah.

In 2014, our pre-tax profitability improved 26% over 2013 reflecting improved operating results while our after tax profitability improved only 2% due to higher assumed effective tax rates in 2014. Unfortunately, those increased tax rates will probably be with us for some time. Measuring performance based upon return on total assets, a common metric for financial enterprises, we improved to nearly a 2% pre-tax return on total assets. Using return on equity as a measure, we improved to almost a 13% return on equity on a pre-tax basis. Using the SEC reporting criteria, \$1 invested in our stock on December 31, 2010 would have grown 332% to \$3.32 as of year-end 2014.

2014 was by no means a “level” year and it should be noted that we gained significant momentum through the year. Contrasting our “bookend” quarters our first quarter pre-tax profits were 95% below 2013 levels, but our fourth quarter results reflected an almost 3,000% improvement over 2013. In summary our operating earnings showed great progress during 2014 and increased momentum at year end.

Our life insurance segment experienced a 19% increase in revenues and an almost 200% increase in profitability in 2014. Driving much of that profit was an increase in investment income. As we have deployed the cash from prior acquisitions the investment income naturally has increased. Additionally, we have a very active process whereby we identify attractive fixed income opportunities through our commercial and residential mortgage activities. While the increased investment income has been a primary driver in our improved profitability, it is the quality of our newly written insurance policies that will drive profitability over time. We diligently monitor persistency and mortality and are pleased to report that both have improved and are performing above product expectations. This has been especially gratifying as we have consistently increased our new life sales 10-20% annually for the last number of years.

Our mortgage segment performed well originating slightly above \$2 billion in new originations in 2014. That represented a 5% decrease from 2013, but it should be noted total US market mortgage originations decreased almost 39% from \$1.84 trillion in 2013 to \$1.12 trillion in 2014. Thus while still a relatively small player in the overall market we nevertheless increased our relative market share 57%. While increasing our market share we were also able to increase our servicing business and now service loans aggregating over \$1.3 billion in principal balance.

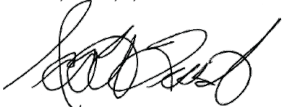
Increased regulatory oversight and requirements have added significantly to the cost of originating and servicing mortgage loans for everyone. While it is extremely difficult to accurately account for the costs of increased regulations because they are so extant, one estimate is that per loan regulatory costs have increased \$1,500 since 2011. Even today we are adding staff to try and insure compliance with an increasingly complex environment. Finally, as a bright note, in 2014 we completed our repurchase obligations to our largest pre-2008 investors. Those obligations were paid out of loss reserves demonstrating some accuracy to our accrual process.

The operating results of our cemetery/mortuary segment are difficult to analyze given the REO rental income and depreciation that is included in their statements. We have put much of our single family rental real estate into that segment to take advantage of their property management expertise. In 2014 our EBITD decreased to \$1.47 million from \$1.77 million in 2013. In response we sold an unprofitable unit, instituted new executive management, reorganized our pre-need sales force to include new management, and are currently reorganizing our mortuary management. We have seen great improvement over the last several months and are quite optimistic.

Our cemetery/mortuary operations, besides being profitable on their own, enhance our life company sales on at least two fronts. First, studies show that a recent experience with a death is a primary motivator to purchase a funeral related life insurance product. Thus, our customer base at our cemetery/mortuary operations serves also as customers for our life products. Secondly, ownership of cemeteries and mortuaries gives us added credibility when we “partner” with third party cemeteries and mortuaries in the sale of our life products.

I thank you for your continued support and hope to see you at our Annual Meeting on July 1st.

Very truly yours,



Scott M. Quist

Chairman, President and Chief Executive Officer



Security National Financial Corporation Directors, Officers and Outside Legal Counsel

Security National
Financial Corporation



Scott M. Quist

Chairman of the Board
President
Chief Executive Officer
Director
Executive Committee



H. Craig Moody

President, Moody & Associates
Director
Executive Committee
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



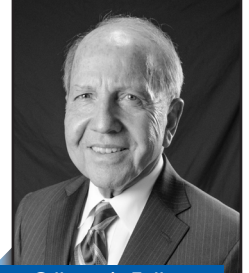
Norman G. Wilbur

Former Manager of Planning
and Reporting, J.C. Penney Co., Inc.
Director
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



Robert G. Hunter M.D.

Past Medical Staff President
Department Head-Otolaryngology,
Head and Neck Surgery
Intermountain Medical Center
Director
Compensation Committee
Nominating and Corporate
Governance Committee



Gilbert A. Fuller

Former Executive Vice President,
Chief Financial Officer and Secretary,
USANA Health Sciences, Inc.
Director
Executive Committee
Audit Committee
Compensation Committee
Nominating and Corporate
Governance Committee



John L. Cook

Co-Owner & Operator
Cook Brothers Painting, Inc.
Director
Compensation Committee
Nominating and Corporate
Governance Committee



J. Lynn Beckstead

President, SecurityNational
Mortgage Company
Director



Andrew Quist

Vice President
Associate General Counsel
Director
Executive Committee



Jason G. Overbaugh

Vice President
Chief Marketing Officer
Assistant Corporate Secretary
Director



Jeffrey R. Stephens

Corporate Secretary
General Counsel



Garrett S. Sill

Chief Financial Officer
Treasurer



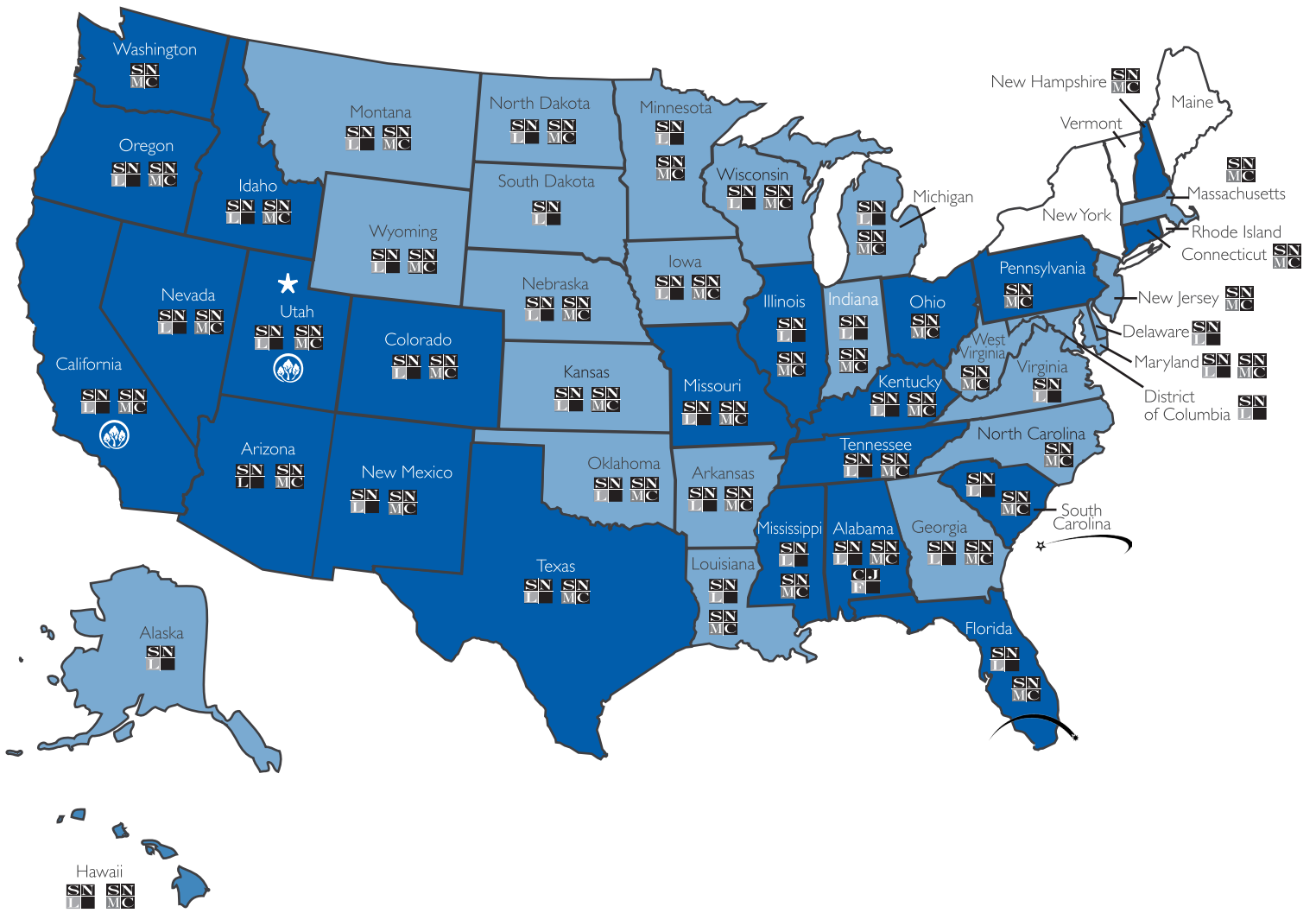
Christie Q. Overbaugh

Senior Vice President of
Internal Operations













Randall A. Mackey

Partner
Mackey Price & Mecham
Outside Legal Counsel



Legend

	Sales Office		Security National Life
	License Held		Memorial Mortuaries & Cemeteries
	License Not Applied For		SecurityNational Mortgage
	Corporate Offices		C&J Financial, LLC
			American Funeral Financial
			Funeral Funding Center

SNFC Corporate Offices

Security National Financial Corporation
5300 South 360 West, Suite 250
Salt Lake City, UT 84123
P.O. Box 57250
Salt Lake City, UT 84157-0250
Telephone: (801) 264-1060
Toll Free: (800) 574-7117
Fax: (801) 265-9882

Form 10-K Offer

If you are a holder or beneficial owner of the company's stock, the company will send you, upon request and at no charge, a copy of the company's Annual Report on Form 10-K filed with the Securities & Exchange Commission for the year 2014 (including a list of exhibits). All requests must be made in writing to the Corporate Secretary:

Security National Financial Corporation
P.O. Box 57250
Salt Lake City, Utah 84157-0250

Stock Transfer Agents
Zions First National Bank
P.O. Box 30880
Salt Lake City, UT 84130

Former Holders of Preferred Stock and/or Promissory Notes

Security National Financial Corporation
Attn: Stock Department
P.O. Box 57250
Salt Lake City, UT 84157-0250

Certified Public Accountants
Eide Bailly
Salt Lake City, Utah

Outside Legal Counsel
Mackey Price & Mechem
Salt Lake City, Utah

Company E-mail Address:
contact@securitynational.com

Company Internet Address:
www.securitynational.com

Life Insurance Offices

Security National Life Insurance Company
5300 South 360 West, Suite 200
Salt Lake City, UT 84123
Telephone: (800) 574-7117

Jackson, MS Office
3935 I-55 South
Jackson, MS 39212
Telephone: (800) 826-6803

Fast Funding

C&J Financial, LLC
497-A Sutton Bridge Road
Rainbow City, AL 35906
Telephone: (800) 785-0003

American Funeral Financial
3515 Pelham Rd., Suite 200
Greenville, SC 29615
Telephone: (877) 213-4233

Funeral Funding Center
9700 Sterling Rd, Suite 110
Cooper City, FL 33024
Telephone: (888) 866-6083

Mortgage Locations

Security National Mortgage Company
5300 South 360 West, Suite 150
Salt Lake City, Utah 84123
Telephone: (801) 264-8111

Security National Commercial Capital
5300 South 360 West Suite 350
Salt Lake City, UT 84123
Telephone: (801) 287-8316

ALABAMA

Florence
2567 Mall Road
Florence, AL 35630
Telephone: (256) 489-8700

ARIZONA

Glendale
5701 Talavi Boulevard, Suite 155
Glendale, AZ 85306
Telephone: (602) 273-9610

Phoenix
2345 E Thomas Rd, Suite 400
Phoenix, AZ 85016
Telephone: (602) 774-0990

Scottsdale
17015 N Scottsdale Rd #125
Scottsdale, AZ 85255
Telephone: (480) 426-0400

CALIFORNIA

Campbell
900 East Hamilton Ave
Campbell, CA 95008
Telephone: (408) 879-7223

Emeryville
1900 Powell St, Suite 600-6011
Emeryville, CA 94608
Telephone: (510) 900-5121

Fair Oaks
8505 Madison Avenue, Suite 140
Fair Oaks, CA 95628
Telephone: (916) 241-0799

Long Beach
3643 East 4th Street, Suite A
Long Beach, CA 90814
Telephone: (562) 742-2040

Orange
765 The City Drive, Suite 360
Orange, CA 92868
Telephone: (657) 236-5020

Roseville
3005 Douglas Boulevard, Suite 100
Roseville, CA 95661
Telephone: (916) 408-3031

San Dimas
421 S Cataract Ave
San Dimas, CA 91773
Telephone: (909) 394-3040

Santa Ana
817 N Broadway, Suite E
Santa Ana, CA 92701

COLORADO

Greenwood Village
7100 East Belleview Ave, Suite 301
Greenwood Village, CO 80111
Telephone: (303) 771-0858

8480 E Orchard Road, Suite 4200
Greenwood Village, CO 80111
Telephone: (720) 325-7393

CONNECTICUT

Vernon
15 Lakeview Drive
Vernon, CT 06066
Telephone: (860) 604-1688

FLORIDA

Boca Raton
777 Glades Road, Suite 410A
Boca Raton, FL 33434
Telephone: (561) 372-3300

Cape Coral
4049 Del Prado Blvd. S
Cape Coral, FL 33904
Telephone: (239) 549-1900

Ft. Myers
8191 College Parkway, Suite 201
Ft. Myers, FL 33907
Telephone: (888) 550-9221

Ft. Myers
4575 Via Royal, Suite 100
Ft. Myers, FL 33919
Telephone: (239) 243-8832

Lake Mary
1145 Town Park Avenue, Suite 2215
Lake Mary, FL 32746
Telephone: (407) 302-8384

Orlando
7575 Dr Phillips Blvd, Suite 270
Orlando, FL 32819
Telephone: (407) 302-8384

Riverview
11256 Boyette Rd
Riverview, FL 33569
Telephone: (813) 672-9000

Safety Harbor
200 9th Ave. North, Suites 220
Safety Harbor, FL 34695
Telephone: (727) 724-5438

Tampa
14502 N Dale Mabry Highway #59
Tampa, FL 33618
Telephone: (813) 968-3800

15351 Amberly Drive
Tampa, FL 33647
Telephone: (727) 724-5438

GEORGIA

Grayson
2445 Moon Rd, Suite 3
Grayson, GA 30017
Telephone: (678) 367-0240

HAWAII

Honolulu
733 Bishop Street, Suite 1880
Honolulu, HI 96813
Telephone: (808) 380-8080

841 Bishop Street, Suite 924
Honolulu, HI 96813
Telephone: (808) 254-5312

Pepeekeo
28-2856 Onomea Place
Pepeekeo, HI 96783
Telephone: (808) 233-9338

IDAHO

Driggs
1290 Arrowhead Plaza Way
P.O. Box 1440
Driggs, ID 83422
Telephone: (208) 354-5626

Idaho Falls
1302 East 17th Street
Idaho Falls, ID 83404
Telephone: (208) 522-2828

Meridian
3999 East Overland Road
Meridian, ID 83642
Telephone: (208) 917-5200

ILLINOIS

Forest Park
7227 West Madison Avenue
Forest Park, IL 60130
Telephone: (708) 366-8466

KENTUCKY

Florence
6900 Houston Road, Suite 21 - 22
Florence, KY 41042
Telephone: (859) 341-5770

Louisville
12910 Shelbyville Rd
Louisville, KY 40243
Telephone: (502) 451-7183

LOUISIANA

Shreveport
910 Pierremont, Suite 410
Shreveport, LA 71106
Telephone: (318) 861-8620

MISSOURI

Chesterfield
636 Trade Center Blvd.
Chesterfield, MO 63005
Telephone: (314) 590-2929

MASSACHUSETTS

Worcester
1 Exchange Place
Worcester, MA 1608
Telephone: (508) 796-5403

NEVADA

Henderson
2370 Corporate Circle, Suite 200
Henderson, NV 89074
Telephone: (702) 487-5626

Las Vegas

3285 N Fort Apache Rd., Suite 150
Las Vegas, NV 89129
Telephone: (702) 562-8733

6130 Elton Ave #223
Las Vegas, NV 89107
Telephone: (702) 216-0398

6540 S. Pecos Rd., Building A-104
Las Vegas, NV 89120
Telephone: (702) 754-0032

9330 W. Sahara Avenue Suite 270
Las Vegas, NV 89117
Telephone: (702) 742-0623

Reno

3500 Lakeside Court #207
Reno, NV 89509
Telephone: (775) 852-5626

NEW MEXICO

Albuquerque
7802 Menaul Blvd NE
Albuquerque, NM 87110
Telephone: (505) 292-0405

OHIO

Dayton
1129 Miamisburg-Centerville Rd.
Dayton, OH 45449
Telephone: (513) 433-1222

OKLAHOMA

Broken Arrow
2468 W New Orleans
Broken Arrow, OH 74011
Telephone: (918) 286-1226

Lawton

1709 W Gore Blvd, Suite A
Lawton, OK 73501
Telephone: (580) 606-1418

OREGON

Portland
10610 SE Washington
Portland, OR 97216
Telephone: (503) 310-9195

3050 SE Division Street, Suite 245
Portland, OR 97202
Telephone: (503) 964-2900

3311 NE MLK Jr Blvd # 203
Portland, OR 97212
Telephone: (503) 931-2868

SOUTH CAROLINA

Goose Creek
108 Central Avenue Ste 1
Goose Creek, SC 29445
Telephone: (843) 553-0788

Summerville

1112 N Main Street, Suite D
Summerville, SC 29483
Telephone: (843) 754-2555

TENNESSEE

Knoxville
11002 Kingston Pike # 204
Knoxville, TN 37934
Telephone: (865) 342-0366

TEXAS

Austin
8700 Manchca Road, # 603
Austin, TX 78748
Telephone: (512) 329-0098

9737 Great Hills Trail
Austin, TX 78759
Telephone: (512) 795-5596

12515-7 Research Boulevard, Suite 120
Austin, TX 78759
Telephone: (512) 420-4115

13413 Galleria Circle, Suite 120
Austin, TX 78738
Telephone: (512) 961-7848

13413 Galleria Circle, Suite 180
Austin, TX 78738
Telephone: (512) 422-1949

Brownsville

1213 E. Alton Gloor Blvd. #H
Brownsville, TX 78526
Telephone: (956) 554-0792

Dallas

12201 Merit Drive
Dallas, TX 75251
Telephone: (469) 374-9700

7920 Beltline Road, Suite 710
Dallas, TX 75254
Telephone: (214) 730-0021

Eagle Pass

310 East Rio Grande Street
Eagle Pass, TX 78852
Telephone: (830) 776-4323

El Paso

1626 Lee Trevino, Suite A
El Paso, TX 79936
Telephone: (915) 307-7212

5780 North Mesa, Suite 5780
El Paso, TX 79912
Telephone: (915) 584-8680

Farmers Branch

11494 Luna Road, Suite 175
Farmers Branch, TX 75234
Telephone: (972) 338-2632

Fort Worth

4936 Collinwood, #110
Fort Worth, TX 76107
Telephone: (817) 945-2551

Fulshear

30417 5th Street, Suite B
Fulshear, TX 77441
Telephone: (281) 558-0004

Houston

10613 W. Sam Houston Pkwy. N.,
Suite, 175
Houston, TX 77064
Telephone: (281) 892-0400

2825 Wilcrest Drive, Suite 165
Houston, TX 77042
Telephone: (281) 978-4741

17347 Village Green Drive, Suite 102.A
Houston, TX 77040
Telephone: (832) 615-5400

17000 El Camino Real, #103D
Houston, TX 77058
Telephone: (281) 990-8643

Hurst
1848 Norwood Plaza, Suite 205
Hurst, TX 76053
Telephone: (214) 444-9250

Katy
24668 Kingsland Blvd
Katy, TX 77494
Telephone: (210) 227-4663

2877 Commercial Center Blvd
Katy, TX 77494
Telephone: (281) 558-0004

Laredo
7913 McPherson Road, Suite 110
Laredo, TX 78045
Telephone: (956) 284-0888

League City
3027 Marina Bay Dr #200
League City, TX 77573
Telephone: (281) 732-2228

Mansfield
125 North Main Street
Mansfield, TX 76063
Telephone: (817) 473-3600

Pharr
802 East Expressway A, Suite A
Pharr, TX 78577
Telephone: (956) 782-7257

Round Rock
1 Chisholm Trail, Suite 210
Round Rock, TX 78681
Telephone: (512) 244-1124

San Antonio
9901 IH10 West, Suite 800
San Antonio, TX 78230
Telephone: (210) 455-0120

2526 North Loop 1604 West, Suite 210
San Antonio, TX 78248
Telephone: (210) 998-2778

Sugar Land
19901 Southwest Fwy, Suite 108
Sugar Land, TX 77479
Telephone: (713) 278-7400

52 Sugar Creek Center Blvd, Suite 150
Sugar Land, TX 77478
Telephone: (832) 485-1202

Weatherford
602 S. Main St., Suite 300
Weatherford, TX 76086
Telephone: (817) 596-2838

Woodlands
8505 Technology Forest Pl., Suite 304
Woodlands, TX 77381
Telephone: (713) 992-6153

UTAH

Brickyard
1111 Brickyard Rd #107
Salt Lake City, UT 84106
Telephone: (801) 747-0044

Cottonwood Heights
6965 Union Park Center, Suite 260
Cottonwood Heights, UT 84047
Telephone: (801) 545-7270

6965 Union Park Center, #300
Cottonwood Heights, UT 84047
Telephone: (801) 838-9808

6965 Union Park Center, #470
Cottonwood Heights, UT 84047
Telephone: (801) 545-7270

6975 Union Park Center, #420
Cottonwood Heights, UT 84047
Telephone: (801) 508-6300

Draper
13997 S. Minuteman Dr. #100
Draper, UT 84020
Telephone: (801) 988-4696

13997 S Minuteman Dr #250
Draper, UT 84020
Telephone: (801) 988-4697

Ephraim
497 South Main
Ephraim, UT 84627
Telephone: (435) 851-0743

Kamas
228 SR 248, Suite 2A
Kamas, UT 84036
Telephone: (435) 783-8010

Holladay
970 Murray Holladay Rd, Ste. 4A
Salt Lake City, UT 84117
Telephone: (801) 747-0044

Layton
1558 N. Woodland Park Drive
Suite 400
Layton, UT 84041
Telephone: (801) 589-1111

Midway
210 East Main St #1111
Midway, UT 84049
Telephone: (435) 657-5656

Orem
1443 West 800 North, Suite 201
Orem, UT 84057
Telephone: (801) 724-6425

Park City
1245 Deer Valley Drive, Suite 3A
Park City, UT 84060
Telephone: (435) 252-5555

Richfield
465 North Main
Richfield, UT 84701
Telephone: (435) 896-2858

Riverton
1864 West 12600 South
Riverton, UT 84065
Telephone: (801) 676-7868

Salt Lake City
307 West 200 South, Suite 5004
Salt Lake City, UT 84101
Telephone: (801) 372-0090

5993 So Redwood Road
Salt Lake City, UT 84123
Telephone: (801) 261-2105

Sandy
9815 S Monroe Street, Suite 203
Sandy, UT 84070
Telephone: (801) 262-6033

9815 South Monroe Street, Suite 206
Sandy, UT 84070
Telephone: (801) 561-7200

9980 S 300 West, Suite 201
Sandy, UT 84070
Telephone: (801) 285-7712

South Jordan
1099 W. South Jordan Parkway
South Jordan, UT 84095
Telephone: (801) 508-5625

