

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

**FORM 10-K**

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

For the fiscal year ended December 31, 2018, or

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

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

Commission File Number 000-09341

**SECURITY NATIONAL FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

UTAH

(State or other jurisdiction of incorporation or organization)

87-0345941

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

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

(Address of principal executive offices)

84123

(Zip Code)

Registrant's telephone number, including area code:

(801) 264-1060

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934: **None**

Securities registered pursuant to Section 12(g) of the Securities Exchange Act of 1934:

Title of each class which registered  
**Class A common stock, \$2.00 Par Value**  
**Class C common stock, \$2.00 Par Value**

Name of each exchange on  
**Nasdaq Stock Market**  
**None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes  No

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

Large accelerated filer

Nonaccelerated filer

Accelerated filer

Smaller reporting company

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

As of June 30, 2018, the aggregate market value of the registrant's Class A common stock held by non-affiliates of the registrant was approximately \$31,000,000 based on the \$5.20 closing sale price of the Class A common stock as reported on The Nasdaq Stock Market.

As of March 27, 2019, there were outstanding 15,312,687 shares of Class A common stock, \$2.00 par value per share, and 2,190,361 shares of Class C common stock, \$2.00 par value per share.

## Documents Incorporated by Reference

None.

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**Security National Financial Corporation**  
**Form 10-K**  
**For the Fiscal Year Ended December 31, 2018**

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| Part I   |             |
| Item 1. Business   | 3           |
| Item 2. Properties   | 11          |
| Item 3. Legal Proceedings  | 13          |
| Item 4. Mine Safety Disclosures  | 15          |
| Part II  |             |
| Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities | 15          |
| Item 6. Selected Financial Data  | 17          |
| Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations                        | 17          |
| Item 7A. Quantitative and Qualitative Disclosures About Market Risk  | 29          |
| Item 8. Financial Statements and Supplementary Data  | 29          |
| Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure                         | 101         |
| Item 9A. Controls and Procedures   | 101         |
| Item 9B. Other Information   | 101         |
| Part III   |             |
| Item 10. Directors, Executive Officers and Corporate Governance  | 102         |
| Item 11. Executive Compensation  | 107         |
| Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters              | 117         |
| Item 13. Certain Relationships and Related Transactions, and Director Independence                                   | 119         |
| Item 14. Principal Accounting Fees and Services  | 120         |
| Part IV  |             |
| Item 15. Exhibits, Financial Statement Schedules   | 120         |

**Item 1. Business**

Security National Financial Corporation (the “Company”) operates in three main business segments: life insurance, cemetery and mortuary, and mortgages. The life insurance segment is engaged in the business of selling and servicing selected lines of life insurance, annuity products, and accident and health insurance. These products are marketed in 38 states through a commissioned sales force of independent licensed insurance agents who may also sell insurance products of other companies. The cemetery and mortuary segment consists of eight mortuaries and six cemeteries in the state of Utah and one cemetery in the state of California. The Company also engages in pre-need selling of funeral, cemetery, mortuary, and cremation services through its Utah and California operations. Many of the insurance agents also sell pre-need funeral, cemetery, and cremation services. The mortgage segment originates and underwrites or otherwise purchases residential and commercial loans for new construction, existing homes, and other real estate projects. The mortgage segment operates through 97 retail offices and one wholesale office in 20 states, and is an approved mortgage lender in several other states.

The Company’s design and structure are that each business segment is related to the other business segments and contributes to the profitability of the other segments. The Company’s cemetery and mortuary segment provides a level of public awareness that assists in the sales and marketing of insurance and pre-need cemetery and funeral products. The Company’s insurance segment invests their assets (including, in part, pre-need funeral products and services) in investments authorized by the respective insurance departments of their states of domicile. The Company also pursues growth through acquisitions. The Company’s mortgage segment provides mortgage loans and other real estate investment opportunities.

The Company was organized as a holding company in 1979, when Security National Life Insurance Company (“Security National Life”) became a wholly owned subsidiary of the Company and the former stockholders of Security National Life became stockholders of the Company. Security National Life was formed in 1965 and has acquired or purchased significant blocks of business which include Capital Investors Life Insurance Company (1994), Civil Service Employees Life Insurance Company (1995), Southern Security Life Insurance Company (1998), Menlo Life Insurance Company (1999), Acadian Life Insurance Company (2002), Paramount Security Life Insurance Company (2004), Memorial Insurance Company of America (2005), Capital Reserve Life Insurance Company (2007), Southern Security Life Insurance Company, Inc. (2008), North America Life Insurance Company (2011, 2015), Trans-Western Life Insurance Company (2012), Mothe Life Insurance Company (2012), DLE Life Insurance Company (2012), American Republic Insurance Company (2015) and First Guaranty Insurance Company (2016).

The cemetery and mortuary operations have also grown through the acquisition of other cemetery and mortuary companies. The cemetery and mortuary companies that the Company has acquired are Holladay Memorial Park, Inc. (1991), Cottonwood Mortuary, Inc. (1991), Deseret Memorial, Inc. (1991), Probst Family Funerals and Cremations L.L.C. (2019), and Heber Valley Funeral Home, Inc. (2019).

In 1993, the Company formed SecurityNational Mortgage Company (“SecurityNational Mortgage”) to originate and refinance residential mortgage loans. In 2012, the Company formed Green Street Mortgage Services, Inc. (now known as EverLEND Mortgage Company) (“EverLEND Mortgage”) also to originate and refinance residential mortgage loans.

See Note 15 of the Notes to Consolidated Financial Statements for additional information regarding business segments of the Company.

**Life Insurance**

*Products*

The Company, through Security National Life, issues and distributes selected lines of life insurance and annuities. The Company’s life insurance business includes funeral plans and interest-sensitive life insurance, as well as other traditional life, accident, and health insurance products. The Company places specific marketing emphasis on funeral plans through pre-need planning. The Company’s other insurance subsidiaries, First Guaranty Insurance Company (“First Guaranty”), Memorial Insurance Company of America (“Memorial Insurance”), Southern Security Life Insurance Company, Inc. (“Southern Security”) and Trans-Western Life Insurance Company (“Trans-Western”), service and maintain policies that were purchased prior to their acquisition by Security National Life.

A funeral plan is a small face value life insurance policy that generally has face coverage of up to \$25,000. The Company believes that funeral plans represent a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of a person's death. On a per thousand-dollar cost of insurance basis, these policies can be more expensive to the policyholder than many types of non-burial insurance due to their low face amount, requiring the fixed cost of the policy administration to be distributed over a smaller policy size, and the simplified underwriting practices that result in higher mortality costs.

### Markets and Distribution

The Company is licensed to sell insurance in 38 states. The Company, in marketing its life insurance products, seeks to locate, develop and service specific niche markets. The Company's funeral plan policies are sold primarily to persons who range in age from 45 to 85 and have low to moderate income. A majority of the Company's funeral plan premiums come from the states of Arkansas, California, Florida, Georgia, Louisiana, Mississippi, Texas, and Utah.

The Company sells its life insurance products through direct agents, brokers, and independent licensed agents who may also sell insurance products of other companies. The commissions on life insurance products range from approximately 50% to 120% of first year premiums. In those cases, where the Company utilizes its direct agents in selling such policies, those agents customarily receive advances against future commissions.

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

In marketing funeral plan insurance, the Company also seeks and obtains third-party endorsements from other cemeteries and mortuaries within its marketing areas. Typically, these cemeteries and mortuaries will provide letters of endorsement and may share in mailing and other lead-generating costs since these businesses are usually made the beneficiary of the policy. The following table summarizes the life insurance business for the five years ended December 31, 2018:

|  | 2018         | 2017         | 2016             | 2015         | 2014         |
|--|--------------|--------------|------------------|--------------|--------------|
| Life Insurance Policy/Cert Count as of December 31 | 531,831      | 533,065      | 531,775 (1)      | 509,058      | 497,933      |
| Insurance in force as of December 31 (omitted 000) | \$ 1,838,488 | \$ 1,759,148 | \$ 1,672,081 (1) | \$ 2,862,803 | \$ 2,763,496 |
| Premiums Collected (omitted 000)                   | \$ 74,965    | \$ 69,565    | \$ 65,220 (1)    | \$ 55,780    | \$ 52,418    |

(1) Includes the acquisition of First Guaranty and the termination of the reinsurance assumed from Servicemembers' Group Life Insurance ("SGLI").

### Underwriting

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

| Age Nearest Birthday | Non-Medical Limits                         |
|----------------------|--|
| 0-50                 | \$ 100,000                                 |
| 51-up                | Medical information required (APS or exam) |

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

The Company's funeral plan insurance is written on a simplified medical application with underwriting requirements being a completed application, a phone inspection on the applicant, and an intelligiscript prescription history inquiry. There are several underwriting classes in which an applicant can be placed.

## Annuities

### Products

The Company's annuity business includes single premium deferred annuities, flexible premium deferred annuities, and immediate annuities. A single premium deferred annuity is a contract where the individual remits a sum of money to the Company, which is retained on deposit until such time as the individual may wish to annuitize or surrender the contract for cash. A flexible premium deferred annuity gives the contract holder the right to make premium payments of varying amounts or to make no further premium payments after his initial payment. These single and flexible premium deferred annuities can have initial surrender charges. The surrender charges act as a deterrent to individuals who may wish to prematurely surrender their annuity contracts. An immediate annuity is a contract in which the individual remits a sum of money to the Company in return for the Company's obligation to pay a series of payments on a periodic basis over a designated period of time, such as an individual's life, or for such other period as may be designated.

Annuities have guaranteed interest rates that range from 1% to 6.5% per annum. Rates above the guaranteed interest rate credited are periodically modified by the Board of Directors at its discretion. In order for the Company to realize a profit on an annuity product, the Company must maintain an interest rate spread between its investment income and the interest rate credited to the annuities. Commissions, issuance expenses, and general and administrative expenses are deducted from this interest rate spread.

### Markets and Distribution

The general market for the Company's annuities is middle to older age individuals. A major source of annuity sales come from direct agents and are sold in conjunction with other insurance sales. If an individual does not qualify for a funeral plan, the agent will often sell that individual an annuity to fund final expenses.

The following table summarizes the annuity business for the five years ended December 31, 2018:

|   | 2018     | 2017      | 2016          | 2015     | 2014     |
|---|----------|-----------|---------------|----------|----------|
| Annuities Policy/Cert Count as of December 31 | 22,313   | 22,729    | 21,364 (1)    | 12,022   | 12,701   |
| Deposits Collected (omitted 000)              | \$ 9,644 | \$ 10,353 | \$ 11,019 (1) | \$ 8,069 | \$ 8,010 |

(1) Includes the acquisition of First Guaranty.

## Accident and Health

### Products

With the acquisition of Capital Investors in 1994, the Company acquired a small block of accident and health policies. Since 1999, the Company has offered a low-cost comprehensive diver's accident policy that provides worldwide coverage for medical expense reimbursement in the event of a diving accident.

### Markets and Distribution

The Company currently markets its diver's accident policies through the internet.

The following table summarizes the accident and health insurance business for the five years ended December 31, 2018:

|   | 2018  | 2017   | 2016   | 2015   | 2014   |
|---|-------|--------|--------|--------|--------|
| Accident and Health Policy/Cert Count as of December 31 | 3,763 | 4,069  | 4,761  | 5,185  | 5,838  |
| Premiums Collected (omitted 000)                        | \$ 98 | \$ 104 | \$ 113 | \$ 119 | \$ 133 |

## **Reinsurance**

The primary purpose of reinsurance is to enable an insurance company to issue an insurance policy in an amount larger than the risk the insurance company is willing to assume for itself. The insurance company remains obligated for the amounts reinsured (ceded) in the event the reinsurers do not meet their obligations.

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

It is the Company's policy to retain no more than \$100,000 of ordinary insurance per insured life, with the excess risk being reinsured. The total amount of life insurance reinsured by other companies as of December 31, 2018, was \$56,706,000, which represents approximately 3.1% of the Company's life insurance in force on that date.

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

## **Investments**

The investments that support the Company's life insurance and annuity obligations are determined by the investment committees of the Company's subsidiaries and ratified by the full Board of Directors of the respective subsidiaries. A significant portion of the Company's investments must meet statutory requirements governing the nature and quality of permitted investments by its insurance subsidiaries. The Company maintains a diversified investment portfolio consisting of common stocks, preferred stocks, municipal bonds, corporate bonds, mortgage loans, real estate, and other securities and investments.

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

## **Cemetery and Mortuary**

### *Products*

Through its cemetery and mortuary segment, the Company markets a variety of products and services both on a pre-need basis (prior to death) and an at-need basis (at the time of death). The products include: plots, interment vaults, mausoleum crypts, markers, caskets, urns and other death care related products. These services include: professional services of funeral directors, opening and closing of graves, use of chapels and viewing rooms, and use of automobiles and clothing. The Company has a mortuary at each of its cemeteries, other than Holladay Memorial Park and Singing Hills Memorial Park, and has four separate stand-alone mortuary facilities.

### *Markets and Distribution*

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

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

Potential customers are located via telephone sales prospecting, responses to letters mailed by the pre-planning consultants, newspaper inserts, referrals, and door-to-door canvassing. The Company trains its sales representatives and helps generate leads for them.

## **Mortgage Loans**

### *Products*

The Company, through its wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage, are active in the residential real estate market. SecurityNational Mortgage is approved by the U.S. Department of Housing and Urban Development (HUD), the Federal National Mortgage Association (Fannie Mae), and other secondary market investors, to originate a variety of residential mortgage loan products, which are subsequently sold to investors. EverLEND Mortgage is approved by the U.S. Department of Housing and Urban Development (HUD), and other secondary market investors, to originate a variety of residential mortgage loan products, which are subsequently sold to investors. The Company uses internal and external funding sources to fund mortgage loans.

Security National Life originates and funds commercial real estate loans, residential construction loans, and land development loans for internal investment.

### *Markets and Distribution*

The Company's residential mortgage lending services are marketed primarily to real estate brokers and some independent mortgage loan originators. The Company has a strong retail origination presence in the Utah, Florida, Nevada, and Texas markets in addition to one wholesale branch office located in Utah, with sales representatives in these and other states. See "Management's Discussion and Analysis of Results of Operations and Financial Condition" and "Notes to Consolidated Financial Statements" for additional disclosure and discussion regarding mortgage loans.

## **Recent Acquisitions and Other Business Activities**

### *Acquisitions*

#### *Acquisition of Beta Capital Corp.*

On June 1, 2018, the Company completed a stock purchase transaction with Beta Capital Corp. ("Beta Capital") and Ronald D. Maxson ("Maxson"), the sole owner of all the outstanding shares of common stock of Beta Capital, to purchase all of the outstanding shares of common stock of Beta Capital. Beta Capital is engaged in the operation of a factoring business with the principal purpose of providing funding for funeral homes and mortuaries. For the year ended December 31, 2017, Beta Capital had revenues of \$1,208,000 with a net pre-tax income of \$204,000. As of December 31, 2017, the total assets of Beta Capital were \$3,270,000 and total equity was \$1,832,000.

Under the terms of the transaction, as set forth in the Stock Purchase Agreement, dated June 1, 2018, by and among the Company, Beta Capital and Maxson, the Company paid Maxson the purchase consideration at the closing of the transaction equal to the sum of (i) \$890,000 in cash plus (ii) the accounts receivable value of \$2,515,783, representing the total amount of the Company's outstanding receivables as of the closing date of June 1, 2018, for a total closing payment of \$3,405,783. From the \$3,405,783 closing payment, a holdback amount equal to \$175,000 was deposited into an interest bearing escrow account to be held for a period of eighteen months from the closing date to pay off any uncollected accounts receivable and other liabilities of Beta Capital as of the closing date.

#### *Acquisition of Probst Family Funerals and Cremations and Heber Valley Funeral Home*

On February 15, 2019, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed an asset purchase transaction with Probst Family Funerals and Cremations, LLC. ("Probst Family Funerals") and Heber Valley Funeral Home, Inc. ("Heber Valley Funeral Home"). These funeral homes are both located in Heber Valley, a community situated about 45 miles southeast of Salt Lake City. For the year ended December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined revenues of \$1,055,634 and a combined net pre-tax income of \$179,613. As of December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined assets of \$1,161,029 and a combined total equity of \$18,052.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated February 15, 2019, by and among SN Probst LLC, a wholly owned subsidiary of Memorial Mortuary ("SN Probst"), and Probst Family Funerals, Heber Valley Funeral Home, Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha L. Probst, Memorial Mortuary, through its wholly owned subsidiary SN Probst, paid the purchase price of \$3,300,000 for the business and assets of Probst Family Funerals and Heber Valley Funeral Home, subject to a \$150,000 holdback. At the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$907,407 principal balance and \$4,340 in interest on a loan at Zions Bank that was secured by the Heber Valley Funeral Home. Also, at the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$157,148 loan with Utah Community Credit Union and the \$32,987 line of credit with Zions Bank.

The Company is capitalizing on the opportunity to develop commercial assets on its existing properties. The cost to acquire existing for-sale assets currently exceeds the replacement costs, thus creating the opportunity for development and redevelopment of the land that the Company currently owns. The Company has developed, or is in the process of developing, assets that have an initial development cost exceeding \$100,000,000. The Company plans to continue its development endeavors as the market demands.

*Center53 Development*

In 2015, the Company broke ground and commenced development on the first phase of its new corporate campus. The anticipated project, comprising nearly 20 acres of land that is currently owned by the Company in the central valley of Salt Lake City, is envisioned to be a multi-year, phased development. At full development, the project will include nearly one million square-feet in six buildings, ranging from four to ten stories, and will be serviced by three parking structures with about 4,000 stalls. The first phase of the project includes a building and a parking garage consisting of nearly 200,000 square feet of office and retail space with 748 parking stalls. This phase of the campus was completed in July 2017 and is currently 65% leased. The Company continues to market the property to potential tenants.

*Sale of Dry Creek at East Village Apartments*

On March 29, 2018, the Company through its wholly owned subsidiary, Security National Life, completed the sale of the Dry Creek at East Village (“Dry Creek”) apartments to a subsidiary of Dinapoli Capital Partners, LLC (“Dinapoli Capital”) pursuant to the terms of the Purchase and Sale Agreement, dated February 14, 2018, between Security National Life and Dinapoli Capital. The purchase price paid for the Dry Creek apartments was \$57,000,000. From the proceeds that Security National Life received from the sale of the apartment complex, \$26,802,904 was used to pay off an existing loan at Zions First National Bank, N.A., which was secured by a security interest in the apartment complex. A brokerage commission of \$285,000 and legal fees and related costs were also paid from the purchase proceeds. The Company’s book basis in Dry Creek was approximately \$34,250,000, and the Company recognized a gain of approximately \$22,252,000 from the sale in the first quarter of 2018.

**Regulation**

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

The Company’s life insurance subsidiaries are currently subject to regulation in Utah, Arkansas, Louisiana, Mississippi and Texas under insurance holding company legislation, and other states where applicable. Generally, intercompany transfers of assets and dividend payments from insurance subsidiaries are subject to prior notice of approval from the state insurance department, if they are deemed “extraordinary” under these statutes. The insurance subsidiaries are required, under state insurance laws, to file detailed annual reports with the supervisory agencies in each of the states in which they do business. Their business and accounts are also subject to examination by these agencies. The Company completed an examination by Louisiana for the three year period ending December 31, 2016 and has also completed examinations by Arkansas, Mississippi, Texas and Utah for the four year period ending December 31, 2017. The Texas Department of Banking also audits pre-need insurance policies that are issued in the state of Texas. Pre-need policies are life and annuity products sold as the funding mechanism for funeral plans through funeral homes by Security National agents. The Company is required to send the Texas Department of Banking an annual report that summarizes the number of policies in force and the face amount or death benefit for each policy. This annual report also indicates the number of new policies issued for that year, all death claims paid that year, and all premiums received.

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

The Company's mortgage subsidiaries are subject to the rules and regulations of the U.S. Department of Housing and Urban Development (HUD), and to various state licensing acts and regulations and the Consumer Financial Protection Bureau (CFPB). These regulations, among other things, specify minimum capital requirements, procedures for loan origination and underwriting, licensing of brokers and loan officers, quality review audits and the fees that can be charged to borrowers. Each year, the Company is required to have an audit completed for each mortgage subsidiary by an independent registered public accounting firm to verify compliance under some of these regulations. In addition to the government regulations, the Company must meet loan requirements, and underwriting guidelines of various investors who purchase the loans.