10437 S 1300 West #200
South Jordan, UT 84095
Telephone: (801) 988-4640

St. George
1224 S River Road #E3-4
St. George, UT 84790
Telephone: (435) 627-5293

Taylorsville
6575 S Redwood Rd # 225
Taylorsville, UT 84123
Telephone: (801) 727-7600

Tooele
118 East Vine Street
Tooele, UT 84074
Telephone: (435) 843-5340

WASHINGTON

Bellevue
2100 124th Ave. NE, Suite 110
Bellevue, WA 98005
Telephone: (425) 275-1640

10655 NE 4th St # 800
Bellevue, WA 98004
Telephone: (425) 214-7040

Burlington
160 Cascade Place #118
Burlington, WA 98233
Telephone: (360) 610-4664

Everett
1604 Hewitt Ave. #703
Everett, WA 98201
Telephone: (425) 501-9823

Kirkland
11232 120th Ave NE # 206
Kirkland, WA 98033
Telephone: (206) 349-7255

Lakewood
10524 Bridgeport Way SW
Lakewood, WA 98499
Telephone: (509) 312-0004

Poulsbo
19410 8th Ave. NE, Suite 103
Poulsbo, WA 98370
Telephone: (360) 286-5037

Puyallup
318 39th ST Ave SW, Suite A
Puyallup, WA 98004
Telephone: (253) 604-1772

Tacoma
535 Dock Street #103
Tacoma, WA 98402
Telephone: (253) 203-0988

Vancouver
15640 NE Fourth Plain Blvd #220
Vancouver, WA 98682
Telephone: (360) 253-1212

Mortuary Locations

Cemetery & Mortuary Business Office
5300 South 360 West, Suite 200
Salt Lake City, UT 84123
Telephone: (801) 268-8771

Cottonwood Memorial Mortuary, Inc.
4670 South Highland Drive
Salt Lake City, UT 84117
Telephone: (801) 278-2801

Deseret Memorial Mortuary, Inc.
36 East 700 South
Salt Lake City, UT 84111
Telephone: (801) 364-6528

Lake Hills Memorial Mortuary
10055 South State Street
Sandy, UT 84070
Telephone: (801) 566-1249

Lake View Memorial Mortuary
1640 East Lakeview Drive
Bountiful, UT 84010
Telephone: (801) 298-1564

Memorial Mortuary
5850 South 900 East
Murray, UT 84121
Telephone: (801) 262-4631

Mountain View Memorial Mortuary
3115 East 7800 South
Cottonwood Heights, UT 84121
Telephone: (801) 943-0831

Redwood Memorial Mortuary
6500 South Redwood Road
West Jordan, UT 84123
Telephone: (801) 969-3456

Cemetery Locations

Holladay Memorial Park
4900 South Memory Lane
Holladay, UT 84117
Telephone: (801) 278-2803

Lake Hills Memorial Cemetery
10055 South State Street
Sandy, UT 84070
Telephone: (801) 566-1249

Lake View Memorial Cemetery
1640 East Lakeview Drive
Bountiful, UT 84010
Telephone: (801) 298-1564

Mountain View Memorial Park
3115 East 7800 South
Salt Lake City, UT 84121
Telephone: (801) 943-0831

Redwood Memorial Cemetery
6500 South Redwood Road
West Jordan, UT 84123
Telephone: (801) 969-3456

Singing Hills Memorial Park
2800 Dehesa Road
El Cajon, CA 92019
Telephone: (619) 444-3000



CPAs & BUSINESS ADVISORS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Security National Financial Corporation

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and Subsidiaries as of December 31, 2014 and 2013, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the years then ended. Our audits also included the financial statement Schedule II, Schedule IV and Schedule V. The Company's management is responsible for these consolidated financial statements and schedules. 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 the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 as of December 31, 2014 and 2013, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Eide Bailly LLP".

Salt Lake City, Utah
March 31, 2015

www.eidebailly.com

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and the Shareholders
Security National Financial Corporation

We have audited the accompanying consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for the year ended December 31, 2012. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the results of their operations and their cash flows for the year ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. Supplemental Schedule II, IV and V is presented for purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Hansen, Barnett + Maxwell, P.C.
HANSEN, BARNETT & MAXWELL, P.C.

Salt Lake City, Utah
March 30, 2013

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

	December 31	
Assets	2014	2013
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 135,018,347	\$ 143,466,494
Equity securities, available for sale, at estimated fair value	6,752,750	4,498,756
Mortgage loans on real estate and construction loans held for investment, net of allowances for loan losses of \$2,003,055 and \$1,652,090 for 2014 and 2013	120,050,072	102,781,878
Real estate held for investment, net of accumulated depreciation of \$10,875,419 and \$9,658,599 for 2014 and 2013	111,411,351	99,760,475
Policy and other loans, net of allowance for doubtful accounts of \$693,413 and \$269,175 for 2014 and 2013	34,125,428	19,724,006
Short-term investments	27,059,495	12,135,719
Accrued investment income	2,483,253	2,485,054
Total investments	436,900,696	384,852,382
Cash and cash equivalents	30,855,320	38,203,164
Mortgage loans sold to investors	67,534,400	77,179,652
Receivables, net	14,544,093	11,652,572
Restricted assets	9,347,797	6,670,980
Cemetery perpetual care trust investments	2,645,423	2,414,883
Receivable from reinsurers	12,036,263	12,033,877
Cemetery land and improvements	10,848,085	10,631,573
Deferred policy and pre-need contract acquisition costs	50,307,503	45,737,940
Mortgage servicing rights	7,834,747	4,844,101
Property and equipment, net	11,307,714	11,523,160
Value of business acquired	8,547,627	8,680,845
Goodwill	2,765,570	677,039
Other	5,594,324	3,655,286
Total Assets	\$ 671,069,562	\$ 618,757,454

See accompanying notes to consolidated financial statements.

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

	December 31	
	2014	2013
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$ 476,727,465	\$ 452,130,649
Unearned premium reserve	4,961,937	5,173,785
Bank and other loans payable	29,020,378	18,289,438
Deferred pre-need cemetery and mortuary contract revenues	13,242,143	13,176,476
Cemetery perpetual care obligation	3,406,718	3,266,131
Accounts payable	1,789,387	2,850,575
Other liabilities and accrued expenses	24,408,666	20,167,363
Income taxes	20,421,767	15,951,848
Total liabilities	573,978,461	531,006,265
Commitments and Contingencies	-	-
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 12,459,240 shares in 2014 and 11,807,287 shares in 2013	24,918,480	23,614,574
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$2.00 par value; 2,000,000 shares authorized; issued 1,394,069 shares in 2014 and 1,330,191 shares in 2013	2,788,138	2,660,382
Additional paid-in capital	25,931,119	23,215,875
Accumulated other comprehensive income, net of taxes	1,438,566	1,218,396
Retained earnings	44,101,252	39,666,587
Treasury stock, at cost - 986,264 Class A shares and -0- Class C shares in 2014; 1,141,021 Class A shares and -0- Class C shares in 2013	(2,086,454)	(2,624,625)
Total stockholders' equity	97,091,101	87,751,189
Total Liabilities and Stockholders' Equity	\$ 671,069,562	\$ 618,757,454

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS

	Years Ended December 31		
	2014	2013	2012
Revenues:			
Insurance premiums and other considerations	\$ 53,008,679	\$ 50,471,658	\$ 48,216,327
Net investment income	28,303,740	20,354,002	21,915,577
Net mortuary and cemetery sales	11,426,308	12,000,375	10,864,497
Realized gains on investments and other assets	1,918,176	1,418,051	1,424,510
Other than temporary impairments	(164,240)	(336,226)	(1,207,632)
Mortgage fee income	128,696,998	128,800,930	151,887,838
Other	3,747,013	2,606,230	1,159,052
Total revenues	<u>226,936,674</u>	<u>215,315,020</u>	<u>234,260,169</u>
Benefits and expenses:			
Death benefits	27,100,278	26,048,325	22,277,037
Surrenders and other policy benefits	2,689,686	2,486,611	1,969,051
Increase in future policy benefits	18,060,151	19,594,890	21,435,191
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	6,892,978	5,181,837	5,449,429
Selling, general and administrative expenses:			
Commissions	59,876,675	65,979,564	83,840,427
Personnel	49,360,406	42,795,925	35,469,486
Advertising	4,584,436	4,837,714	4,050,187
Rent and rent related	6,135,876	5,457,988	4,503,285
Depreciation on property and equipment	2,177,165	1,621,069	1,258,097
Provision for loan losses and loss reserve	3,053,403	1,751,472	4,239,418
Costs related to funding mortgage loans	6,877,069	6,635,290	6,931,045
Other	22,800,066	18,328,005	16,017,975
Interest expense	2,994,429	2,853,701	3,744,293
Cost of goods and services sold – mortuaries and cemeteries	1,853,103	1,918,902	1,723,955
Total benefits and expenses	<u>214,455,721</u>	<u>205,491,293</u>	<u>212,908,876</u>
Earnings before income taxes	12,480,953	9,823,727	21,351,293
Income tax expense	(4,726,305)	(2,237,806)	(4,638,775)
Net earnings	<u>\$ 7,754,648</u>	<u>\$ 7,585,921</u>	<u>\$ 16,712,518</u>
Net earnings per Class A equivalent common share (1)	<u>\$0.62</u>	<u>\$0.61</u>	<u>\$1.46</u>
Net earnings per Class A equivalent common share - assuming dilution(1)	<u>\$0.60</u>	<u>\$0.58</u>	<u>\$1.39</u>
Weighted average Class A equivalent common shares outstanding (1)	12,518,743	12,366,029	11,427,568
Weighted average Class A equivalent common shares outstanding-assuming dilution (1)	12,928,009	12,981,576	12,026,849

(1) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common stock basis. Class C common shares have been adjusted retroactively for the effect of the 1-for-10 reverse stock split that was approved by the stockholders in 2014. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is \$5.82, \$5.69 and \$13.90 per share for 2014, 2013 and 2012, respectively, and \$4.81, \$5.54 and \$13.67 per share-assuming dilution for 2014, 2013 and 2012, respectively.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2014	2013	2012
Net earnings	\$ 7,754,648	\$ 7,585,921	\$ 16,712,518
Other comprehensive income:			
Changes in:			
Net unrealized gains (losses) on derivative instruments	286,018	(1,020,754)	852,168
Net unrealized gains (losses) on available for sale securities	(65,848)	304,791	427,748
Other comprehensive gain (loss)	220,170	(715,963)	1,279,916
Comprehensive income	\$ 7,974,818	\$ 6,869,958	\$ 17,992,434

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2014, 2013 and 2012

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Treasury Stock	Total
Balance at January 1, 2012	\$ 19,277,596	\$ 2,027,195	\$ 19,487,565	\$ 654,443	\$ 22,546,623	\$ (2,762,835)	\$ 61,230,587
Net earnings	-	-	-	-	16,712,518	-	16,712,518
Other comprehensive income	-	-	-	1,279,916	-	-	1,279,916
Stock based compensation	-	-	251,031	-	-	-	251,031
Exercise of stock options	1,371,506	63,782	(1,416,982)	-	-	-	18,306
Sale of treasury stock	-	-	(62,650)	-	-	382,401	319,751
Stock dividends	1,037,404	104,488	3,003,177	-	(4,145,069)	-	-
Conversion Class C to Class A	646	(645)	(1)	-	-	-	-
Balance at December 31, 2012	21,687,152	2,194,820	21,262,140	1,934,359	35,114,072	(2,380,434)	79,812,109
Net earnings	-	-	-	-	7,585,921	-	7,585,921
Other comprehensive loss	-	-	-	(715,963)	-	-	(715,963)
Stock based compensation	-	-	88,369	-	-	-	88,369
Exercise of stock options	719,572	422,422	(345,845)	-	-	(543,334)	252,815
Sale of treasury stock	-	-	428,794	-	-	299,143	727,937
Stock dividends	1,124,304	126,685	1,782,418	-	(3,033,406)	-	1
Conversion Class C to Class A	83,546	(83,545)	(1)	-	-	-	-
Balance at December 31, 2013	23,614,574	2,660,382	23,215,875	1,218,396	39,666,587	(2,624,625)	87,751,189
Net earnings	-	-	-	-	7,754,648	-	7,754,648
Other comprehensive income	-	-	-	220,170	-	-	220,170
Stock based compensation	-	-	391,220	-	-	-	391,220
Reverse stock split true up	-	30	-	-	(30)	-	-
Exercise of stock options	108,824	-	(34,800)	-	-	-	74,024
Sale of treasury stock	-	-	361,679	-	-	538,171	899,850
Stock dividends	1,190,040	132,767	1,997,147	-	(3,319,954)	-	-
Conversion Class C to Class A	5,042	(5,041)	(2)	-	1	-	-
Balance at December 31, 2014	\$ 24,918,480	\$ 2,788,138	\$ 25,931,119	\$ 1,438,566	\$ 44,101,252	\$ (2,086,454)	\$ 97,091,101

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2014	2013	2012
Cash flows from operating activities:			
Net earnings	\$ 7,754,648	\$ 7,585,921	\$ 16,712,518
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Realized gains on investments and other assets	(1,918,176)	(1,418,051)	(1,424,510)
Other than temporary impairments	164,240	336,226	1,207,632
Depreciation and amortization	4,389,472	4,160,760	2,877,743
Provision for losses on real estate accounts and loans receivable	743,386	(584,873)	(963,169)
Amortization of premiums and discounts	238,687	103,032	(762,301)
Provision for deferred and other income taxes	3,072,642	416,269	953,394
Policy and pre-need acquisition costs deferred	(10,159,895)	(9,666,040)	(7,885,882)
Policy and pre-need acquisition costs amortized	5,590,332	3,841,565	4,234,271
Value of business acquired amortized	1,302,646	1,340,272	1,215,158
Servicing asset at amortized cost, additions	(3,741,381)	(2,494,254)	(2,797,470)
Amortization of mortgage servicing rights	750,735	447,623	-
Stock based compensation expense	391,220	88,369	251,031
Benefit plans funded with treasury stock	899,850	727,937	319,751
Change in assets and liabilities:			
Land and improvements held for sale	(216,512)	(36,345)	26,054
Future life and other benefits	14,084,894	19,182,046	20,508,725
Receivables for mortgage loans sold	7,362,353	15,668,188	(18,807,956)
Other operating assets and liabilities	306,668	(3,046,791)	6,751,217
Net cash provided by operating activities	<u>31,015,809</u>	<u>36,651,854</u>	<u>22,416,206</u>
Cash flows from investing activities:			
Securities held to maturity:			
Purchase - fixed maturity securities	(3,449,187)	(22,849,622)	(11,365,269)
Calls and maturities - fixed maturity securities	11,850,864	8,518,848	9,601,320
Securities available for sale:			
Purchase - equity securities	(5,996,993)	(2,807,367)	(1,685,983)
Sales - equity securities	3,851,664	4,528,862	3,028,509
Purchases of short-term investments	(18,587,022)	(19,827,619)	(51,823,941)
Sales of short-term investments	3,663,246	48,617,290	17,830,574
Sales (purchases) of restricted assets	(2,628,764)	2,777,715	(4,436,547)
Change in assets for perpetual care trusts	(230,921)	(255,204)	(265,435)
Amount received for perpetual care trusts	140,587	113,130	169,924
Mortgage, policy, and other loans made	(286,974,069)	(160,737,841)	(117,135,836)
Payments received for mortgage, policy, and other loans	267,763,998	133,260,148	131,565,100
Purchases of property and equipment	(1,520,443)	(3,570,334)	(3,022,393)
Disposal of property and equipment	894,805	33,900	30,524
Purchases of real estate held for investment	(19,317,567)	(26,749,586)	(143,278)
Sale of real estate held for investment	7,269,475	3,352,446	6,886,821
Cash received from reinsurance	13,553,864	2,466,175	34,485,224
Cash paid for purchase of subsidiaries, net of cash acquired	(15,011,193)	-	(180,591)
Net cash provided by (used in) investing activities	<u>(44,727,656)</u>	<u>(33,129,059)</u>	<u>13,538,723</u>

See accompanying notes to consolidated financial statements

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

	Years Ended December 31		
	2014	2013	2012
Cash flows from financing activities:			
Annuity contract receipts	\$ 10,051,662	\$ 9,385,168	\$ 8,939,017
Annuity contract withdrawals	(14,519,563)	(14,866,251)	(13,915,777)
Proceeds from stock options exercised	74,024	252,815	18,306
Repayment of bank loans and notes and contracts payable	(2,357,468)	(2,292,037)	(1,534,612)
Proceeds from bank borrowings	13,115,348	13,314,594	241,875
Change in line of credit borrowings	-	(4,608,204)	(11,791,796)
Net cash provided by (used in) financing activities	<u>6,364,003</u>	<u>1,186,085</u>	<u>(18,042,987)</u>
Net change in cash and cash equivalents	<u>(7,347,844)</u>	<u>4,708,880</u>	<u>17,911,942</u>
Cash and cash equivalents at beginning of year	38,203,164	33,494,284	15,582,342
Cash and cash equivalents at end of year	<u>\$ 30,855,320</u>	<u>\$ 38,203,164</u>	<u>\$ 33,494,284</u>
Non Cash Investing and Financing Activities			
Mortgage loans foreclosed into real estate	<u>\$ 981,820</u>	<u>\$ 3,930,297</u>	<u>\$ 17,019,870</u>

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies

General Overview of Business

Security National Financial Corporation and its wholly owned subsidiaries (the “Company”) operate 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 and eleven southern states. The cemetery and mortuary segment of the Company consists of seven mortuaries and five cemeteries in Utah and one cemetery in California. The mortgage loan segment is an approved government and conventional lender that originates and underwrites residential and commercial loans for new construction, existing homes and real estate projects primarily in California, Florida, Nevada, Texas, and Utah.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The presentation of certain amounts in prior years has been reclassified to conform to the 2014 presentation.

Principles of Consolidation

These consolidated financial statements include the financial statements of the Company and its majority owned subsidiaries. All intercompany transactions and accounts have been eliminated in consolidation.

Investments

The Company’s management determines the appropriate classifications of investments in fixed maturity securities and equity securities at the acquisition date and re-evaluates the classifications at each balance sheet date.

Fixed maturity securities held to maturity are carried 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 are carried at estimated fair value. 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, and construction loans are carried at their unpaid principal balances adjusted for charge-offs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the term of the loans.

Mortgage loans are collateral dependent and require an appraisal at the time of underwriting and funding. Generally the Company will fund a loan not to exceed 80% of the loan’s collateral fair market value. Amounts over 80% will require mortgage insurance by an approved third party insurer. Once a loan is deemed to be impaired the Company will review the market value of the collateral and provide an allowance for any impairment.

Mortgage loans sold to investors are carried at the amount due from third party investors, which is the estimated fair value at the balance sheet date since these amounts are generally collected within a short period of time.

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any. Included are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or market value upon foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

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

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

Restricted assets are assets held in a trust account for future mortuary services and merchandise and consist of cash; participations in mortgage loans with Security National Life; mutual funds carried at cost; equity securities carried at fair market value; a surplus note with Security National Life. Restricted cash also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for the construction of a 282-unit multifamily development in Sandy City, Utah.

Cemetery and mortuary perpetual care trust business segment contains six wholly owned cemeteries. Of the six cemeteries owned by the Company, four cemeteries are endowment care properties. Under endowment care arrangements a portion of the price for each lot sold is withheld and invested in a portfolio of investments similar to those described in the prior paragraph. The earnings stream from the investments is designed to fund future maintenance and upkeep of the cemetery.

Realized gains and losses on investments arise when investments are sold (as determined on a specific identification basis) or are other-than-temporarily impaired. If in management's judgment a decline in the value of an investment below cost is other-than-temporary, the cost of the investment is written down to fair value with a corresponding charge to earnings. Factors considered in judging whether an impairment is other-than-temporary include: the financial condition, business prospects and credit worthiness of the issuer, the length of time that fair value has been less than cost, the relative amount of the decline, and the Company's ability and intent to hold the investment until the fair value recovers, which is not assured.

Cash and Cash Equivalents

For purposes of the statement 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.

Cemetery Land and Improvements

The development of a cemetery involves not only the initial acquisition of raw land but the installation of roads, water lines, landscaping and other costs to establish a marketable cemetery lot. The costs of developing the cemetery are shown as an asset on the balance sheet. The amount on the balance sheet is reduced by the total cost assigned to the development of a particular lot when the criterion for recognizing a sale of that lot is met.

Property and Equipment

Property and equipment are 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 forty years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Recognition of Insurance Premiums and Other Considerations

Premiums and other consideration 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. Premiums and other consideration for interest-sensitive insurance policies (which include universal life policies, interest-sensitive life policies, deferred annuities, and annuities without life contingencies) are recognized when earned and consist of amounts assessed against policyholder account balances during the period for policy administration charges and surrender charges.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Deferred Policy Acquisition Costs and Value of Business 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 (“DAC”) 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 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.

The Company follows accounting principles generally accepted in the United States of America when accounting for DAC on internal replacements of insurance and investment contracts. An internal replacement is a modification in product benefits, features, rights or coverage that occurs by the exchange of a contract for a new contract, or by amendment, endorsement, or rider to contract, or by the election of a feature or coverage within a contract. Modifications that result in a replacement contract that is substantially changed from the replaced contract are accounted for as an extinguishment of the replaced contract. Unamortized DAC, unearned revenue liabilities and deferred sales inducements from the replaced contract are written-off. Modifications that result in a contract that is substantially unchanged from the replaced contract are accounted for as a continuation of the replaced contract.

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

Mortgage Servicing Rights

Mortgage Service Rights (MSR) arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of REO and property dispositions.

The total residential mortgage loans serviced for others consist primarily of agency conforming fixed-rate mortgage loans. The value of MSRs is derived from the net cash flows associated with the servicing contracts. The Company receives a servicing fee of generally about 0.250% annually on the remaining outstanding principal balances of the loans. Based on the result of the cash flow analysis, an asset or liability is recorded for mortgage servicing rights. The servicing fees are collected from the monthly payments made by the mortgagors. The Company generally receives other remuneration including rights to various mortgagor-contracted fees such as late charges, and collateral reconveyance charges and the Company is generally entitled to retain the interest earned on funds held pending remittance of mortgagor principal, interest, tax and insurance payments.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

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

Derivatives

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of mortgage loan commitments from the time a derivative loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of derivative loan commitments that will be exercised (i.e., the number of loan commitments that will be funded) fluctuates. The probability that a loan will not be funded within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the inception of the interest rate lock. However, many borrowers continue to exercise derivative loan commitments even when interest rates have fallen.

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

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

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

Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 2 for additional information. In addition, when a mortgage loan is past due more than 90 days, the Company does not accrue any interest income. When a loan becomes delinquent, the Company proceeds to foreclose on the real estate and all expenses for foreclosure are expensed as incurred. Once foreclosed, an adjustment for the lower of cost or fair value is made, if necessary, and the amount is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

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

Loan Loss Reserve

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors.

The loan loss reserve analysis involves mortgage loans that have been sold to third party investors where the Company has received a demand from the investor. There are generally three types of demands: make whole, repurchase, or indemnification. These types of demands are more particularly described as follows:

Make whole demand – A make whole demand occurs when an investor forecloses on a property and then sells the property. The make whole amount is calculated as the difference between the original unpaid principal balance, accrued interest and fees, less the sale proceeds.

Repurchase demand – A repurchase demand usually occurs when there is a significant payment default, error in underwriting or detected loan fraud.

Indemnification demand – On certain loans the Company has negotiated a set fee that is to be paid in lieu of repurchase. The fee varies by investor and by loan product type.

Additional information related to the Loan Loss Reserve is included in Note 2.

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. Increases in future policy benefits are charged to expense.

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 3% to 6.5%.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Participating Insurance

Participating business constituted 2%, 2%, and 2% of insurance in force for 2014, 2013 and 2012, 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 \$100,000 to provide for greater diversification of business to 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 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.

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.

Pre-need Sales and Costs

Pre-need contract 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 or the caskets are delivered.

Sales of cemetery interment rights (cemetery burial property) - revenue and costs associated with the sale of cemetery interment rights are recognized in accordance with the retail land sales provisions based on accounting principles generally accepted in the United States of America. Under accounting principles generally accepted in the United States of America, recognition of revenue and associated costs from constructed cemetery property must be deferred until a minimum percentage of the sales price has been collected.

Pre-need contract sales of cemetery merchandise (primarily markers and vaults) - revenue and costs associated with the sale of pre-need cemetery merchandise is deferred until the merchandise is delivered. Pre-need contract sales of cemetery services (primarily merchandise delivery, 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 acquisition costs - costs incurred related to obtaining new pre-need contract cemetery and prearranged funeral services are accounted for under the guidance of the provisions based on accounting principles generally accepted in the United States of America. Obtaining costs, which include only costs that vary with and are primarily related to the acquisition of new pre-need cemetery and prearranged funeral services, are deferred until the merchandise is delivered or services are performed.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured and there are no significant obligations remaining.

The Company, through its cemetery and mortuary operations, provides guaranteed funeral arrangements 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. However, management believes that given current inflation rates and related price increases of goods and services, the risk of exposure is minimal.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Mortgage Fee Income

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of mortgage loans comply with the sales criteria for the transfer of financial assets, which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans, prior to warehouse banks purchasing the loans under the purchase commitments.

The Company, through its mortgage subsidiaries, sells all mortgage loans to third party investors without recourse. However, it may be required to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and
- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by its mortgage subsidiaries are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection,
- Provide additional documents,
- Request investor exceptions,
- Appeal rejection decision to purchase committee, and
- Commit to secondary investors.

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or fair value and previously recorded sales revenue is reversed. Any loan that later becomes delinquent is evaluated by the Company at that time and any impairment is adjusted accordingly.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Determining Lower of Cost or Market

Cost is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Market value is often difficult to determine, but is based on the following:

- For loans that have an active market the Company uses the market price on the repurchased date.
- For loans where there is no market but there is a similar product, the Company uses the market value for the similar product on the repurchased date.
- For loans where no active market exists on the repurchased date, the Company determines that the unpaid principal balance best approximates the market value on the repurchased date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original mortgage loan adds support to the Company's determination of fair value because if the loan becomes delinquent, the Company has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, the Company considers the total value of all of the loans because any sale of loans would be made as a pool.

For mortgages originated and held for investment, mortgage fee income and related expenses are recognized when the loan is originated.

The Company provides an allowance for loan losses on its mortgage loans held for investment. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired.

Commercial Loans

Each quarter, management reviews the current commercial loans and determines if an allowance is required based on the Company's actual experience of losses on impaired commercial loans. To date, the Company has not incurred any significant losses. The carrying value of all commercial loans is supported by appraisals and cash flow analysis of revenue received. Also, the Company has not accrued any interest income or capitalized any of the foreclosure costs on the impaired commercial loans.

Residential and Construction Loans

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

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

Each quarter the Company also analyzes its current loan portfolio and determines the level of allowance needed for loans that are listed as current in the portfolio. The basis of the analysis places a higher weight on loans with high loan to value ratios, those that lack mortgage insurance, and certain loan types that have a higher percentage of default based on the Company's experience.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Each quarter the Company makes further analysis of the foreclosed properties to determine if any additional allowances are necessary by comparing national indexes of loan to value ratios by region to the Company's loan to value ratios. Based upon the above procedures, the Company's management believes that residential and residential construction loans are reflected in the Company's financial statements at the lower of cost or market in accordance with GAAP requirements.

Goodwill

Previous acquisitions have been accounted for as purchases under which assets acquired and liabilities assumed were recorded at their fair values with the excess purchase price recognized as goodwill. The Company evaluates annually or when changes in circumstances warrant the recoverability of goodwill and if there is a decrease in value, the related impairment is recognized as a charge against income. No impairment of goodwill has been recognized in the accompanying financial statements.

Long-lived Assets

Long-lived assets to be held and used are reviewed for impairment whenever events or changes in circumstances indicate that the related carrying amount may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset, and long-lived assets to be disposed of are reported at the lower of carrying amount or fair value less costs to sell. No impairment of long-lived assets has been recognized in the accompanying financial statements.

Income Taxes

Income taxes include taxes currently payable plus deferred taxes. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to the temporary differences in the financial reporting basis and tax basis of assets and liabilities and operating loss carry-forwards. Deferred tax assets are measured using enacted tax rates expected to apply to taxable income in the years in which these temporary differences are expected to be recovered or settled.

Liabilities are established for uncertain tax positions expected to be taken in income tax returns when such positions are judged to meet the "more-likely-than-not" threshold based on the technical merits of the positions. Estimated interest and penalties related to uncertain tax penalties are included as a component of other expenses.

Earnings Per Common Share

The Company computes earnings per share in accordance with accounting principles generally accepted in the United States of America which requires presentation of basic and diluted earnings per share. Basic earnings per equivalent Class A common share are computed by dividing net earnings by the weighted-average number of Class A common shares outstanding during each year presented, after the effect of the assumed conversion of Class C common stock to Class A common stock. Diluted earnings per share is computed by dividing net earnings by the weighted-average number of common shares outstanding during the year used to compute basic earnings per share plus dilutive potential incremental shares. Basic and diluted earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

Stock Based Compensation

The cost of employee services received in exchange for an award of equity instruments is recognized in the financial statements and is measured based on the fair value on the grant date of the award. The fair value of stock options is calculated using the Black Scholes method. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

1) Significant Accounting Policies (Continued)

Concentration of Credit Risk

The Company maintains its cash in bank deposit accounts, which at times 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.

Advertising

The Company expenses advertising costs as incurred.

Recent Accounting Pronouncements

Accounting Standards Update (“ASU”) No. 2014-17: “Business Combinations (Topic 805) – Pushdown Accounting” – Issued in November 2014, ASU 2014-17 provides guidance for determining whether and at what threshold an acquiree (acquired entity) that is a business or nonprofit activity can reflect the acquirer’s accounting and reporting basis (pushdown accounting) in its separate financial statements. The amendments in this Update provide that an acquired entity may elect to apply pushdown accounting in its separate financial statements upon a change-in-control event in which an acquirer obtains control of the acquired entity. The amendments in this Update are effective November 18, 2014. This new guidance did not have a significant impact on the Company’s results of operations or financial position.

Accounting Standards Update (“ASU”) No. 2014-11: “Transfers and Servicing - Repurchase to Maturity Transactions, Repurchase Financings, and Disclosures (Topic 860)” – Issued in June 2014, ASU 2014-11 aligns the accounting for repurchase to maturity transactions and repurchase agreements executed as a repurchase financing with the accounting for other typical repurchase agreements. Going forward, these transactions would all be accounted for as secured borrowings. The new authoritative guidance is effective for the first interim or annual period beginning after December 15, 2014. In addition the disclosure of certain transactions accounted for as a sale is effective for the first interim or annual period beginning on or after December 15, 2014, and the disclosure for transactions accounted for as secured borrowings is required for annual periods beginning after December 15, 2014, and interim periods beginning after March 15, 2015. Early adoption is prohibited. This new guidance will not have a significant impact on the Company’s results of operations or financial position.

ASU No. 2014-09: “Revenue from Contracts with Customers (Topic 606)” - Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, “Revenue Recognition”, and requires entities to recognize revenue in a way that depicts the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Insurance contracts are excluded from the scope of this new guidance. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2016. The Company is in the process of evaluating the potential impact of this standard, which is not expected to be material to the Company’s results of operations or financial position.

ASU No. 2014-14: “Receivables – Troubled Debt Restructurings by Creditors (Subtopic 310-40)” - In January 2014, ASU No. 2014-14 amended ASC Topic 310, "Receivables" to reduce diversity by clarifying when an in substance repossession or foreclosure occurs, that is, when a creditor should be considered to have received physical possession of residential real estate property collateralizing a consumer mortgage loan such that the loan receivable should be derecognized and the real estate property recognized. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2014 and will not have a significant impact on the Company’s results of operations or financial position.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2014 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2014:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 1,873,146	\$ 345,715	\$ -	\$ 2,218,861
Obligations of states and political subdivisions	1,736,489	221,893	(5,278)	1,953,104
Corporate securities including public utilities	126,533,483	15,841,536	(980,357)	141,394,662
Mortgage-backed securities	4,263,206	305,381	(11,894)	4,556,693
Redeemable preferred stock	612,023	22,032	-	634,055
Total fixed maturity securities held to maturity	<u>\$ 135,018,347</u>	<u>\$ 16,736,557</u>	<u>\$ (997,529)</u>	<u>\$ 150,757,375</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2014:</u>				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 7,179,010	\$ 393,873	\$ (820,133)	\$ 6,752,750
Total securities available for sale carried at estimated fair value	\$ 7,179,010	\$ 393,873	\$ (820,133)	\$ 6,752,750
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 53,592,433			
Residential construction	33,071,938			
Commercial	35,388,756			
Less: Allowance for loan losses	(2,003,055)			
Total mortgage loans on real estate and construction loans held for investment	\$ 120,050,072			
Real estate held for investment - net of depreciation	\$ 111,411,351			
Policy and other loans at amortized cost:				
Policy loans	\$ 7,011,012			
Other loans	27,807,829			
Less: Allowance for doubtful accounts	(693,413)			
Total policy and other loans at amortized cost	\$ 34,125,428			
Short-term investments at amortized cost	\$ 27,059,495			

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2013 are summarized as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Estimated Fair Value</u>
<u>December 31, 2013:</u>				
Fixed maturity securities held to maturity carried at amortized cost:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,284,261	\$ 298,901	\$ -	\$ 2,583,162
Obligations of states and political subdivisions	1,790,661	197,340	(9,404)	1,978,597
Corporate securities including public utilities	134,257,468	10,513,448	(1,394,919)	143,375,997
Mortgage-backed securities	4,522,081	206,617	(11,351)	4,717,347
Redeemable preferred stock	<u>612,023</u>	<u>12,994</u>	<u>(5,900)</u>	<u>619,117</u>
Total fixed maturity securities held to maturity	<u>\$ 143,466,494</u>	<u>\$ 11,229,300</u>	<u>\$ (1,421,574)</u>	<u>\$ 153,274,220</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<u>December 31, 2013:</u>				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 4,783,936	\$ 240,206	\$ (525,386)	\$ 4,498,756
Total securities available for sale carried at estimated fair value	<u>\$ 4,783,936</u>	<u>\$ 240,206</u>	<u>\$ (525,386)</u>	<u>\$ 4,498,756</u>
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 49,868,486			
Residential construction	12,912,473			
Commercial	41,653,009			
Less: Allowance for loan losses	<u>(1,652,090)</u>			
Total mortgage loans on real estate and construction loans held for investment	<u>\$ 102,781,878</u>			
Real estate held for investment - net of depreciation	<u>\$ 99,760,475</u>			
Policy and other loans at amortized cost:				
Policy loans	\$ 7,520,376			
Other loans	12,472,805			
Less: Allowance for doubtful accounts	<u>(269,175)</u>			
Total policy and other loans at amortized cost	<u>\$ 19,724,006</u>			
Short-term investments at amortized cost	<u>\$ 12,135,719</u>			

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturities securities, which are carried at amortized cost, at December 31, 2014 and 2013. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
<u>At December 31, 2014</u>					
Redeemable Preferred Stock	\$ -	0	\$ -	0	\$ -
Obligations of States and Political Subdivisions	-	0	5,278	1	5,278
Corporate Securities	548,310	21	432,047	11	980,357
Mortgage and other asset-backed securities	3,966	1	7,928	0	11,894
Total unrealized losses	<u>\$ 552,276</u>	<u>22</u>	<u>\$ 445,253</u>	<u>12</u>	<u>\$ 997,529</u>
Fair Value	<u>\$ 7,081,352</u>		<u>\$ 2,777,587</u>		<u>\$ 9,858,939</u>
<u>At December 31, 2013</u>					
Redeemable Preferred Stock	\$ 5,900	1	\$ -	0	\$ 5,900
Obligations of States and Political Subdivisions	7,131	1	2,273	1	9,404
Corporate Securities	1,134,415	72	260,504	10	1,394,919
Mortgage and other asset-backed securities	3,109	1	8,242	1	11,351
Total unrealized losses	<u>\$ 1,150,555</u>	<u>75</u>	<u>\$ 271,019</u>	<u>12</u>	<u>\$ 1,421,574</u>
Fair Value	<u>\$ 22,002,277</u>		<u>\$ 2,308,464</u>		<u>\$ 24,310,741</u>

As of December 31, 2014, the average market value of the related fixed maturities was 90.8% of amortized cost and the average market value was 94.5% of amortized cost as of December 31, 2013. During 2014, 2013 and 2012, an other than temporary decline in market value resulted in the recognition of credit losses on fixed maturity securities of \$120,000, \$120,000 and \$165,000, respectively.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at December 31, 2014 and 2013. The unrealized losses were primarily the result of decreases in market value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
<u>At December 31, 2014</u>					
Industrial, miscellaneous and all other	\$ 327,389	138	\$ 492,744	27	\$ 820,133
Total unrealized losses	<u>\$ 327,389</u>	<u>138</u>	<u>\$ 492,744</u>	<u>27</u>	<u>\$ 820,133</u>
Fair Value	<u>\$ 2,162,425</u>		<u>\$ 676,706</u>		<u>\$ 2,839,131</u>
<u>At December 31, 2013</u>					
Industrial, miscellaneous and all other	\$ 119,449	28	\$ 405,936	28	\$ 525,385
Total unrealized losses	<u>\$ 119,449</u>	<u>28</u>	<u>\$ 405,936</u>	<u>28</u>	<u>\$ 525,385</u>
Fair Value	<u>\$ 993,612</u>		<u>\$ 772,345</u>		<u>\$ 1,765,957</u>

As of December 31, 2014, the average market value of the equity securities available for sale was 77.6% of the original investment and the average market value was 77.1% of the original investment as of December 31, 2013. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During 2014, 2013, and 2012, an other than temporary decline in the market value resulted in the recognition of an impairment loss on equity securities of \$44,240, \$100,304, and \$247,317, respectively.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
	<u> </u>	<u> </u>
Held to Maturity:		
Due in 2015	\$ 4,961,596	\$ 5,075,769
Due in 2016 through 2019	33,920,182	37,561,840
Due in 2020 through 2024	25,074,149	27,690,447
Due after 2024	66,187,191	75,238,571
Mortgage-backed securities	4,263,206	4,556,693
Redeemable preferred stock	612,023	634,055
Total held to maturity	<u>\$ 135,018,347</u>	<u>\$ 150,757,375</u>

The cost and estimated fair value of available for sale securities at December 31, 2014, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Cost	Estimated Fair Value
	<u> </u>	<u> </u>
Available for Sale:		
Common stock	\$ 7,179,010	\$ 6,752,750
Total available for sale	<u>\$ 7,179,010</u>	<u>\$ 6,752,750</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

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

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Fixed maturity securities held to maturity:			
Gross realized gains	\$ 390,203	\$ 97,238	\$ 470,874
Gross realized losses	(71,800)	(41,164)	(3,875)
Other than temporary impairments	(120,000)	(120,000)	(165,000)
Securities available for sale:			
Gross realized gains	349,207	540,990	392,033
Gross realized losses	(55,222)	(2,678)	(5,705)
Other than temporary impairments	(44,240)	(100,304)	(247,317)
Other assets:			
Gross realized gains	1,445,596	824,203	794,346
Gross realized losses	(139,808)	(538)	(223,163)
Other than temporary impairments	-	(115,922)	(795,315)
Total	<u>\$ 1,753,936</u>	<u>\$ 1,081,825</u>	<u>\$ 216,878</u>

The net carrying amount for sales of securities classified as held to maturity was \$2,840,709, \$1,455,835 and \$2,174,300, for the years ended December 31, 2014, 2013 and 2012, respectively. The net realized gain related to these sales was \$20,722, \$12,533 and \$271,364, for the years ended December 31, 2014, 2013 and 2012, respectively. Certain circumstances lead to these decisions to sell.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available-for-sale securities) at December 31, 2014, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Fixed maturity securities	\$ 8,229,451	\$ 8,265,949	\$ 7,731,051
Equity securities	212,917	210,491	264,063
Mortgage loans on real estate	7,550,110	4,666,910	5,543,777
Real estate	8,433,895	6,658,185	4,927,128
Policy, student and other loans	741,220	799,703	830,683
Short-term investments, principally gains on sale of mortgage loans	<u>12,397,382</u>	<u>8,952,584</u>	<u>8,716,257</u>
Gross investment income	37,564,975	29,553,822	28,012,959
Investment expenses	<u>(9,261,235)</u>	<u>(9,199,820)</u>	<u>(6,097,382)</u>
Net investment income	<u>\$28,303,740</u>	<u>\$20,354,002</u>	<u>\$21,915,577</u>

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$356,369, \$341,430 and \$352,488 for 2014, 2013 and 2012, respectively.

Net investment income on real estate consists primarily of rental revenue received under short-term leases.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

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

Securities on deposit for regulatory authorities as required by law amounted to \$8,886,001 at December 31, 2014 and \$9,215,222 at December 31, 2013. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0 % to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At December 31, 2014, the Company has 44%, 17%, 13% and 8% of its mortgage loans from borrowers located in the states of Utah, California, Texas and Florida, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$2,003,055 and \$1,652,090 at December 31, 2014 and 2013, respectively.

The Company establishes a valuation allowance for credit losses in its portfolio.

**SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES**

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

The following is a summary of the allowance for loan losses as a contra-asset account for the periods presented:

Allowance for Credit Losses and Recorded Investment in Mortgage Loans
For the Years Ended December 31, 2014, and 2013

	Commercial	Residential	Residential Construction	Total
2014				
Allowance for credit losses:				
Beginning balance	\$ 187,129	\$ 1,364,847	\$ 100,114	\$ 1,652,090
Charge-offs	-	(38,444)	-	(38,444)
Provision	-	389,409	-	389,409
Ending balance	<u>\$ 187,129</u>	<u>\$ 1,715,812</u>	<u>\$ 100,114</u>	<u>\$ 2,003,055</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 153,446</u>	<u>\$ -</u>	<u>\$ 153,446</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,562,366</u>	<u>\$ 100,114</u>	<u>\$ 1,849,609</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mortgage loans:				
Ending balance	<u>\$ 35,388,756</u>	<u>\$ 53,592,433</u>	<u>\$ 33,071,938</u>	<u>\$ 122,053,127</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 1,556,182</u>	<u>\$ 414,499</u>	<u>\$ 1,970,681</u>
Ending balance: collectively evaluated for impairment	<u>\$ 35,388,756</u>	<u>\$ 52,036,251</u>	<u>\$ 32,657,439</u>	<u>\$ 120,082,446</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2013				
Allowance for credit losses:				
Beginning balance	\$ -	\$ 4,193,674	\$ 46,187	\$ 4,239,861
Charge-offs	-	(2,670,794)	(137,629)	(2,808,423)
Provision	187,129	(158,033)	191,556	220,652
Ending balance	<u>\$ 187,129</u>	<u>\$ 1,364,847</u>	<u>\$ 100,114</u>	<u>\$ 1,652,090</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 152,745</u>	<u>\$ -</u>	<u>\$ 152,745</u>
Ending balance: collectively evaluated for impairment	<u>\$ 187,129</u>	<u>\$ 1,212,102</u>	<u>\$ 100,114</u>	<u>\$ 1,499,345</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Mortgage loans:				
Ending balance	<u>\$ 41,653,009</u>	<u>\$ 49,868,486</u>	<u>\$ 12,912,473</u>	<u>\$ 104,433,968</u>
Ending balance: individually evaluated for impairment	<u>\$ -</u>	<u>\$ 1,518,327</u>	<u>\$ -</u>	<u>\$ 1,518,327</u>
Ending balance: collectively evaluated for impairment	<u>\$ 41,653,009</u>	<u>\$ 48,350,159</u>	<u>\$ 12,912,473</u>	<u>\$ 102,915,641</u>
Ending balance: loans acquired with deteriorated credit quality	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

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

Age Analysis of Past Due Mortgage Loans
Years Ended December 31, 2014 and 2013

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days 1)	In Foreclosure 1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Net Mortgage Loans
2014									
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35,388,756	\$ 35,388,756	\$ (187,129)	\$ 35,201,627
Residential	1,631,142	1,174,516	5,464,901	1,556,182	9,826,741	43,765,692	53,592,433	(1,715,812)	51,876,621
Residential Construction	-	-	64,895	414,499	479,394	32,592,544	33,071,938	(100,114)	32,971,824
Total	\$ 1,631,142	\$ 1,174,516	\$ 5,529,796	\$ 1,970,681	\$ 10,306,135	\$ 111,746,992	\$ 122,053,127	\$ (2,003,055)	\$ 120,050,072
2013									
Commercial	\$ -	\$ -	\$ -	\$ 4,973,745	\$ 4,973,745	\$ 36,679,264	\$ 41,653,009	\$ (187,129)	\$ 41,465,880
Residential	1,646,953	1,604,847	5,867,501	1,518,327	10,637,628	39,230,858	49,868,486	(1,364,847)	48,503,639
Residential Construction	-	-	64,895	-	64,895	12,847,578	12,912,473	(100,114)	12,812,359
Total	\$ 1,646,953	\$ 1,604,847	\$ 5,932,396	\$ 6,492,072	\$ 15,676,268	\$ 88,757,700	\$ 104,433,968	\$ (1,652,090)	\$ 102,781,878

1) There was not any interest income recognized on loans past due greater than 90 days or in foreclosure.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

Impaired Mortgage Loans

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

Impaired Loans					
For the Years Ended December 31, 2014, and 2013					
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
2014					
With no related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-	-
Residential construction	414,499	414,499	-	414,499	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,556,182	1,556,182	153,446	1,556,182	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,556,182	1,556,182	153,446	1,556,182	-
Residential construction	414,499	414,499	-	414,499	-
2013					
With no related allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	-	-	-	-	-
Residential construction	-	-	-	-	-
With an allowance recorded:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-
Total:					
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Residential	1,518,327	1,518,327	152,745	1,518,327	-
Residential construction	-	-	-	-	-

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

Credit Risk Profile Based on Performance Status

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

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

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity
As of December 31, 2014, and 2013

	Commercial		Residential		Residential Construction		Total	
	2014	2013	2014	2013	2014	2013	2014	2013
Performing	\$ 35,388,756	\$ 36,679,264	\$ 46,571,350	\$ 42,482,658	\$ 32,592,544	\$ 12,847,578	\$ 114,552,650	\$ 92,009,500
Non-performing	-	4,973,745	7,021,083	7,385,828	479,394	64,895	7,500,477	12,424,468
Total	<u>\$ 35,388,756</u>	<u>\$ 41,653,009</u>	<u>\$ 53,592,433</u>	<u>\$ 49,868,486</u>	<u>\$ 33,071,938</u>	<u>\$ 12,912,473</u>	<u>\$ 122,053,127</u>	<u>\$ 104,433,968</u>

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals \$535,000 and \$678,000 as of December 31, 2014 and 2013, respectively.