## **Income Taxes**

The Company's insurance subsidiaries, Security National Life and First Guaranty, are taxed under the Life Insurance Company Tax Act of 1984. Under the act, life insurance companies are taxed at standard corporate rates on life insurance company taxable income. Life insurance company taxable income is gross income less general business deductions and reserves for future policyholder benefits (with modifications). The Company may be subject to the corporate Alternative Minimum Tax (AMT) for tax years ending prior to January 1, 2018. The Tax Cuts and Jobs Act (the "Tax Act") repealed the corporate AMT for tax years beginning after December 31, 2017. Also, under the Tax Act, December 31, 2017 policyholder surplus account balances result in taxable income over a period of eight years.

Security National Life and First Guaranty calculate their life insurance taxable income after establishing a provision representing a portion of the costs of acquisition of such life insurance business. The effect of the provision is that a certain percentage of the Company's premium income is characterized as deferred expenses and recognized over a five or ten-year period. The Tax Act changed this recognition period for amounts deferred after December 31, 2017 to a five or fifteen-year period.

The Company's non-life insurance company subsidiaries are taxed in general under the regular corporate tax provisions. The following subsidiaries are regulated as life insurance companies but do not meet the Internal Revenue Code definition of a life insurance company, so they are taxed as insurance companies other than life insurance companies: Memorial Insurance, Southern Security, and Trans-Western.

## **Competition**

The life insurance industry is highly competitive. There are approximately 1,000 legal reserve life insurance companies in business in the United States. These insurance companies differentiate themselves through marketing techniques, product features, price, and customer service. The Company's insurance subsidiaries compete with a large number of insurance companies, many of which have greater financial resources, a longer business history, and more diversified line of insurance products than the Company. In addition, such companies generally have a larger sales force. Further, the Company competes with mutual insurance companies which may have a competitive advantage because all profits accrue to policyholders. Because the Company is smaller by industry standards and lacks broad diversification of risk, it may be more vulnerable to losses than larger, better-established companies. The Company believes that its policies and rates for the markets it serves are generally competitive.

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

The mortgage industry is highly competitive with a large number of mortgage companies and banks in the same geographic area in which the Company is operating. The mortgage industry in general is sensitive to changes in interest rates and the refinancing market is particularly vulnerable to changes in interest rates.

**Employees**

As of December 31, 2018, the Company had 1,237 full-time and 196 part-time employees.

## Item 2. Properties

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

| <u>Street</u>                      | <u>City</u>       | <u>State</u> | <u>Function</u>            | <u>Owned / Leased</u> | <u>Approximate Square Footage</u> | <u>Lease Amount</u> | <u>Expiration</u> |
|------------------------------------|-------------------|--------------|----------------------------|-----------------------|-----------------------------------|---------------------|-------------------|
| 5300 S. 360 W.                     | Salt Lake City    | UT           | Corporate Headquarters     | Owned                 | 36,000                            | N/A                 | N/A               |
| 5201 S. Green St.                  | Salt Lake City    | UT           | Mortgage Operations        | Owned                 | 12,498                            | N/A                 | N/A               |
| 1044 River Oaks Dr.                | Flowood           | MS           | Insurance Operations       | Owned                 | 5,522                             | N/A                 | N/A               |
| 5239 Greenpine Dr.                 | Murray            | UT           | Funeral Service Operations | Owned                 | 1,642                             | N/A                 | N/A               |
| 121 W. Election Rd., Suite 100     | Draper            | UT           | Mortgage Sales             | Owned                 | 15,119                            | N/A                 | N/A               |
| 497 Sutton Bridge Rd.              | Rainbow City      | AL           | Fast Funding Operations    | Leased                | 12,850                            | \$ 8,000 / mo       | 12/31/2019        |
| 3515 Pelham Rd., Suite 200         | Greenville        | SC           | Fast Funding Operations    | Leased                | 4,000                             | \$ 4,333 / mo       | 6/30/2019         |
| 4007 Seaboard Court, Suite 1       | Portsmouth        | VA           | Fast Funding Operations    | Leased                | N/A                               | \$ 3,000 / mo       | 5/31/2020         |
| 16427 North Scottsdale Rd.         | Scottsdale        | AZ           | Mortgage Sales             | Leased                | 3,966                             | \$ 10,742 / mo      | 12/31/2019        |
| 17015 N. Scottsdale Rd., Suite 125 | Scottsdale        | AZ           | Mortgage Sales             | Leased                | 6,070                             | \$ 13,415 / mo      | 4/30/2020         |
| 8600 East Anderson Dr., Suite 240  | Scottsdale        | AZ           | Mortgage Sales             | Leased                | 3,756                             | \$ 8,764 / mo       | 8/31/2019         |
| 1819 S. Dobson Rd., Suite 202/203  | Mesa              | AZ           | Mortgage Sales             | Leased                | 2,397                             | \$ 2,447 / mo       | 7/31/2019         |
| 17505 N 79th Ave., Suite 213-E     | Glendale          | AZ           | Mortgage Sales             | Leased                | N/A                               | \$ 650 / mo         | 6/30/2019         |
| 5100 N. 99th Ave., Suite 100       | Phoenix           | AZ           | Mortgage Sales             | Leased                | 2,540                             | \$ 3,175 / mo       | 10/22/2021        |
| 1930 S Alma School Rd.             | Mesa              | AZ           | Mortgage Sales             | Leased                | 1,762                             | \$ 1,909 / mo       | 9/14/2019         |
| 2999 Douglas Blvd.                 | Roseville         | CA           | Mortgage Sales             | Leased                | 1,515                             | \$ 3,485 / mo       | 6/30/2020         |
| 4 Upper Newport Plaza, Suite. 103  | Newport Beach     | CA           | Mortgage Sales             | Sub-Leased            | N/A                               | \$ 850 / mo         | month to month    |
| 8525 Madison Ave., Suite 142       | Fair Oaks         | CA           | Mortgage Sales             | Leased                | 1,200                             | \$ 4,132 / mo       | 6/30/2019         |
| 3435 South Demaree                 | Visalia           | CA           | Mortgage Sales             | Leased                | 1,740                             | \$ 2,175 / mo       | 4/30/2019         |
| 2333 San Ramon Vallue Blvd.        | San Ramon         | CA           | Mortgage Sales             | Leased                | 1,563                             | \$ 4,064 / mo       | 5/14/2019         |
| 140 Gregory Ln.                    | Pleasant Hill     | CA           | Mortgage Sales             | Leased                | 3,125                             | \$ 6,094 / mo       | 1/31/2019         |
| 3908 Hathaway Ave.                 | Long Beach        | CA           | Mortgage Sales             | Leased                | 200                               | \$ 100 / mo         | month to month    |
| 13191 Crossroads Parkway           | City of Industry  | CA           | Mortgage Sales             | Sub-Leased            | 2,569                             | \$ 6,316 / mo       | 7/31/2020         |
| 8480 E. Orchard Rd., Suite 4200    | Greenwood Village | CO           | Mortgage Sales             | Leased                | 4,631                             | \$ 9,841 / mo       | 5/31/2021         |
| 1120 W. 122nd Ave., Suite 104      | Denver            | CO           | Mortgage Sales             | Leased                | 2,088                             | \$ 3,654 / mo       | 10/31/2021        |
| 7100 E. Belleview Ave.             | Greenwood         | CO           | Mortgage Sales             | Leased                | 2,549                             | \$ 5,310 / mo       | 11/30/2019        |
| 5475 Tech Center Dr., Suite 100    | Colorado Springs  | CO           | Mortgage Sales             | Leased                | 3,424                             | \$ 3,852 / mo       | 7/31/2020         |
| 8191 College Parkway, Suite 201    | Ft Myers          | FL           | Mortgage Sales             | Leased                | 4,676                             | \$ 3,917 / mo       | 8/21/2021         |
| 7830 Lake Wilson Road              | Davenport         | FL           | Mortgage Sales             | Leased                | 200                               | \$ 750 / mo         | month to month    |
| 1545 S. Belcher Rd., Suite B       | Clearwater        | FL           | Mortgage Sales             | Leased                | Desk Rental                       | \$ 3,073 / mo       | 4/30/2019         |
| 5331 Commercial Way, Suite 203     | Springhill        | FL           | Mortgage Sales             | Leased                | 995                               | \$ 1,200 / mo       | 3/31/2020         |
| 203 NE 1st Ave.                    | Delray Beach      | FL           | Mortgage Sales             | Leased                | 1,350                             | \$ 4,013 / mo       | 6/30/2019         |
| 3689 Tampa Rd., Suite 324          | Oldsmar           | FL           | Mortgage Sales             | Leased                | 2,553                             | \$ 2,708 / mo       | 2/28/2020         |
| 3689 Tampa Rd., Suite 330          | Oldsmar           | FL           | Mortgage Sales             | Leased                | 4,167                             | \$ 4,553 / mo       | 2/28/2019         |
| 4732 US Highway 98 N.              | Lakeland          | FL           | Mortgage                   | Leased                | 1,250                             | \$ 535 / mo         | month to          |

|   |                  |    |                 | Sales      |        |           |      | month          |
|---|------------------|----|-----------------|------------|--------|-----------|------|----------------|
| 1145 TownPark Ave., Suites 2215/2255      | Lake Mary        | FL | Mortgage Sales  | Leased     | 9,390  | \$ 19,829 | / mo | 2/29/2020      |
| 1525 International Parkway                | Lake Mary        | FL | Mortgage Sales  | Sub-Leased | 2,862  | \$ 5,440  | / mo | 10/31/2019     |
| 3970 Tampa Rd. Oldsmar, Suite L           | Pinnellas County | FL | Mortgage Sales  | Leased     | 750    | \$ 813    | / mo | 8/31/2020      |
| 113th Str. N. and 82nd Ave. N.            | Seminole         | FL | Mortgage Sales  | Leased     | N/A    | \$ 2,100  | / mo | 8/30/2020      |
| 3030 McEver Rd., Suite 220                | Gainsville       | GA | Mortgage Sales  | Leased     | 300    | \$ 839    | / mo | month to month |
| 788 Walnut St., Suite 8                   | Macon            | GA | Mortgage Sales  | Leased     | 650    | \$ 400    | / mo | month to month |
| 2886 Smokey Road                          | Newman           | GA | Mortgage Sales  | Leased     | 300    | \$ 500    | / mo | month to month |
| 1001 Kamokila Blvd., Suite 142            | Kapolei          | HI | Mortgage Sales  | Leased     | 564    | \$ 1,660  | / mo | 12/31/2019     |
| 4370 Kukui Grove St., Suite 201           | Lihue            | HI | Mortgage Sales  | Leased     | 864    | \$ 1,331  | / mo | 2/28/2019      |
| 9042 W. Barnes Dr.                        | Boise            | ID | Mortgage Sales  | Leased     | 1,568  | \$ 2,250  | / mo | 10/31/2019     |
| 116 N. 3rd St., Suite 12                  | Mccall           | ID | Mortgage Sales  | Leased     | 480    | \$ 400    | / mo | month to month |
| 12 W. Main St. Suite 3                    | Rexburg          | ID | Mortgage Sales  | Leased     | 800    | \$ 1,000  | / mo | month to month |
| 3040 E 17th, Suite A                      | Idaho Falls      | ID | Mortgage Sales  | Leased     | 2,500  | \$ 3,000  | / mo | 5/31/2019      |
| 7225-27 West Madison St.                  | Forest Park      | IL | Mortgage Sales  | Leased     | 1,800  | \$ 2,200  | / mo | 6/30/2020      |
| 9963 Crosspoint Blvd Suites 101/102       | Indianapolis     | IN | Mortgage Sales  | Leased     | N/A    | \$ 1,350  | / mo | 7/31/2019      |
| 568 Greenluster Dr.                       | Covington        | LA | Mortgage Sales  | Leased     | 150    | \$ 750    | / mo | month to month |
| 1 Sanctuary Blvd. Suite 302A              | Mandeville       | LA | Insurance Sales | Leased     | 867    | \$ 1,382  | / mo | 6/30/2020      |
| 4987 Fall Creek Rd. Suite 1               | Branson          | MO | Mortgage Sales  | Leased     | 700    | \$ 1,000  | / mo | 3/31/2019      |
| 801 Cascade Pointe Lane, Suite 101        | Raleigh          | NC | Mortgage Sales  | Sub-Leased | 2,000  | \$ 2,961  | / mo | 4/30/2020      |
| 7930 West Kenton Circle                   | Huntersville     | NC | Mortgage Sales  | Sub-Leased | 951    | \$ 1,918  | / mo | 2/29/2020      |
| 2370 Corporate Circle, Suite 200          | Henderson        | NV | Mortgage Sales  | Leased     | 10,261 | \$ 18,297 | / mo | 4/30/2020      |
| 2370 Corporate Circle, Suite 270          | Henderson        | NV | Mortgage Sales  | Leased     | 2,520  | \$ 5,956  | / mo | 4/30/2020      |
| 3285 No. Fort Apache Rd, Suite 150        | Las Vegas        | NV | Mortgage Sales  | Leased     | N/A    | \$ 11,500 | / mo | month to month |
| 10765 Double R Blvd.                      | Reno             | NV | Mortgage Sales  | Leased     | 4,214  | \$ 9,144  | / mo | 10/31/2021     |
| 1980 Festival Plaza Dr., Suite 850        | Las Vegas        | NV | Mortgage Sales  | Leased     | 12,866 | \$ 43,615 | / mo | 5/31/2021      |
| 4000 S. Eastern Ave., Suite 310           | Las Vegas        | NV | Mortgage Sales  | Sub-Leased | 2,750  | \$ 4,950  | / mo | 1/31/2020      |
| 8720 Orion Place, Suite 160               | Colombus         | OH | Mortgage Sales  | Leased     | 1,973  | \$ 1,726  | / mo | 6/30/2023      |
| 10610 SE Washington                       | Portland         | OR | Mortgage Sales  | Leased     | 506    | \$ 600    | / mo | month to month |
| 3311 NE MLK Jr Blvd., Suite 203           | Portland         | OR | Mortgage Sales  | Leased     | 1,400  | \$ 875    | / mo | month to month |
| 10365 SE Sunnyside Rd., Suite 310         | Clackamus        | OR | Mortgage Sales  | Leased     | 1,288  | \$ 2,420  | / mo | 11/30/2019     |
| 6263 Poplar Ave., Suite 900               | Memphis          | TN | Mortgage Sales  | Leased     | 1,680  | \$ 2,476  | / mo | 3/31/2019      |
| 6640 Carothers Parkway, Suite 150         | Franklin         | TN | Mortgage Sales  | Leased     | 3,229  | \$ 8,199  | / mo | 3/31/2020      |
| 208 Sunset Dr., Suites 403/404            | Knoxville        | TN | Mortgage Sales  | Leased     | 2,476  | \$ 3,817  | / mo | 10/31/2022     |
| 2159 N Thompson Lane, Suite A-7           | Murfreesboro     | TN | Mortgage Sales  | Leased     | 1,100  | \$ 1,150  | / mo | month to month |
| 11525 Fry Road, Suite 106                 | Fulshear         | TX | Mortgage Sales  | Leased     | N/A    | \$ 800    | / mo | month to month |
| 11550 Fuqua, Suite 200                    | Houston          | TX | Mortgage Sales  | Leased     | 1,865  | \$ 3,341  | / mo | 4/30/2020      |
| 3000 Joe DiMaggio Blvd., Bldg 12 Suite 42 | Round Rock       | TX | Mortgage Sales  | Leased     | 920    | \$ 1,750  | / mo | 5/15/2021      |
| 2408 Jacaman Road, Suite F                | Laredo           | TX | Mortgage Sales  | Leased     | N/A    | \$ 900    | / mo | 6/1/2020       |

|  |                |    |                |            |        |                |                |
|--|----------------|----|----------------|------------|--------|----------------|----------------|
| 532 FM 120 East  | East Pottsboro | TX | Mortgage Sales | Leased     | 1,800  | \$ 1,600 / mo  | month to month |
| 8300 Cypress Creek Parkway, Suite 450                          | Houston        | TX | Mortgage Sales | Leased     | 100    | \$ 276 / mo    | month to month |
| 2877 Commercial Center   | Katy           | TX | Mortgage Sales | Leased     | 250    | \$ 2,000 / mo  | month to month |
| 602 S Main St., Suite 300                                      | Weatherford    | TX | Mortgage Sales | Leased     | 1,000  | \$ 1,865 / mo  | 5/31/2019      |
| 52 Sugar Creek Center Blvd., Suite 150                         | Sugarland      | TX | Mortgage Sales | Leased     | 1,788  | \$ 3,994 / mo  | 3/31/2020      |
| 2526 N. Loop 1604 W., Suite 210                                | San Antonio    | TX | Mortgage Sales | Leased     | 4,959  | \$ 10,538 / mo | 11/30/2019     |
| 1 Chisholm Trail Rd., Suite 210                                | Round Rock     | TX | Mortgage Sales | Leased     | 3,402  | \$ 4,961 / mo  | 12/31/2020     |
| 3027 Marina Bay Dr., Suite 200                                 | League City    | TX | Mortgage Sales | Leased     | 1,225  | \$ 2,118 / mo  | 3/31/2020      |
| 24668 Kingsland Blvd.  | Katy           | TX | Mortgage Sales | Leased     | 144    | \$ 500 / mo    | month to month |
| 1848 Norwood Plaza, Suite 213                                  | Hurst          | TX | Mortgage Sales | Leased     | 1,596  | \$ 1,031 / mo  | month to month |
| 17347 Village Green Dr., Suite 102                             | Houston        | TX | Mortgage Sales | Leased     | 4,395  | \$ 8,970 / mo  | 11/30/2019     |
| 4100 Alpha Rd., Suite 650                                      | Farmers Branch | TX | Mortgage Sales | Leased     | 2,935  | \$ 4,158 / mo  | 3/31/2020      |
| 1626 Lee Trevino, Suite A                                      | El Paso        | TX | Mortgage Sales | Leased     | 4,200  | \$ 7,799 / mo  | 12/31/2019     |
| 9737 Great Hills Trail, Suites 150, 200, 220                   | Austin         | TX | Mortgage Sales | Sub-Leased | 19,891 | \$ 36,052 / mo | 8/31/2024      |
| 1213 East Alton Gloor Blvd., Suite H                           | Brownsville    | TX | Mortgage Sales | Leased     | 2,000  | \$ 2,200 / mo  | 3/31/2020      |
| 7920 Belt Line Rd., Suite 720                                  | Dallas         | TX | Mortgage Sales | Leased     | 1,714  | \$ 2,143 / mo  | month to month |
| 12222 Merit Dr., Suite 220                                     | Dallas         | TX | Mortgage Sales | Leased     | 1,799  | \$ 2,848 / mo  | 9/30/2019      |
| 5020 Collinwood Ave., Suite 100                                | Fort Worth     | TX | Mortgage Sales | Leased     | 2,687  | \$ 5,150 / mo  | 1/31/2021      |
| 240 North Adams St., Suite 4                                   | Eagle Pass     | TX | Mortgage Sales | Leased     | 275    | \$ 1,015 / mo  | 12/31/2019     |
| 13413 Galleria Circle, Suite 180                               | Austin         | TX | Mortgage Sales | Sub-Leased | 1,851  | \$ 3,394 / mo  | 2/28/2019      |
| 118 E. Vine St.  | Tooele         | UT | Mortgage Sales | Leased     | 1,000  | \$ 840 / mo    | 7/1/2020       |
| 5965 S. Redwood Rd.  | Taylorsville   | UT | Mortgage Sales | Leased     | 2,000  | \$ 600 / mo    | month to month |
| 6575 S. Redwood Rd.  | Taylorsville   | UT | Mortgage Sales | Leased     | 3,323  | \$ 5,221 / mo  | 8/31/2019      |
| 10437 S. 1300 W., Suite 200                                    | South Jordan   | UT | Mortgage Sales | Leased     | 4,000  | \$ 8,118 / mo  | 9/30/2019      |
| 126 W. Sego Lily Dr., Suite 260                                | Sandy          | UT | Mortgage Sales | Leased     | 2,794  | \$ 5,672 / mo  | 8/31/2020      |
| 1145 S. 800 E.   | Orem           | UT | Mortgage Sales | Leased     | 2,581  | \$ 4,431 / mo  | 1/31/2020      |
| 1111 Brickyard Rd., Suite 107                                  | Salt Lake City | UT | Mortgage Sales | Leased     | 4,857  | \$ 4,408 / mo  | 1/31/2020      |
| 1751 W. Alexander St., Suite 10                                | Salt Lake City | UT | Mortgage Sales | Sub-Leased | 300    | \$ 500 / mo    | month to month |
| 1224 S. River Rd., Suites E3 and B4                            | Saint George   | UT | Mortgage Sales | Leased     | 1,900  | \$ 1,869 / mo  | 6/30/2019      |
| 6965 S. Union Park, Suites 100, 190, 260, 300, 460, 470, & 480 | Midvale        | UT | Mortgage Sales | Leased     | 39,649 | \$ 77,726 / mo | 6/30/2021      |
| 6975 Union Park Ave., Suite 420                                | Midvale        | UT | Mortgage Sales | Leased     | 6,672  | \$ 14,511 / mo | 4/30/2019      |
| 1133 North Main St.  | Layton         | UT | Mortgage Sales | Sub-Leased | 300    | \$ 1,000 / mo  | month to month |
| 497 S. Main  | Ephraim        | UT | Mortgage Sales | Leased     | 953    | \$ 765 / mo    | 9/30/2019      |
| 695 East Main Street   | Midway         | UT | Mortgage Sales | Leased     | N/A    | \$ 100 / mo    | month to month |
| 170 S Interstate Plaza, Suite 230                              | Lehi           | UT | Mortgage Sales | Leased     | 1,927  | \$ 3,453 / mo  | 7/31/2021      |
| 1525 N Main St, Suite 106                                      | Bountiful      | UT | Mortgage Sales | Sub-Leased | 3,127  | \$ 2,606 / mo  | 4/14/2019      |
| 75 Towne Ridge Parkway, Suite 100                              | Sandy          | UT | Mortgage Sales | Leased     | 6,867  | \$ 15,737 / mo | 8/31/2023      |
| 3130 West Maple Loop Drive                                     | Lehi           | UT | Mortgage Sales | Leased     | 3,643  | \$ 4,857 / mo  | 2/28/2019      |
| 2326 Washington Blvd., Suite 204                               | Ogden          | UT | Mortgage       | Leased     | N/A    | \$ 500 / mo    | 5/31/2019      |

|  |                |    |                       |        |       |               |                |
|--|----------------|----|-----------------------|--------|-------|---------------|----------------|
| 590 W. State Street                    | Pleasant Grove | UT | Sales Mortgage        | Leased | 250   | \$ 500 / mo   | month to month |
| 79 E. Main Street                      | Midway         | UT | Funeral Service Sales | Leased | 4,476 | \$ 3,460 / mo | 10/31/2019     |
| 15640 NE Fourth Plain Blvd., Suite 221 | Vancouver      | WA | Mortgage Sales        | Leased | 360   | \$ 425 / mo   | 12/31/2019     |
| 4530 Union Bay Plaza NE, Suite 209     | Seattle        | WA | Mortgage Sales        | Leased | 480   | \$ 900 / mo   | month to month |
| 5002 7th Ave.                          | Kenosha        | WI | Mortgage Sales        | Leased | 1,450 | \$ 1,200 / mo | 10/31/2019     |

The Company believes the office facilities it occupies are in good operating condition and adequate for current operations. The Company will enter into additional leases or modify existing leases to meet market demand. Those leases will be month to month where possible. As leases expire, the Company will either renew or find comparable leases or acquire additional office space.