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

Mortgage Loans on Non-accrual Status
As of December 31, 2014, and 2013

	2014	2013
Commercial	\$ -	\$ 4,973,745
Residential	7,021,083	7,385,828
Residential construction	479,394	64,895
Total	<u>\$ 7,500,477</u>	<u>\$ 12,424,468</u>

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans on real estate and construction loans held for investment by category as of December 31, 2014 are shown below. Expected principal payments may differ from contractual obligations because certain borrowers may elect to pay off mortgage obligations with or without early payment penalties.

	Total	Principal Amounts Due in 2015	Principal Amounts Due in 2016-2019	Principal Amounts Due Thereafter
Residential	\$ 53,592,433	\$ 3,748,893	\$ 17,225,255	\$ 32,618,285
Residential Construction	33,071,938	32,648,470	423,468	-
Commercial	35,388,756	18,652,738	13,279,688	3,456,330
Total	<u>\$ 122,053,127</u>	<u>\$ 55,050,101</u>	<u>\$ 30,928,411</u>	<u>\$ 36,074,615</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

2) Investments (Continued)

Loan Loss Reserve

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

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

	Years Ended December 31	
	2014	2013
Balance, beginning of period	\$ 5,506,532	\$ 6,035,295
Provisions for losses	3,053,403	1,846,285
Charge-offs and settlements	(6,841,785)	(2,375,048)
Balance, at December 31	<u>\$ 1,718,150</u>	<u>\$ 5,506,532</u>

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

3) Receivables

Receivables consist of the following:

	Years Ended December 31	
	2014	2013
Trade contracts	\$ 12,166,838	\$ 9,993,755
Receivables from sales agents	1,951,677	994,056
Held in Escrow – Southern Security	278,331	312,167
Other	1,428,106	1,601,227
Total receivables	15,824,952	12,901,205
Allowance for doubtful accounts	(1,280,859)	(1,248,633)
Net receivables	<u>\$ 14,544,093</u>	<u>\$ 11,652,572</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

4) Value of Business Acquired

Information with regard to value of business acquired is as follows:

	December 31		
	2014	2013	2012
Balance at beginning of year	\$ 8,680,845	\$ 9,829,082	\$ 10,996,050
Value of business acquired	1,169,428	192,035	48,190
Imputed interest at 7%	591,412	647,848	728,880
Amortization	(1,894,058)	(1,988,120)	(1,944,038)
Net amortization charged to income	(1,302,646)	(1,340,272)	(1,215,158)
Balance at end of year	<u>\$ 8,547,627</u>	<u>\$ 8,680,845</u>	<u>\$ 9,829,082</u>

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$1,113,000, \$1,031,000, \$958,000, \$852,000, and \$790,000 for the years 2015 through 2019. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2014, value of business acquired is being amortized over a weighted average life of 6.6 years.

5) Property and Equipment

The cost of property and equipment is summarized below:

	December 31	
	2014	2013
Land and buildings	\$ 11,904,100	\$ 12,482,082
Furniture and equipment	15,822,957	14,301,713
	27,727,057	26,783,795
Less accumulated depreciation	(16,419,343)	(15,260,635)
Total	<u>\$ 11,307,714</u>	<u>\$ 11,523,160</u>

Depreciation expense for the years ended December 31, 2014, 2013 and 2012 was \$2,177,165, \$1,621,069 and \$1,258,097 respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

6) Bank and Other Loans Payable

Bank loans payable are summarized as follows:

	December 31	
	2014	2013
6.34% note payable in monthly installments of \$13,556 including principal and interest, collateralized by real property with a book value of approximately \$498,000, due November 2017.	\$ 466,937	\$ 612,068
5.75% note payable in monthly installments of \$28,271 including principal and interest, collateralized by real property with a book value of approximately \$5,890,000 due March 2015.	3,398,099	3,509,944
Mark to market of interest rate swaps (discussed below) adjustment	31,370	58,310
3.85% note payable in monthly installments of \$79,468 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due June 2015.	461,889	1,377,925
3.85% note payable in monthly installments of \$86,059 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due December 2017.	2,994,999	3,891,926
4.40% note payable in monthly installments of \$46,825 including principal and interest, collateralized by real property with a book value of approximately \$12,450,000 due January 2026.	8,333,550	8,500,000
2.75% above the 90-day LIBOR rate (3.0052% at December 31, 2014) constructon and term loan payable, collateralized by real property with a book vaue of approximately \$22,855,000 due July 2017.	13,085,189	-
Other collateralized bank loans payable	247,384	338,304
Other notes payable	961	961
Total bank and other loans	29,020,378	18,289,438
Less current installments	5,248,043	5,849,926
Bank and other loans, excluding current installments	\$ 23,772,335	\$ 12,439,512

During 2001, the Company entered into an interest rate swap instrument that effectively fixed the interest rate on the note payable at 6.34% per annum. Management considers the interest rate swap instrument an effective cash flow hedge against the variable interest rate on the bank note since the interest rate swap mirrors the term of the note payable and expires on the maturity date of the bank loan it hedges. The interest rate swap is a derivative financial instrument carried at its fair value.

In the event the swap is terminated, any resulting gain or loss would be deferred and amortized to interest expense over the remaining life of the bank loan it hedged. In the event of early extinguishment of the hedged bank loan, any realized or unrealized gain or loss from the hedging swap would be recognized in income coincident with the extinguishment.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

6) Bank and Other Loans Payable (Continued)

At December 31, 2014 and 2013, the fair value of the interest rate swap was an unrealized loss of \$31,370 and \$58,310, respectively, and was computed based on the underlying variable Libor rate plus 1.65%, or 2.65% per annum. The unrealized loss resulted in a derivative liability of \$31,370 and \$58,310 and has been reflected in accumulated other comprehensive income. The change in accumulated other comprehensive income from the interest rate swap in 2014 and 2013 was \$26,940 and 32,262, respectively. The fair value of the interest rate swap was derived from a proprietary model of the bank from whom the interest rate swap was purchased and to whom the note is payable.

The Company has a \$2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75% (2.50% at December 31, 2014), secured by the capital stock of Security National Life and maturing June 30, 2015, renewable annually. At December 31, 2014, the Company was contingently liable under a standby letter of credit aggregating \$699,671, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. As of December 31, 2014, there were no amounts outstanding under the revolving line-of-credit.

The Company has a \$15,000,000 revolving line-of-credit with a bank with interest payable at the variable overnight Libor rate plus 2% (2.1146% at December 31, 2014), secured by bond investments of the Company and maturing June 30, 2015. At December 31, 2014, the Company was contingently liable under two standby letters of credit aggregating \$139,220, issued as security deposits to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas. As of December 31, 2014, there were no amounts outstanding under the revolving line-of-credit.

The Company has a \$2,150,000 revolving line-of-credit with a bank with interest payable at the prime rate plus 1.25% (4.50% at December 31, 2014), secured by the capital stock of Security National Life and maturing June 30, 2015. At December 31, 2014, SecurityNational Mortgage was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency relating to claims filed in states where SecurityNational Mortgage is licensed. The Company does not expect any material losses to result from the issuance of the standby letter of credit. As of December 31, 2014, there were no amounts outstanding under the revolving line-of-credit.

The Company has entered into a Construction and Term Loan Agreement (“Agreement”) between Zions First National Bank, a national banking association, and Dry Creek Property Development, Inc., the Company’s wholly owned subsidiary. Under the terms of this Agreement the Company promises to pay Zions First National Bank the principal sum of \$27,500,000 plus interest. These funds will be used for the construction of a 282-unit multifamily development in Sandy City, Utah. As of December 31, 2014, the amount outstanding under this agreement was \$13,085,189.

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

2015	\$ 5,248,043
2016	1,395,942
2017	14,586,183
2018	246,769
2019	246,336
Thereafter	7,297,105
Total	<u>\$ 29,020,378</u>

Interest paid approximated interest expense in 2014, 2013 and 2012, which was \$2,994,429, \$2,853,701 and \$3,744,293, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

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

The Company is required by state law to pay into perpetual care trusts a portion of the proceeds from the sale of cemetery property interment rights. The related cemetery perpetual care trusts are defined as variable interest entities pursuant to generally accepted accounting principles. Also, management has determined that the Company is the primary beneficiary of these trusts, as it absorbs both a majority of the losses and returns associated with the trusts. The Company has consolidated cemetery perpetual care trust investments with a corresponding amount recorded as Cemetery Perpetual Care Obligation in the accompanying consolidated balance sheets.

The components of the cemetery perpetual care obligation are as follows:

	December 31	
	2014	2013
Trust investments, at market value	\$ 2,645,423	\$ 2,414,883
Note receivables from Cottonwood Mortuary		
Singing Hills Cemetery and Memorial Estates - Pinehill eliminated in consolidation	1,847,892	1,881,565
Total trust assets	4,493,315	4,296,448
Cemetery perpetual care obligation	(3,406,718)	(3,266,131)
Fair value of trust assets in excess of trust obligations	\$ 1,086,597	\$ 1,030,317

The Company has established and maintains certain restricted trust investments to provide for future merchandise and service obligations incurred in connection with its pre-need sales. Also included in cash and cash equivalents are escrows held for borrowers under servicing agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for the construction of a 282-unit multifamily development in Sandy City, Utah.

Assets in the restricted asset account are summarized as follows:

	December 31	
	2014	2013
Cash and cash equivalents	\$ 7,274,685	\$ 4,746,417
Mutual funds	627,154	582,163
Fixed maturity securities	8,775	8,775
Equity securities	88,048	84,986
Participating in mortgage loans with Security National Life	1,349,135	1,248,639
Total	\$ 9,347,797	\$ 6,670,980

A surplus note receivable and interest, at December 31, 2014 and December 31, 2013 in the amount of \$4,000,000 from Security National Life was eliminated in consolidation.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

8) Income Taxes

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

	<u>December 31</u>	<u>December 31</u>
	2014	2013
Current	\$ (333,350)	\$ (1,578,071)
Deferred	20,755,117	17,529,919
Total	<u>\$20,421,767</u>	<u>\$15,951,848</u>

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

	<u>December 31</u>	
	2014	2013
Assets		
Future policy benefits	\$ (6,856,001)	\$ (5,381,385)
Loan loss reserve	(670,078)	(2,147,547)
Unearned premium	(1,687,059)	(1,759,087)
Available for sale securities	(125,797)	(566,316)
Net operating loss	(1,738,137)	(873,412)
Deferred compensation	(1,279,860)	(1,057,551)
Deposit obligations	(1,018,313)	(1,043,964)
Other	(1,398,152)	(1,287,773)
Less: Valuation allowance	5,276,431	5,593,063
Total deferred tax assets	<u>(9,496,966)</u>	<u>(8,523,972)</u>
Liabilities		
Deferred policy acquisition costs	12,271,954	10,914,618
Basis difference in property and equipment	7,049,551	6,242,266
Value of business acquired	2,906,193	2,951,487
Deferred gains	5,472,003	3,545,692
Trusts	1,599,657	1,599,657
Tax on unrealized appreciation	952,725	800,171
Total deferred tax liabilities	<u>30,252,083</u>	<u>26,053,891</u>
Net deferred tax liability	<u>\$20,755,117</u>	<u>\$17,529,919</u>

The valuation allowance relates to differences between recorded deferred tax assets and liabilities and ultimate anticipated realization.

The valuation allowance decreased \$316,632 during 2014 and \$735,868 during 2013.

The Company paid \$408,939, \$4,009,598 and \$1,900,000 in income taxes for 2014, 2013 and 2012, respectively.

The Company's income tax expense (benefit) is summarized as follows for the years ended December 31:

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

8) Income Taxes (Continued)

	2014	2013	2012
Current	\$ 1,653,663	\$ 1,821,539	\$ 2,707,962
Deferred	3,072,642	416,267	1,930,813
Total	<u>\$ 4,726,305</u>	<u>\$ 2,237,806</u>	<u>\$ 4,638,775</u>

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

	2014	2013	2012
Computed expense at statutory rate	\$ 4,243,524	\$ 3,340,067	\$ 7,472,953
Tax audit settlements	-	20,371	-
Other, net	482,781	(1,122,632)	(2,834,178)
Tax expense (benefit)	<u>\$ 4,726,305</u>	<u>\$ 2,237,806</u>	<u>\$ 4,638,775</u>

At December 31, 2014, the Company had no significant unrecognized tax benefits. As of December 31, 2014, the Company does not expect any material changes to the estimated amount of unrecognized tax benefits in the next twelve months. Federal and state income tax returns for 2011 through 2014 are subject to examination by taxing authorities. An examination of the Company's 2012 federal income tax return is in process.

9) Reinsurance, Commitments and Contingencies

Reinsurance

The Company follows the procedure of reinsuring risks in excess of a specified limit, which ranged from \$25,000 to \$100,000 during the years 2014 and 2013. 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 approximately \$1,462,340,000 (unaudited) at December 31, 2014 and approximately \$1,566,336,000 (unaudited) at December 31, 2013.

Reinsurance Agreement with American Republic Insurance Company

On February 11, 2015, the Company signed a coinsurance agreement to reinsure certain life insurance policies from American Republic Insurance Company ("American Republic"). The policies were previously reinsured by North America Life under a coinsurance agreement between World Insurance Company ("World Insurance") and North America Life entered into on July 22, 2009 which was commuted. World Insurance was subsequently purchased by and merged into American Republic. The current coinsurance agreement is between the Company and American Republic and became effective on January 1, 2015. As part of the coinsurance agreement, American Republic transferred all contractual obligations and risks to the Company and the Company took control of \$15,004,771 of assets in a trust account held by Texas Capital Bank as the trustee.

Reinsurance Agreement with LJA Insurance Company

On December 19, 2014, the Company entered into a Coinsurance Funds Withheld Reinsurance Agreement with LJA Insurance Company ("LJA Insurance"), a Republic of the Marshall Islands domiciled insurance company. This agreement was effective November 1, 2014. Under the terms of the funds withheld agreement, the Company ceded to LJA Insurance 100% of three blocks of deferred annuities in the amount of \$4,337,000 and retained the assets and recorded a funds held under coinsurance liability for the same amount. LJA Insurance agreed to pay the Company an initial ceding commission of \$60,000 and an asset management fee of \$16,000 per quarter to administer the policies. The Company will also receive a 90% experience refund for any profits from the business. The Company has the right to recapture the business by giving LJA Insurance 90 days written notice, or it may be terminated by mutual consent of both parties.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

Reinsurance Terminated with North America Life Insurance Company

On December 1, 2013, in accordance with the terms of the Coinsurance Agreement, Security National Life, through Trans-western Life Insurance Company (“Trans-Western Life”), recaptured additional policies of Trans-Western Life from North American Life Insurance Company (“North American Life”). On December 10, 2013, pursuant to the Coinsurance Agreement, North America Life paid \$2,500,000, less a ceding commission of \$34,000 to Security National Life. On February 13, 2014, in accordance with the terms of the Coinsurance Agreement, Security National Life, through Trans-Western Life, recaptured the remaining policies of Trans-Western Life from North American Life. Pursuant to the Coinsurance Agreement, North America Life paid \$4,684,000 less a ceding commission of \$57,000 to Security National Life, and the Reinsurance Agreement between Trans Western Life and North America Life was terminated.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company’s reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2014 and 2013 were \$3,053,000 and \$1,846,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2014 and 2013, the balances were \$1,718,000 and \$5,507,000, respectively.

Final Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage Company (“SecurityNational Mortgage”), a wholly owned subsidiary of Security National Financial Corporation, entered into the Settlement Agreement and Release (the “Settlement Agreement”) with Wells Fargo Funding, Inc. (“Wells Fargo Funding”). On December 4, 2014, SecurityNational Mortgage and Wells Fargo Bank (which was assigned Wells Fargo Funding’s interest in the Settlement Agreement) entered into a Second Addendum (the “Addendum”) to the Settlement Agreement, in which SecurityNational Mortgage agreed to make a final payment to Wells Fargo Bank by December 30, 2014, to satisfy and terminate its remaining payment obligations under the Settlement Agreement. On December 29, 2014, SecurityNational Mortgage made the final payment to Wells Fargo Bank pursuant to the terms of the Addendum from its loan loss reserve, thereby satisfying in full its payment obligations under the Settlement Agreement.

Settlement with Bank of America, N.A. and Countrywide Home Loans, Inc.

On December 23, 2014, SecurityNational Mortgage entered into a Settlement Agreement (the “Settlement Agreement”) with Countrywide Home Loans, Inc. (“Countrywide Home Loans”), Bank of America, N.A. (“Bank of America”), successor-in-interest by the April 27, 2009 de jure merger to Countrywide Bank, FSB. Under the terms of the Settlement Agreement, SecurityNational Mortgage is required to pay a settlement amount to Bank of America and Countrywide Home Loans, jointly as settlement purchasers. On December 23, 2014, SecurityNational Mortgage made the full and final settlement payment from its mortgage loan loss reserve to Bank of America and Countrywide Home Loans by wire transfer.

The payment of the settlement amount is in full and final settlement of the claims and disputes between Bank of America and Countrywide Home Loans, and SecurityNational Mortgage under certain loan purchase agreements. Bank of America, Countrywide Home Loans and SecurityNational Mortgage are parties to the Loan Purchase Agreement, originally entered into between Countrywide Funding Corporation and SecurityNational Mortgage, dated September 27, 1994; and Countrywide Home Loans and SecurityNational Mortgage are parties to the Home Equity Loan Purchase Agreement, dated January 15, 1997, including any amendments or modifications to such agreements (collectively, the “Loan Purchase Agreements”).

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

Under the terms of the Settlement Agreement, SecurityNational Mortgage, Bank of America and Countrywide Home Loans agreed to full, complete and general mutual releases with respect to the alleged claims and disputes. In particular, Bank of America and Countrywide Home Loans, as settlement purchasers, and SecurityNational Mortgage Company, as settlement seller, and their respective parent and subsidiary entities, predecessors, successors and affiliates agree to fully, finally and completely release and forever discharge each other and their respective parent and subsidiary entities, predecessors, successors, affiliates, assigns and their respective current and past directors, officers, employees, representatives and agents from any and all claims and disputes under the Loan Purchase Agreements. The Settlement Agreement is subject to an exception for pervasive or system-wide fraud.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued \$1,702,000 as of December 31, 2014 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the third party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. ("JP Morgan Chase") on behalf of EMC Mortgage, LLC ("EMC Mortgage"), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the "Trust"), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans' outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust brought against EMC Mortgage.

Mortgage Loan Loss Litigation

Lehman Brothers - Aurora Loan Services Litigation

On April 15, 2005, SecurityNational Mortgage entered into a loan purchase agreement with Lehman Brothers Bank, FSB (“Lehman Bank”). Under the terms of the loan purchase agreement, Lehman Bank agreed to purchase mortgage loans from time to time from SecurityNational Mortgage. During 2007, Lehman Bank and its wholly owned subsidiary, Aurora Loan Services LLC (“Aurora Loan Services”), purchased a total of 1,490 mortgage loans in the aggregate amount of \$352,774,000 from SecurityNational Mortgage. Lehman Bank asserted that certain of the mortgage loans that it purchased from SecurityNational Mortgage during 2007 contained alleged misrepresentations and early payment defaults. As a result of these alleged issues with the mortgage loans, Lehman Bank contended it had the right to require SecurityNational Mortgage to repurchase certain loans or be liable for losses related to such loans under the loan purchase agreement. SecurityNational Mortgage disagrees with these claims.

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Bank and Aurora Loan Services may incur relative to breaches by mortgagors pertaining to 55 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage was released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that were not among the 55 mortgage loans.

Pursuant to the Indemnification Agreement, SecurityNational Mortgage paid \$395,000 to Aurora Loan Services as a deposit into a reserve account, to secure any obligations of SecurityNational Mortgage under the Indemnification Agreement. This deposit was in addition to a \$250,000 deposit that SecurityNational Mortgage previously made into the reserve account for a total of \$645,000. Losses from mortgage loans with alleged breaches were payable from the reserve account. Lehman Bank and Aurora Loan Services were not to apply any funds from the reserve account to a particular mortgage loan, however, until an actual loss had occurred. Under the Indemnification Agreement SecurityNational Mortgage was to pay to Aurora Loan Services each calendar month the difference between the reserve account balance and \$645,000, but in no event would SecurityNational Mortgage be required to make payments into the reserve account in excess of \$125,000 for any calendar month.

Since the time the reserve account was established, SecurityNational Mortgage paid a total of \$4,281,000 from the reserve account to indemnify Lehman Brothers Bank and Aurora Loan Services for alleged losses from 31 mortgage loans that were among 55 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. In the last monthly billing statement dated April 24, 2011 to SecurityNational Mortgage, Lehman Brothers Holdings Inc. (“Lehman Holdings”) claimed that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement.

During 2010 and 2011, the Company recognized alleged losses of \$1,289,000 and \$-0-, respectively. Management cannot fully determine the total losses, however, because there could be potential claims for losses that have not yet been determined. As of December 31, 2014, the Company had not accrued for any losses under the

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

Indemnification Agreement. SecurityNational Mortgage was involved in discussions with Lehman Bank and Lehman Holdings concerning issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 were abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Aurora Bank FSB, formerly known as Lehman Bank, and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement with Lehman Bank and Aurora Loan Services. The complaint alleges, among other claims, material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned the mortgage loans that SecurityNational Mortgage sold so as to justify the amount of payments demanded from, and made by, SecurityNational Mortgage. As a result, SecurityNational Mortgage claims it is entitled to judgment of approximately \$4,000,000 against Lehman Bank, as well as Aurora Loan Services to the extent of its involvement and complicity with Lehman Bank. The complaint also alleges a second claim for material breach of a section of the Indemnification Agreement that contains an alleged “sunset” provision and that the amount of the requested payments made was not justified under the “sunset” provision.

On June 8, 2011, Lehman Holdings, which had filed for bankruptcy in September 2008, filed a complaint against SecurityNational Mortgage in the United States District Court for the District of Utah. A subsidiary of Lehman Holdings owns Lehman Bank. The complaint alleges that SecurityNational Mortgage sold loans to Lehman Bank, which were then sold to Lehman Holdings. The complaint additionally alleges that Lehman Bank and Aurora Loan Services assigned their rights and remedies under the loan purchase agreement, as well as the Indemnification Agreement, to Lehman Holdings, which latter assignment purportedly took place on March 28, 2011. Lehman Holdings declared in a letter dated June 2, 2011 that the Indemnification Agreement was null and void except as to losses previously released and discharged, which is disputed by SecurityNational Mortgage.

Lehman Holdings’ alleged claims are for damages for breach of contract and breach of warranty pursuant to a loan purchase agreement and Seller’s Guide. Based on claiming that the Indemnification Agreement is null and void pursuant to its lawsuit, Lehman Holdings has initially claimed damages in excess of \$5,000,000. Prior to declaring the Indemnification Agreement null and void, Lehman Holdings claimed in a then recent billing statement under the terms of the Indemnification Agreement, that SecurityNational Mortgage owed approximately \$3,745,000 for mortgage loan losses under the Indemnification Agreement. SecurityNational Mortgage strongly disagrees with the position of Lehman Holdings and, as set forth in its May 11, 2011 complaint, seeks affirmative relief of approximately \$4,000,000 from Lehman Bank and Aurora Loan Services. Lehman Bank is a subsidiary of a company owned by Lehman Holdings, and Aurora Loan Services is a subsidiary of Lehman Bank.