**Item 2. Properties (Continued)**

The following table summarizes the location and acreage of the six Company owned cemeteries, each of which includes one or more mausoleums:

| Name of Cemetery                         | Location                                     | Date Acquired | Developed Acreage (1) | Net Saleable Acreage |                                   |                             |
|--|--|---------------|-----------------------|----------------------|-----------------------------------|-----------------------------|
|  |  |               |                       | Total Acreage (1)    | Acres Sold as Cemetery Spaces (2) | Total Available Acreage (1) |
| <b>Memorial Estates, Inc.</b>            |  |               |                       |                      |                                   |                             |
| Lakeview Cemetery                        | 1640 East Lakeview Drive<br>Bountiful, Utah  | 1973          | 9                     | 39                   | 7                                 | 32                          |
| Mountain View Cemetery                   | 3115 East 7800 South<br>Salt Lake City, Utah | 1973          | 26                    | 54                   | 20                                | 34                          |
| Redwood Cemetery (3)                     | 6500 South Redwood Road<br>West Jordan, Utah | 1973          | 28                    | 71                   | 35                                | 36                          |
| <b>Deseret Memorial Inc.</b>             |  |               |                       |                      |                                   |                             |
| Lake Hills Cemetery                      | 10055 South State Street<br>Sandy, Utah      | 1991          | 9                     | 28                   | 6                                 | 22                          |
| <b>Holladay Memorial Park, Inc.</b>      |  |               |                       |                      |                                   |                             |
| Holladay Memorial Park (3)               | 4900 South Memory Lane<br>Holladay, Utah     | 1991          | 12                    | 14                   | 7                                 | 7                           |
| <b>California Memorial Estates, Inc.</b> |  |               |                       |                      |                                   |                             |
| Singing Hills Memorial Park (4)          | 2800 Dehesa Road<br>El Cajon, California     | 1995          | 8                     | 97                   | 6                                 | 91                          |

- (1) The acreage represents estimates of acres that are based upon survey reports, title reports, appraisal reports, or the Company's inspection of the cemeteries. The Company estimates that there are approximately 1,200 spaces per developed acre.
- (2) Includes both reserved and occupied spaces.
- (3) Includes two granite mausoleums.
- (4) Includes an open easement.

## Item 2. Properties (Continued)

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

| <u>Name of Mortuary</u>                           | <u>Location</u>                                    | <u>Date Acquired</u> | <u>Viewing Room(s)</u> | <u>Chapel(s)</u> | <u>Square Footage</u> |
|---|--|----------------------|------------------------|------------------|-----------------------|
| Memorial Mortuary, Inc.                           |  |                      |                        |                  |                       |
| Memorial Mortuary                                 | 5850 South 900 East<br>Murray, Utah                | 1973                 | 3                      | 1                | 20,000                |
| Affordable Funerals and<br>Cremations, St. George | 157 East Riverside Dr., No. 3A<br>St. George, Utah | 2016                 | 1                      | 1                | 2,360                 |
| Memorial Estates, Inc.                            |  |                      |                        |                  |                       |
| Redwood Mortuary (1)                              | 6500 South Redwood Rd.<br>West Jordan, Utah        | 1973                 | 2                      | 1                | 10,000                |
| Mountain View Mortuary (1)                        | 3115 East 7800 South<br>Salt Lake City, Utah       | 1973                 | 2                      | 1                | 16,000                |
| Lakeview Mortuary (1)                             | 1640 East Lakeview Dr.<br>Bountiful, Utah          | 1973                 | 0                      | 1                | 5,500                 |
| Lakehills Mortuary (1)                            | 10055 South State St.<br>Sandy, Utah               | 1991                 | 2                      | 1                | 18,000                |
| Cottonwood Mortuary, Inc.                         |  |                      |                        |                  |                       |
| Cottonwood Mortuary (1)                           | 4670 South Highland Dr.<br>Holladay, Utah          | 1991                 | 2                      | 1                | 14,500                |
| SN Probst LLC                                     |  |                      |                        |                  |                       |
| Heber Valley Funeral Home                         | 288 North Main St.<br>Heber City, Utah             | 2019                 | 1                      | 1                | 5,900                 |

(1) These funeral homes also provide burial niches at their respective locations.

## Item 3. Legal Proceedings

### Lehman Brothers Holdings Litigation – Delaware and New York

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

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

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

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

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

On September 17, 2018, certain defendants, including SecurityNational Mortgage, also filed a notice of appeal, and thereafter a motion for leave to file an interlocutory appeal as to the Bankruptcy Court's Decision pertaining to jurisdiction and improper venue as a "protective" appeal should the District Court decide not to treat the Decision as findings of fact and conclusions of law. Separately, certain other defendants also filed a notice of appeal and motion for leave to file an interlocutory appeal with respect to the Bankruptcy Court's Decision concerning improper venue. Lehman Holdings filed its response on October 22, 2018, and defendants are permitted to file a joint reply to Lehman Holdings' response no later than November 26, 2018. The motions to file appeals were consolidated before Valerie Caproni, U.S. District Court Judge, Case No. 18-cv-8986. Case No. 18-mc-00392 is also before Judge Caproni.

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

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

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

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

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

#### Item 4. Mine Safety Disclosures

Not applicable.

## PART II

#### Item 5. 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." As of March 27, 2019, the closing stock price of the Class A common stock was \$4.73 per share. The following were the high and low market closing stock prices for the Class A common stock by quarter as reported by NASDAQ since January 1, 2017:

| Period (Calendar Year)                 | Price Range (1) |         |
|--|-----------------|---------|
|  | High            | Low     |
| 2017                                   |                 |         |
| First Quarter                          | \$ 6.62         | \$ 5.66 |
| Second Quarter                         | \$ 6.39         | \$ 5.67 |
| Third Quarter                          | \$ 5.85         | \$ 4.63 |
| Fourth Quarter                         | \$ 5.06         | \$ 4.44 |
| 2018                                   |                 |         |
| First Quarter                          | \$ 5.14         | \$ 4.12 |
| Second Quarter                         | \$ 5.24         | \$ 4.90 |
| Third Quarter                          | \$ 5.29         | \$ 4.80 |
| Fourth Quarter                         | \$ 5.62         | \$ 4.91 |
| 2019                                   |                 |         |
| First Quarter (through March 27, 2019) | \$ 5.61         | \$ 4.73 |

(1) Stock prices have been adjusted retroactively for the effect of annual 5% stock dividends.

The Class C common stock is not registered or traded on a national exchange. See Note 12 of the Notes to Consolidated Financial Statements.

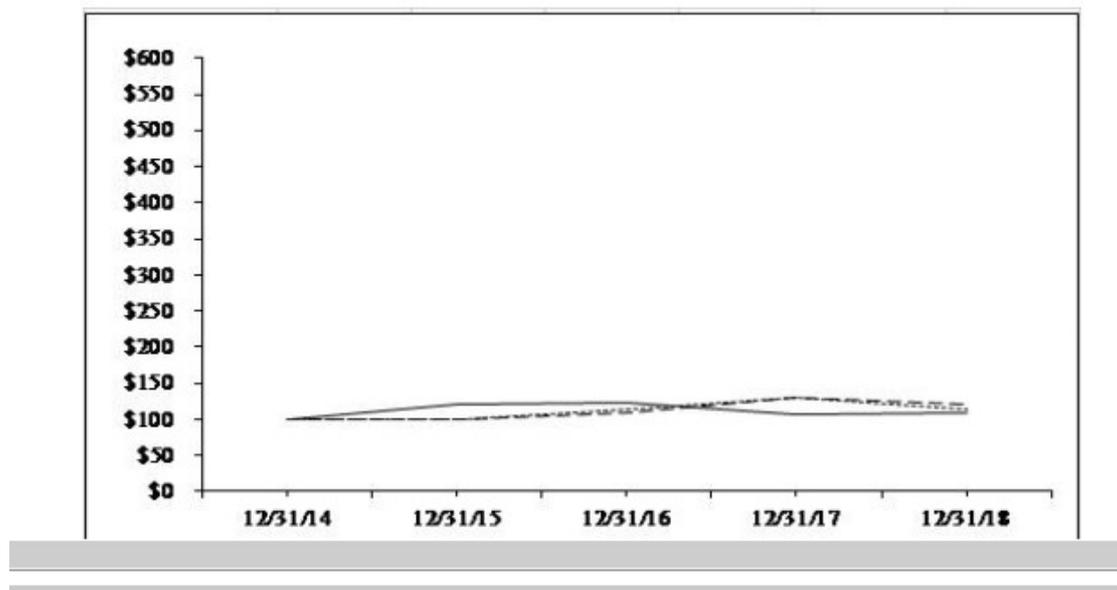
The Company has never paid a cash dividend on its Class A or Class C common stock. The Company currently anticipates that all of its earnings will be retained for use in the operation and expansion of its business and does not intend to pay any cash dividends on its Class A or Class C common stock in 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 2018.

The following table shows the Company's repurchase activity of its common stock during the three months ended December 31, 2018 under its Stock Repurchase Plan.

| <u>Period</u>        | <u>(a) Total<br/>Number of<br/>Class A<br/>Shares<br/>Purchased</u> | <u>(b) Average<br/>Price Paid<br/>per Class A<br/>Share</u> | <u>(c) Total<br/>Number of<br/>Class A<br/>Shares<br/>Purchased<br/>as Part of<br/>Publicly<br/>Announced<br/>Plan or<br/>Program</u> | <u>(d)<br/>Maximum<br/>Number (or<br/>Approximate<br/>Dollar<br/>Value) of<br/>Class A<br/>Shares that<br/>May Yet Be<br/>Purchased<br/>Under the<br/>Plan or<br/>Program</u> |
|----------------------|---|---|---|---|
| 10/1/2018-10/31/2018 | 10,000  | \$ 5.66   | -   | 290,000   |
| 11/1/2018-11/30/2018 | 6,400   | \$ 5.59   | -   | 283,600   |
| 12/1/2018-12/31/2018 | 12,300  | \$ 5.60   | -   | 271,300   |
| <b>Total</b>         | <b>28,700</b>   | <b>\$ 5.61</b>  | <b>-</b>  | <b>271,300</b>  |

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, 2014 through December 31, 2018. 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, 2014 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.



|                 | <u>12/31/14</u> | <u>12/31/15</u> | <u>12/31/16</u> | <u>12/31/17</u> | <u>12/31/18</u> |
|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| SNFC            | 100             | 120             | 124             | 106             | 109             |
| S & P 500       | 100             | 99              | 109             | 130             | 122             |
| S & P Insurance | 100             | 100             | 115             | 131             | 114             |

The stock performance 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, 2018, there were 3,289 record holders of Class A common stock and 68 record holders of Class C common stock.

## Item 6. Selected Financial Data

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

## Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (i) increased attention to "niche" insurance products, such as the Company's funeral plan policies and traditional whole life products; (ii) emphasis on cemetery and mortuary business; and (iii) capitalizing on relatively low interest rates by originating mortgage loans.

### Insurance Operations

The following table shows the condensed financial results for the Company's insurance operations for the years ended December 31, 2018 and 2017. See Note 15 of the Notes to Consolidated Financial Statements.

|  | Years ended December 31<br>(in thousands of dollars) |            | 2018 vs<br>2017 %<br>Increase<br>(Decrease) |
|--|--|------------|---|
|  | 2018   | 2017       |   |
| Revenues from external customers:              |  |            |   |
| Insurance premiums                             | \$ 75,929  | \$ 70,412  | 8%  |
| Net investment income                          | 38,720   | 34,090     | 14%   |
| Gains (losses) on investments and other assets | 21,396   | (3,871)    | 653%  |
| Other than temporary impairments               | 0  | (774)      | (100%)                                      |
| Other  | 1,637  | 856        | 91%   |
| Total  | \$ 137,682   | \$ 100,713 | 37%   |
| Intersegment revenue                           | \$ 3,973   | \$ 5,988   | (34%)                                       |
| Earnings before income taxes                   | \$ 30,124  | \$ 4,729   | 537%  |

Intersegment revenues for the Company's insurance operations were primarily interest income from the warehouse lines provided to its mortgage lending affiliates to fund loans held for sale. Profitability in 2018 increased due to the gain of \$22,252,000 on the sale of Dry Creek at East Village Apartments, increases in investment income, and increases in insurance premiums. These increases were partially offset by increases in benefits and expenses.

### 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, 2018 and 2017. See Note 15 of the Notes to Consolidated Financial Statements.

|                                       | Years ended December 31<br>(in thousands of dollars) |           | 2018 vs<br>2017 %<br>Increase<br>(Decrease) |
|---------------------------------------|--|-----------|---|
|                                       | 2018   | 2017      |   |
| Revenues from external customers:     |  |           |   |
| Mortuary revenues                     | \$ 5,514   | \$ 5,003  | 10%   |
| Cemetery revenues                     | 8,213  | 7,660     | 7%  |
| Net investment income                 | 283  | 424       | (33%)                                       |
| Gains on investments and other assets | 2,301  | 186       | 1137%                                       |
| Other                                 | 129  | 92        | 32%   |
| Total                                 | \$ 16,440  | \$ 13,365 | 23%   |
| Earnings before income taxes          | \$ 3,916   | \$ 1,677  | 134%  |

Included in net investment income was net rental income from residential and commercial properties purchased from Security National Life. Memorial Estates purchased these properties from financing provided by Security National Life. The rental income was offset by property insurance, taxes, maintenance expenses and depreciation. Memorial Estates recorded depreciation on these properties of \$598,000 and \$645,000 for the twelve months ended December 31, 2018 and 2017, respectively. Profitability in 2018 has increased due to a gain on the sale of assets of Deseret Mortuary and an increase in cemetery and mortuary revenues.

## Mortgage Operations

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

The Company's mortgage subsidiaries receive fees from borrowers that are involved in mortgage loan originations and refinancings, and secondary fees earned from third party investors that purchase the mortgage loans originated by the mortgage subsidiaries. Mortgage loans originated by the mortgage subsidiaries are generally sold with mortgage servicing rights released to third-party investors or retained by SecurityNational Mortgage. SecurityNational Mortgage currently retains the mortgage servicing rights on approximately 19% of its loan origination volume. These mortgage loans are serviced by either SecurityNational Mortgage or an approved third-party sub-servicer.

For the twelve months ended December 31, 2018 and 2017, SecurityNational Mortgage originated 10,252 loans (\$2,150,933,000 total volume) and 12,877 loans (\$2,534,032,000 total volume), respectively. For the twelve months ended December 31, 2018 and 2017, EverLEND Mortgage originated 173 loans (\$43,675,000 total volume) and 49 loans (\$11,724,000 total volume), respectively.

The following table shows the condensed financial results for the Company's mortgage operations for the years ended 2018 and 2017. See Note 15 of the Notes to Consolidated Financial Statements.

|                                       | Years ended December 31<br>(in thousands of dollars) |            | 2018 vs<br>2017 %<br>Increase<br>(Decrease) |
|---------------------------------------|--|------------|---|
|                                       | 2018   | 2017       |   |
| Revenues from external customers:     |  |            |   |
| Income from loan originations         | \$ 35,769  | \$ 45,040  | (21%)                                       |
| Secondary gains from investors        | 80,417   | 108,757    | (26%)                                       |
| Net investment income                 | 910  | 549        | 66%   |
| Gains on investments and other assets | 243  | 736        | (67%)                                       |
| Other                                 | 8,157  | 7,766      | 5%  |
| Total                                 | \$ 125,496   | \$ 162,848 | (23%)                                       |
| Earnings before income taxes          | \$ (7,860)   | \$ 1,127   | (797%)                                      |

Included in other revenues is service fee income. The decrease in revenues for the Company's mortgage operations for the twelve months ended December 31, 2018 as compared to December 31, 2017 was due to a reduction in mortgage loan originations and refinancings, and subsequent sales into the secondary market.

## Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2018 and 2017, the balances were \$3,605,000 and \$2,572,000, respectively.

## **Mortgage Loan Loss Litigation**

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers holdings, see Part I, Item 3. Legal Proceedings.

## **Significant Accounting Policies**

The following is a brief summary of the Company's significant accounting policies and a review of the Company's 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 assumptions 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 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, fulfilling the performance obligation.

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. 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 company obligations remaining.

### Mortgage Operations

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination and sale of mortgage loans. Mortgage loans held for sale prior to July 1, 2017 were shown on the Company's consolidated balance sheets at the lower of cost or market and all revenues and costs were deferred until the loans were sold to a third-party investor. On July 1, 2017, the Company made an election to use fair value accounting for all mortgage loans that are held for sale. Accordingly, all revenues and costs are now recognized when the mortgage loan is funded and any changes in fair value are shown as a component of mortgage fee income.

The Company, through its mortgage subsidiaries, sells mortgage loans to third-party investors without recourse, unless defects are identified in the representations and warranties made at loan sale. 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.

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 mortgage loans held for investment at the lower of cost or fair value and the previously recorded sales revenue that was to be received from a third-party investor is written off against the loan loss reserve. 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 for loans held for sale 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 are committed, the Company uses the commitment price.
- For loans that are non-committed that have an active market, the Company uses the market price.
- For loans that are non-committed where there is no market but there is a similar product, the Company uses the market value for the similar product.
- For loans that are non-committed where no active market exists, the Company determines that the unpaid principal balance best approximates the market value, after considering the fair value of the underlying real estate collateral, estimated future cash flows, and loan interest rate.

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, thus minimizing credit risk. 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.

The majority of loans originated are sold to third-party investors. The amounts expected to be sold to investors are shown on the consolidated balance sheets as loans held for sale.

### **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:

#### Loan Commitments

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted mortgage backed security ("MBS") prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment net of estimated commission expense. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued and is shown net of related expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates and other factors from the Company's recent historical data are used to estimate the quantity and value of mortgage loans that will fund within the terms of the commitments.

#### 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.

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.

#### Mortgage Loans Foreclosed to Real Estate Held for Investment

These properties are recorded at the lower of cost or fair value upon foreclosure. The Company believes that in an orderly market, fair value approximates 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 estimated future policy benefits. Accordingly, the fair value determination is generally weighted more heavily toward the rental analysis. The fair value is also estimated by obtaining an independent appraisal, which typically considers area comparables and property condition.

### 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 or 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 real estate owned and property dispositions. The Company initially accounts for MSRs at fair value and subsequently accounts for them using the amortization method. MSR amortization is determined by amortizing the MSR balance in proportion to, and over the period of the estimated future net servicing income of the underlying financial assets. The Company periodically assesses MSRs accounted for using the amortization method for impairment.

### Mortgage Allowance for Loan Losses and Loan Loss Reserve

The Company provides for losses on its mortgage loans held for investment 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. 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 real estate held for investment. The Company will rent the properties until it is deemed desirable to sell them.

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 in the event of defects in the representations and warranties made at loan sale. 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 and is included as a component of mortgage fee income. Subsequent updates to the recorded liability from changes in assumptions are recorded 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 Tax Assets and Liabilities

Deferred tax assets and liabilities require various estimates and judgments and may be affected favorably or unfavorably by various internal and external factors. These estimates and judgments occur in the calculation of certain deferred tax assets and liabilities that arise from temporary differences in the recognition of revenues and expenses for tax and financial reporting purposes and in estimating the ultimate amount of deferred tax assets recoverable in future periods. Factors affecting the deferred tax assets and liabilities include, but are not limited to, changes in tax laws, regulations and/or rates, changing interpretations of existing tax laws or regulations, and changes to overall levels of pre-tax earnings. Changes in these estimates, judgments or factors may result in an increase or decrease to the Company's deferred tax assets and liabilities with a related increase or decrease in the Company's provision for income taxes.

### **Results of Consolidated Operations**

#### **2018 Compared to 2017**

Total revenues increased by \$2,693,000, or 1.0%, to \$279,619,000 for 2018 from \$276,926,000 for the fiscal year 2017. Contributing to this increase in total revenues was a \$26,890,000 increase in gains on investments and other assets, a \$5,517,000 increase in insurance premiums and other considerations, a \$4,850,000 increase in net investment income, a \$1,204,000 increase in other revenues, a \$1,069,000 increase in net cemetery and mortuary sales, and a \$774,000 decrease in other than temporary impairments. This increase in total revenues was offset by a \$37,611,000 decrease in mortgage fee income.

Insurance premiums and other considerations increased by \$5,517,000, or 7.8%, to \$75,929,000 for 2018, from \$70,412,000 for the comparable period in 2017. This increase was due to an increase in renewal premiums primarily from the resurgence of the Company's Final Expense block of business along with improved persistency.

Net investment income increased by \$4,850,000, or 13.8%, to \$39,913,000 for 2018, from \$35,063,000 for the comparable period in 2017. This increase was primarily attributable to a \$5,967,000 increase in interest from mortgage loans held for investment, a \$1,482,000 increase in insurance assignment income, a \$721,000 increase in income from cash and cash equivalents, a \$312,000 decrease in investment expenses, and a \$122,000 increase in income from other investments. This increase was partially offset by a \$3,078,000 decrease in rental income from real estate held for investment, a \$585,000 decrease in fixed maturity securities income, a \$79,000 decrease in policy loan income, and a \$12,000 decrease in equity securities income.

Net mortuary and cemetery sales increased by \$1,069,000, or 8.4%, to \$13,726,000 for 2018, from \$12,657,000 for the comparable period in 2017. This increase was primarily due to a \$519,000 increase in at-need sales in the mortuary operations, a \$282,000 increase in at-need sales in the cemetery operations, and a \$268,000 increase in pre-need sales in the cemetery operations.

Gains on investments and other assets increased by \$26,890,000, or 912.0%, to \$23,941,000 in gains for 2018, from \$2,949,000 in losses for the comparable period in 2017. This increase in gains on investments and other assets was primarily due to a \$20,829,000 increase in a gains from the sale of real estate held for investment primarily due to the gain realized from the sale of Dry Creek at East Village Apartments, a \$4,979,000 decrease in impairment losses on real estate held for investment, a \$1,573,000 gain realized on the sale of other assets primarily due to the sale of assets of Deseret Mortuary, a \$568,000 increase in gains on fixed maturity securities, and \$387,000 in gains from the sale of mortgage loans held for investment. This increase was partially offset by a \$1,318,000 increase in net losses on equity securities primarily attributable to decreases in the fair value of these securities and a \$128,000 decrease in gains from call and put option derivatives. Due to the adoption of Accounting Standards Update (“ASU”) 2016-01, the changes in the fair value of equity securities are now recognized in earnings instead of other comprehensive income. See the discussion of the adoption of this ASU in Note 1 of the notes to the consolidated financial statements.

Other than temporary impairments on investments decreased by \$774,000, or 100.0%, to \$-0- for 2018 from \$774,000 for the comparable period in 2017. This decrease was primarily attributable to a \$493,000 decrease in impairments on fixed maturity securities held to maturity and a \$281,000 decrease in impairments on equity securities available for sale.

Mortgage fee income decreased by \$37,611,000, or 24.5%, to \$116,186,000 for 2018, from \$153,797,000 for the comparable period in 2017. This decrease was primarily due to a decline in mortgage loan originations that was indicative of the mortgage loan industry as a whole. The decline in mortgage loan originations was primarily caused by a national shortage of available new housing for mortgage loan origination transactions, and the decline in mortgage loan refinancings, which were primarily caused by recent increases in interest rates on mortgage loans. Additionally, the decline in mortgage originations has resulted in a decline in fees earned from third-party investors that purchase mortgage loans from the Company.

Other revenues increased by \$1,204,000, or 13.8%, to \$9,923,000 for 2018 from \$8,719,000 for the comparable period in 2016. This increase was primarily due to a \$494,000 increase in transaction fees from funding insurance assignments, a \$396,000 increase in mortgage servicing revenues, and a \$318,000 increase in other miscellaneous revenues in the life insurance segment.

Total benefits and expenses were \$253,438,000, or 90.6% of total revenues for 2018, as compared to \$269,394,000, or 97.3% of total revenues, for the comparable period in 2017.

Death benefits, surrenders and other policy benefits, and future policy benefits increased by an aggregate of \$3,799,000, or 6.4%, to \$63,517,000 for 2018, from \$59,718,000 for the comparable period in 2017. This increase was primarily the result of a \$3,043,000 increase in death benefits, a \$709,000 increase in future policy benefits, and a \$47,000 increase in surrenders and other policy benefits.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$3,151,000, or 37.2%, to \$11,631,000 for 2018, from \$8,480,000 for the comparable period in 2017. This increase was primarily due to an increase in the average outstanding balance of deferred policy and pre-need acquisition costs.

Selling, general and administrative expenses decreased by \$24,039,000, or 12.4%, to \$169,174,000 for 2018, from \$193,213,000 for the comparable period in 2017. This decrease was primarily due to a \$17,812,000 decrease in commission expenses due to the decline in mortgage loan originations, a \$2,960,000 decrease in personnel expenses due to a reduction in mortgage loan originators, a \$2,239,000 decrease in costs related to funding mortgage loans, a \$1,152,000 decrease in advertising expenses, a \$1,105,000 decrease in rent and rent related expenses, and a \$354,000 decrease in depreciation on property and equipment. This decrease was partially offset by a \$1,583,000 increase in other expenses.

Interest expense increased by \$919,000, or 15.2%, to \$6,956,000 for 2018, from \$6,037,000 for the comparable period in 2017. This increase was primarily due to a \$429,000 increase in interest expense on mortgage warehouse lines, a \$411,000 increase in interest expense on bank loans for real estate held for investment, and a \$79,000 increase in other interest expense.

Cost of goods and services sold of the cemeteries and mortuaries increased by \$213,000, or 10.9%, to \$2,159,000 for 2018, from \$1,946,000 for the comparable period in 2017. This increase was primarily due to a \$174,000 increase in costs related to cemetery pre-need sales and a \$59,000 increase in costs related to mortuary at-need sales.

Income tax expense increased by \$11,075,000, or 168.3%, to a \$4,494,311 expense for 2018, from a \$6,580,822 benefit for the comparable period in 2017. The 2017 income tax benefit included a \$8,973,722 benefit primarily due to re-measuring deferred tax assets and liabilities as a result of the Tax Act the President signed into law on December 22, 2017. Net of this 2017 benefit, income tax expense increased by \$2,101,000, or 87.8%, for 2018 primarily due to an increase in earnings before income taxes for 2018 compared to 2017.

## Risks

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

**Legal and Regulatory Risks.** Changes in the legal or regulatory environment in which the Company operates may 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.

**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 could 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 initial reserve for loan losses in years ended December 31, 2018 and 2017 were \$1,148,000 and \$1,851,000, respectively, and the charge has been included in mortgage fee income. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2018 and 2017, the balances were \$3,605,000 and \$2,572,000, respectively. The Company believes the loan loss reserve represent probable loan losses incurred as of December 31, 2018. There is a risk, however, that future loan losses may exceed the loan loss reserve.

At various times third-party investors have asserted 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 loan purchase agreements involving SecurityNational Mortgage. As a result of these claims, third-party investors have made demands at times 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 \$3,605,000 as of December 31, 2018 to settle all such investor related claims. The Company believes that the reserve for mortgage loan losses, which includes provisions for probable losses and indemnification on loans held for sale, 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.

As of December 31, 2018, the Company's mortgage loans held for investment portfolio consisted of \$3,639,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$1,727,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$3,639,000 in mortgage loans with delinquencies more than 90 days. During the twelve months ended December 31, 2018, the Company decreased its allowance for loan losses by \$415,000 and during the twelve months ended December 31, 2017, the Company increased its allowance for loan losses by \$20,000, which was charged to bad debt expense and included in selling, general and administrative expenses for the period. The allowances for loan losses as of December 31, 2018 and 2017 were \$1,348,000 and \$1,769,000, respectively.

**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 and mortuary products. This change in rates may cause certain interest-sensitive products to become uncompetitive or may cause disintermediation. The Company mitigates this risk by charging fees for non-conformance with certain policy provisions, by offering products that transfer this risk to the purchaser, and 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 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.

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

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

During the twelve months ended December 31, 2018, the Company's operations provided cash of \$7,009,000. This was primarily due to an increase in cash collected on receivables and other assets. During the twelve months ended December 31, 2017, the Company's operations provided cash of \$44,318,000. This was primarily due to an increase in cash collected on loans held for sale.

The Company's liability for future policy benefits is expected to be paid out over the long-term due to the Company's market niche of selling funeral plans. Funeral plans are small face value life insurance that will pay the costs and expenses incurred at the time of a person's death. A person generally will keep these policies in force and will not surrender them prior to a person's death. Because of the long-term nature of these liabilities, the Company is able to hold to maturity its bonds, real estate and mortgage loans thus reducing the risk of 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 held for sale on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$231,976,000 and \$227,774,000 as of December 31, 2018 and 2017, respectively. This represents 38.9% and 35.1% of the total investments as of December 31, 2018, and 2017, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At December 31, 2018, 3.6% (or \$8,413,000) and at December 31, 2017, 5.4% (or \$12,293,000) 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 its fixed income securities 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 held for investment.

See Note 7 of the Notes to Consolidated Financial Statements for a description of the Company's sources of liquidity.

If market conditions were to cause interest rates to change, the fair value of the Company's fixed income portfolio, which includes bonds, preferred stock, and mortgage loans held for investment, could change by the following amounts based on the respective basis point swing (the change in the fair values were calculated using a modeling technique):

|                                     | -200<br>bps | -100<br>bps | +100<br>bps | +200<br>bps |
|-------------------------------------|-------------|-------------|-------------|-------------|
| Change in Fair Value (in thousands) | \$ 33,296   | \$ 14,306   | \$ (16,683) | \$ (26,016) |

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, 2018 and 2017, the capital levels of the life insurance subsidiaries exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, and bank loans and other loans payable was \$359,172,000 as of December 31, 2018, as compared to \$306,019,000 as of December 31, 2017. Stockholders' equity as a percent of total capitalization was 47.8% and 48.5% as of December 31, 2018 and December 31, 2017, respectively. Bank loans and other loans payable increased by \$30,070,000 for the twelve months ended December 31, 2018 as compared to December 31, 2017, thus limiting the increase in the stockholders' equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance was 9.9% in 2018 as compared to a rate of 10.6% for 2017.

At December 31, 2018, the combined statutory capital and surplus of the Company's life insurance subsidiaries was \$56,155,000. 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.

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 expenses 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; (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, 2018, the Company was contingently liable under a standby letter of credit aggregating \$625,405, 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.

At December 31, 2018, the Company was contingently liable under a standby letter of credit aggregating \$48,220, issued as a security deposit 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. 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 this letter of credit is zero.

The total of the Company's unfunded residential construction loan and land development loan commitments as of December 31, 2018, was approximately \$24,987,000.

In 2016, the Company, through its wholly-owned subsidiary 5300 Development, LLC, entered into a Construction Loan Agreement with a bank. Under the terms of this Agreement, the Company agrees to pay the bank the current outstanding principal up to \$40,740,000 plus interest. These funds are being used for the construction of phase 1 of the Company's new Center53 corporate campus development in Salt Lake City, Utah. As of December 31, 2018, the Company has used \$30,797,000 of these funds.

### Contractual Obligations

The Company's contractual obligations as of December 31, 2018, and the payments due by period are shown in the following table:

|                                 | Less than<br>1 year  | 1-3 years           | 4-5 years           | over<br>5 years      | Total                |
|---------------------------------|----------------------|---------------------|---------------------|----------------------|----------------------|
| Non-cancelable operating leases | \$ 5,579,386         | \$ 5,256,399        | \$ 1,498,562        | \$ 2,339,371         | \$ 14,673,718        |
| Bank and other loans payable    | 165,219,632          | 4,531,733           | 677,324             | 17,092,499           | 187,521,188          |
| Future policy benefits (1)      | 10,059,350           | 32,349,703          | 41,093,510          | 527,830,219          | 611,332,782          |
|                                 | <u>\$180,858,368</u> | <u>\$42,137,835</u> | <u>\$43,269,396</u> | <u>\$547,262,089</u> | <u>\$813,527,688</u> |

(1) Amounts represent the present value of future policy benefits, net of estimated future premiums.

## Casualty Insurance Program

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. The maximum exposure to loss related to the Company's involvement with this entity is limited to approximately \$625,405, which is collateralized under a standby letter of credit issued on the insurance entity's behalf. See Note 10, "Reinsurance, Commitments and Contingencies," for additional discussion of commitments associated with the insurance program.

## Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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

## Item 8. Financial Statements and Supplementary Data

### INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

|  | <u>Page No.</u> |
|--|-----------------|
| Financial Statements:  |                 |
| Report of Independent Registered Public Accounting Firm  | 30              |
| Consolidated Balance Sheets, December 31, 2018 and 2017  | 31              |
| Consolidated Statements of Earnings for the Years Ended December 31, 2018 and 2017             | 33              |
| Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2018 and 2017 | 34              |
| Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2018 and 2017 | 35              |
| Consolidated Statements of Cash Flows for the Years Ended December 31, 2018 and 2017           | 36              |
| Notes to Consolidated Financial Statements   | 38              |



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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Security National Financial Corporation:

### Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Security National Financial Corporation and subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes and the schedules listed in the Index at Item 15 (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

### Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting 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.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Salt Lake City, UT

March 29, 2019

We have served as the Company's auditor since 2017.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS

| Assets  | December 31             |                       |
|---|-------------------------|-----------------------|
|   | 2018                    | 2017                  |
| Investments:  |                         |                       |
| Fixed maturity securities, held to maturity, at amortized cost  | \$ 232,078,723          | \$ 228,397,623        |
| Equity securities, available for sale, at estimated fair value  | 5,558,611               | 6,037,855             |
| Mortgage loans held for investment (net of allowances for loan losses of \$1,347,972 and \$1,768,796 for 2018 and 2017)     | 186,465,069             | 204,210,885           |
| Real estate held for investment (net of accumulated depreciation of \$16,739,578 and \$18,788,869 for 2018 and 2017)        | 121,558,222             | 141,298,706           |
| Other investments and policy loans (net of allowances for doubtful accounts of \$1,092,528 and \$846,641 for 2018 and 2017) | 46,617,655              | 45,895,472            |
| Accrued investment income   | 3,566,146               | 3,644,077             |
| <b>Total investments</b>  | <b>595,844,426</b>      | <b>629,484,618</b>    |
| Cash and cash equivalents   | 142,199,942             | 45,315,661            |
| Loans held for sale at estimated fair value   | 136,210,853             | 133,414,188           |
| Receivables (net of allowances for doubtful accounts of \$1,519,842 and \$1,544,518 for 2018 and 2017)                      | 8,935,343               | 10,443,869            |
| Restricted assets (including \$744,673 for 2018 and \$809,958 for 2017 at estimated fair value)                             | 10,981,562              | 11,830,621            |
| Cemetery perpetual care trust investments (including \$483,353 for 2018 and \$682,315 for 2017 at estimated fair value)     | 4,335,869               | 4,623,563             |
| Receivable from reinsurers  | 10,820,102              | 13,394,603            |
| Cemetery land and improvements  | 9,878,427               | 9,942,933             |
| Deferred policy and pre-need contract acquisition costs   | 89,362,096              | 80,625,304            |
| Mortgage servicing rights, net  | 20,016,822              | 21,376,937            |
| Property and equipment, net   | 7,010,778               | 8,069,380             |
| Value of business acquired  | 5,765,190               | 6,588,759             |
| Goodwill  | 2,765,570               | 2,765,570             |
| Other   | 6,684,143               | 4,297,048             |
| <b>Total Assets</b>   | <b>\$ 1,050,811,123</b> | <b>\$ 982,173,054</b> |

See accompanying notes to consolidated financial statements.

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

|   | December 31             |                       |
|---|-------------------------|-----------------------|
|   | 2018                    | 2017                  |
| <b>Liabilities and Stockholders' Equity</b>   |                         |                       |
| <b>Liabilities</b>  |                         |                       |
| Future policy benefits and unpaid claims  | \$ 620,399,714          | \$ 604,746,951        |
| Unearned premium reserve  | 3,920,473               | 4,222,410             |
| Bank and other loans payable  | 187,521,188             | 157,450,925           |
| Deferred pre-need cemetery and mortuary contract revenues   | 12,508,625              | 12,873,068            |
| Cemetery perpetual care obligation  | 3,821,979               | 3,710,740             |
| Accounts payable  | 2,883,349               | 3,613,100             |
| Other liabilities and accrued expenses  | 31,821,624              | 29,655,087            |
| Income taxes  | 16,122,998              | 17,332,783            |
| <b>Total liabilities</b>  | <b>878,999,950</b>      | <b>833,605,064</b>    |
| <b>Stockholders' Equity</b>   |                         |                       |
| <b>Preferred Stock:</b>   |                         |                       |
| Preferred stock - non-voting-\$1.00 par value; 5,000,000 shares authorized; none issued or outstanding  | -                       | -                     |
| <b>Common Stock:</b>  |                         |                       |
| Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 15,304,798 shares in 2018 and 14,535,577 shares in 2017          | 30,609,596              | 29,071,154            |
| Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding                                    | -                       | -                     |
| Class C: convertible common stock - \$2.00 par value; 3,000,000 shares authorized; issued 2,193,643 shares in 2018 and 2,089,374 shares in 2017 | 4,387,286               | 4,178,748             |
| Additional paid-in capital  | 41,821,778              | 38,125,042            |
| Accumulated other comprehensive income, net of taxes  | (2,823)                 | 603,170               |
| Retained earnings   | 95,201,732              | 77,520,951            |
| Treasury stock, at cost - 302,541 Class A shares and -0- Class C shares in 2018; 537,203 Class A shares and -0- Class C shares in 2017          | (206,396)               | (931,075)             |
| <b>Total stockholders' equity</b>   | <b>171,811,173</b>      | <b>148,567,990</b>    |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 1,050,811,123</b> | <b>\$ 982,173,054</b> |

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF EARNINGS

|   | Years Ended December 31 |                      |
|---|-------------------------|----------------------|
|   | 2018                    | 2017                 |
| <b>Revenues:</b>  |                         |                      |
| Insurance premiums and other considerations   | \$ 75,928,910           | \$ 70,412,476        |
| Net investment income   | 39,913,267              | 35,062,968           |
| Net mortuary and cemetery sales   | 13,726,518              | 12,657,117           |
| Gains (losses) on investments and other assets  | 23,941,179              | (2,948,482)          |
| Other than temporary impairments on investments   | -                       | (774,339)            |
| Mortgage fee income   | 116,185,853             | 153,797,171          |
| Other   | 9,923,000               | 8,719,179            |
| <b>Total revenues</b>   | <b>279,618,727</b>      | <b>276,926,090</b>   |
| <b>Benefits and expenses:</b>   |                         |                      |
| Death benefits  | 36,298,789              | 33,256,001           |
| Surrenders and other policy benefits  | 2,886,298               | 2,839,017            |
| Increase in future policy benefits  | 24,332,088              | 23,622,750           |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 11,631,346              | 8,480,250            |
| Selling, general and administrative expenses:   |                         |                      |
| Commissions   | 50,291,352              | 68,103,017           |
| Personnel   | 67,368,952              | 70,328,830           |
| Advertising   | 4,602,591               | 5,754,740            |
| Rent and rent related   | 7,605,375               | 8,710,694            |
| Depreciation on property and equipment  | 1,867,001               | 2,220,693            |
| Costs related to funding mortgage loans   | 6,423,944               | 8,663,223            |
| Other   | 31,014,999              | 29,431,599           |
| Interest expense  | 6,956,707               | 6,037,332            |
| Cost of goods and services sold – mortuaries and cemeteries                                   | 2,158,895               | 1,945,832            |
| <b>Total benefits and expenses</b>  | <b>253,438,337</b>      | <b>269,393,978</b>   |
| <b>Earnings before income taxes</b>   | <b>26,180,390</b>       | <b>7,532,112</b>     |
| Income tax benefit (expense)  | (4,494,311)             | 6,580,822            |
| <b>Net earnings</b>   | <b>\$ 21,686,079</b>    | <b>\$ 14,112,934</b> |
| <b>Net earnings per Class A equivalent common share (1)</b>                                   | <b>\$ 1.27</b>          | <b>\$ 0.84</b>       |
| <b>Net earnings per Class A equivalent common share - assuming dilution (1)</b>               | <b>\$ 1.25</b>          | <b>\$ 0.82</b>       |
| Weighted average Class A equivalent common shares outstanding (1)                             | 17,105,308              | 16,794,146           |
| Weighted average Class A equivalent common shares outstanding-assuming dilution (1)           | 17,315,406              | 17,123,427           |

(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. Net earnings per common share represent net earnings per equivalent Class A common share.