On September 4, 2012, SecurityNational Mortgage filed a motion for summary judgment in its action against Lehman Bank and Aurora Loan Services on certain material issues, as well as against Lehman Holdings regarding its claims against SecurityNational Mortgage. Lehman Bank and Aurora Loan Services filed a cross motion for summary judgment as to the issues in SecurityNational Mortgage’s motion and, in the Lehman Holdings case, Lehman Holdings has requested that the Court allow a cross motion on the issues which are the subject of SecurityNational Mortgage’s September 4, 2012 motion. The cases are before two different federal judges.

On February 27, 2013, SecurityNational Mortgage’s motion for summary judgment against Lehman Bank and Aurora Loan Services and the related cross motion were heard by Judge David Nuffer of the United States District Court for the District of Utah. After an extensive hearing, Judge Nuffer requested that the parties prepare findings of fact in accordance with the Court’s earlier promulgated findings as modified at the hearing, and that each party submit proposed conclusions of law related to the motions. The motion and cross motion were taken under advisement. SecurityNational Mortgage’s motion in the Lehman Holdings case was heard on April 22, 2014 before Judge Ted Stewart of the United States District Court for the District of Utah, and is under advisement.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

On May 6, 2014, Judge Nuffer issued his summary of facts, conclusions of law and order granting SecurityNational Mortgage's motion for summary judgment and denying the cross motion of Lehman Bank and Aurora Loan Services. On May 27, 2014, Lehman Bank and Aurora Loan Services filed a motion to reconsider Judge Nuffer's summary judgment ruling. On June 2, 2014, a hearing was held before Judge Nuffer to determine the amount owing to SecurityNational Mortgage pursuant to the summary judgment ruling. On December 23, 2014, Judge Nuffer issued an order denying Lehman Bank's and Aurora Loan Services' motion for reconsideration of his summary judgment ruling in favor of SecurityNational Mortgage.

On December 24, 2014, Judge Nuffer issued an amended order granting SecurityNational Mortgage's motion for summary judgment. The amended order provided that the amount of monies previously paid by SecurityNational Mortgage that were wrongfully applied by Lehman Bank to losses on loans actually owed by Lehman Holdings, as established at the June 2, 2014 hearing, was \$3,892,974. The amended order also provided for prejudgment interest at 9% per annum to SecurityNational Mortgage. The total amount of prejudgment interest awarded is \$1,674,240 through May 31, 2014, with a per diem of \$960 for each day after May 31, 2014 until judgment. The court also commented that further replenishment of the indemnification fund under the Indemnification Agreement appears to be barred by language in the assignment effecting a waiver, but that this issue had not been briefed before the June 2, 2014 hearing. In addition, the court stated that the offset that Lehman Bank and Aurora Loan Services pled as an affirmative defense had not yet been adjudicated by the court. Finally, the court ordered the parties to meet and confer by January 16, 2015, and to file a motion to schedule the disposition of the remaining issues in the case. The motion is to clarify whether any issues other than the offset remain to be resolved.

On May 7, 2014, Judge Stewart issued an order for the parties to submit supplemental briefs as to the effect of Judge Nuffer's summary judgment order on SecurityNational Mortgage's motion for summary judgment in the Lehman Holdings case. The supplemental briefing was continued until January 16, 2015. Judge Stewart also granted leave for SecurityNational Mortgage to file an additional motion for summary judgment in the Lehman Holdings case on the basis that the claims of Lehman Holdings are barred by the statute of limitations. The motion was also to be filed by January 16, 2015. The August 11, 2014 trial setting before Judge Stewart in the Lehman Holdings case was stricken without providing a new trial date.

On January 16, 2015, SecurityNational Mortgage and Lehman Holdings filed briefs with Judge Stewart concerning the effect of the rulings in Judge Nuffer's case on the case before Judge Stewart, and on the same date SecurityNational Mortgage filed a motion for summary judgment in the Lehman Holdings case based on the statute of limitations. A hearing concerning SecurityNational Mortgage's summary judgment motion based on the statute of limitations is scheduled before Judge Stuart on April 14, 2015. On February 28, 2015, Lehman Bank and Aurora Loan Services filed a partial summary judgment motion before Judge Nuffer asserting that the Indemnification Agreement security fund should be replenished, and for a right to offset alleged losses of approximately \$8.6 million, based on more than 100 loans retained by Lehman Bank, against the amount owing to SecurityNational per Judge Nuffer's summary judgment order. Lehman Bank and Aurora Loan Services asserts that another 124 loans are not analyzed yet for potential breaches.

SecurityNational Mortgage had until March 30, 2015 to respond to the motion of Lehman Bank and Aurora Loan Services, and to file a motion if so determined by SecurityNational Mortgage. SecurityNational Mortgage asserts that Lehman Bank and Aurora Loan Services have no rights to a replenishment of the Indemnification Agreement reserve account, or for any offset against the liability of Lehman Bank and Aurora Loan Services to SecurityNational Mortgage, including the assertion that Lehman Bank and Aurora Loan Services executed an assignment to Lehman Holdings containing a waiver and release of rights and remedies which affect the foregoing asserted replenishment and offset matters. On March 30, 2015, SecurityNational Mortgage filed a response in opposition to the partial summary judgment motion of Lehman Bank and Aurora Loan Services and also filed its own partial summary judgment motion on the same issue against Lehman Bank and Aurora Loan Services.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

9) Reinsurance, Commitments and Contingencies (Continued)

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

Non-Cancelable Leases

The Company leases office space and equipment under various non-cancelable agreements, with remaining terms up to five years. Minimum lease payments under these non-cancelable operating leases as of December 31, 2014, are approximately as follows:

Years Ending <u>December 31</u>	
2015	\$ 4,299,185
2016	3,610,599
2017	2,835,947
2018	1,188,581
2019	<u>563,956</u>
Total	<u>\$ 12,498,268</u>

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2014, 2013, and 2012 was approximately \$5,589,000, \$4,307,000 and \$3,425,000, respectively.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of December 31, 2014, the Company's commitments were \$49,307,000, for these loans of which \$33,072,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of December 31, 2014). Maturities range between six and twelve months.

The Company belongs to a captive insurance group for certain casualty insurance, worker compensation and liability programs. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. At December 31, 2014, \$929,417 of reserves was established related to such insurance programs versus \$524,034 at December 31, 2013.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

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 1,000 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. The Company did not make any contributions for 2014, 2013 and 2012. At December 31, 2014, the ESOP held 579,918 shares of Class A and 252,974 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 three 401(k) savings plans 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 plans allow participants to make pretax contributions up to a maximum of \$17,500, \$17,500 and \$17,000 for the years 2014, 2013 and 2012, respectively or the statutory limits.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company matched 100% of up to 3% of an employee's total annual compensation and matched 50% of 4% to 5% of an employee's annual compensation. The match was in Company stock. The Company's contribution for 2014, 2013 and 2012 was \$808,572, \$749,898 and \$222,719, respectively under the "Safe Harbor" plan.

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 did not make any contributions for 2014, 2013 and 2012.

The Company had a deferred compensation agreement with its past Chief Executive Officer. The deferred compensation was payable on the retirement or death of this individual either in annual installments over 10 years or in a lump sum settlement, if approved by the Board of Directors. The amount to be paid was \$60,000 per year with cost of living adjustments each anniversary. The compensation agreement also provided that any remaining balance would be paid to his heirs in the event of his death. In 2014, the Board of Directors approved a lump sum for the payment of \$598,426, which represented a full and final payment

On July 16, 2004, the Company entered into an employment agreement with Scott M. Quist, the Chairman of the Board, President and Chief Executive Officer. The agreement is effective as of December 4, 2003 and has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Quist performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company serving as its Chairman of the Board, President, and Chief Executive Officer at not less than his current salary and benefits. The Company also agrees to maintain a group term life insurance policy of not less than \$1,000,000 on Mr. Quist's life and a whole life insurance policy in the amount of \$500,000 on Mr. Quist's life. In the event of disability, Mr. Quist's salary would be continued for up to five years at 75% of its current level.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

10) Retirement Plans (Continued)

On In the event of a sale or merger of the Company and Mr. Quist is 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. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$833,183 and \$264,000 in fiscal 2014 and 2013, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$2,270,425 and \$1,437,242 as of December 31, 2014 and 2013, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead'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. Beckstead is not retained in his current position, the Company would be obligated to continue Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$154,817 and \$-0- in fiscal 2014 and 2013, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$768,220 and \$613,403, as of December 31, 2014 and 2013, respectively.

In the event of a sale or merger of the Company and Mr. Quist is 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. The agreement further provides that Mr. Quist is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 65), (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of twenty years in annual installments in the amount equal to 75% of his then current rate of compensation. However, in the event that Mr. Quist dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$833,183 and \$264,000 in fiscal 2014 and 2013, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued is \$2,270,425 and \$1,437,242 as of December 31, 2014 and 2013, respectively.

On December 4, 2003, the Company, through its subsidiary SecurityNational Mortgage Company, entered into an employment agreement with J. Lynn Beckstead, Jr., Vice President of Mortgage Operations and President of SecurityNational Mortgage Company. The agreement has a five-year term, but the Company has agreed to renew the agreement on December 4, 2008 and 2013 for additional five-year terms, provided Mr. Beckstead performs his duties with usual and customary care and diligence. Under the terms of the agreement, Mr. Beckstead is to devote his full time to the Company serving as President of SecurityNational Mortgage Company at not less than

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

10) Retirement Plans (Continued)

his current salary and benefits, and to include \$350,000 of life insurance protection. In the event of disability, Mr. Beckstead'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. Beckstead is not retained in his current position, the Company would be obligated to continue Mr. Beckstead's current compensation and benefits for five years following the merger or sale. The agreement further provides that Mr. Beckstead is entitled to receive annual retirement benefits beginning (i) one month from the date of his retirement (to commence no sooner than age 62½) (ii) five years following complete disability, or (iii) upon termination of his employment without cause. These retirement benefits are to be paid for a period of ten years in annual installments in the amount equal to one-half of his then current annual salary. However, in the event that Mr. Beckstead dies prior to receiving all retirement benefits there under, the remaining benefits are to be paid to his heirs. The Company expensed \$154,817 and \$-0- in fiscal 2014 and 2013, respectively, to cover the present value of the retirement benefit of the agreement. The liability accrued is \$768,220 and \$613,403, as of December 31, 2014 and 2013, respectively.

11) Capital Stock

The Company has two classes of common stock with shares outstanding, Class A common shares and Class C common shares. Class C shares have 10 votes per share on all matters except for the election of one third of the directors who are elected solely by the Class A shares. Class C shares are convertible into Class A shares at any time on a one to one ratio. The decrease in treasury stock was the result of treasury stock being used to fund the company's 401(k) and Deferred Compensation Plans.

Stockholders of both classes of common stock have received 5% stock dividends in the years 1990 through 2014, 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.

On July 2, 2014, the stockholders approved a 1-for-10 reverse stock split of the Company's Class C common stock at the Annual Meeting of Stockholders. Concurrently with the approval of the reverse stock split, the stockholders also approved amendments to Article V of the Company's Articles of Incorporation to provide that each share of Class C common stock will have weighted voting of ten votes per share and that each share of Class C common stock may be converted into one share of Class A common stock. The Board of Directors had previously approved the reverse stock split and weighted voting of Class C common stock. Prior to the approval of the reverse stock split and weighted voting of Class C shares, the Company's Articles of Incorporation provided that each share of Class C common stock had one vote per share and that Class C common shares were convertible into Class A common shares at a conversion ratio of ten shares of Class C common stock for one share of Class A common stock.

The reverse stock split and weighted voting of the Company's Class C common stock became effective on August 1, 2014, when the Articles of Restatement and Amendment to the Company's Articles of Incorporation were filed with the Utah Division of Corporations and Commercial Code. The reverse stock split will affect all of the holders of the Company's Class C common stock uniformly but will not affect any Class C stockholder's percentage ownership interest in the Company or proportionate voting power, except for insignificant changes that will result from the rounding up of fractional shares. Additionally, the reverse stock split will not impact the existing shares of Class A common stock.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

11) Capital Stock (Continued)

The following table summarizes the activity in shares of capital stock for the three-year period ended December 31, 2014:

	<u>Class A</u>	<u>Class C (1)</u>
Balance at December 31, 2011	<u>9,638,798</u>	<u>1,013,598</u>
Exercise of stock options	685,753	31,891
Stock dividends	518,702	52,244
Conversion of Class C to Class A	323	(323)
Balance at December 31, 2012	<u>10,843,576</u>	<u>1,097,410</u>
Exercise of stock options	359,786	211,211
Stock dividends	562,152	63,342
Conversion of Class C to Class A	41,773	(41,773)
Balance at December 31, 2013	<u>11,807,287</u>	<u>1,330,191</u>
Exercise of stock options	54,412	-
Stock dividends	595,020	66,384
Reverse stock split true up		15
Conversion of Class C to Class A	2,521	(2,521)
Balance at December 31, 2014	<u>12,459,240</u>	<u>1,394,069</u>

(1) Class C shares have been retroactively adjusted for the effect of the 1-for-10 reverse stock split that was approved by the stockholders in 2014.

Earnings per share amounts have been retroactively adjusted for the effect of annual stock dividends. In accordance with accounting principles generally accepted in the United States of America, the basic and diluted earnings per share amounts were calculated as follows:

	<u>2014</u>	<u>2013</u>	<u>2012</u>
Numerator:			
Net earnings	<u>\$ 7,754,648</u>	<u>\$ 7,585,921</u>	<u>\$16,712,518</u>
Denominator:			
Denominator for basic earnings per share-weighted-average shares	<u>12,518,743</u>	<u>12,366,029</u>	<u>11,427,568</u>
Effect of dilutive securities			
Employee stock options	<u>409,266</u>	<u>615,547</u>	<u>599,281</u>
Dilutive potential common shares	<u>409,266</u>	<u>615,547</u>	<u>599,281</u>
Denominator for diluted earnings (loss) per share-adjusted weighted-average shares and assumed conversions	<u>12,928,009</u>	<u>12,981,576</u>	<u>12,026,849</u>
Basic earnings per share	<u>\$0.62</u>	<u>\$0.61</u>	<u>\$1.46</u>
Diluted earnings per share	<u>\$0.60</u>	<u>\$0.58</u>	<u>\$1.39</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

12) Stock Compensation Plans

The Company has four fixed option plans (the “2003 Plan”, the “2006 Director Plan”, the “2013 Plan” and the “2014 Director Plan”). Compensation expense for options issued of \$391,220, \$88,369 and \$251,031 has been recognized under these plans for 2014, 2013 and 2012, respectively. As of December 31, 2014, the total unrecognized compensation expense related to the options issued in December 2014 and July 2014 were \$280,287 and \$86,924, respectively, which is expected to be recognized over the vesting period of one year.

The weighted-average fair value of each option granted in 2014 under the 2013 Plan, is estimated at \$1.74 for the July 2, 2014 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 57.77%, risk-free interest rate of 1.79%, and an expected term of 5.32 years.

The weighted-average fair value of each option granted in 2014 under the 2013 Plan and the 2014 Director Plan, is estimated at \$1.56 for the December 5, 2014 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 52.31%, risk-free interest rate of 1.69%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2014 under the 2014 Director Plan, is estimated at \$1.56 for the December 7, 2014 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 52.27%, risk-free interest rate of 1.76%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2013 under the 2013 Plan and the 2006 Director Plan, is estimated at \$1.96 for the December 6, 2013 and December 7, 2013 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 67.93%, risk-free interest rate of 1.68%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2012 under the 2006 Director Plan, is estimated at \$3.18 for the December 7, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5%, volatility of 73.89%, risk-free interest rate of 0.70%, and an expected term of 5.31 years.

The weighted-average fair value of each option granted in 2012 under the 2003 Plan and the 2006 Director Plan, is estimated at \$0.64 and \$0.66, respectively for the April 13, 2012 options as of the grant date using the Black Scholes Option Pricing Model with the following weighted-average assumptions: dividend yield of 5% and 5%, volatility of 70.26% and 72.58%, risk-free interest rate of 0.84% and 1.04%, and an expected term of 4.53 to 5.32 years, respectively.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

12) Stock Compensation Plans (Continued)

Activity of the stock option plans is summarized as follows:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2011	1,996,543	\$ 2.40	361,028	\$ 2.38
Adjustment for the effect of stock dividends	43,928		24,515	
Granted	347,000		-	
Exercised	(1,041,276)		(52,500)	
Cancelled	(123,134)		-	
Reclass from A to C	(250,808)		250,808	
Outstanding at December 31, 2012	<u>972,253</u>	\$ 2.07	<u>583,851</u>	\$ 2.18
Adjustment for the effect of stock dividends	17,962		24,222	
Granted	81,960		50,000	
Exercised	(485,366)		(190,602)	
Cancelled	(76,676)		(63,814)	
Reclass from A to C	(105,000)		105,000	
Outstanding at December 31, 2013	<u>405,133</u>	\$ 2.41	<u>508,657</u>	\$ 2.00
Adjustment for the effect of stock dividends	24,446		32,934	
Granted	173,500		150,000	
Exercised	(59,713)		-	
Cancelled	(30,571)		-	
Outstanding at December 31, 2014	<u>512,795</u>	\$ 3.20	<u>691,591</u>	\$ 2.54
Exercisable at end of year	<u>343,987</u>	\$ 2.50	<u>547,216</u>	\$ 2.00
Available options for future grant	<u>265,198</u>		<u>-</u>	
Weighted average contractual term of options outstanding at December 31, 2014	7.70 years		3.42 years	
Weighted average contractual term of options exercisable at December 31, 2014	6.65 years		1.79 years	
Aggregated intrinsic value of options outstanding at December 31, 2014 (1)	<u>\$1,042,682</u>		<u>\$1,856,886</u>	
Aggregated intrinsic value of options exercisable at December 31, 2014 (1)	<u>\$940,079</u>		<u>\$1,780,498</u>	

(1) The Company used a stock price of \$5.22 as of December 31, 2014 to derive intrinsic value.

The total intrinsic value (which is the amount by which the fair value of the underlying stock exceeds the exercise price of an option on the exercise date) of stock options exercised during the years ended December 31, 2014 and 2013 was \$173,650 and \$2,179,393, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

13) Statutory Financial Information and Dividend Limitations

The Company's insurance subsidiaries prepare their statutory-basis financial statements in conformity with accounting practices prescribed or permitted by the insurance department of the applicable state of domicile. Prescribed statutory accounting practices include a variety of publications of the National Association of Insurance Commissioners ("NAIC"), as well as state laws, regulations and general administrative rules. Permitted statutory accounting practices encompass all accounting practices not so prescribed.

All states require domiciled insurance companies to prepare statutory-basis financial statements in conformity with the NAIC Accounting Practices and Procedures Manual, subject to any deviations prescribed or permitted by the applicable insurance commissioner and/or director. Statutory accounting practices differ from GAAP primarily since they require charging policy acquisition and certain sales inducement costs to expense as incurred, establishing life insurance reserves based on different actuarial assumptions, and valuing certain investments and establishing deferred taxes on a different basis.

Statutory net income and capital and surplus of the Company's insurance subsidiaries, determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities are as follows:

	Net Income			Capital and Surplus	
	2014	2013	2012	2014	2013
Amounts by insurance subsidiary:					
Security National Life Insurance Company	\$ 5,137,208	\$ 1,283,311	\$ 391,533	\$ 34,356,157	\$ 29,597,289
Memorial Insurance Company of America	415	237	159	1,082,587	1,083,237
Southern Security Life Insurance Company, Inc.	467	1,288	184	1,590,424	1,586,832
Trans-Western Life Insurance Company	1,304	1,906	2,113	499,182	497,878
Total	<u>\$ 5,139,394</u>	<u>\$ 1,286,742</u>	<u>\$ 393,989</u>	<u>\$ 37,528,350</u>	<u>\$ 32,765,236</u>

The Utah, Arkansas, Mississippi and Texas Insurance Departments impose minimum risk-based capital requirements ("RBC") that were developed by the NAIC on insurance enterprises. The formulas for determining the 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 combined weighted Ratio that is greater than the first level of regulatory action as of December 31, 2014.

Generally, the net assets of the life insurance subsidiaries available for transfer to the Company are limited to the amounts of the life insurance subsidiaries net assets, as determined in accordance with statutory accounting practices, which were \$37,528,350 at December 31, 2014, exceed minimum statutory capital requirements; however, payments of such amounts as dividends are subject to approval by regulatory authorities.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

14) Business Segment Information

Description of Products and Services by Segment

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

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.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

14) Business Segment Information (Continued)

	2014				Consolidated
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	
Revenues:					
From external sources:					
Revenue from customers	\$ 57,037,623	\$ 11,426,308	\$ 124,668,054	\$ -	\$ 193,131,985
Net investment income	23,008,489	275,324	5,019,927	-	28,303,740
Realized gains (losses) on investments and other assets	1,208,391	585,543	124,242	-	1,918,176
Other than temporary impairments	(164,240)	-	-	-	(164,240)
Other revenues	682,682	169,464	2,894,867	-	3,747,013
Intersegment revenues:					
Net investment income	6,128,389	1,288,856	642,880	(8,060,125)	-
Total revenues	87,901,334	13,745,495	133,349,970	(8,060,125)	226,936,674
Expenses:					
Death and other policy benefits	29,789,964	-	-	-	29,789,964
Increase in future policy benefits	18,060,151	-	-	-	18,060,151
Amortization of deferred policy and preneed acquisition costs and value of business acquired	6,561,589	331,389	-	-	6,892,978
Depreciation	644,510	436,390	1,096,265	-	2,177,165
General, administrative and other costs:					
Intersegment	24,000	166,079	208,513	(398,592)	-
Provision for loan losses	-	-	3,053,403	-	3,053,403
Costs related to funding mortgage loans	-	-	6,877,069	-	6,877,069
Other	23,045,928	10,245,144	111,319,492	(2)	144,610,562
Interest expense:					
Intersegment	725,354	1,481,317	5,454,860	(7,661,531)	-
Other	578,083	421,920	1,994,426	-	2,994,429
Total benefits and expenses	79,429,579	13,082,239	130,004,028	(8,060,125)	214,455,721
Earnings before income taxes	\$ 8,471,755	\$ 663,256	\$ 3,345,942	\$ -	\$ 12,480,953
Income tax expense	(3,427,254)	-	(1,299,051)	-	(4,726,305)
Net earnings	\$ 5,044,501	\$ 663,256	\$ 2,046,891	\$ -	\$ 7,754,648
Identifiable assets	\$ 652,348,803	\$ 109,114,226	\$ 52,349,204	\$ (142,742,671)	\$ 671,069,562
Goodwill	\$ 2,765,570	\$ -	\$ -	\$ -	\$ 2,765,570
Expenditures for long-lived assets	\$ 1,420,950	\$ 121,677	\$ 737,936	\$ -	\$ 2,280,563

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

14) Business Segment Information (Continued)