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

|  | <b>Years Ended December 31</b> |                      |
|--|--------------------------------|----------------------|
|  | <b>2018</b>                    | <b>2017</b>          |
| <b>Net earnings</b>                                  | <b>\$ 21,686,079</b>           | <b>\$ 14,112,934</b> |
| <b>Other comprehensive income:</b>                   |                                |                      |
| Unrealized gains on equity securities                | -                              | 511,974              |
| Unrealized gains on derivative instruments           | -                              | 3,308                |
| Foreign currency translation adjustments             | (3,761)                        | -                    |
| Other comprehensive income, before income tax        | (3,761)                        | 515,282              |
| Income tax benefit (expense)                         | 938                            | (176,934)            |
| Other comprehensive income (loss), net of income tax | (2,823)                        | 338,348              |
| <b>Comprehensive income</b>                          | <b>\$ 21,683,256</b>           | <b>\$ 14,451,282</b> |

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

|   | Class A<br>Common<br>Stock | Class C<br>Common<br>Stock | Additional<br>Paid-in<br>Capital | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Retained<br>Earnings | Treasury<br>Stock   | Total                 |
|---|----------------------------|----------------------------|----------------------------------|--|----------------------|---------------------|-----------------------|
| <b>Balance at December 31, 2016</b>   | 27,638,012                 | 3,804,458                  | 34,813,246                       | 264,822  | 67,409,204           | (1,370,611)         | 132,559,131           |
| Net earnings  | -                          | -                          | -                                | -  | 14,112,934           | -                   | 14,112,934            |
| Other comprehensive income  | -                          | -                          | -                                | 338,348  | -                    | -                   | 338,348               |
| Stock based compensation expense  | -                          | -                          | 395,603                          | -  | -                    | -                   | 395,603               |
| Exercise of stock options   | 16,366                     | 206,804                    | (213,323)                        | -  | -                    | -                   | 9,847                 |
| Sale of treasury stock  | -                          | -                          | 712,591                          | -  | -                    | 822,270             | 1,534,861             |
| Purchase of treasury stock  | -                          | -                          | -                                | -  | -                    | (382,734)           | (382,734)             |
| Stock dividends   | 1,385,270                  | 198,992                    | 2,416,925                        | -  | (4,001,187)          | -                   | -                     |
| Conversion Class C to Class A   | 31,506                     | (31,506)                   | -                                | -  | -                    | -                   | -                     |
| <b>Balance at December 31, 2017</b>   | 29,071,154                 | 4,178,748                  | 38,125,042                       | 603,170  | 77,520,951           | (931,075)           | 148,567,990           |
| Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-01) | -                          | -                          | -                                | (603,170)  | 603,170              | -                   | -                     |
| Net earnings  | -                          | -                          | -                                | -  | 21,686,079           | -                   | 21,686,079            |
| Other comprehensive income  | -                          | -                          | -                                | (2,823)  | -                    | -                   | (2,823)               |
| Stock based compensation expense  | -                          | -                          | 237,123                          | -  | -                    | -                   | 237,123               |
| Exercise of stock options   | 76,946                     | -                          | (19,534)                         | -  | -                    | -                   | 57,412                |
| Sale of treasury stock  | -                          | -                          | 540,713                          | -  | -                    | 940,200             | 1,480,913             |
| Purchase of treasury stock  | -                          | -                          | -                                | -  | -                    | (215,521)           | (215,521)             |
| Stock dividends   | 1,461,120                  | 208,914                    | 2,938,434                        | -  | (4,608,468)          | -                   | -                     |
| Conversion Class C to Class A   | 376                        | (376)                      | -                                | -  | -                    | -                   | -                     |
| <b>Balance at December 31, 2018</b>   | <u>\$ 30,609,596</u>       | <u>\$ 4,387,286</u>        | <u>\$ 41,821,778</u>             | <u>\$ (2,823)</u>                                      | <u>\$ 95,201,732</u> | <u>\$ (206,396)</u> | <u>\$ 171,811,173</u> |

See accompanying notes to consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS

|  | Years Ended December 31 |                     |
|--|-------------------------|---------------------|
|  | 2018                    | 2017                |
| <b>Cash flows from operating activities:</b>   |                         |                     |
| Net earnings   | \$ 21,686,079           | \$ 14,112,934       |
| Adjustments to reconcile net earnings to net cash provided by operating activities:          |                         |                     |
| Losses (gains) on investments and other assets   | (23,941,179)            | 2,948,482           |
| Other than temporary impairments on investments  | -                       | 774,339             |
| Depreciation   | 5,456,185               | 6,280,438           |
| Provision for loan losses and doubtful accounts  | 377,683                 | 1,154,071           |
| Net amortization of deferred fees and costs, premiums and discounts                          | (1,110,363)             | 96,509              |
| Provision for deferred income taxes  | (2,605,401)             | (7,752,028)         |
| Policy and pre-need acquisition costs deferred   | (19,544,569)            | (19,005,268)        |
| Policy and pre-need acquisition costs amortized  | 10,807,777              | 7,498,709           |
| Value of business acquired amortized   | 823,569                 | 981,541             |
| Mortgage servicing rights, additions   | (3,922,816)             | (6,085,352)         |
| Amortization of mortgage servicing rights  | 5,282,931               | 3,580,777           |
| Stock based compensation expense   | 237,123                 | 395,603             |
| Benefit plans funded with treasury stock   | 1,480,913               | 1,534,861           |
| Net change in fair value of loans held for sale  | (3,736,209)             | (4,180,777)         |
| Originations of loans held for sale  | (2,194,607,543)         | (2,545,755,713)     |
| Proceeds from sales of loans held for sale   | 2,259,145,473           | 2,671,097,747       |
| Net gains on sales of loans held for sale  | (74,426,183)            | (105,368,129)       |
| Change in assets and liabilities:  |                         |                     |
| Land and improvements held for sale  | 64,506                  | 86,574              |
| Future policy benefits and unpaid claims   | 21,710,347              | 22,815,274          |
| Other operating assets and liabilities   | 3,830,947               | (892,550)           |
| Net cash provided by operating activities  | <u>7,009,270</u>        | <u>44,318,042</u>   |
| <b>Cash flows from investing activities:</b>   |                         |                     |
| Purchases of fixed maturity securities   | (37,488,774)            | (61,232,155)        |
| Calls and maturities of fixed maturity securities  | 32,993,161              | 15,773,732          |
| Purchase of equity securities  | (3,354,274)             | (5,301,353)         |
| Sales of equity securities   | 2,886,492               | 9,430,548           |
| Purchases of short-term investments  | -                       | (32,865,263)        |
| Sales of short-term investments  | -                       | 60,425,303          |
| Net changes in restricted assets   | (241,665)               | (310,360)           |
| Net changes in cemetery perpetual care trust investments                                     | 1,207,622               | (245,548)           |
| Mortgage loans held for investment, other investments and policy loans made                  | (505,060,464)           | (455,821,383)       |
| Payments received for mortgage loans held for investment, other investments and policy loans | 535,354,544             | 433,033,724         |
| Purchases of property and equipment  | (1,282,704)             | (911,007)           |
| Sales of property and equipment  | 2,016,156               | 24,978              |
| Purchases of real estate held for investment   | (29,193,332)            | (14,751,923)        |
| Sales of real estate held for investment   | 68,875,269              | 13,784,541          |
| Cash paid for purchase of subsidiaries, net of cash acquired                                 | (3,405,783)             | -                   |
| Net cash provided by (used in) investing activities  | <u>63,306,248</u>       | <u>(38,966,166)</u> |

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

|   | <b>Years Ended December 31</b> |                             |
|---|--------------------------------|-----------------------------|
|   | <b>2018</b>                    | <b>2017</b>                 |
| <b>Cash flows from financing activities:</b>  |                                |                             |
| Investment contract receipts  | \$ 11,571,551                  | \$ 12,213,843               |
| Investment contract withdrawals   | (15,356,571)                   | (14,912,154)                |
| Proceeds from stock options exercised   | 57,412                         | 9,847                       |
| Purchase of treasury stock  | (215,521)                      | (382,734)                   |
| Repayment of bank loans   | (133,123,024)                  | (2,796,258)                 |
| Proceeds from bank borrowings   | 162,653,177                    | 19,660,744                  |
| Net change in warehouse line borrowings for loans held for sale                               | (717,792)                      | (11,585,534)                |
| Net change in line of credit borrowings   | 1,250,000                      | -                           |
| Net cash provided by financing activities   | <u>26,119,232</u>              | <u>2,207,754</u>            |
| <b>Net change in cash, cash equivalents, restricted cash and restricted cash equivalents</b>  | <b>96,434,750</b>              | <b>7,559,630</b>            |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year  | 54,501,923                     | 46,942,293                  |
| <b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year</b> | <b><u>\$ 150,936,673</u></b>   | <b><u>\$ 54,501,923</u></b> |

**Supplemental Disclosure of Cash Flow Information:**

|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Cash paid during the year for:       |              |              |
| Interest (net of amount capitalized) | \$ 6,878,048 | \$ 5,976,461 |
| Income taxes                         | 5,701,565    | 581,556      |

**Non Cash Investing and Financing Activities:**

|  |               |               |
|--|---------------|---------------|
| Transfer of loans held for sale to mortgage loans held for investment              | \$ 10,827,797 | \$ 39,932,516 |
| Accrued real estate construction costs and retainage                               | 214,200       | 258,961       |
| Mortgage loans held for investment foreclosed into real estate held for investment | 670,601       | 1,576,196     |
| Transfer of cemetery land and improvements to property and equipment               | -             | 643,329       |

See Note 20 regarding non cash transactions included in the acquisition of Beta Capital Corporation.

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

|   | <b>Years Ended December 31</b> |                      |
|---|--------------------------------|----------------------|
|   | <b>2018</b>                    | <b>2017</b>          |
| Cash and cash equivalents   | \$ 142,199,942                 | \$ 45,315,661        |
| Restricted assets   | 7,179,225                      | 8,188,764            |
| Cemetery perpetual care trust investments                                     | 1,557,506                      | 997,498              |
| Total cash, cash equivalents, restricted cash and restricted cash equivalents | <u>\$ 150,936,673</u>          | <u>\$ 54,501,923</u> |

See accompanying notes to consolidated financial statements.

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 mortgages. 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 eight mortuaries and five cemeteries in Utah and one cemetery in California. The mortgage 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 Florida, Nevada, Texas, and Utah.

**Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The presentation of certain amounts in prior years has been reclassified to conform to the 2018 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.

**Use of Estimates**

Management of the Company has made a number of estimates and assumptions related to the reported amounts of assets and liabilities, reported amounts of revenues and expenses, and the disclosure of contingent assets and liabilities to prepare these financial statements in conformity with GAAP. Actual results could differ from those estimates.

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

**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.

Equity securities are carried at estimated fair value. Changes in fair values are reported as unrealized appreciation or depreciation and are recorded through net income.

1. Significant Accounting Policies (Continued)

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

Mortgage loans are secured by the underlying property and require an appraisal at the time of underwriting and funding. Generally, the Company will fund a loan not to exceed 80% of the loan's collateral fair market value. Amounts over 80% will require additional collateral or mortgage insurance by an approved third-party insurer.

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 fair value upon foreclosure.

Other investments and policy loans are carried at the aggregate unpaid balances, less allowances for possible losses.

Short-term investments are carried at cost and consist of money market funds.

Gains and losses on investments (except for equity securities carried at fair value through net income) 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 instruments purchased with an original maturity of three months or less to be cash equivalents. 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.

**Loans Held for Sale**

Mortgage loans held for sale prior to July 1, 2017 were carried at the lower of cost or market net of direct selling revenues and costs. Based on the short-term nature of these assets, the Company had no related allowance for loan losses recorded for these assets. On July 1, 2017, the Company elected the fair value option for loans held for sale. See Note 3 and Note 17 to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

**Mortgage Fee Income**

Mortgage fee income consists of origination fees, processing fees, interest income and certain other income related to the origination of mortgage loans held for sale. Mortgage loans held for sale prior to July 1, 2017 were shown on the Company's consolidated balance sheets at the lower of cost or market and all revenues and costs were deferred until the loans were sold to a third-party investor. On July 1, 2017, the Company made an election to use fair value accounting for all mortgage loans that are held for sale. Accordingly, all revenues and costs are now recognized when the mortgage loan is funded and any changes in fair value are shown as a component of mortgage fee income. See Note 3 and Note 17 to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

The Company, through its mortgage subsidiaries, sells mortgage loans to third-party investors without recourse unless defects are identified in the representations and warranties made at loan sale. It may be required, however, to repurchase a loan or pay a fee instead of repurchase under certain events, which include the following:

1. Significant Accounting Policies (Continued)

- 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.

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 mortgage fee income that was to be received from a third-party investor is written off against the loan loss reserve.

**Determining Lower of Cost or Fair Value**

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

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

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, thus minimizing credit risk. 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.

The majority of loans originated are sold to third-party investors. The amounts expected to be sold to investors are shown on the consolidated balance sheets as loans held for sale.

**Loan Loss Reserve**

The loan loss reserve is an estimate of probable losses at the balance sheet date that the Company will realize in the future on loans held for sale. 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.

1. Significant Accounting Policies (Continued)

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 and is included as a component of mortgage fee income. Subsequent updates to the recorded liability from changes in assumptions are recorded in selling, general and administrative expenses. The estimated liability for indemnification losses is included in other liabilities and accrued expenses.

The loan loss reserve analysis involves mortgage loans that have been sold to third-party investors, which were believed to have met investor underwriting guidelines at the time of sale, 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.

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date.

Additional information related to the Loan Loss Reserve is included in Note 3.

**Restricted Assets**

Restricted assets are assets held in a trust account for future mortuary services and merchandise and consist of cash and cash equivalents; participations in mortgage loans held for investment with Security National Life Insurance Company ("Security National Life"); mutual funds carried at estimated fair value; equity securities carried at estimated fair value; and a surplus note with Security National Life (which is eliminated in consolidation). Restricted assets also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for certain real estate construction development projects. Additionally, the Company elected to fund its medical benefit safe-harbor limit based on 35% of the qualified direct costs for the preceding year, and has included this amount as a component of restricted cash.

**Cemetery Perpetual Care Trust Investments**

Cemetery endowment care trusts have been set up for four of the six cemeteries owned by the Company. 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.

**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.

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 GAAP 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 real estate owned 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. Contractual servicing fees and late fees are included in other revenues on the consolidated statements of earnings.

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. Amortization expense is included in other expenses on the consolidated statements of earnings. MSR amortization is determined by amortizing the MSR balance in proportion to, and over the period of the estimated future net servicing income of the underlying financial assets.

Interest rate risk, prepayment risk, and default risk are inherent risks in MSR valuation. Interest rate changes largely drive prepayment rates. Refinance activity generally increases as rates decline. A significant decrease in rates beyond expectation could cause a decline in the value of the MSR. On the contrary, if rates increase borrowers are less likely to refinance or prepay their mortgage, which extends the duration of the loan and MSR values are likely to rise. Because of these risks, discount rates and prepayment speeds are used to estimate the fair value.

1. Significant Accounting Policies (Continued)

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

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

**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 paid for by the Company as a lessee are amortized over the lesser of the useful life or remaining lease terms.

**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.

**Derivative Instruments**

Mortgage Banking Derivatives

Loan Commitments

The Company is exposed to price risk due to the potential impact of changes in interest rates on the values of loan commitments from the time a loan commitment is made to an applicant to the time the loan that would result from the exercise of that loan commitment is funded. Managing price risk is complicated by the fact that the ultimate percentage of loan commitments that will be exercised (i.e., the number of loans that will be funded) fluctuates. The probability that a loan will not be funded or the loan application is denied or withdrawn within the terms of the commitment is driven by a number of factors, particularly the change, if any, in mortgage rates following the issuance of the loan commitment.

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

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted mortgage-backed securities ("MBS") prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued and is shown net of expenses. Following issuance, the value of a loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans.

1. Significant Accounting Policies (Continued)

Forward Sale Commitments

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

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

Call and Put Option Derivatives

The Company uses a strategy of selling “out of the money” call options on its equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company uses the strategy of selling put options as a means of generating cash or purchasing equity securities at lower than current market prices. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for options is adjusted to fair value at each reporting date. In the event a call option is exercised, the Company sells the equity security at a favorable price enhanced by the value of the option that was sold. If the option expires unexercised, the Company recognizes a gain from the sale of the option. In the event a put option is exercised, the Company acquires an equity security at the strike price of the option reduced by the value received from the sale of the put option. The equity security is then treated as a normal equity security in the Company’s portfolio. The net changes in the fair value of call and put options are shown in current earnings as a component of realized gains (losses) on investments and other assets. Call and put options are shown in other liabilities and accrued expenses on the consolidated balance sheets.

**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 held for investment, other investments and receivables in accordance with GAAP.

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.

The Company provides for losses on its mortgage loans held for investment through an allowance for loan losses (a contra-asset account). The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company’s historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment, the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. 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 real estate held for investment. The Company will rent the properties until it is deemed desirable to sell them.

1. Significant Accounting Policies (Continued)

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

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

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

Residential - Secured by family dwelling units. These loans are secured by first and second mortgages on the unit. The borrower's ability to repay is sensitive to the life events and general economic condition of the region. Where loan to values exceed 80%, the loan is generally guaranteed by private mortgage insurance, FHA or VA.

Residential construction (including land acquisition and development) - Underwritten in accordance with the Company's underwriting policies which include a financial analysis of the builders, borrowers (guarantors), construction cost estimates, and independent appraisal valuations. These loans will rely on the value associated with the project upon completion. These cost and valuation estimates may be inaccurate. Construction loans generally involve the disbursement of substantial funds over a short period of time with repayment substantially dependent upon the success of the completed project and the ability of the borrower to secure long-term financing. Additionally, land is underwritten according to the Company's policies, which include independent appraisal valuations as well as the estimated value associated with the land upon completion of development into finished lots. These cost and valuation estimates may be inaccurate. These loans are considered to be of a higher risk than other mortgage loans due to their ultimate repayment being sensitive to general economic conditions, availability of long-term or construction financing, and interest rate sensitivity.

**Future Policy Benefits and Unpaid Claims**

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% 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%.

The Company records an unpaid claims liability for claims in the course of settlement equal to the death benefit amount less any reinsurance recoverable amount for claims reported. There is also an unpaid claims liability for claims incurred but not reported. This liability is based on the historical experience of the net amount of claims that were reported in reporting periods subsequent to the reporting period when claims were incurred.

1. Significant Accounting Policies (Continued)

**Participating Insurance**

Participating business constituted 2% of insurance in force for the years ended 2018 and 2017. 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.