	2013				Consolidated
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	
Revenues:					
From external sources:					
Revenue from customers	\$ 51,322,567	\$ 12,000,375	\$ 127,950,021	\$ -	\$ 191,272,963
Net investment income	15,877,784	268,923	4,207,295	-	20,354,002
Realized gains (losses) on investments and other assets	1,402,352	15,699	-	-	1,418,051
Other than temporary impairments	(336,226)	-	-	-	(336,226)
Other revenues	538,009	94,703	1,973,518	-	2,606,230
Intersegment revenues:					
Net investment income	7,220,282	1,356,825	262,074	(8,839,181)	-
Total revenues	<u>76,024,768</u>	<u>13,736,525</u>	<u>134,392,908</u>	<u>(8,839,181)</u>	<u>215,315,020</u>
Expenses:					
Death and other policy benefits	28,534,936	-	-	-	28,534,936
Increase in future policy benefits	19,594,890	-	-	-	19,594,890
Amortization of deferred policy and preneed acquisition costs and value of business acquired	4,811,300	370,537	-	-	5,181,837
Depreciation	401,893	426,641	792,535	-	1,621,069
General, administrative and other costs:					
Intersegment	24,000	141,367	199,193	(364,560)	-
Provision for loan losses	-	-	1,751,472	-	1,751,472
Costs related to funding mortgage loans	-	-	6,635,290	-	6,635,290
Other	18,753,753	10,467,717	110,096,627	1	139,318,098
Interest expense:					
Intersegment	802,352	1,664,096	6,008,174	(8,474,622)	-
Other	233,343	443,133	2,177,225	-	2,853,701
Total benefits and expenses	<u>73,156,467</u>	<u>13,513,491</u>	<u>127,660,516</u>	<u>(8,839,181)</u>	<u>205,491,293</u>
Earnings before income taxes	<u>\$ 2,868,301</u>	<u>\$ 223,034</u>	<u>\$ 6,732,392</u>	<u>\$ -</u>	<u>\$ 9,823,727</u>
Income tax (expense) benefit	399,304	-	(2,637,110)	-	(2,237,806)
Net earnings	<u>\$ 3,267,605</u>	<u>\$ 223,034</u>	<u>\$ 4,095,282</u>	<u>\$ -</u>	<u>\$ 7,585,921</u>
Identifiable assets	<u>\$ 591,465,834</u>	<u>\$ 114,454,631</u>	<u>\$ 50,250,677</u>	<u>\$ (137,413,688)</u>	<u>\$ 618,757,454</u>
Goodwill	<u>\$ 391,848</u>	<u>\$ 285,191</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 677,039</u>
Expenditures for long-lived assets	<u>\$ 659,259</u>	<u>\$ 1,100,195</u>	<u>\$ 1,810,879</u>	<u>\$ -</u>	<u>\$ 3,570,333</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

14) Business Segment Information (Continued)

	2012				Consolidated
	Life Insurance	Cemetery/ Mortuary	Mortgage	Reconciling Items	
Revenues:					
From external sources:					
Revenue from customers	\$ 49,550,904	\$ 10,864,497	\$ 150,553,261	\$ -	\$ 210,968,662
Net investment income	16,616,541	333,625	4,965,411	-	21,915,577
Realized gains (losses) on investments and other assets	1,415,556	8,954	-	-	1,424,510
Other than temporary impairments	(1,207,632)	-	-	-	(1,207,632)
Other revenues	482,325	136,189	540,538	-	1,159,052
Intersegment revenues:					
Net investment income	7,570,979	1,435,891	294,980	(9,301,850)	-
Total revenues	74,428,673	12,779,156	156,354,190	(9,301,850)	234,260,169
Expenses:					
Death and other policy benefits	24,246,088	-	-	-	24,246,088
Increase in future policy benefits	21,435,191	-	-	-	21,435,191
Amortization of deferred policy and preneed acquisition costs and value of business acquired	5,137,586	311,843	-	-	5,449,429
Depreciation	315,960	426,006	516,131	-	1,258,097
General, administrative and other costs:					
Intersegment	24,000	102,726	137,696	(264,422)	-
Provision for loan losses	-	-	4,239,418	-	4,239,418
Costs related to funding mortgage loans	-	-	6,931,045	-	6,931,045
Other	17,824,800	9,582,499	118,198,014	2	145,605,315
Interest expense:					
Intersegment	694,442	1,681,987	6,661,001	(9,037,430)	-
Other	159,659	455,449	3,129,185	-	3,744,293
Total benefits and expenses	69,837,726	12,560,510	139,812,490	(9,301,850)	212,908,876
Earnings before income taxes	\$ 4,590,947	\$ 218,646	\$ 16,541,700	\$ -	\$ 21,351,293
Income tax (expense) benefit	1,755,258	-	(6,394,033)	-	(4,638,775)
Net earnings	\$ 6,346,205	\$ 218,646	\$ 10,147,667	\$ -	\$ 16,712,518
Identifiable assets	\$ 558,845,424	\$ 116,368,747	\$ 55,613,678	\$ (133,611,226)	\$ 597,216,623
Goodwill	\$ 391,848	\$ 285,191	\$ -	\$ -	\$ 677,039
Expenditures for long-lived assets	\$ 400,605	\$ 689,154	\$ 2,131,861	\$ -	\$ 3,221,620

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

15) Related Party Transactions

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 that is in conflict or may be in conflict with the interests of the Company.

16) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 2 of the Notes to Consolidated Statements.

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

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

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

Interest Rate Lock Commitments: The Company's mortgage banking activities enters into interest rate lock commitments with potential borrowers and forward commitments to sell loans to third-party investors. The Company also implements a hedging strategy for these transactions. A mortgage loan commitment binds the Company to lend funds to a qualified borrower at a specified interest rate and within a specified period of time, generally up to 30 days after inception of the mortgage loan commitment. Mortgage loan commitments are defined to be derivatives under generally accepted accounting principles and are recognized at fair value on the consolidated balance sheet with changes in their fair values recorded as part of other comprehensive income from mortgage banking operations.

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments.

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

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

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

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

the present value of the net rental income over seven years. The Company used 60% of the projected cash flow analysis and 40% of the replacement cost to approximate fair value of the collateral.

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

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2014.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Common stock	\$ 6,752,750	\$ 6,752,750	\$ -	\$ -
Total securities available for sale	<u>6,752,750</u>	<u>6,752,750</u>	<u>-</u>	<u>-</u>
Restricted assets of cemeteries and mortuaries	715,202	715,202	-	-
Cemetery perpetual care trust investments	695,235	695,235	-	-
Derivatives - interest rate lock commitments	<u>2,111,529</u>	<u>-</u>	<u>-</u>	<u>2,111,529</u>
Total assets accounted for at fair value on a recurring basis	<u>\$ 10,274,716</u>	<u>\$ 8,163,187</u>	<u>\$ -</u>	<u>\$ 2,111,529</u>
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$ (45,310,699)	\$ -	\$ -	\$ (45,310,699)
Future policy benefits - annuities	(65,540,985)	-	-	(65,540,985)
Derivatives - bank loan interest rate swaps	(31,370)	-	-	(31,370)
- call options	(116,036)	(116,036)	-	-
- put options	(11,867)	(11,867)	-	-
- interest rate lock commitments	<u>(181,678)</u>	<u>-</u>	<u>-</u>	<u>(181,678)</u>
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (111,192,635)</u>	<u>\$ (127,903)</u>	<u>\$ -</u>	<u>\$ (111,064,732)</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2013	\$ (48,000,668)	\$ (65,052,928)	\$ 1,487,908	\$ (58,310)
Total Losses (Gains):				
Included in earnings	2,689,969	(488,057)	-	-
Included in other comprehensive income (loss)	-	-	441,943	26,940
Balance - December 31, 2014	<u>\$ (45,310,699)</u>	<u>\$ (65,540,985)</u>	<u>\$ 1,929,851</u>	<u>\$ (31,370)</u>

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2014.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	\$ 3,741,381	\$ -	\$ -	\$ 3,741,381
Real estate held for investment	53,500	-	-	53,500
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 3,794,881</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,794,881</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

The following table summarizes Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the consolidated balance sheet at December 31, 2013.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Non-redeemable preferred stock				
Common stock	\$ 4,498,756	\$ 4,498,756	\$ -	\$ -
Total securities available for sale	<u>4,498,756</u>	<u>4,498,756</u>	<u>-</u>	<u>-</u>
Restricted assets of cemeteries and mortuaries	667,149	667,149	-	-
Cemetery perpetual care trust investments	695,616	695,616	-	-
Derivatives - interest rate lock commitments	<u>1,511,111</u>	<u>-</u>	<u>-</u>	<u>1,511,111</u>
Total assets accounted for at fair value on a recurring basis	<u>\$ 7,372,632</u>	<u>\$ 5,861,521</u>	<u>\$ -</u>	<u>\$ 1,511,111</u>
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	\$ (48,000,668)	\$ -	\$ -	\$ (48,000,668)
Future policy benefits - annuities	(65,052,928)	-	-	(65,052,928)
Derivatives - bank loan interest rate swaps	(58,310)	-	-	(58,310)
- call options	(124,174)	(124,174)	-	-
- interest rate lock commitments	<u>(23,203)</u>	<u>-</u>	<u>-</u>	<u>(23,203)</u>
Total liabilities accounted for at fair value on a recurring basis	<u>\$ (113,259,283)</u>	<u>\$ (124,174)</u>	<u>\$ -</u>	<u>\$ (113,135,109)</u>

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps
Balance - December 31, 2012	\$ (49,746,337)	\$ (65,171,687)	\$ 2,961,465	\$ (93,572)
Total Losses (Gains):				
Included in earnings	1,745,669	118,759	-	-
Included in other comprehensive income (loss)	-	-	(1,473,557)	35,262
Balance - December 31, 2013	<u>\$ (48,000,668)</u>	<u>\$ (65,052,928)</u>	<u>\$ 1,487,908</u>	<u>\$ (58,310)</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2013.

	Total	Quoted Prices in		
		Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	\$ 2,494,254	\$ -	\$ -	\$ 2,494,254
Mortgage loans on real estate	89,000	-	-	89,000
Real estate held for investment	660,784	-	-	660,784
Total assets accounted for at fair value on a nonrecurring basis	<u>\$ 3,244,038</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,244,038</u>

Fair Value of Financial Instruments Carried at Other Than Fair Value

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

Management uses its best judgment in estimating the fair value of the Company's financial instruments; however, there are inherent limitations in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates presented herein are not necessarily indicative of the amounts the Company could have realized in a sales transaction at December 31, 2014. The estimated fair value amounts for December 31, 2014 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2014:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	\$ 51,876,621	\$ -	\$ -	\$ 55,247,638	\$ 55,247,638
Residential construction	32,971,824	-	-	32,971,824	32,971,824
Commercial	35,201,627	-	-	36,829,266	36,829,266
Mortgage loans, net	<u>\$ 120,050,072</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 125,048,728</u>	<u>\$ 125,048,728</u>
Policy loans	7,011,012	-	-	7,011,012	7,011,012
Other loans	27,114,416	-	-	27,114,416	27,114,416
Short-term investments	27,059,495	-	-	27,059,495	27,059,495
Liabilities					
Bank and other loans payable	\$ (28,989,008)	\$ -	\$ -	\$ (28,989,008)	\$ (28,989,008)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2013:

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

16) Fair Value of Financial Instruments (Continued)

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	\$ 48,503,639	\$ -	\$ -	\$ 51,537,154	\$ 51,537,154
Residential construction	12,812,359	-	-	12,812,359	12,812,359
Commercial	41,465,880	-	-	42,441,268	42,441,268
Mortgage loans, net	\$ 102,781,878	\$ -	\$ -	\$ 106,790,781	\$ 106,790,781
Policy loans	7,520,376	-	-	7,520,376	7,520,376
Other loans	12,203,630	-	-	12,203,630	12,203,630
Short-term investments	12,135,719	-	-	12,135,719	12,135,719
Liabilities					
Bank and other loans payable	\$ (18,231,128)	\$ -	\$ -	\$ (18,231,128)	\$ (18,231,128)

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

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

Residential – The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013 and 2014 is determined from pricing of similar loans that were sold in 2013 and 2014.

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

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

Policy and Other Loans: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

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

Bank and Other Loans Payable: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

17) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

	December 31	
	2014	2013
Unrealized losses on available for-sale securities	\$ (390,143)	\$ (12,299)
Reclassification adjustment for net realized gains in net income	293,985	538,311
Net unrealized gains (losses) before taxes	(96,158)	526,012
Tax (expense) benefit	30,310	(221,221)
Net	<u>(65,848)</u>	<u>304,791</u>
Potential unrealized gains for derivative bank loans (interest rate swaps) before taxes	26,940	35,262
Tax expense	(10,507)	(9,073)
Net	<u>16,433</u>	<u>26,189</u>
Potential unrealized gains (losses) for derivative mortgage loans before taxes	441,943	(1,473,557)
Tax (expense) benefit	(172,358)	426,614
Net	<u>269,585</u>	<u>(1,046,943)</u>
Other comprehensive income (loss) changes	<u>\$ 220,170</u>	<u>\$ (715,963)</u>

The following is the accumulated balances of other comprehensive income as of December 31, 2014:

	Beginning Balance December 31, 2013	Change for the period	Ending Balance December 31, 2014
	Unrealized net gains on available-for-sale securities and trust investments	\$ 346,341	\$ (65,848)
Unrealized gains (losses) on derivative mortgage loans	907,624	269,585	1,177,209
Unrealized gains (losses) on derivative bank loan interest rate swaps	(35,569)	16,433	(19,136)
Other comprehensive income	<u>\$ 1,218,396</u>	<u>\$ 220,170</u>	<u>\$ 1,438,566</u>

The following is the accumulated balances of other comprehensive income as of December 31, 2013:

	Beginning Balance December 31, 2012	Change for the period	Ending Balance December 31, 2013
	Unrealized net gains on available-for-sale securities and trust investments	\$ 41,550	\$ 304,791
Unrealized gains (losses) on derivative mortgage loans	1,954,567	(1,046,943)	907,624
Unrealized gains (losses) on derivative bank loan interest rates	(61,758)	26,189	(35,569)
Other comprehensive income	<u>\$ 1,934,359</u>	<u>\$ (715,963)</u>	<u>\$ 1,218,396</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

18) Derivative Commitments

The Company has adopted a strategy of selling “out of the money” call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company has adopted the selling of put options as a means of generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the market value of the option. The liability for options is adjusted to market value at each reporting date. The market value of outstanding options as of December 31, 2014 and December 31, 2013 was \$127,903 and \$124,174, respectively. In the event a call option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option.

The following table shows the fair value of derivatives as of December 31, 2014 and December 31, 2013.

		Fair Value of Derivative Instruments							
		Asset Derivatives				Liability Derivatives			
		December 31, 2014		December 31, 2013		December 31, 2014		December 31, 2013	
		Balance Sheet Location		Balance Sheet Location		Balance Sheet Location		Balance Sheet Location	
		Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Derivatives designated as hedging instruments:									
Interest rate lock and forward sales commitments	other assets	\$ 2,111,529		other assets	\$ 1,511,111	Other liabilities	\$ 181,678	Other liabilities	\$ 23,203
Call Options		-			-	Other liabilities	116,036	Other liabilities	124,174
Put Options		-			-	Other liabilities	11,867	Other liabilities	-
Interest rate swaps		-			-	bank loans payable	31,370	bank loans payable	58,310
Total		<u>\$ 2,111,529</u>			<u>\$ 1,511,111</u>		<u>\$ 340,951</u>		<u>\$ 205,687</u>

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

<u>Derivative - Cash Flow Hedging Relationships:</u>	Net Amount Gain (Loss) Recognized in OCI	
	Years ended December 31	
	2014	2013
Interest Rate Lock Commitments	\$ 441,943	\$ (1,473,557)
Interest Rate Swaps	26,940	35,262
Sub Total	468,883	(1,438,295)
Tax Effect	182,865	(417,541)
Total	<u>\$ 286,018</u>	<u>\$ (1,020,754)</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

19) Acquisitions

Acquisition of American Funeral Financial

On June 4, 2014, the Company, through its wholly owned subsidiary, SNFC Subsidiary, LLC (“SNFC Subsidiary”), completed a purchase transaction with American Funeral Financial, LLC, a South Carolina limited liability company (“American Funeral Financial”) and Hypershops, LLC, a North Carolina limited liability company (“Hypershops”), the sole owner of all the limited liability company interests of American Funeral Financial, to purchase all of the outstanding limited liability company interests, or membership units, of American Funeral Financial. American Funeral Financial is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries.

Under the terms of the transaction, as set forth in the Unit Purchase Agreement dated June 4, 2014 (the “Purchase Agreement”), among the Company, SNFC Subsidiary, American Funeral Financial and Hypershops, the Company paid Hypershops purchase consideration equal to (i) \$3,000,000 in cash, of which \$175,000 was deposited into an interest bearing escrow account to be held for a period of twelve months from the closing date to pay off the indebtedness and other liabilities of American Funeral Financial, plus (ii) \$12,011,183, representing the amount of the good standing receivables of American Funeral Financial, plus (iii) earn-out payments equal to .0042 of the aggregate amount of life insurance assignments funded by American Funeral Financial during the three year period following the closing date of the transaction. This earn-out liability was estimated to be \$1,368,000. The purchase consideration was to be used to pay off the indebtedness that American Funeral Financial owed to Security Finance Corporation of Spartanburg, as well as to pay off all other indebtedness and liabilities of American Funeral Financial.

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

Other loans, net	\$ 11,866,193
Property and equipment	760,120
Goodwill	2,373,722
Other	1,379,158
Total assets acquired	<u>16,379,193</u>
Other liabilities and accrued expenses	<u>(1,368,000)</u>
Total liabilities assumed	<u>(1,368,000)</u>
Fair value of net assets acquired	<u><u>\$ 15,011,193</u></u>

The estimated fair value of the acquisition is based on market assumptions of the future value of the business acquired, the collectability of receivables, the current value of equipment purchased and the useful life of proprietary software. Based on the unobservable nature of certain of these assumptions, the valuation is considered Level 3 under the fair value hierarchy.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

19) Acquisitions (Continued)

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of American Funeral Financial had occurred at the beginning of the years ended December 31, 2014, 2013 and 2012, respectively. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

	For the Year Ended December 31 (unaudited)		
	2014	2013	2012
Total revenues	\$ 229,268,653	\$ 220,011,370	\$ 236,854,910
Net earnings	\$ 7,996,405	\$ 7,963,589	\$ 16,576,647
Net earnings per Class A equivalent common share	\$ 0.64	\$ 0.64	\$ 1.45
Net earnings per Class A equivalent common share assuming dilution	\$ 0.62	\$ 0.61	\$ 1.38

20) Mortgage Servicing Rights

The following table presents the MSR activity for 2014 and 2013.

	December 31	
	2014	2013
Amortized cost:		
Balance before valuation allowance at beginning of year	\$ 4,844,101	\$ 2,797,470
MSRs received as proceeds from loan sales	3,741,381	2,494,254
Amortization	(750,735)	(447,623)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	\$ 7,834,747	\$ 4,844,101
Valuation allowance for impairment of MSRs:		
Balance at beginning of year	\$ -	\$ -
Additions	-	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance at year end	\$ -	\$ -
Mortgage servicing rights, net	\$ 7,834,747	\$ 4,844,101
Estimated fair value of MSRs at year end	\$ 8,485,570	\$ 5,491,270

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

20) Mortgage Servicing Rights (Continued)

The Company reports these MSRs pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements. The following table summarizes the Company's estimate of future amortization of its existing MSRs carried at amortized cost. This projection was developed using the assumptions made by management in its December 31, 2014 valuation of MSRs. The assumptions underlying the following estimate will change as market conditions and portfolio composition and behavior change, causing both actual and projected amortization levels to change over time. Therefore, the following estimates will change in a manner and amount not presently determinable by management.

	Estimated MSR Amortization
2015	\$ 870,527
2016	870,527
2017	870,527
2018	870,527
2019	870,527
Thereafter	3,482,112
Total	<u>\$ 7,834,747</u>

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Notes to Consolidated Financial Statements
Years Ended December 31, 2014, 2013 and 2012

21) Quarterly Financial Data (Unaudited)

	2014			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 45,053,276	\$ 59,411,730	\$ 61,725,792	\$ 60,745,876
Benefits and expenses	44,887,289	55,224,633	58,348,652	55,995,147
Earnings before income taxes	165,987	4,187,097	3,377,140	4,750,729
Income tax expense	(27,139)	(1,563,034)	(1,239,318)	(1,896,814)
Net earnings	138,848	2,624,063	2,137,822	2,853,915
Net earnings per common share (1)	\$0.01	\$0.21	\$0.17	\$0.23
Net earnings per common share assuming dilution (1)	\$0.01	\$0.20	\$0.17	\$0.22
	2013			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 54,852,234	\$ 61,332,289	\$ 50,552,791	\$ 48,577,706
Benefits and expenses	51,624,611	56,862,769	48,588,507	48,415,406
Earnings before income taxes	3,227,623	4,469,520	1,964,284	162,300
Income tax benefit (expense)	(1,194,357)	(1,670,275)	(697,793)	1,324,619
Net earnings	2,033,266	2,799,245	1,266,491	1,486,919
Net earnings per common share (1)	\$0.17	\$0.23	\$0.10	\$0.12
Net earnings per common share assuming dilution (1)	\$0.15	\$0.21	\$0.10	\$0.11
	2012			
	Three Months Ended			
	March 31	June 30	September 30	December 31
Revenues	\$ 47,323,223	\$ 56,528,210	\$ 63,747,903	\$ 66,660,833
Benefits and expenses	44,994,631	51,491,833	57,615,608	58,806,804
Earnings before income taxes	2,328,592	5,036,377	6,132,295	7,854,029
Income tax expense	(666,409)	(1,443,345)	(2,142,249)	(386,772)
Net earnings	1,662,183	3,593,032	3,990,046	7,467,257
Net earnings per common share (1)	\$0.16	\$0.34	\$0.37	\$0.67
Net earnings per common share assuming dilution (1)	\$0.15	\$0.32	\$0.34	\$0.61

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations

The following selected financial data is for each of the five years ended December 31, 2014, and is derived from the audited consolidated financial statements. The data as of December 31, 2014 and 2013, and for the three years ended December 31, 2014, should be read in conjunction with the consolidated financial statements, related notes and other financial information.

Consolidated Statement of Earnings Data:

	Year Ended December 31				
	2014	2013	2012(2)	2011(1)	2010
<u>Revenue</u>					
Insurance premiums and other considerations	\$ 53,009,000	\$ 50,472,000	\$ 48,216,000	\$ 48,457,000	\$ 38,509,000
Net investment income	28,304,000	20,354,000	21,916,000	18,570,000	18,262,000
Net mortuary and cemetery sales	11,426,000	12,000,000	10,865,000	10,761,000	11,520,000
Realized gains on investments	1,918,000	1,418,000	1,425,000	2,464,000	1,615,000
Other than temporary impairments	(164,000)	(336,000)	(1,208,000)	(841,000)	(674,000)
Mortgage fee income	128,697,000	128,801,000	151,887,000	79,046,000	97,697,000
Other	3,747,000	2,606,000	1,159,000	1,110,000	1,582,000
Total revenues	<u>226,937,000</u>	<u>215,315,000</u>	<u>234,260,000</u>	<u>159,567,000</u>	<u>168,511,000</u>
<u>Expenses</u>					
Policyholder benefits	47,850,000	48,130,000	45,681,000	46,204,000	37,947,000
Amortization of deferred policy acquisition costs	6,893,000	5,182,000	5,450,000	5,769,000	4,431,000
Selling, general and administrative expenses	154,866,000	147,406,000	156,310,000	102,513,000	122,217,000
Interest expense	2,994,000	2,854,000	3,744,000	1,961,000	2,779,000
Cost of goods and services of the mortuaries and cemeteries	1,853,000	1,919,000	1,724,000	1,883,000	2,226,000
Total benefits and expenses	<u>214,456,000</u>	<u>205,491,000</u>	<u>212,909,000</u>	<u>158,330,000</u>	<u>169,600,000</u>
Earnings (loss) before income taxes	12,481,000	9,824,000	21,351,000	1,237,000	(1,089,000)
Income tax benefit (expense)	(4,726,000)	(2,238,000)	(4,639,000)	62,000	658,000
Net earnings (loss)	<u>\$ 7,755,000</u>	<u>\$ 7,586,000</u>	<u>\$ 16,712,000</u>	<u>\$ 1,299,000</u>	<u>\$ (431,000)</u>
Net earnings (loss) per common share (3)	<u>\$0.62</u>	<u>\$0.61</u>	<u>\$1.46</u>	<u>\$0.12</u>	<u>(\$0.04)</u>
Weighted average outstanding common shares (3)	12,519,000	12,366,000	11,428,000	11,187,000	10,981,000
Net earnings (loss) per common share-assuming dilution (3)	<u>\$0.60</u>	<u>\$0.58</u>	<u>\$1.39</u>	<u>\$0.11</u>	<u>(\$0.04)</u>
Weighted average outstanding common shares-assuming dilution (3)	12,928,000	12,982,000	12,027,000	11,306,000	10,981,000

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Consolidated Financial Data – The Company and Subsidiaries (Consolidated) (Continued)

Balance Sheet Data:

	December 31				
	2014	2013	2012(2)	2011(1)	2010
<u>Assets</u>					
Investments and restricted assets	\$ 446,249,000	\$ 391,523,000	\$ 356,446,000	\$ 337,625,000	\$ 281,262,000
Cash	30,855,000	38,203,000	33,494,000	15,583,000	37,244,000
Receivables	82,079,000	88,832,000	111,157,000	87,252,000	71,035,000
Other assets	111,887,000	100,199,000	96,120,000	82,591,000	77,471,000
Total assets	<u>\$ 671,070,000</u>	<u>\$ 618,757,000</u>	<u>\$ 597,217,000</u>	<u>\$ 523,051,000</u>	<u>\$ 467,012,000</u>
<u>Liabilities</u>					
Policyholder benefits	\$ 481,689,000	\$ 457,304,000	\$ 443,388,000	\$ 388,538,000	\$ 351,563,000
Bank & other loans payable	29,020,000	18,289,000	11,910,000	25,019,000	7,066,000
Cemetery & mortuary liabilities	13,242,000	13,176,000	13,412,000	13,140,000	13,192,000
Cemetery perpetual care obligation	3,407,000	3,266,000	3,153,000	2,983,000	2,854,000
Other liabilities	46,621,000	38,971,000	45,542,000	32,140,000	32,408,000
Total liabilities	<u>573,979,000</u>	<u>531,006,000</u>	<u>517,405,000</u>	<u>461,820,000</u>	<u>407,083,000</u>
Stockholders' equity	<u>97,091,000</u>	<u>87,751,000</u>	<u>79,812,000</u>	<u>61,231,000</u>	<u>59,929,000</u>
Total liabilities and stockholders' equity	<u>\$ 671,070,000</u>	<u>\$ 618,757,000</u>	<u>\$ 597,217,000</u>	<u>\$ 523,051,000</u>	<u>\$ 467,012,000</u>

- (1) Includes the assumption reinsurance of North America Life Insurance Company.
(2) Includes the coinsurance with Mothe Life Insurance Company and DLE Life Insurance Company.
(3) Earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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 relatively low interest rates by originating mortgage loans.

Insurance Operations

The following table shows the financial results for the Company's insurance operations for the years ended December 31, 2014, 2013 and 2012. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2014	2013	2014 vs 2013 % Increase (Decrease)	2012	2013 vs 2012 % Increase (Decrease)
Revenues from external customers					
Insurance premiums	\$ 53,009	\$ 50,472	5%	\$ 48,216	5%
Net investment income	23,008	15,878	45%	16,617	(4%)
Revenues from loan originations	4,029	851	373%	1,334	(36%)
Other	1,727	1,604	8%	690	132%
Total	<u>\$ 81,773</u>	<u>\$ 68,805</u>	<u>19%</u>	<u>\$ 66,857</u>	<u>3%</u>
Intersegment revenue	<u>\$ 6,128</u>	<u>\$ 7,220</u>	<u>(15%)</u>	<u>\$ 7,571</u>	<u>(5%)</u>
Earnings before income taxes	<u>\$ 8,472</u>	<u>\$ 2,868</u>	<u>195%</u>	<u>\$ 4,591</u>	<u>(38%)</u>

Intersegment revenues for the Company's insurance operations are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2014 has increased due to increases in net investment income, increases in insurance premiums and increases in loan origination revenue.

Cemetery and Mortuary Operations

The following table shows the condensed financial results for the Company's cemetery and mortuary operations for the years ended December 31, 2014, 2013 and 2012. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31 (in thousands of dollars)				
	2014	2013	2014 vs 2013 % Increase (Decrease)	2012	2013 vs 2012 % Increase (Decrease)
Revenues from external customers					
Mortuary revenues	\$ 4,801	\$ 5,081	(6%)	\$ 4,567	11%
Cemetery revenues	6,625	6,919	(4%)	6,297	10%
Realized gains on investments and other assets	586	16	3563%	9	78%
Other	445	364	22%	470	(23%)
Total	<u>\$ 12,457</u>	<u>\$ 12,380</u>	<u>1%</u>	<u>\$ 11,343</u>	<u>9%</u>
Earnings before income taxes	<u>\$ 663</u>	<u>\$ 223</u>	<u>197%</u>	<u>\$ 219</u>	<u>2%</u>

The majority of the realized gain in the Company's cemetery and mortuary operations in 2014 was due to the sale of certain real estate of Paradise Sunset Chapel. Included in other revenue was rental income from residential and commercial properties purchased from Security National Life. Memorial Estates used financing provided by Security National Life to purchase these properties. The rental income was offset by property insurance, taxes, maintenance expenses and interest payments made to Security National Life. Memorial Estates recorded

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

depreciation on these properties of \$945,000, \$1,029,000 and \$1,025,000 for the twelve months ended December 31, 2014, 2013 and 2012, respectively.

Mortgage Operations

Approximately 58% of the Company's revenues for the fiscal year 2014 were through its wholly owned subsidiaries, SecurityNational Mortgage Company and Green Street Mortgage Services, Inc. Both mortgage subsidiaries are mortgage lenders incorporated under the laws of the State of Utah, and are 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. SecurityNational Mortgage and Green Street Mortgage obtain loans from their retail offices and independent brokers and pay a commission to brokers for loans that are funded by them. Mortgage loans originated by the Company's mortgage subsidiaries are funded from internal cash flows, including loan purchase agreements from Security National Life Insurance Company, its wholly owned subsidiary, and unaffiliated financial institutions.

SecurityNational Mortgage and Green Street Mortgage receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage and Green Street Mortgage are generally sold with mortgage servicing rights released to third party investors. Since the second quarter of 2012, however, SecurityNational Mortgage has sold, but retained mortgage servicing rights on approximately 30% of its origination volume. These loans are serviced by an approved third party servicer. For the twelve months ended December 31, 2014, 2013 and 2012, SecurityNational Mortgage originated and sold 10,794 loans (\$2,037,337,000 total volume), 11,484 loans (\$2,147,040,000 total volume), and 13,392 loans (\$2,451,843,000 total volume), respectively. For the twelve months ended December 31, 2014 and 2013, Green Street Mortgage originated and sold 33 loans (\$7,298,000 total volume), and seven loans (\$1,731,000 total volume), respectively. Green Street Mortgage did not originate and sell any mortgage loans prior to January 1, 2013.

The following table shows the condensed financial results for the Company's mortgage operations for the years ended 2014, 2013 and 2012. See Note 14 of the Notes to Consolidated Financial Statements.

	Years ended December 31				
	(in thousands of dollars)				
	2014	2013	2014 vs 2013 % Increase (Decrease)	2012	2013 vs 2012 % Increase (Decrease)
Revenues from external customers:					
Revenues from loan originations	\$ 102,806	\$ 104,111	(1%)	\$ 120,749	(14%)
Secondary gains from investors	21,862	23,839	(8%)	29,804	(20%)
Total	<u>\$ 124,668</u>	<u>\$ 127,950</u>	<u>(3%)</u>	<u>\$ 150,553</u>	<u>(15%)</u>
Earnings before income taxes	<u>\$ 3,346</u>	<u>\$ 6,732</u>	<u>(50%)</u>	<u>\$ 16,542</u>	<u>(59%)</u>

The decrease in earnings for the Company's mortgage operations for the twelve months ended December 31, 2014 as compared to December 31, 2013 was due to lower secondary gains on mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan interest rates in 2014.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses decrease. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses in years ended December 31, 2014 and 2013 were \$3,053,000 and \$1,846,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2014 and 2013, the balances were \$1,718,000 and \$5,507,000, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Final Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage entered into the Settlement Agreement and Release (the "Settlement Agreement") with Wells Fargo Funding, Inc. On December 4, 2014, SecurityNational Mortgage and Wells Fargo Bank (which was assigned Wells Fargo Funding's interest in the Settlement Agreement) entered into a Second Addendum (the "Addendum") to the Settlement Agreement, in which SecurityNational Mortgage agreed to make a final payment to Wells Fargo Bank by December 30, 2014, to satisfy and terminate its remaining payment obligations under the Settlement Agreement. On December 29, 2014, SecurityNational Mortgage made the final payment to Wells Fargo Bank pursuant to the terms of the Addendum from its loan loss reserve, thereby satisfying in full its payment obligations under the Settlement Agreement.

Settlement with Bank of America, N.A. and Countrywide Home Loans, Inc.

On December 23, 2014, SecurityNational Mortgage entered into a Settlement Agreement (the "Settlement Agreement") with Countrywide Home Loans, Inc. ("Countrywide Home Loans"), Bank of America, N.A. ("Bank of America"), successor-in-interest by the April 27, 2009 de jure merger to Countrywide Bank, FSB. Under the terms of the Settlement Agreement, SecurityNational Mortgage is required to pay a settlement amount to Bank of America and Countrywide Home Loans, jointly as settlement purchasers. On December 23, 2014, SecurityNational Mortgage made the full and final settlement payment from its mortgage loan loss reserve to Bank of America and Countrywide Home Loans by wire transfer.

The payment of the settlement amount is in full and final settlement of the claims and disputes between Bank of America and Countrywide Home Loans, and SecurityNational Mortgage under certain loan purchase agreements. Bank of America, Countrywide Home Loans and SecurityNational Mortgage are parties to the Loan Purchase Agreement, originally entered into between Countrywide Funding Corporation and SecurityNational Mortgage, dated September 27, 1994; and Countrywide Home Loans and SecurityNational Mortgage are parties to the Home Equity Loan Purchase Agreement, dated January 15, 1997, including any amendments or modifications to such agreements (collectively, the "Loan Purchase Agreements").

Under the terms of the Settlement Agreement, SecurityNational Mortgage, Bank of America and Countrywide Home Loans agreed to full, complete and general mutual releases with respect to the alleged claims and disputes. In particular, Bank of America and Countrywide Home Loans, as settlement purchasers, and SecurityNational Mortgage Company, as settlement seller, and their respective parent and subsidiary entities, predecessors, successors and affiliates agree to fully, finally and completely release and forever discharge each other and their respective parent and subsidiary entities, predecessors, successors, affiliates, assigns and their respective current and past directors, officers, employees, representatives and agents from any and all claims and disputes under the Loan Purchase Agreements. The Settlement Agreement is subject to an exception for pervasive or system-wide fraud.

Mortgage Loan Loss Demands

Third Party Investors

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued \$1,702,000 as of December 31, 2014 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the third party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

JP Morgan Chase Indemnification Demand

The Company and its wholly owned subsidiary, SecurityNational Mortgage, received a notice of claim for indemnification dated December 21, 2011, from JP Morgan Chase & Co. (“JP Morgan Chase”) on behalf of EMC Mortgage, LLC (“EMC Mortgage”), relating to 21 mortgage loans that EMC Mortgage allegedly purchased as a third party investor from SecurityNational Mortgage. The notice also referenced a guaranty agreement, dated February 23, 2006, by the Company for the benefit of EMC Mortgage. The indemnification notice additionally stated that EMC Mortgage had been named in a lawsuit by the Bear Stearns Mortgage Funding Trust 2007-AR2 (the “Trust”), which was filed on September 13, 2011 in the Delaware Court of Chancery.

The lawsuit the Trust brought against EMC Mortgage contends that more than 800 residential mortgage loans that EMC Mortgage sold to the Trust (including the 21 loans allegedly originated by SecurityNational Mortgage) contained breaches of representations and warranties with respect to the mortgage loans, as well as defaults and foreclosures in many of such loans. As a result of the alleged breaches of representations and warranties by EMC Mortgage, the complaint requests that EMC Mortgage be ordered to repurchase from the Trust any loans for which it breached its representations and warranties, in the amount of the mortgage loans’ outstanding principal balance and all accrued but unpaid interest.

The indemnification notice from JP Morgan Chase further alleged that the Company and SecurityNational Mortgage are required to indemnify EMC Mortgage for any of its losses arising from the lawsuit that the Trust brought against EMC based upon allegedly untrue statements of material fact related to information that was provided by SecurityNational Mortgage. To the extent the claims in the complaint relate to the 21 mortgage loans that SecurityNational Mortgage allegedly sold to EMC Mortgage, the Company believes it has significant defenses to such claims. The Company intends to vigorously defend itself and SecurityNational Mortgage in the event that JP Morgan Chase were to bring any legal action to require the Company or SecurityNational Mortgage to indemnify it for any loss, liability or expense in connection with the lawsuit that the Trust brought against EMC Mortgage.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Significant Accounting Policies

The following is a brief summary of our significant accounting policies and a review of our most critical accounting estimates. See Note 1 of the Notes to Consolidated Financial Statements.

Insurance Operations

In accordance with generally accepted accounting principles in the United States of America (GAAP), premiums and other considerations received for interest sensitive products 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 consolidated financial statements.

Premiums and other considerations received 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. The Company has the ability to mitigate adverse experience through sound underwriting, asset and liability duration matching, sound actuarial practices, adjustments to credited interest rates, policyholder dividends and cost of insurance charges.

Cemetery and Mortuary Operations

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

Pre-need sales of cemetery interment rights (cemetery burial property), including revenue and costs associated with the sales of pre-need cemetery interment rights, are recognized in accordance with the retail land sales provisions of generally accepted accounting principles in the United States (GAAP). Under GAAP, 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 GAAP, described above.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Pre-need sales of cemetery services (primarily merchandise delivery and installation fees and burial opening and closing fees), including 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, including costs incurred related to obtaining new pre-need cemetery and prearranged funeral business are accounted for under the guidance of the provisions of GAAP related to Financial Services - Insurance. 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.

Revenues and costs for at-need sales are recorded when a valid contract exists, the services are performed, collection is reasonably assured, and there are no significant obligations remaining.

Mortgage Operations

Mortgage fee income consists of origination fees, processing fees and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of the mortgage loans comply with the sales criteria for the transfer of financial assets. The sales criteria is as follows: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage.

The Company must determine that all three sales criteria are met at the time a mortgage loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans made prior to warehouse banks purchasing the loans under the purchase commitments.

The Company sells all mortgage loans to third party investors without recourse. It may be required, however, to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

- Failure to deliver original documents specified by the investor,
- The existence of misrepresentation or fraud in the origination of the loan,
- The loan becomes delinquent due to nonpayment during the first several months after it is sold,
- Early pay-off of a loan, as defined by the agreements,
- Excessive time to settle a loan,
- Investor declines purchase, and
- Discontinued product and expired commitment.

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks.

It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

- Research reasons for rejection,
- Provide additional documents,
- Request investor exceptions,
- Appeal rejection decision to purchase committee, and
- Commit to secondary investors.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Once purchase commitments have expired and other alternatives to remedy are exhausted, which could be earlier than the six month time period, the loans are repurchased and transferred to the long term investment portfolio at the lower of cost or fair value and the previously recorded sales revenue is reversed. Any loan that later becomes delinquent is evaluated by the Company at that time and any impairment is adjusted accordingly.

Determining lower of cost or market. Cost is equal to the amount paid to the warehouse bank and the amount originally funded by the Company. Market value, while often difficult to determine, is based on the following guidelines:

- For loans that have an active market, the Company uses the market price on the repurchase date.
- For loans where there is no market but there is a similar product, the Company uses the market value for the similar product on the repurchase date.
- For loans where no active market exists on the repurchase date, the Company determines that the unpaid principal balance best approximates the market value on the repurchase date, after considering the fair value of the underlying real estate collateral and estimated future cash flows.

The appraised value of the real estate underlying the original mortgage loan adds significance to the Company's determination of fair value because, if the loan becomes delinquent, the Company has sufficient value to collect the unpaid principal balance or the carrying value of the loan. In determining the market value on the date of repurchase, the Company considers the total value of all of the loans because any sale of loans would be made as a pool.

Loans that are foreclosed on are reclassified as other real estate held for investment. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its life, cemeteries and mortuaries, and mortgage subsidiary, and rents the properties until it is deemed economically desirable to sell them.

Mortgage fee income is generated through the origination and refinancing of mortgage loans and is realized in accordance with GAAP related to sales of financial assets.

The majority of loans originated are sold to third party investors. The amounts sold to investors are shown on the balance sheet as mortgage loans sold to investors, and include the 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 reported amounts and disclosures. 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 and Equity Securities Available for Sale

Securities available for sale are carried at estimated 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.

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, amount of death and surrender benefits, and the length of time the policies will stay in force.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

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.

Value of Business Acquired

Value of business 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 value of business 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 receivables due on mortgage loans sold to investors, cemetery and mortuary operations, mortgage loan operations and other receivables. The allowance is based upon the Company’s experience. The critical issue that would impact recovery of the cemetery and mortuary receivables is the overall economy. The critical issues that would impact recovery of 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 significant policy initiation fees (front-end load) that 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

The revenue and cost associated with the sales of pre-need cemetery merchandise and funeral services are deferred until the merchandise is delivered or the service is performed.

The Company, through its cemetery and mortuary 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.

Mortgage Servicing Rights

Mortgage Service Rights (MSR) arise from contractual agreements between the Company and third-party investors (or their agents) when mortgage loans are sold. Under these contracts, the Company is obligated to retain and provide loan servicing functions on the loans sold, in exchange for fees and other remuneration. The servicing functions typically performed include, among other responsibilities, collecting and remitting loan payments; responding to borrower inquiries; accounting for principal and interest, holding custodial (impound) funds for payment of property taxes and insurance premiums; counseling delinquent mortgagors; and supervising the acquisition of REO and property dispositions. The Company initially accounts for MSRs at fair value and

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

subsequently accounts for them using the amortization method. MSR amortization is determined by amortizing the balance straight-line over an estimated nine year life. The Company periodically assesses MSRs accounted for using the amortization method for impairment.

Mortgage Allowance for Loan Loss and Loan Loss Reserve

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

When a mortgage loan is past due more than 90 days, the Company, where appropriate, sets up an allowance to approximate the excess of the carrying value of the mortgage loan over the estimated fair value of the underlying real estate collateral. When foreclosure is commenced on a delinquent loan, all expenses for foreclosure are expensed as incurred. Once foreclosed the carrying value should approximate its fair value and the amount will be classified as real estate owned. The Company is currently able to rent properties at a 2% to 8% gross return.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors based on total production. This estimate is based on the Company's historical experience. The amount accrued for and the charge to expense is included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Deferred Compensation

The Company has deferred compensation agreements with several of its current executive officers. The deferred compensation is payable upon retirement or death of these individuals either in annual installments (ten years) or a lump sum settlement, if approved by the Board of Directors. The Company has accrued the present value of these benefits based upon their future retirement dates and other factors, on its consolidated financial statements.

Depreciation

Depreciation is calculated principally on the straight-line-method over the estimated useful lives of the assets, which range from 3 to 40 years. Leasehold improvements are amortized over the lesser of the useful life or remaining lease terms.

Captive Insurance

This Company belongs to a captive insurance group for certain casualty, workers compensation and general liability insurance. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date.

Results of Consolidated Operations

2014 Compared to 2013

Total revenues increased by \$11,622,000, or 5.4%, to \$226,937,000 for fiscal year 2014 from \$215,315,000 for the fiscal year 2013. Contributing to this increase in total revenues was a \$7,950,000 increase in net investment income, a \$2,537,000 increase in insurance premiums and other considerations, a \$1,141,000 increase in other revenues, a \$500,000 increase in realized gains on investments and other assets, and an \$172,000 decrease in other than temporary impairments. This increase in total revenues was partially offset by a \$574,000 decrease in net cemetery and mortuary sales, and a \$104,000 decrease in mortgage fee income.

Insurance premiums and other considerations increased by \$2,537,000, or 5.0%, to \$53,009,000 for 2014, from \$50,472,000 for the comparable period in 2013. This increase was due to an increase in renewal premiums and an increase in first year premiums as a result of increased insurance sales in 2014.

Net investment income increased by \$7,950,000, or 39.1%, to \$28,304,000 for 2014, from \$20,354,000 for the comparable period in 2013. This increase was primarily attributable to a \$3,445,000 increase in income from short-term investments, a \$2,883,000 increase in interest from mortgage loans, and a \$1,776,000 increase in income from real estate. This increase was partially offset by a \$61,000 increase in investment expenses, a \$58,000 decrease in policy loans income, and a \$37,000 decrease in fixed maturity securities income.

Net cemetery and mortuary sales decreased by \$574,000, or 4.8%, to \$11,426,000 for 2014, from \$12,000,000 for the comparable period in 2013. This decrease was primarily due to a \$294,000 decrease in cemetery pre-need and at-need sales, and a \$280,000 decrease in mortuary at-need sales.

Realized gains on investments and other assets increased by \$500,000, or 0.5%, to \$1,918,000 in realized gains for 2014, from \$1,418,000 in realized gains for the comparable period in 2013. This increase in realized gains and losses on investments and other assets was primarily due to a \$482,000 increase in gains and losses on other assets, and a \$262,000 increase in gains and losses on fixed maturity securities held to maturity. This increase was partially offset by a \$244,000 decrease in gains and losses on marketable securities.

Other than temporary impairments on investments decreased by \$172,000, or 51.2%, to \$164,000 for 2014 from \$336,000 for the comparable period in 2013. This decrease was due to a \$116,000 decrease in impairments on real estate held for investment and mortgage loans, and a \$56,000 decrease in impairments on marketable securities.

Mortgage fee income decreased by \$104,000, or 0.1%, to \$128,697,000 for 2014, from \$128,801,000 for the comparable period in 2013. This decrease was primarily attributable to lower secondary gains from mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan rates in 2014.

Other revenues increased by \$1,141,000, or 43.8%, to \$3,747,000 for 2014 from \$2,606,000 for the comparable period in 2013. This increase was due to an increase in mortgage servicing revenues.

Total benefits and expenses were \$214,456,000, or 94.5% of total revenues, for 2014, as compared to \$205,491,000, or 95.3% of total revenues, for the comparable period in 2013.

Death benefits, surrenders and other policy benefits, and future policy benefits decreased by an aggregate of \$280,000, or 0.6%, to \$47,850,000 for 2014, from \$48,130,000 for the comparable period in 2013. This decrease was primarily the result of a \$1,535,000 decrease in future policy benefits, which was partially offset by increases of \$1,052,000 in death benefits, and \$203,000 in surrender and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$1,711,000, or 33.0%, to \$6,893,000 for 2014, from \$5,182,000 for the comparable period in 2013. This increase was primarily due to increased amortization of the value of business acquired for new acquisitions and increased amortization for deferred policy costs due to an increased amount of insurance business terminating.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Selling, general and administrative expenses increased by \$7,458,000, or 5.1%, to \$154,865,000 for 2014, from \$147,407,000 for the comparable period in 2013. This increase was primarily due to a \$6,564,000 increase in personnel expenses, a \$4,472,000 increase in other expenses, a \$1,302,000 increase in the provision for loan losses, a \$678,000 increase in rent and rent related expenses, a \$556,000 increase in depreciation expense on property and equipment, and a \$242,000 increase in costs related to funding mortgage loans. This increase was partially offset by a \$6,103,000 decrease in commission expenses and a \$253,000 decrease in advertising expenses.