**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.

**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 performance obligations are fulfilled (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 GAAP. Under GAAP, recognition of revenue and associated costs from constructed cemetery property must be deferred until 10% 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 GAAP. 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.

1. Significant Accounting Policies (Continued)

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.

**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.

**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 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 Option Pricing Model. Stock option compensation expense is recognized over the period during which an employee is required to provide service in exchange for the award and is included in personnel expenses on the consolidated statements of earnings.

**Concentration of Credit Risk**

For a description of the geographic concentration risk regarding mortgage loans held for investment and real estate held for investment, refer to Note 2 of the Notes to Consolidated Financial Statements.

**Advertising**

The Company expenses advertising costs as incurred.

1. Significant Accounting Policies (Continued)

**Recent Accounting Pronouncements**

**Accounting Standards Adopted in 2018**

Accounting Standards Update (“ASU”) No. 2017-01: “Business Combinations (Topic 805): Clarifying the Definition of a Business” – Issued in January 2017, ASU 2017-01 intends to clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. Under the current implementation guidance in Topic 805, there are three elements of a business: inputs, processes, and outputs. While an integrated set of assets and activities, collectively referred to as a “set,” that is a business usually has outputs, outputs are not required to be present. ASU 2017-01 provides a screen to determine when a set is not a business. The screen requires that when substantially all of the fair value of the gross assets acquired (or disposed of) is concentrated in a single identifiable asset or a group of similar identifiable assets, the set is not a business. While the Company’s acquisitions have historically been classified as either business combinations or asset acquisitions, certain acquisitions that were classified as business combinations by the Company would have been considered asset acquisitions under the new standard. As a result, transaction costs may be capitalized more often since the Company expects some of its future acquisitions to be classified as asset acquisitions under this new standard. ASU 2017-01 was adopted by the Company on January 1, 2018 and it will be applied prospectively to transactions occurring after the adoption date, as applicable.

ASU No. 2016-18: “Statement of Cash Flows (Topic 230): Restricted Cash” – Issued in November 2016, ASU 2016-18 requires restricted cash and cash equivalents to be included with cash and cash equivalents in the consolidated statement of cash flows and disclose the nature of the restrictions on cash and cash equivalents. The Company currently discloses the restrictions on cash and cash equivalents in Note 8 of the Notes to Consolidated Financial Statements in the Company’s Annual Report on Form 10-K and will continue these disclosures. Note 8 also discloses the components of the Company’s restricted assets and cemetery perpetual care trust investments which include restricted cash and cash equivalents. ASU 2016-18 was adopted by the Company on January 1, 2018. The Company previously presented changes in restricted cash and cash equivalents under investing activities on the consolidated statements of cash flows. Upon adoption of ASU 2016-18, the Company amended the presentation in the consolidated statements of cash flows to include the restricted cash and cash equivalents with cash and cash equivalents and retrospectively reclassified all periods presented. The amounts of restricted cash and cash equivalents reclassified are summarized in the reconciliation at the bottom of the consolidated statement of cash flows. The adoption of this standard does not impact the Company’s total cash and cash equivalents but is a change in presentation within the consolidated statements of cash flows.

ASU No. 2016-01: “Financial Instruments – Overall (Topic 825-10)” – Issued in January 2016, ASU 2016-01 changes the accounting for non-consolidated equity investments that are not accounted for under the equity method of accounting by requiring changes in fair value to be recognized in income. The Company adopted this standard on January 1, 2018 using the modified retrospective approach with the cumulative effect of the adoption made to the balance sheet as of the date of adoption. Thus, the adoption resulted in a reclassification of the related accumulated net unrealized gains of \$603,170 included in accumulated other comprehensive income as of December 31, 2017 to retained earnings. Under previous guidance, changes in fair value for investments of this nature were recognized in accumulated other comprehensive income as a component of stockholders’ equity. Additionally, ASU 2016-01 simplifies the impairment assessment of equity investments without readily determinable fair values; requires entities to use the exit price when estimating the fair value of financial instruments; and modifies various presentation disclosure requirements for financial instruments. The Company holds equity securities that were previously measured at fair value with changes in fair value recognized through other comprehensive income. Upon adoption of ASU 2016-01 the Company now recognizes the changes in the fair value of these equity securities through earnings as part of gains on investments and other assets on the condensed consolidated statements of earnings, thus increasing the volatility of the Company’s earnings. The adoption of this standard does not significantly affect the Company’s comprehensive income or stockholders’ equity.

1) Significant Accounting Policies (Continued)

ASU No. 2014-09: "Revenue from Contracts with Customers (Topic 606)" - Issued in May 2014, ASU 2014-09 supersedes the revenue recognition requirements in ASC Topic 605, "Revenue Recognition". ASU 2014-09 clarifies the principles for recognizing revenue in order to improve comparability of revenue recognition practices across entities and industries. ASU 2014-09 provides guidance to assist in the identification of contracts with customers and separate performance obligations within those contracts, the determination and allocation of the transaction price to those identified performance obligations and the recognition of revenue when a performance obligation has been satisfied. ASU 2014-09 also requires disclosures regarding the nature, amount, timing, and uncertainty of revenues and cash flows from contracts with customers. Premiums and related fees from insurance contracts and mortgage banking revenues are excluded from the scope of this new guidance.

The Company adopted this standard on January 1, 2018 using a modified retrospective approach. No cumulative effect adjustment was made to beginning retained earnings. The Company's revenues from contracts with customers that are subject to ASU 2014-09 include revenues on mortuary and cemetery contracts, which is less than 5% of the Company's total revenues. The recognition and measurement of these items did not change as a result of the Company's adoption of ASU 2014-09 and thus the adoption of ASU 2014-09 does not significantly impact the Company's condensed consolidated statements of earnings or condensed consolidated statements of cash flows. The Company reclassified \$856,479 of amounts due from customers for unfulfilled performance obligations on cancelable pre-need contracts from Receivables, net to Deferred pre-need cemetery and mortuary contract revenues on the Company's condensed consolidated balance sheets.

The standard primarily impacts the manner in which the Company recognizes a) certain nonrefundable up-front fees and b) incremental costs to acquire new pre-need funeral trust contracts and pre-need and at-need cemetery contracts (i.e., selling costs). The nonrefundable fees will continue to be deferred and recognized as revenue when the underlying goods and services are delivered to the customer. The incremental selling costs will continue to be deferred and amortized by specific identification to the delivery of the underlying goods and services. Additionally, the amounts due from customers for undelivered performance obligations on cancelable pre-need contracts represent contract assets, which are required to be netted with deferred pre-need cemetery and mortuary contract revenues, instead of receivables on the Company's consolidated balance sheets.

**Accounting Standards Adopted in 2019**

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

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

The Company implemented a third-party lease accounting system to assist with the measurement of the lease liabilities and the related right-of-use assets. The Company compiled an inventory of its leases, determined the appropriate discount rates and has determined the impact of this standard which is not material to the Company's results of operations, but has an effect on the balance sheet presentation for leased assets and obligations. The Company will recognize a right-of-use asset and related lease liability for approximately \$12,076,000 on January 1, 2019. The right-of-use asset will be presented on the line item Property and equipment, net on the consolidated balance sheets. The lease liability will be presented on the line item Other liabilities and accrued expenses on the consolidated balance sheets. Interest expense on finance leases will be presented on the line item Interest expense on the consolidated statements of earnings. Amortization of the right-of-use assets for finance leases will be presented on the line item Depreciation on property and equipment on the consolidated statements of earnings. Lease expense for operating leases will be presented on the line item Rent and rent related expenses on the consolidated statements of earnings. Required disclosures will also be provided in the notes to consolidated financial statements. This standard did not impact the Company's accounting for leases where the Company is the lessor.

1) Significant Accounting Policies (Continued)

**Accounting Standards Issued But Not Yet Adopted**

ASU No. 2016-13: “Financial Instruments – Credit Losses (Topic 326)” – Issued in September 2016, ASU 2016-13 amends guidance on reporting credit losses for assets held at amortized cost basis (such as mortgage loans and held to maturity debt securities) and available for sale debt securities. For assets held at amortized cost basis, Topic 326 eliminates the probable initial recognition threshold in current general accepted accounting principles (“GAAP”) and, instead, requires an entity to reflect its current estimate of all expected credit losses. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of the financial assets to present the net amount expected to be collected. For available for sale debt securities, credit losses should be measured in a manner similar to current GAAP, however Topic 326 will require that credit losses be presented as an allowance rather than as a write-down. The new authoritative guidance will be effective for the Company on January 1, 2020. The Company is in the process of evaluating the potential impact of this standard.

ASU No. 2018-13: “Fair Value Measurement (Topic 820): Disclosure Framework-Changes to the Disclosure Requirements for Fair Value Measurement” – Issued in August 2018, ASU 2018-13 modifies the disclosure requirements of Topic 820 by removing, modifying or adding certain disclosures. Among the changes, entities will no longer be required to disclose the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy, but will be required to disclose the range and weighted average used to develop significant unobservable inputs for Level 3 fair value measurements. ASU 2018-13 does not change the fair value measurements already required or permitted by existing standards. This new authoritative guidance will be effective for the Company on January 1, 2020. The Company is in the process of evaluating the potential impact of this standard, which is not expected to materially impact the Company’s financial statements.

ASU No. 2018-12: “Financial Services – Insurance (Topic 944): Targeted Improvements to the Accounting for Long-Duration Contracts” – Issued in August 2018, ASU 2018-12 is intended to improve the timeliness of recognizing changes in the liability for future policy benefits and modify the rate used to discount future cash flows. The ASU will simplify and improve the accounting for certain market-based options or guarantees associated with deposit or account balance contracts, simplify amortization of deferred acquisition costs while improving and expanding required disclosures. This new authoritative guidance will be effective for the Company on January 1, 2021. The Company is in the process of evaluating the potential impact of this standard.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments

The Company's investments as of December 31, 2018 are summarized as follows:

|   | <u>Amortized<br/>Cost</u>   | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|---|-----------------------------|---------------------------------------|--|-------------------------------------|
| <u>December 31, 2018:</u>   |                             |                                       |  |                                     |
| Fixed maturity securities held to maturity carried at amortized cost: |                             |                                       |  |                                     |
| U.S. Treasury securities and obligations of U.S. Government agencies  | \$ 52,017,683               | \$ 264,891                            | \$ (727,798)                           | \$ 51,554,776                       |
| Obligations of states and political subdivisions                      | 6,959,237                   | 32,274                                | (111,271)                              | 6,880,240                           |
| Corporate securities including public utilities                       | 157,639,860                 | 7,002,864                             | (3,704,137)                            | 160,938,587                         |
| Mortgage-backed securities  | 15,358,746                  | 227,398                               | (308,864)                              | 15,277,280                          |
| Redeemable preferred stock  | <u>103,197</u>              | <u>1,903</u>                          | <u>(5,125)</u>                         | <u>99,975</u>                       |
| <b>Total fixed maturity securities held to maturity</b>               | <b><u>\$232,078,723</u></b> | <b><u>\$ 7,529,330</u></b>            | <b><u>\$ (4,857,195)</u></b>           | <b><u>\$234,750,858</u></b>         |
| Equity securities at estimated fair value:                            |                             |                                       |  |                                     |
| Common stock:   |                             |                                       |  |                                     |
| Industrial, miscellaneous and all other                               | \$ 6,312,158                | \$ 422,528                            | \$ (1,176,075)                         | \$ 5,558,611                        |
| <b>Total equity securities at estimated fair value</b>                | <b><u>\$ 6,312,158</u></b>  | <b><u>\$ 422,528</u></b>              | <b><u>\$ (1,176,075)</u></b>           | <b><u>\$ 5,558,611</u></b>          |
| Mortgage loans held for investment at amortized cost:                 |                             |                                       |  |                                     |
| Residential   | \$ 89,935,600               |                                       |  |                                     |
| Residential construction  | 71,366,544                  |                                       |  |                                     |
| Commercial  | 27,785,927                  |                                       |  |                                     |
| Less: Unamortized deferred loan fees, net                             | (1,275,030)                 |                                       |  |                                     |
| Less: Allowance for loan losses                                       | <u>(1,347,972)</u>          |                                       |  |                                     |
| <b>Total mortgage loans held for investment</b>                       | <b><u>\$186,465,069</u></b> |                                       |  |                                     |
| Real estate held for investment - net of accumulated depreciation:    |                             |                                       |  |                                     |
| Residential   | \$ 29,507,431               |                                       |  |                                     |
| Commercial  | <u>92,050,791</u>           |                                       |  |                                     |
| <b>Total real estate held for investment</b>                          | <b><u>\$121,558,222</u></b> |                                       |  |                                     |
| Other investments and policy loans at amortized cost:                 |                             |                                       |  |                                     |
| Policy loans  | \$ 6,424,325                |                                       |  |                                     |
| Insurance assignments   | 35,239,396                  |                                       |  |                                     |
| Federal Home Loan Bank stock (1)                                      | 2,548,700                   |                                       |  |                                     |
| Other investments   | 3,497,762                   |                                       |  |                                     |
| Less: Allowance for doubtful accounts                                 | <u>(1,092,528)</u>          |                                       |  |                                     |
| <b>Total policy loans and other investments</b>                       | <b><u>\$ 46,617,655</u></b> |                                       |  |                                     |
| Accrued investment income   | <u>\$ 3,566,146</u>         |                                       |  |                                     |
| <b>Total investments</b>  | <b><u>\$595,844,426</u></b> |                                       |  |                                     |

(1) Includes \$708,700 of Membership stock and \$1,840,000 of Activity stock due to short-term borrowings.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The Company's investments as of December 31, 2017 are summarized as follows:

|   | <u>Amortized<br/>Cost</u> | <u>Gross<br/>Unrealized<br/>Gains</u> | <u>Gross<br/>Unrealized<br/>Losses</u> | <u>Estimated<br/>Fair<br/>Value</u> |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
| <u>December 31, 2017:</u>   |                           |                                       |  |                                     |
| Fixed maturity securities held to maturity carried at amortized cost: |                           |                                       |  |                                     |
| U.S. Treasury securities and obligations of U.S. Government agencies  | \$ 54,077,069             | \$ 211,824                            | \$ (579,423)                           | \$ 53,709,470                       |
| Obligations of states and political subdivisions                      | 5,843,176                 | 112,372                               | (71,013)                               | 5,884,535                           |
| Corporate securities including public utilities                       | 158,350,727               | 14,336,452                            | (1,007,504)                            | 171,679,675                         |
| Mortgage-backed securities  | 9,503,016                 | 210,652                               | (162,131)                              | 9,551,537                           |
| Redeemable preferred stock  | 623,635                   | 49,748                                | (191)                                  | 673,192                             |
| Total fixed maturity securities held to maturity                      | <u>\$228,397,623</u>      | <u>\$14,921,048</u>                   | <u>\$ (1,820,262)</u>                  | <u>\$241,498,409</u>                |
| Equity securities at estimated fair value:                            |                           |                                       |  |                                     |
| Common stock:   |                           |                                       |  |                                     |
| Industrial, miscellaneous and all other                               | \$ 6,002,931              | \$ 667,593                            | \$ (632,669)                           | \$ 6,037,855                        |
| Total equity securities at estimated fair value                       | <u>\$ 6,002,931</u>       | <u>\$ 667,593</u>                     | <u>\$ (632,669)</u>                    | <u>\$ 6,037,855</u>                 |
| Mortgage loans held for investment at amortized cost:                 |                           |                                       |  |                                     |
| Residential   | \$ 102,527,111            |                                       |  |                                     |
| Residential construction  | 50,157,533                |                                       |  |                                     |
| Commercial  | 54,954,865                |                                       |  |                                     |
| Less: Unamortized deferred loan fees, net                             | (1,659,828)               |                                       |  |                                     |
| Less: Allowance for loan losses                                       | (1,768,796)               |                                       |  |                                     |
| Total mortgage loans held for investment                              | <u>\$204,210,885</u>      |                                       |  |                                     |
| Real estate held for investment - net of accumulated depreciation:    |                           |                                       |  |                                     |
| Residential   | \$ 68,329,917             |                                       |  |                                     |
| Commercial  | 72,968,789                |                                       |  |                                     |
| Total real estate held for investment                                 | <u>\$141,298,706</u>      |                                       |  |                                     |
| Other investments and policy loans at amortized cost:                 |                           |                                       |  |                                     |
| Policy loans  | \$ 6,531,352              |                                       |  |                                     |
| Insurance assignments   | 36,301,739                |                                       |  |                                     |
| Federal Home Loan Bank stock (1)                                      | 689,400                   |                                       |  |                                     |
| Other investments   | 3,219,622                 |                                       |  |                                     |
| Less: Allowance for doubtful accounts                                 | (846,641)                 |                                       |  |                                     |
| Total policy loans and other investments                              | <u>\$ 45,895,472</u>      |                                       |  |                                     |
| Accrued investment income   | <u>\$ 3,644,077</u>       |                                       |  |                                     |
| Total investments   | <u>\$629,484,618</u>      |                                       |  |                                     |

(1) Membership stock of \$689,400

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

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, 2018 and 2017. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration with the fair value of the related fixed maturity securities:

|  | Unrealized<br>Losses for<br>Less than<br>Twelve<br>Months | Fair Value           | Unrealized<br>Losses for<br>More than<br>Twelve<br>Months | Fair Value           | Total<br>Unrealized<br>Loss | Fair Value            |
|--|---|----------------------|---|----------------------|-----------------------------|-----------------------|
| <u>At December 31, 2018</u>  |   |                      |   |                      |                             |                       |
| U.S. Treasury Securities and<br>Obligations of U.S. Government<br>Agencies | \$ 10,519   | \$ 695,863           | \$ 717,279  | \$39,930,052         | \$ 727,798                  | \$ 40,625,915         |
| Obligations of States and Political<br>Subdivisions                        | 6,643   | 1,791,257            | 104,628   | 2,889,517            | 111,271                     | 4,680,774             |
| Corporate Securities   | 2,514,549   | 61,090,431           | 1,189,588   | 11,767,349           | 3,704,137                   | 72,857,780            |
| Mortgage and other asset-backed<br>securities                              | 79,896  | 1,705,296            | 228,968   | 2,690,065            | 308,864                     | 4,395,361             |
| Redeemable preferred stock   | 5,125   | 90,000               | -   | -                    | 5,125                       | 90,000                |
| <b>Total unrealized losses</b>   | <b>\$ 2,616,732</b>                                       | <b>\$ 65,372,847</b> | <b>\$ 2,240,463</b>                                       | <b>\$ 57,276,983</b> | <b>\$ 4,857,195</b>         | <b>\$ 122,649,830</b> |
| <u>At December 31, 2017</u>  |   |                      |   |                      |                             |                       |
| U.S. Treasury Securities and<br>Obligations of U.S. Government<br>Agencies | \$ 532,010  | \$ 51,606,699        | \$ 47,413   | \$ 643,380           | \$ 579,423                  | \$ 52,250,079         |
| Obligations of States and Political<br>Subdivisions                        | 296   | 214,882              | 70,717  | 2,225,021            | 71,013                      | 2,439,903             |
| Corporate Securities   | 167,786   | 11,551,865           | 839,718   | 13,193,258           | 1,007,504                   | 24,745,123            |
| Mortgage and other asset-backed<br>securities                              | 56,756  | 2,516,660            | 105,375   | 1,676,494            | 162,131                     | 4,193,154             |
| Redeemable preferred stock   | 191   | 11,421               | -   | -                    | 191                         | 11,421                |
| <b>Total unrealized losses</b>   | <b>\$ 757,039</b>   | <b>\$ 65,901,527</b> | <b>\$ 1,063,223</b>                                       | <b>\$ 17,738,153</b> | <b>\$ 1,820,262</b>         | <b>\$ 83,639,680</b>  |

There were 361 securities with fair value of 96.2% of amortized cost at December 31, 2018. There were 141 securities with fair value of 97.9% of amortized cost at December 31, 2017. During the years ended December 31, 2018 and 2017, an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of \$-0- and \$493,371, respectively.

On a quarterly basis, the Company evaluates its fixed maturity securities held to maturity. This evaluation includes a review of current ratings by the National Association of Insurance Commissions ("NAIC"). Securities with a rating of 1 or 2 are considered investment grade and are not reviewed for impairment. Securities with ratings of 3 to 5 are evaluated for impairment. Securities with a rating of 6 are automatically determined to be impaired and are written down. The evaluation involves an analysis of the securities in relation to historical values, interest payment history, projected earnings and revenue growth rates as well as a review of the reason for a downgrade in the NAIC rating. Based on the analysis of a security that is rated 3 to 5, a determination is made whether the security will likely make interest and principal payments in accordance with the terms of the financial instrument. If it is unlikely that the security will meet contractual obligations, the loss is considered to be other than temporary, the security is written down to the new anticipated market value and an impairment loss is recognized. Impairment losses are treated as credit losses as the Company holds fixed maturity securities to maturity unless the underlying conditions have changed in the financial instrument to require an impairment.