Interest expense increased by \$140,000, or 4.9%, to \$2,994,000 for 2014, from \$2,854,000 for the comparable period in 2013. This increase was primarily due to a new bank loan entered into by Security National Life for real estate offset by a reduction in outstanding balances on warehouse lines of credit used to fund mortgage loans.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$66,000, or 3.4%, to \$1,853,000 for 2014, from \$1,919,000 for the comparable period in 2013. This decrease was primarily due to a decrease in mortuary at-need sales and a decrease in cemetery pre-need and at-need sales.

Other comprehensive income for the years ended December 31, 2014 and December 31, 2013 amounted to a gain of \$220,000 and a loss of \$716,000, respectively. This increase of \$936,000 in 2014 was primarily the result of a gain of \$1,307,000 in derivatives related to mortgage loans offset by a \$371,000 unrealized loss in marketable securities.

2013 Compared to 2012

Total revenues decreased by \$18,945,000, or 8.1%, to \$215,315,000 for fiscal year 2013 from \$234,260,000 for the fiscal year 2012. Contributing to this decrease in total revenues was a \$23,087,000 decrease in mortgage fee income and a \$1,562,000 decrease in net investment income. This decrease in total revenues was partially offset by a \$2,256,000 increase in insurance premiums and other considerations, a \$1,447,000 increase in other revenues, a \$1,136,000 increase in net cemetery and mortuary sales, and an \$871,000 decrease in other than temporary impairments.

Insurance premiums and other considerations increased by \$2,256,000, or 4.7%, to \$50,472,000 for 2013, from \$48,216,000 for the comparable period in 2012. This increase was due to an increase in first year premiums as a result of increased insurance sales in 2013.

Net investment income decreased by \$1,562,000, or 7.1%, to \$20,354,000 for 2013, from \$21,916,000 for the comparable period in 2012. This decrease was primarily attributable to a \$3,103,000 increase in investment expenses, an \$877,000 decrease in interest from mortgage loans, a \$53,000 decrease in equity securities income, and a \$31,000 decrease in policy loans income. This decrease was partially offset by a \$1,731,000 increase in income from real estate, a \$535,000 increase in fixed maturity securities income, and a \$236,000 increase in income from short-term investments.

Net cemetery and mortuary sales increased by \$1,136,000, or 10.5%, to \$12,000,000 for 2013, from \$10,864,000 for the comparable period in 2012. This increase was primarily due to a \$622,000 increase in cemetery pre-need and at-need sales, and a \$514,000 increase in mortuary at-need sales.

Realized gains on investments and other assets decreased by \$6,000, or 0.5%, to \$1,418,000 in realized gains for 2013, from \$1,424,000 in realized gains for the comparable period in 2012. This decrease in realized gains and losses on investments and other assets was primarily due to a \$410,000 decrease in gains and losses on fixed maturity securities held to maturity. This decrease was partially offset by a \$252,000 increase in gains and losses on other assets, and a \$152,000 increase in gains and losses on marketable securities.

Other than temporary impairments on investments decreased by \$871,000, or 72.2%, to \$336,000 for 2013 from \$1,207,000 for the comparable period in 2012. This decrease was due to a \$679,000 decrease in impairments on real estate held for investment and mortgage loans, a \$147,000 decrease in impairments on marketable securities, and a \$45,000 decrease in impairments on fixed maturity securities held to maturity.

Mortgage fee income decreased by \$23,087,000, or 15.2%, to \$128,801,000 for 2013, from \$151,888,000 for the comparable period in 2012. This decrease was primarily attributable to lower secondary gains from mortgage loans sold to investors and the decline in refinance activity as a result of the increase in mortgage loan rates in 2013.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other revenues increased by \$1,447,000, or 124.9%, to \$2,606,000 for 2013 from \$1,159,000 for the comparable period in 2012. This increase was due to an increase in mortgage servicing revenues.

Total benefits and expenses were \$205,491,000, or 95.3% of total revenues, for 2013, as compared to \$212,909,000, or 90.9% of total revenues, for the comparable period in 2012.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$2,449,000, or 5.4%, to \$48,130,000 for 2013, from \$45,681,000 for the comparable period in 2012. This increase was primarily the result of a \$3,771,000 increase in death benefits, a \$518,000 increase in surrender and other policy benefits, which were partially offset by a \$1,840,000 decrease in future policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired decreased by \$267,000, or 4.9%, to \$5,182,000 for 2013, from \$5,449,000 for the comparable period in 2012. This decrease was primarily due to improved persistency in the traditional life and universal life lines of business.

Selling, general and administrative expenses decreased by \$8,903,000, or 5.7%, to \$147,407,000 for 2013, from \$156,310,000 for the comparable period in 2012. This decrease was primarily the result of a decrease in mortgage loan originations by SecurityNational Mortgage, which was attributed to the decline in refinance activity as a result of the increase in mortgage loan rates in 2013. Commission expenses decreased by \$17,861,000, from \$83,840,000 in 2012 to \$65,979,000 in 2013 as a result of the decline in refinance activity in 2013. Costs related to funding mortgage loans decreased by \$296,000, from \$6,931,000 in 2012 to \$6,635,000 in 2013 as a result of the decline in refinance activity in 2013. Provision for loan losses decreased by \$2,488,000, from \$4,239,000 in 2012 to \$1,751,000 in 2013.

The decreases in selling, general and administrative expenses were partially offset by an increase in salaries of \$5,921,000, from \$27,099,000 in 2012 to \$33,020,000 in 2013, primarily due to an increase in the number of employees. Other expenses increased by \$5,821,000, from \$34,200,000 in 2012 to \$40,021,000 in 2013 primarily due to an increase in mortgage servicing fees.

Interest expense decreased by \$890,000, or 23.8%, to \$2,854,000 for 2013, from \$3,744,000 for the comparable period in 2012. This decrease was primarily due to reduction in outstanding balances on warehouse lines of credit used to fund mortgage loans.

Cost of goods and services sold of the cemeteries and mortuaries increased by \$195,000, or 11.3%, to \$1,919,000 for 2013, from \$1,724,000 for the comparable period in 2012. This increase was primarily due to an increase in mortuary at-need sales and an increase in cemetery pre-need and at-need sales.

Other comprehensive income for the years ended December 31, 2013 and December 31, 2012 amounted to a loss of \$716,000 and a gain of \$1,280,000, respectively. This decrease of \$1,996,000 in 2013 was primarily the result of a loss of \$1,873,000 in derivatives related to mortgage loans and a \$123,000 unrealized loss in marketable securities.

Risks

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

Legal and Regulatory Risks. The risk that changes in the legal or regulatory environment in which the Company operates will create additional expenses and risks not anticipated by the Company in developing and pricing its products. 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 and mortuary business. The Company mitigates these risks 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 that identify and minimize the adverse impact of such risks.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Mortgage Industry Risks. Developments in the mortgage industry and credit markets can adversely affect the Company's ability to sell its mortgage loans to investors, which can impact the Company's financial results by requiring it to assume the risk of holding and servicing any unsold loans.

The mortgage loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on mortgage loans sold to third party investors. The Company's mortgage subsidiaries may be required to reimburse third party investors for costs associated with early payoff of loans within the first six months of such loans and to repurchase loans where there is a default in any of the first four monthly payments to the investors or, in lieu of repurchase, to pay a negotiated fee to the investors. The Company's estimates are based upon historical loss experience and the best estimate of the probable loan loss liabilities.

Upon completion of a transfer that satisfies the conditions to be accounted for as a sale, the Company initially measures at fair value liabilities incurred in a sale relating to any guarantee or recourse provisions. The Company accrues a monthly allowance for indemnification losses to investors based on its historical experience. The amounts accrued for loan losses in years ended December 31, 2014, 2013 and 2012 were \$3,053,000, \$1,846,000 and \$4,053,000, respectively, and the charge to expense has been included in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2014 and 2013, the balances were \$1,718,000 and \$5,507,000, respectively. The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of December 31, 2014. There is a risk, however, that future loan losses may exceed the loan loss reserves and allowances.

As of December 31, 2014, the Company's long term mortgage loan portfolio consisted of \$7,500,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$1,971,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$7,500,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2014 and 2013, the Company increased its allowance for mortgage losses by \$389,000 and \$221,000, respectively, which was charged to bad debt expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of December 31, 2014 and 2013 were \$2,003,000 and \$1,652,000, respectively.

There have been assertions in third party investor correspondence that SecurityNational Mortgage sold mortgage loans that allegedly contained borrower misrepresentations or experienced early payment defaults, or that were otherwise allegedly defective or not in compliance with agreements between SecurityNational Mortgage and the third party investors consisting principally of financial institutions. As a result of these claims, third party investors have made demands that SecurityNational Mortgage repurchase certain alleged defective mortgage loans that were sold to such investors or indemnify them against any losses related to such loans.

The total amount of potential claims by third party investors is difficult to determine. The Company has reserved and accrued \$1,702,000 as of December 31, 2014 to settle all such investor related claims. The Company believes that the reserve for mortgage loan loss, which includes provisions for probable losses and indemnification on mortgage loans sold to investors, is reasonable based on available information. Moreover, the Company has successfully negotiated acceptable settlement terms with other third party investors that asserted claims for mortgage loan losses against SecurityNational Mortgage.

SecurityNational Mortgage disagrees with the repurchase demands and notices of potential claims from third party investors. Furthermore, SecurityNational Mortgage believes there is potential to resolve the alleged claims by the third party investors on acceptable terms. If SecurityNational Mortgage is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third party investor, SecurityNational Mortgage believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

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

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

provisions, by offering products that transfer this risk to the purchaser, and 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 loss on the sale.

Mortality and Morbidity Risks. The risk that the Company's actuarial assumptions may differ from actual mortality and morbidity experiences 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 and liability duration matching, and sound actuarial practices.

Estimates. The preparation of financial statements in conformity with U.S. Generally Accepted Accounting Principles (GAAP) requires management to make estimates and assumptions that affect the amounts reported in the consolidated 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, construction loans, estimate of probable loan loss reserve, and other receivables, 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.

Liquidity and Capital Resources

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

During the twelve months ended December 31, 2014 and 2013, the Company's operations provided cash of \$31,016,000 and \$36,652,000, respectively. This was due primarily to a \$7,362,000 increase in 2014 and a \$15,668,000 increase in 2013 in the balance of mortgage loans sold to investors.

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

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

The Company's investment policy is also to invest predominantly in fixed maturity securities, real estate, mortgage loans, and warehousing of mortgage loans 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 \$134,406,000 as of December 31, 2014 compared to \$142,854,000 as of December 31, 2013. This represents 30.9% and 37.1% of the total investments as of December 31, 2014, and 2013, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Under this rating system, there are six categories used for rating bonds. At December 31, 2014, 6.8% (or \$9,192,000) and at December 31, 2013, 4.6% (or \$6,621,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

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

See Note 2 of the Notes to Consolidated Financial Statements for the schedule of the maturity of fixed maturity securities and for the schedule of principal payments for mortgage loans on real estate and construction loans held for investment.

If market conditions were to cause interest rates to change, the market value of the Company's fixed income portfolio, which includes bonds, preferred stock, and mortgage loans, 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):

	<u>-200 bps</u>	<u>-100 bps</u>	<u>+100 bps</u>	<u>+200 bps</u>
Change in Market Value (in thousands)	\$22,870	\$11,111	\$(13,270)	\$(23,869)

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, 2014 and December 31, 2013, the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank debt and notes payable were \$126,111,000 as of December 31, 2014, as compared to \$106,040,000 as of December 31, 2013. Stockholders' equity as a percent of total capitalization was 77.0% and 82.8% as of December 31, 2014 and December 31, 2013, respectively. Bank debt and notes payable increased by \$10,731,000 for the twelve months ended December 31, 2014 as compared to December 31, 2013, thus decreasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance was 7.0% in 2014 as compared to a rate of 5.7% for 2013.

At December 31, 2014, \$37,528,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent company without the approval of state insurance regulatory authorities.

Forward-Looking Statements

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements to encourage companies to provide prospective information about their businesses without fear of litigation so long as those statements are identified as forward-looking and are accompanied by meaningful cautionary statements identifying important factors that could cause actual results to differ materially from those projected in such statements. The Company desires to take advantage of the "safe harbor" provisions of the act.

This Annual Report on Form 10-K contains forward-looking statements, together with related data and projections, about the Company's projected financial results and its future plans and strategies. However, actual results and needs of the Company may vary materially from forward-looking statements and projections made from time to time by the Company on the basis of management's then-current expectations. The business in which the Company is engaged involves changing and competitive markets, which may involve a high degree of risk, and there can be no assurance that forward-looking statements and projections will prove accurate.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Factors that may cause the Company's actual results to differ materially from those contemplated or projected, forecast, estimated or budgeted in such forward looking statements include among others, the following possibilities: (i) heightened competition, including the intensification of price competition, the entry of new competitors, and the introduction of new products by new and existing competitors; (ii) adverse state and federal legislation or regulation, including decreases in rates, limitations on premium levels, increases in minimum capital and reserve requirements, benefit mandates and tax treatment of insurance products; (iii) fluctuations in interest rates causing a reduction of investment income or increase in interest expense and in the market value of interest rate sensitive investment; (iv) failure to obtain new customers, retain existing customers or reductions in policies in force by existing customers; (v) higher service, administrative, or general expense due to the need for additional advertising, marketing, administrative or management information systems expenditures; (vi) loss or retirement of key executives or employees; (vii) increases in medical costs; (viii) changes in the Company's liquidity due to changes in asset and liability matching; (ix) restrictions on insurance underwriting based on genetic testing and other criteria; (x) adverse changes in the ratings obtained by independent rating agencies; (xi) failure to maintain adequate reinsurance; (xii) possible claims relating to sales practices for insurance products and claim denials and (xiii) adverse trends in mortality and morbidity; (xiv) deterioration of real estate markets and (xv) lawsuits in the ordinary course of business.

Off-Balance Sheet Agreements

At December 31, 2014, the Company was contingently liable under a standby letter of credit aggregating \$699,671, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program. The Company does not expect any material losses to result from the issuance of the standby letter of credit because claims are not expected to exceed premiums paid. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2014, the Company was contingently liable under a standby letter of credit aggregating \$1,250,000, to be used as collateral to cover any contingency related to claims filed in states where the Company is licensed. The Company does not expect any material losses to result from the issuance of the standby letter of credit. Accordingly, the estimated fair value of these instruments is zero.

At December 31, 2014 the Company was contingently liable under two standby letters of credit aggregating \$139,220, issued as security deposits to guarantee payment of final bills for electric and gas utility services for a commercial real estate property owned by the Company in Wichita, Kansas.

SecurityNational Mortgage has entered into loan purchase agreements to originate and sell mortgage loans to two unaffiliated warehouse banks. On March 19, 2012, SecurityNational Mortgage and Wells Fargo Bank, N.A. ("Wells Fargo") entered into a loan purchase agreement in which Wells Fargo agreed to provide a warehouse line of up to \$55,000,000 to fund certain approved mortgage loans originated by SecurityNational Mortgage. On August 6, 2012, SecurityNational Mortgage and Wells Fargo agreed to an amendment to the March 19, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$55,000,000 to \$75,000,000.

On July 16, 2012, SecurityNational Mortgage and UBS Real Estate Securities Inc. ("UBS") entered into a loan purchase agreement in which UBS agreed to provide a warehouse line of up to \$30,000,000 to fund mortgage loans originated by SecurityNational Mortgage. On October 26, 2012, SecurityNational Mortgage and UBS agreed to an amendment to the July 16, 2012 loan purchase agreement to increase the amount of the warehouse line available to fund mortgage loans originated by SecurityNational Mortgage from \$30,000,000 to \$40,000,000.

Generally, when mortgage loans are sold to the warehouse banks, the Company is no longer obligated to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date the loans are sold to warehouse banks and the settlement date with the third party investors. The terms of the loan purchase agreements are typically for one year, with interest accruing on a portion of the mortgage loans at annual rates ranging from 2.5% to 2.75% over the 30-day LIBOR rate.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Management Discussion and Analysis of Financial Condition and Results of Operations (Continued)

As of December 31, 2014, there was \$149,098,000 in mortgage loans in which settlements with third party investors were still pending.

The total of the Company unfunded residential construction loan commitments as of December 31, 2014 was \$16,236,000.

The Company has entered into a Construction and Term Loan Agreement (“Agreement”) between Zions First National Bank, a national banking association, and Dry Creek Property Development, Inc., the Company’s wholly owned subsidiary. Under the terms of this Agreement the Company agrees to pay Zions First National Bank the principal sum of \$27,500,000 plus interest. These funds are being used for the construction of a 282-unit multifamily development in Sandy City Utah. As of December 31, 2014, the Company has used \$13,085,000 of these funds.

Contractual Obligations

The Company’s contractual obligations as of December 31, 2014 and the payments due by period are shown in the following table:

	Less than 1 year	1-3 years	4-5 years	over 5 years	Total
Non-cancelable operating leases	\$4,299,185	\$ 7,635,126	\$ 616,791	\$ 20,536	\$12,571,638
Notes and contracts payable	5,248,043	16,228,894	246,336	7,297,105	29,020,378
	<u>\$9,547,228</u>	<u>\$23,864,020</u>	<u>\$ 863,127</u>	<u>\$7,317,641</u>	<u>\$41,592,016</u>

Variable Interest Entities

In conjunction with the Company’s casualty insurance program, limited equity interests are held in a captive insurance entity. This program permits the Company to self-insure a portion of losses, to gain access to a wide array of safety-related services, to pool insurance risks and resources in order to obtain more competitive pricing for administration and reinsurance and to limit its risk of loss in any particular year. This entity meets the definition of a variable interest entity (VIE); however, under generally accepted accounting principles, “there is not a requirement to include this entity in the consolidated financial statements.” The maximum exposure to loss related to the Company’s involvement with this entity is limited to approximately \$699,671, which is collateralized under a standby letter of credit issued on the insurance entity’s behalf. See Note 9, “Reinsurance, Commitments and Contingencies,” for additional discussion of commitments associated with the insurance program and Note 1, “Significant Accounting Policies”, for further information on a standby letter of credit. As of December 31, 2014, there are no other entities that met the definition of a variable interest entity.

Quantitative and Qualitative Disclosures about Market Risk

The Company has no activities in derivative financial or commodity instruments other than those recorded and disclosed in the financial statements. See Note 18 of the consolidated financial statements included elsewhere in this Form 10-K. The Company’s exposure to market risks (i.e., interest rate risk, foreign currency exchange rate risk and equity price risk) through other financial instruments, including cash equivalents, accounts receivable and lines of credit, is not material

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Market for the Registrant’s Common Stock, Related Security Holder Matters, and Issuer Purchases of Equity Securities

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 25, 2015, the closing sales price of the Class A common stock was \$5.41 per share. The following were the high and low market closing sales prices for the Class A common stock by quarter as reported by Nasdaq since January 1, 2013:

<u>Period (Calendar Year)</u>	<u>Price Range (1)</u>	
	<u>High</u>	<u>Low</u>
2013		
First Quarter	\$13.09	\$6.14
Second Quarter	\$8.32	\$5.37
Third Quarter	\$6.03	\$4.96
Fourth Quarter	\$5.46	\$4.16
2014		
First Quarter	\$4.56	\$3.67
Second Quarter	\$4.27	\$3.53
Third Quarter	\$4.73	\$3.86
Fourth Quarter	\$5.66	\$4.45
2015		
First Quarter (through March 25, 2015)	\$6.24	\$5.39

(1) Sales prices have been adjusted retroactively for the effect of annual stock dividends.

The Class C common stock is not registered or traded on a national exchange. See Note 11 of the Notes to Consolidated Financial Statements.

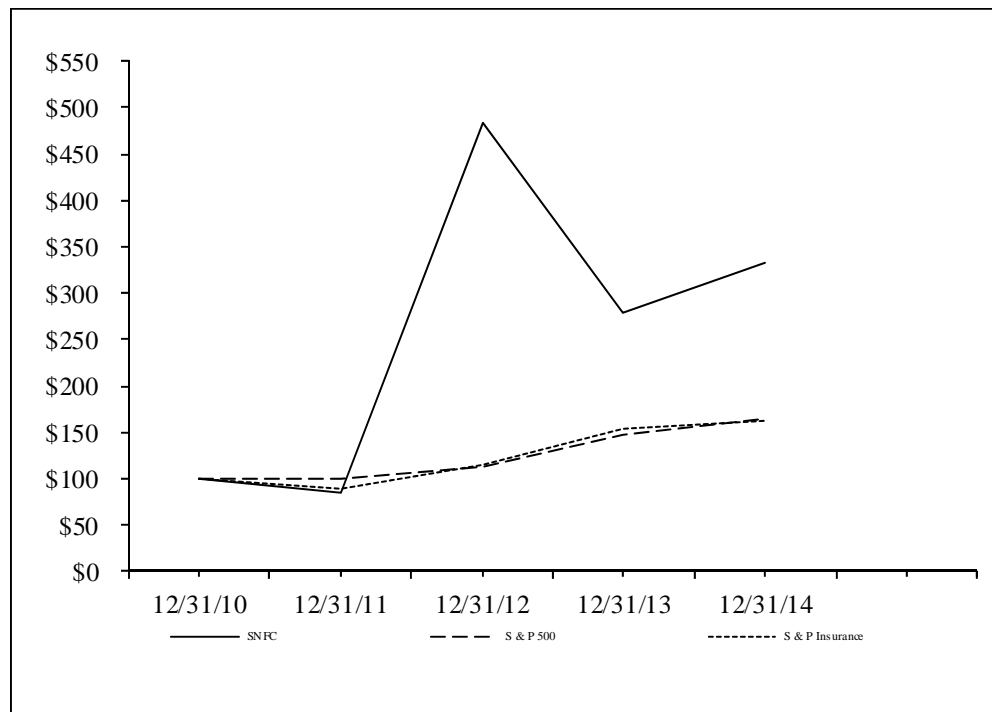
The Company has never paid a cash dividend on its Class A or Class C common stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C common stock in 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 1990 through 2014.

SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES

Market for the Registrant’s Common Stock, Related Security Holder Matters, and Issuer Purchases of Equity Securities (Continued)

The graph below compares the cumulative total stockholder return of the Company’s Class A common stock with the cumulative total return on the Standard & Poor’s 500 Stock Index and the Standard & Poor’s Insurance Index for the period from December 31, 2010 through December 31, 2014. The graph assumes that the value of the investment in the Company’s Class A common stock and in each of the indexes was \$100 at December 31, 2010 and that all dividends were reinvested.

The comparisons in the graph below are based on historical data and are not intended to forecast the possible future performance of the Company’s Class A common stock.



	12/31/10	12/31/11	12/31/12	12/31/13	12/31/14
SNFC	100	85	483	278	332
S & P 500	100	100	113	147	164
S & P Insurance	100	90	115	154	163

The graph set forth above is required by the Securities and Exchange Commission and shall not be deemed to be incorporated by reference by any general statement incorporating by reference this Form 10-K into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, as amended, except to the extent that the Company specifically incorporates this information by reference, and shall not otherwise be deemed soliciting material or filed under such acts.

As of December 31, 2014, there were 3,606 record holders of Class A common stock and 85 record holders of Class C common stock.



Security National
Financial Corporation

5300 South 360 West | Salt Lake City, UT 84123
www.securitynational.com | 1 (800) 574-7117