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at December 31, 2018, 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<br>Cost    | Estimated<br>Fair<br>Value |
|----------------------------|----------------------|----------------------------|
| Held to Maturity:          |                      |                            |
| Due in 1 year              | \$ 17,363,658        | \$ 17,513,419              |
| Due in 2-5 years           | 66,215,222           | 66,479,844                 |
| Due in 5-10 years          | 66,450,299           | 65,793,696                 |
| Due in more than 10 years  | 66,587,601           | 69,586,644                 |
| Mortgage-backed securities | 15,358,746           | 15,277,280                 |
| Redeemable preferred stock | 103,197              | 99,975                     |
| Total held to maturity     | <u>\$232,078,723</u> | <u>\$234,750,858</u>       |

The Company is a member of the Federal Home Loan Bank of Des Moines ("FHLB"). The Company currently has deposited a total of \$50,000,000, par value, of United States Treasury fixed maturity securities with the FHLB. These securities will generate interest income for the Company and will be available to use as collateral on any cash borrowings from the FHLB. As of December 31, 2018, the Company owed \$46,000,000 to the FHLB. This amount owed was paid in January 2019.

**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, 2017. The unrealized losses were primarily the result of decreases in fair value in the retail, industrial and energy sectors. 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<br>Losses for<br>Less than<br>Twelve<br>Months | No. of<br>Investment<br>Positions | Unrealized<br>Losses for<br>More than<br>Twelve<br>Months | No. of<br>Investment<br>Positions | Total<br>Unrealized<br>Losses |
|---|---|-----------------------------------|---|-----------------------------------|-------------------------------|
| <u>At December 31, 2017</u>             |   |                                   |   |                                   |                               |
| Industrial, miscellaneous and all other | \$ 213,097  | 98                                | \$ 419,572  | 81                                | \$ 632,669                    |
| Total unrealized losses                 | <u>\$ 213,097</u>   | <u>98</u>                         | <u>\$ 419,572</u>   | <u>81</u>                         | <u>\$ 632,669</u>             |
| Fair Value                              | <u>\$ 847,718</u>   |                                   | <u>\$ 1,329,213</u>                                       |                                   | <u>\$ 2,176,931</u>           |

The average market value of the equity securities available for sale was 77.5% of the original investment as of December 31, 2017. 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.

The fair values for equity securities are based on quoted market prices.

See Note 1 regarding the adoption of ASU 2016-01 on January 1, 2018. The Company now recognizes the changes (unrealized gains and losses) in the fair value of these equity securities through earnings as part of gains on investments and other assets on the consolidated statements of earnings instead of other comprehensive income on the consolidated balance sheets.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The Company's net realized gains and losses from sales, calls, and maturities, and other than temporary impairments from investments and other assets for the years ended December 31 are summarized as follows:

|   | 2018                 | 2017                  |
|---|----------------------|-----------------------|
| Fixed maturity securities held to maturity:                   |                      |                       |
| Gross realized gains  | \$ 522,937           | \$ 179,182            |
| Gross realized losses   | (669,303)            | (893,567)             |
| Other than temporary impairments                              | -                    | (493,371)             |
| Equity securities:  |                      |                       |
| Gross realized gains  | -                    | 166,950               |
| Gross realized losses   | -                    | (76,475)              |
| Other than temporary impairments                              | -                    | (280,968)             |
| Losses during 2018 on securities sold in 2018 (1)             | (173,413)            | -                     |
| Unrealized losses on securities held at the end of the period | (1,053,756)          | -                     |
| Other assets:   |                      |                       |
| Gross realized gains  | 26,553,814           | 3,410,076             |
| Gross realized losses   | (1,239,100)          | (5,734,648)           |
| Total   | <u>\$ 23,941,179</u> | <u>\$ (3,722,821)</u> |

(1) Based on losses since the last reporting period

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

The carrying amount for disposals of securities classified as held to maturity was \$5,808,244 and \$2,932,961, for the years ended December 31, 2018 and 2017, respectively. The net realized loss related to these disposals was \$268,823 and \$463,892, for the years ended December 31, 2018 and 2017, respectively. Although the intent is to buy and hold a bond to maturity, the Company will sell a bond prior to maturity if conditions have changed within the entity that issued the bond to increase the risk of default to an unacceptable level.

Major categories of net investment income for the years ended December 31, are as follows:

|  | 2018                 | 2017                 |
|--|----------------------|----------------------|
| Fixed maturity securities held to maturity | \$ 10,041,349        | \$ 10,626,400        |
| Equity securities                          | 233,555              | 245,490              |
| Mortgage loans held for investment         | 18,716,226           | 12,749,000           |
| Real estate held for investment            | 8,375,257            | 11,453,525           |
| Policy loans                               | 409,589              | 488,561              |
| Insurance assignments                      | 14,771,336           | 13,289,818           |
| Other investments                          | 227,930              | 105,218              |
| Cash and cash equivalents                  | 1,264,611            | 543,528              |
| Gross investment income                    | 54,039,853           | 49,501,540           |
| Investment expenses                        | (14,126,586)         | (14,438,572)         |
| Net investment income                      | <u>\$ 39,913,267</u> | <u>\$ 35,062,968</u> |

Net investment income includes net investment income earned by the restricted assets of the cemeteries and mortuaries of \$386,659 and \$501,227 for the years ended December 31, 2018 and 2017, respectively.

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

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 \$9,220,520 and \$9,264,977 at December 31, 2018 and 2017, respectively. The restricted securities are included in various assets under investments on the accompanying consolidated balance sheets.

**Real Estate Held for Investment**

The Company continues to strategically deploy resources into real estate to match the income and yield durations of its primary obligations. The sources for these real estate assets come through its various business segments in the form of acquisition, development and mortgage foreclosures. The Company reports real estate held for investment pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

Commercial Real Estate Held for Investment

The Company owns and manages commercial real estate assets as a means of generating investment income. These assets are acquired in accordance with the Company's goals and objectives for risk-adjusted returns. Due diligence is conducted on each asset using internal and third-party reports. Geographic locations and asset classes of the investment activity is determined by senior management under the direction of the Board of Directors.

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

The Company currently owns and operates 11 commercial properties in 4 states. These properties include industrial warehouses, office buildings, retail centers, a restaurant, and includes the redevelopment and expansion of its corporate campus ("Center53") in Salt Lake City, Utah. The Company also holds undeveloped land that may be used for future commercial developments. The Company does use debt in strategic cases to leverage established yields or to acquire a higher quality or different class of asset.

The aggregated net ending balance of commercial real estate that serves as collateral for bank borrowings was approximately \$84,880,000 and \$64,704,000 as of December 31, 2018 and 2017, respectively. The associated bank loan carrying values totaled approximately \$52,237,000 and \$40,994,000 as of December 31, 2018 and 2017, respectively.

During the years ended December 31, 2018 and 2017, the Company recorded impairment losses on commercial real estate held for investment of \$-0- and \$5,350,967, respectively. These impairment losses are included in gains (losses) on investment and other assets on the consolidated statements of earnings.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The Company's investment in commercial real estate for the years ended December 31, is summarized as follows:

|             | Net Ending Balance |               | Total Square Footage |         |
|-------------|--------------------|---------------|----------------------|---------|
|             | 2018               | 2017          | 2018                 | 2017    |
| Arizona     | \$ 4,000 (1)       | \$ 4,000 (1)  | -                    | -       |
| Arkansas    | -                  | 96,169        | -                    | 3,200   |
| Kansas      | 6,861,898          | 7,200,000     | 222,679              | 222,679 |
| Louisiana   | 467,694            | 493,197       | 7,063                | 7,063   |
| Mississippi | 3,329,948          | 3,725,039     | 33,821               | 33,821  |
| New Mexico  | 7,000 (1)          | 7,000 (1)     | -                    | -       |
| Texas       | 300,000            | 335,000       | -                    | -       |
| Utah        | 81,080,251 (2)     | 61,108,384    | 502,129              | 433,244 |
|             | \$ 92,050,791      | \$ 72,968,789 | 765,692              | 700,007 |

(1) Includes Vacant Land

(2) Includes 53rd Center completed in July 2017

Residential Real Estate Held for Investment

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

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

As of December 31, 2018, SNRE manages 78 residential properties in 7 states across the United States.

The net ending balance of residential real estate that serves as collateral for a bank borrowing was approximately \$- and \$34,431,000, as of December 31, 2018 and 2017, respectively. The associated bank loan carrying value was approximately \$- and \$26,773,000 as of December 31, 2018 and 2017, respectively. This bank borrowing related to the Company's Dry Creek at East Village apartment complex which was sold in March 2018.

During the years ended December 31, 2018 and 2017, the Company recorded impairment losses on residential real estate held for investment of \$486,457 and \$114,052, respectively. These impairment losses are included in gains (losses) on investment and other assets on the consolidated statements of earnings.

The net ending balance of foreclosed residential real estate included in residential real estate held for investment is approximately \$23,532,000 and \$33,372,000 as of December 31, 2018 and 2017, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The Company's investment in residential real estate for the years ended December 31, is summarized as follows:

|            | Net Ending Balance   |                      |
|------------|----------------------|----------------------|
|            | 2018                 | 2017                 |
| Arizona    | \$ -                 | \$ 217,105           |
| California | 2,644,321            | 5,463,878            |
| Florida    | 6,534,277            | 7,000,684            |
| Hawaii     | -                    | 712,286              |
| Ohio       | 10,000               | 10,000               |
| Oklahoma   | -                    | 17,500               |
| Tennessee  | 105,260              | -                    |
| Texas      | 139,174              | 509,011              |
| Utah       | 19,598,218           | 54,113,272           |
| Washington | 476,181              | 286,181              |
|            | <u>\$ 29,507,431</u> | <u>\$ 68,329,917</u> |

Real Estate Owned and Occupied by the Company.

The primary business units of the Company occupy a portion of the real estate owned by the Company. Currently, the Company occupies nearly 70,000 square feet, or 10% of the overall commercial real estate holdings.

As of December 31, 2018, real estate owned and occupied by the Company is summarized as follows:

| Location                                    | Business Segment   | Approximate<br>Square Footage | Square<br>Footage<br>Occupied by<br>the<br>Company |
|---|--|-------------------------------|--|
| 5300 South 360 West, Salt Lake City, UT (1) | Corporate Offices, Life Insurance and Cemetery/Mortuary Operations | 36,000                        | 100%   |
| 5201 Green Street, Salt Lake City, UT       | Mortgage Operations  | 36,899                        | 34%  |
| 1044 River Oaks Dr., Flowood, MS            | Life Insurance Operations  | 21,521                        | 27%  |
| 121 West Election Road, Draper, UT          | Mortgage Sales   | 78,978                        | 19%  |

(1) This asset is included in property and equipment on the consolidated balance sheets

**Mortgage Loans Held for Investment**

The Company reports mortgage loans held for investment pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

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, 2018, the Company had 48%, 14%, 13%, 6% and 6% of its mortgage loans from borrowers located in the states of Utah, Florida, Texas, California and Nevada, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

The Company establishes a valuation allowance for credit losses in its portfolio. 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 Held for Investment  
Years Ended December 31

|   | <u>Commercial</u>   | <u>Residential</u>   | <u>Residential<br/>Construction</u> | <u>Total</u>         |
|---|---------------------|----------------------|-------------------------------------|----------------------|
| <b><u>2018</u></b>                                    |                     |                      |                                     |                      |
| Allowance for credit losses:                          |                     |                      |                                     |                      |
| Beginning balance                                     | \$ 187,129          | \$ 1,546,447         | \$ 35,220                           | \$ 1,768,796         |
| Charge-offs   | -                   | (5,725)              | -                                   | (5,725)              |
| Provision   | -                   | (415,099)            | -                                   | (415,099)            |
| Ending balance  | <u>\$ 187,129</u>   | <u>\$ 1,125,623</u>  | <u>\$ 35,220</u>                    | <u>\$ 1,347,972</u>  |
| Ending balance: individually evaluated for impairment | <u>\$ -</u>         | <u>\$ 74,185</u>     | <u>\$ -</u>                         | <u>\$ 74,185</u>     |
| Ending balance: collectively evaluated for impairment | <u>\$ 187,129</u>   | <u>\$ 1,051,438</u>  | <u>\$ 35,220</u>                    | <u>\$ 1,273,787</u>  |
| Mortgage loans:                                       |                     |                      |                                     |                      |
| Ending balance  | <u>\$27,785,927</u> | <u>\$ 89,935,600</u> | <u>\$71,366,544</u>                 | <u>\$189,088,071</u> |
| Ending balance: individually evaluated for impairment | <u>\$ 196,182</u>   | <u>\$ 2,939,651</u>  | <u>\$ 502,991</u>                   | <u>\$ 3,638,824</u>  |
| Ending balance: collectively evaluated for impairment | <u>\$27,589,745</u> | <u>\$ 86,995,949</u> | <u>\$70,863,553</u>                 | <u>\$185,449,247</u> |
| <b><u>2017</u></b>                                    |                     |                      |                                     |                      |
| Allowance for credit losses:                          |                     |                      |                                     |                      |
| Beginning balance                                     | \$ 187,129          | \$ 1,461,540         | \$ 100,114                          | \$ 1,748,783         |
| Charge-offs   | -                   | (351,357)            | (64,894)                            | (416,251)            |
| Provision   | -                   | 436,264              | -                                   | 436,264              |
| Ending balance  | <u>\$ 187,129</u>   | <u>\$ 1,546,447</u>  | <u>\$ 35,220</u>                    | <u>\$ 1,768,796</u>  |
| Ending balance: individually evaluated for impairment | <u>\$ -</u>         | <u>\$ 237,560</u>    | <u>\$ -</u>                         | <u>\$ 237,560</u>    |
| Ending balance: collectively evaluated for impairment | <u>\$ 187,129</u>   | <u>\$ 1,308,887</u>  | <u>\$ 35,220</u>                    | <u>\$ 1,531,236</u>  |
| Mortgage loans:                                       |                     |                      |                                     |                      |
| Ending balance  | <u>\$54,954,865</u> | <u>\$102,527,111</u> | <u>\$ 50,157,533</u>                | <u>\$207,639,509</u> |
| Ending balance: individually evaluated for impairment | <u>\$ -</u>         | <u>\$ 4,923,552</u>  | <u>\$ 461,834</u>                   | <u>\$ 5,385,386</u>  |
| Ending balance: collectively evaluated for impairment | <u>\$54,954,865</u> | <u>\$ 97,603,559</u> | <u>\$49,695,699</u>                 | <u>\$202,254,123</u> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

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

Age Analysis of Past Due Mortgage Loans Held for Investment  
Years Ended December 31

|                             | 30-59 Days<br>Past Due     | 60-89 Days<br>Past Due    | Greater<br>Than<br>90 Days 1) | In Process<br>of<br>Foreclosure<br>1) | Total Past<br>Due          | Current                     | Total<br>Mortgage<br>Loans  | Allowance<br>for Loan<br>Losses | Unamortized<br>deferred<br>loan fees,<br>net | Net<br>Mortgage<br>Loans    |
|-----------------------------|----------------------------|---------------------------|-------------------------------|---------------------------------------|----------------------------|-----------------------------|-----------------------------|---------------------------------|--|-----------------------------|
| <b>2018</b>                 |                            |                           |                               |                                       |                            |                             |                             |                                 |  |                             |
| Commercial                  | \$ 4,588,424               | \$ -                      | \$ 196,182                    | \$ -                                  | \$ 4,784,606               | \$ 23,001,321               | \$ 27,785,927               | \$ (187,129)                    | \$ 32,003                                    | \$ 27,630,801               |
| Residential                 | 9,899,380                  | 2,312,252                 | 1,715,362                     | 1,224,289                             | 15,151,283                 | 74,784,317                  | 89,935,600                  | (1,125,623)                     | (862,411)                                    | 87,947,566                  |
| Residential<br>Construction | -                          | -                         | -                             | 502,991                               | 502,991                    | 70,863,553                  | 71,366,544                  | (35,220)                        | (444,622)                                    | 70,886,702                  |
| <b>Total</b>                | <b><u>\$14,487,804</u></b> | <b><u>\$2,312,252</u></b> | <b><u>\$1,911,544</u></b>     | <b><u>\$1,727,280</u></b>             | <b><u>\$20,438,880</u></b> | <b><u>\$168,649,191</u></b> | <b><u>\$189,088,071</u></b> | <b><u>\$(1,347,972)</u></b>     | <b><u>\$(1,275,030)</u></b>                  | <b><u>\$186,465,069</u></b> |
| <b>2017</b>                 |                            |                           |                               |                                       |                            |                             |                             |                                 |  |                             |
| Commercial                  | \$ 1,943,495               | \$ -                      | \$ -                          | \$ -                                  | \$ 1,943,495               | \$ 53,011,370               | \$ 54,954,865               | \$ (187,129)                    | \$ (67,411)                                  | \$ 54,700,325               |
| Residential                 | 6,613,479                  | 495,347                   | 3,591,333                     | 1,332,219                             | 12,032,378                 | 90,494,733                  | 102,527,111                 | (1,546,447)                     | (1,164,130)                                  | 99,816,534                  |
| Residential<br>Construction | -                          | -                         | 461,834                       | -                                     | 461,834                    | 49,695,699                  | 50,157,533                  | (35,220)                        | (428,287)                                    | 49,694,026                  |
| <b>Total</b>                | <b><u>\$ 8,556,974</u></b> | <b><u>\$ 495,347</u></b>  | <b><u>\$4,053,167</u></b>     | <b><u>\$ 1,332,219</u></b>            | <b><u>\$14,437,707</u></b> | <b><u>\$193,201,802</u></b> | <b><u>\$207,639,509</u></b> | <b><u>\$(1,768,796)</u></b>     | <b><u>\$(1,659,828)</u></b>                  | <b><u>\$204,210,885</u></b> |

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, 2018 and 2017

2) Investments (Continued)

Impaired Mortgage Loans Held for Investment

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

|                                     | Impaired Loans<br>Years Ended December 31 |   |                              |  |   |
|-------------------------------------|---|---|------------------------------|--|---|
|                                     | <u>Recorded<br/>Investment</u>            | <u>Unpaid<br/>Principal<br/>Balance</u> | <u>Related<br/>Allowance</u> | <u>Average<br/>Recorded<br/>Investment</u> | <u>Interest<br/>Income<br/>Recognized</u> |
| <b>2018</b>                         |   |   |                              |  |   |
| With no related allowance recorded: |   |   |                              |  |   |
| Commercial                          | \$ 196,182                                | \$ 196,182                              | \$ -                         | \$ 98,023                                  | \$ -                                      |
| Residential                         | 1,612,164                                 | 1,612,164                               | -                            | 2,423,135                                  | -   |
| Residential construction            | 502,991                                   | 502,991                                 | -                            | 675,950                                    | -   |
| With an allowance recorded:         |   |   |                              |  |   |
| Commercial                          | \$ -                                      | \$ -                                    | \$ -                         | \$ -                                       | \$ -                                      |
| Residential                         | 1,327,487                                 | 1,327,487                               | 74,185                       | 1,543,416                                  | -   |
| Residential construction            | -   | -                                       | -                            | -  | -   |
| Total:                              |   |   |                              |  |   |
| Commercial                          | \$ 196,182                                | \$ 196,182                              | \$ -                         | \$ 98,023                                  | \$ -                                      |
| Residential                         | 2,939,651                                 | 2,939,651                               | 74,185                       | 3,966,551                                  | -   |
| Residential construction            | 502,991                                   | 502,991                                 | -                            | 675,950                                    | -   |
| <b>2017</b>                         |   |   |                              |  |   |
| With no related allowance recorded: |   |   |                              |  |   |
| Commercial                          | \$ -                                      | \$ -                                    | \$ -                         | \$ 365,220                                 | \$ -                                      |
| Residential                         | 3,322,552                                 | 3,322,552                               | -                            | 3,290,094                                  | -   |
| Residential construction            | 461,834                                   | 461,834                                 | -                            | 277,232                                    | -   |
| With an allowance recorded:         |   |   |                              |  |   |
| Commercial                          | \$ -                                      | \$ -                                    | \$ -                         | \$ -                                       | \$ -                                      |
| Residential                         | 1,601,000                                 | 1,601,000                               | 237,560                      | 1,350,115                                  | -   |
| Residential construction            | -   | -                                       | -                            | -  | -   |
| Total:                              |   |   |                              |  |   |
| Commercial                          | \$ -                                      | \$ -                                    | \$ -                         | \$ 365,220                                 | \$ -                                      |
| Residential                         | 4,923,552                                 | 4,923,552                               | 237,560                      | 4,640,209                                  | -   |
| Residential construction            | 461,834                                   | 461,834                                 | -                            | 277,232                                    | -   |

Credit Risk Profile Based on Performance Status

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

2) Investments (Continued)

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

Mortgage Loans Held for Investment Credit Exposure  
Credit Risk Profile Based on Payment Activity  
Years Ended December 31

|                | Commercial          |                     | Residential         |                      | Residential Construction |                     | Total                |                      |
|----------------|---------------------|---------------------|---------------------|----------------------|--------------------------|---------------------|----------------------|----------------------|
|                | 2018                | 2017                | 2018                | 2017                 | 2018                     | 2017                | 2018                 | 2017                 |
| Performing     | \$27,589,745        | \$54,954,865        | \$86,995,949        | \$ 97,603,559        | \$70,863,553             | \$49,695,699        | \$185,449,247        | \$202,254,123        |
| Non-performing | 196,182             | -                   | 2,939,651           | 4,923,552            | 502,991                  | 461,834             | 3,638,824            | 5,385,386            |
| Total          | <u>\$27,785,927</u> | <u>\$54,954,865</u> | <u>\$89,935,600</u> | <u>\$102,527,111</u> | <u>\$71,366,544</u>      | <u>\$50,157,533</u> | <u>\$189,088,071</u> | <u>\$207,639,509</u> |

Non-Accrual Mortgage Loans Held for Investment

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Payments received for loans on a non-accrual status are recognized on a cash basis. Interest income recognized from any payments received for loans on a non-accrual status was immaterial. Accrual of interest resumes if a loan is brought current. Interest not accrued on these loans totals approximately \$151,000 and \$204,000 as of December 31, 2018 and 2017, respectively.

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

|                          | Mortgage Loans on Non-accrual Status |                     |
|--------------------------|--------------------------------------|---------------------|
|                          | Years Ended December 31              |                     |
|                          | 2018                                 | 2017                |
| Commercial               | \$ 196,182                           | \$ -                |
| Residential              | 2,939,651                            | 4,923,552           |
| Residential construction | 502,991                              | 461,834             |
| Total                    | <u>\$ 3,638,824</u>                  | <u>\$ 5,385,386</u> |

Principal Amounts Due

The amortized cost and contractual payments on mortgage loans held for investment by category as of December 31, 2018 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             | Principal                | Principal              |
|--------------------------|----------------------|-----------------------|--------------------------|------------------------|
|                          |                      | Amounts Due in 1 Year | Amounts Due in 2-5 Years | Amounts Due Thereafter |
| Residential              | \$ 89,935,600        | \$ 8,208,938          | \$35,797,902             | \$45,928,760           |
| Residential Construction | 71,366,544           | 63,117,270            | 8,249,274                | -                      |
| Commercial               | 27,785,927           | 24,274,744            | 805,176                  | 2,706,007              |
| Total                    | <u>\$189,088,071</u> | <u>\$95,600,952</u>   | <u>\$44,852,352</u>      | <u>\$48,634,767</u>    |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

3) Loans Held for Sale

Fair Value Option Election

ASC No. 825, "Financial Instruments", allows for the option to report certain financial assets and liabilities at fair value initially and at subsequent measurement dates with changes in fair value included in earnings. The option may be applied instrument by instrument, but it is irrevocable. The Company elected the fair value option for loans held for sale originated after July 1, 2017. The Company believes the fair value option most closely aligns the timing of the recognition of gains and costs. These loans are intended for sale and the Company believes that the fair value is the best indicator of the resolution of these loans. Electing fair value also reduces certain timing differences and better matches changes in the fair value of these assets with changes in the fair value of the related derivatives used for these assets.

Interest income is recorded based on the contractual terms of the loan and in accordance with the Company's policy on mortgage loans held for investment and is included in mortgage fee income on the consolidated statement of earnings. None of these loans are 90 or more days past due nor on nonaccrual status as of December 31, 2018. See Note 17 of the Notes to Consolidated Financial Statements for additional disclosures regarding loans held for sale.

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

|                          | As of<br>December 31<br>2018 | As of<br>December 31<br>2017 |
|--------------------------|------------------------------|------------------------------|
| Aggregate fair value     | \$136,210,853                | \$133,414,188                |
| Unpaid principal balance | 131,663,946                  | 129,233,411                  |
| Unrealized gain          | 4,546,907                    | 4,180,777                    |

Mortgage Fee Income

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

Major categories of mortgage fee income for loans held for sale for the years ended December 31, are as follows:

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| Loan fees                                   | \$ 27,429,237        | \$ 40,434,686        |
| Interest income                             | 6,156,796            | 7,089,025            |
| Secondary gains                             | 80,416,718           | 108,756,613          |
| Change in fair value of loan commitments    | (404,773)            | (4,812,743)          |
| Change in fair value of loans held for sale | 3,736,209            | 4,180,777            |
| Provision for loan loss reserve             | (1,148,334)          | (1,851,187)          |
| Mortgage fee income                         | <u>\$116,185,853</u> | <u>\$153,797,171</u> |

**Loan Loss Reserve**

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

3) Loans Held for Sale (Continued)

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

|   | December 31  |              |
|---|--------------|--------------|
|   | 2018         | 2017         |
| Balance, beginning of period                | \$ 2,571,524 | \$ 627,733   |
| Provision for current loan originations (1) | 1,148,334    | 1,851,187    |
| Charge-offs, net of recaptured amounts      | (114,989)    | 92,604       |
| Balance, at December 31                     | \$ 3,604,869 | \$ 2,571,524 |

(1) Included in Mortgage fee income

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. The Company believes there is potential to resolve any alleged claims by third-party investors on acceptable terms. If the Company is unable to resolve such claims on acceptable terms, legal action may ensue. In the event of legal action by any third-party investor, the Company believes it has significant defenses to any such action and intends to vigorously defend itself against such action.

4) Receivables

Receivables consist of the following:

|                                 | December 31  |               |
|---------------------------------|--------------|---------------|
|                                 | 2018         | 2017          |
| Trade contracts                 | \$ 2,816,225 | \$ 3,608,379  |
| Receivables from sales agents   | 3,079,688    | 3,528,703     |
| Other                           | 4,559,272    | 4,851,305     |
| Total receivables               | 10,455,185   | 11,988,387    |
| Allowance for doubtful accounts | (1,519,842)  | (1,544,518)   |
| Net receivables                 | \$ 8,935,343 | \$ 10,443,869 |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

5) Value of Business Acquired and Goodwill

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

|                                    | December 31         |                     |
|------------------------------------|---------------------|---------------------|
|                                    | 2018                | 2017                |
| Balance at beginning of year       | \$ 6,588,759        | \$ 7,570,300        |
| Value of business acquired         | -                   | -                   |
| Imputed interest at 7%             | 421,122             | 39,767              |
| Amortization                       | (1,244,691)         | (1,021,308)         |
| Net amortization charged to income | (823,569)           | (981,541)           |
| Balance at end of year             | <u>\$ 5,765,190</u> | <u>\$ 6,588,759</u> |

Presuming no additional acquisitions, net amortization charged to income is expected to approximate \$821,000, \$737,000, \$685,000, \$637,000, and \$593,000 for the years 2019 through 2023. Actual amortization may vary based on changes in assumptions or experience. As of December 31, 2018, value of business acquired is being amortized over a weighted average life of 6.2 years.

Information with regard to goodwill acquired is as follows:

Goodwill of \$2,765,570 is not amortized but tested annually for impairment. The annual impairment tests resulted in no impairment of goodwill.

The carrying value of the Company's intangible asset is as follows:

|   | Useful Life | December 31       |
|---|-------------|-------------------|
|   |             | 2018              |
| Intangible asset - finite life - customer lists | 15 years    | \$ 890,000        |
| Less accumulated amortization                   |             | (34,611)          |
| Balance at end of year                          |             | <u>\$ 855,389</u> |

6) Property and Equipment

The cost of property and equipment is summarized below:

|                               | December 31         |                     |
|-------------------------------|---------------------|---------------------|
|                               | 2018                | 2017                |
| Land and buildings            | \$ 7,775,922        | \$ 8,689,302        |
| Furniture and equipment       | 16,731,457          | 16,952,404          |
|                               | 24,507,379          | 25,641,706          |
| Less accumulated depreciation | (17,496,601)        | (17,572,326)        |
| Total                         | <u>\$ 7,010,778</u> | <u>\$ 8,069,380</u> |

Depreciation expense for the years ended December 31, 2018 and 2017 was \$1,867,001 and \$2,220,693, respectively. During 2017, the Company transferred \$643,329 of land from cemetery land and improvements to property and equipment. This transfer is shown as a non cash item on the consolidated statements of cash flows.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

7) Bank and Other Loans Payable

Bank and other loans payable are summarized as follows:

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2018                 | 2017                 |
| 6.50% note payable in monthly installments of \$1,702 including principal and interest, collateralized by real property, paid in full in February 2018.  | \$ -                 | \$ 246,847           |
| 3.85% fixed note payable in monthly installments of \$85,419 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, paid in full in January 2018.   | -                    | 85,419               |
| 2.25% above 90 day LIBOR rate note payable in monthly installments of approximately \$125,000, collateralized by real property, paid in full in March 2018.  | -                    | 26,773,058           |
| 2.25% above the monthly LIBOR rate plus 1/16th of the monthly LIBOR rate note payable in monthly principal payments of \$13,167 plus interest, collateralized by real property with a book value of approximately \$4,350,000, due September 2021. | 2,817,775            | 2,975,781            |
| 4.27% fixed note payable in monthly installments of \$53,881 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due November 2021.  | 1,817,905            | 2,372,690            |
| 4.40% fixed note payable in monthly installments of \$46,825 including principal and interest, collateralized by real property with a book value of approximately \$12,479,000, due January 2026.  | 7,492,140            | 7,712,854            |
| 4.329% fixed note payable in monthly installments of \$9,775 including principal and interest, collateralized by real property with a book value of approximately \$3,596,000, due September 2025.   | 1,929,725            | 1,961,573            |
| 2.5% above the monthly LIBOR rate plus 1/16th of the monthly LIBOR rate construction loan payable, collateralized by real property with a book value of approximately \$46,093,000, due August 2019.   | 30,796,861           | 28,343,684           |
| 4.7865% fixed interest only note payable in monthly installments, collateralized by real property with a book value of approximately \$18,362,000, due June 2028.  | 9,200,000            | -                    |
| 1 month LIBOR rate plus 3% loan purchase agreement with a warehouse line availability of \$100,000,000, matures June 2019.   | 60,438,156           | 61,298,220           |
| 1 month LIBOR rate plus 3% loan purchase agreement with a warehouse line availability of \$100,000,000, matures September 2019.  | 25,680,649           | 25,538,378           |
| Other short-term borrowings (1)  | 47,250,000           | -                    |
| Other loans payable  | 97,977               | 142,421              |
| Total bank and other loans   | 187,521,188          | 157,450,925          |
| Less current installments  | 165,219,632          | 88,437,940           |
| Bank and other loans, excluding current installments   | <u>\$ 22,301,556</u> | <u>\$ 69,012,985</u> |

(1) Federal Home Loan Bank and Revolving Lines of Credit

7) Bank and Other Loans Payable (Continued)

**Sources of Liquidity**

Federal Home Loan Bank Membership

The Federal Home Loan Banks (“the FHLBs”) are a group of cooperatives that lending institutions use to finance housing and economic development in local communities. The Company is a member of the FHLB based in Des Moines, Iowa. As a member of the FHLB, the Company is required to maintain a minimum investment in capital stock of the FHLB of Des Moines and may pledge collateral to the bank for advances of funds to be used in its operations.

At December 31, 2018, the amount available for additional FHLB borrowings was approximately \$534,579, compared with \$47,252,871 at December 31, 2017. United States Treasury fixed maturity securities with a carrying value of \$49,342,210 at December 31, 2018 have been pledged at the FHLB of Des Moines as collateral for current and potential borrowings compared with \$49,892,726 at December 31, 2017. At December 31, 2018, the Company had \$46,000,000 of short-term FHLB borrowings outstanding and no long-term FHLB borrowings outstanding. These borrowings bear interest at 2.58% as of December 31, 2018. At December 31, 2018, the Company’s total investment in FHLB stock was \$2,548,700 compared with \$689,400 at December 31, 2017. The Company’s increased investment in FHLB stock was a result of its increase in short-term FHLB borrowings during 2018.

Revolving Lines of Credit

The Company has a \$2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75%, secured by the capital stock of Security National Life and maturing September 30, 2019, renewable annually. At December 31, 2018, the Company was contingently liable under a standby letter of credit aggregating \$625,405, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company’s captive insurance program and under a standby letter of credit aggregating \$48,220 issued as a security deposit 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. These standby letters of credit will draw on the line of credit if necessary. 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, 2018, there were no amounts outstanding under the revolving line-of-credit.

The Company also has a \$2,500,000 revolving line-of-credit with a bank with interest payable at the overnight LIBOR rate plus 2.25% maturing September 30, 2019. As of December 31, 2018, there was \$1,250,000 outstanding under the revolving line-of-credit.

Mortgage Warehouse Lines of Credit

The Company, through its subsidiary SecurityNational Mortgage, has a \$100,000,000 line of credit with Wells Fargo Bank N.A. The agreement charges interest at the 1-Month LIBOR rate plus 3% and matures on June 16, 2019. SecurityNational Mortgage is required to maintain an adjusted tangible net worth of \$19,000,000, unrestricted cash of \$10,000,000, indebtedness to adjusted tangible net worth of 12:1, liquidity overhead coverage of 1.75:1, and a quarterly gross profit of at least \$1.

The Company, through its subsidiary SecurityNational Mortgage, also uses a line of credit with Texas Capital Bank N.A. This agreement with the bank allows SecurityNational Mortgage to borrow up to \$100,000,000 for the sole purpose of funding mortgage loans. SecurityNational Mortgage is currently approved to borrow \$30,000,000 of the \$100,000,000 available. The agreement charges interest at the 1-Month LIBOR rate plus 3% and matures on September 7, 2019. The Company is required to maintain an adjusted tangible net worth of \$70,000,000, unrestricted cash of \$15,000,000, and no two consecutive quarters with a net loss. The Company obtained a waiver from Texas Capital Bank as SecurityNational Mortgage did not meet the requirement of no two consecutive quarters with a loss at December 31, 2018.

The agreements for both warehouse lines include cross default provisions in that a covenant violation under one agreement constitutes a covenant violation under the other agreement. SecurityNational Mortgage requested and received a waiver from Wells Fargo in regard to its covenant violation with Texas Capital Bank. SecurityNational Mortgage anticipates that it will not meet the profitability covenant with Texas Capital Bank at the end of the first quarter of 2019, which will trigger a default with Wells Fargo under the cross default provisions, and will seek new waivers at that time. In the unlikely event the Company is required to repay both warehouse lines, the Company has sufficient cash and borrowing capacity to do so and to continue to fund its origination activities through the other internal funding sources.

SecurityNational Mortgage believes that it has taken appropriate actions to return to meeting all the covenant requirements of Texas Capital Bank and that it will continue to meet the financial covenant requirements of Wells Fargo. The current outstanding amounts on both warehouse lines are shown in the current portion of the maturity table listed below.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

7) Bank and Other Loans Payable (Continued)

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

|              |                                    |
|--------------|------------------------------------|
| 2019         | 165,219,632                        |
| 2020         | 1,080,597                          |
| 2021         | 3,451,136                          |
| 2022         | 321,182                            |
| 2023         | 356,142                            |
| Thereafter   | 17,092,499                         |
| <b>Total</b> | <b><u><u>\$187,521,188</u></u></b> |

Interest expense in 2018 and 2017 was \$6,956,707 and \$6,037,332, respectively.

8) Cemetery Perpetual Care Trust Investments and Obligation and Restricted Assets

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

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

|   | December 31                |                            |
|---|----------------------------|----------------------------|
|   | 2018                       | 2017                       |
| Cash and cash equivalents   | \$ 1,557,506               | \$ 997,498                 |
| Fixed maturity securities, held to maturity, at amortized cost  | 990,390                    | 943,211                    |
| Equity securities, at estimated fair value  | 483,353                    | 682,315                    |
| Participating interests in mortgage loans held for investment with Security National Life                         | -                          | 4,128                      |
| Real estate   | 1,304,620                  | 1,996,411                  |
| Note receivables from Cottonwood Mortuary Singing Hills Cemetery and Memorial Estates eliminated in consolidation | 1,606,155                  | 1,667,621                  |
| <b>Total cemetery perpetual care trust investments</b>  | <b><u>5,942,024</u></b>    | <b><u>6,291,184</u></b>    |
| Cemetery perpetual care obligation  | <u>(3,821,979)</u>         | <u>(3,710,740)</u>         |
| <b>Trust investments in excess of trust obligations</b>   | <b><u>\$ 2,120,045</u></b> | <b><u>\$ 2,580,444</u></b> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

8) Cemetery Perpetual Care Trust Investments and Obligation and Restricted Assets (Continued)

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

Restricted cash also represents escrows held for borrowers and investors under servicing and appraisal agreements relating to mortgage loans, funds held by warehouse banks in accordance with loan purchase agreements and funds held in escrow for certain real estate construction development projects. Additionally, the Company elected to fund its medical benefit safe-harbor limit based on 35% of the qualified direct costs for the preceding year, and has included this amount as a component of restricted cash. These restricted cash items are for the Company's life insurance and mortgage segments.

Restricted assets are summarized as follows:

|   | December 31   |               |
|---|---------------|---------------|
|   | 2018          | 2017          |
| Cash and cash equivalents (1)   | \$ 7,179,225  | \$ 8,188,764  |
| Mutual funds, at estimated fair value   | 677,795       | 715,952       |
| Fixed maturity securities, held to maturity, at amortized cost                            | 1,258,397     | 1,130,088     |
| Equity securities, at estimated fair value  | 66,878        | 94,006        |
| Participating interests in mortgage loans held for investment with Security National Life | 1,799,267     | 1,701,811     |
| Total   | \$ 10,981,562 | \$ 11,830,621 |

(1) Including cash and cash equivalents of \$5,668,580 and \$6,392,283 as of December 31, 2018 and 2017, respectively, for the life insurance and mortgage segments.

A surplus note receivable in the amount of \$4,000,000 at December 31, 2018 and 2017, from Security National Life, was eliminated in consolidation.

See Notes 1 and 17 for additional information regarding restricted assets.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

9) Income Taxes

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

|              | December 31          |                      |
|--------------|----------------------|----------------------|
|              | 2018                 | 2017                 |
| Current      | \$ 473,800           | \$ (922,754)         |
| Deferred     | 15,649,198           | 18,255,537           |
| <b>Total</b> | <b>\$ 16,122,998</b> | <b>\$ 17,332,783</b> |

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

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2018                 | 2017                 |
| <b>Assets</b>                              |                      |                      |
| Future policy benefits                     | \$ (8,293,592)       | \$ (6,803,339)       |
| Loan loss reserve                          | (938,496)            | (697,779)            |
| Unearned premium                           | (823,299)            | (886,706)            |
| Available for sale securities              | (366,279)            | (237,677)            |
| Net operating loss                         | (593,272)            | (631,892)            |
| Deferred compensation                      | (1,677,118)          | (1,600,401)          |
| Deposit obligations                        | (610,769)            | (627,193)            |
| Other                                      | (185,557)            | (276,127)            |
| <b>Total deferred tax assets</b>           | <b>(13,488,382)</b>  | <b>(11,761,114)</b>  |
| <b>Liabilities</b>                         |                      |                      |
| Deferred policy acquisition costs          | 15,255,960           | 13,700,093           |
| Basis difference in property and equipment | 4,309,162            | 6,110,374            |
| Value of business acquired                 | 1,210,690            | 1,383,639            |
| Deferred gains                             | 6,267,373            | 6,978,067            |
| Trusts                                     | 1,064,387            | 1,066,438            |
| Tax on unrealized appreciation             | 1,030,008            | 778,040              |
| <b>Total deferred tax liabilities</b>      | <b>29,137,580</b>    | <b>30,016,651</b>    |
| <b>Net deferred tax liability</b>          | <b>\$ 15,649,198</b> | <b>\$ 18,255,537</b> |

The Company paid \$5,701,565 and \$581,556 in income taxes for the years ended December 31, 2018 and 2017, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

9) Income Taxes (Continued)

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

|          | <u>2018</u>         | <u>2017</u>           |
|----------|---------------------|-----------------------|
| Current  |                     |                       |
| Federal  | \$ 6,933,145        | \$ 934,647            |
| State    | 166,567             | 236,559               |
|          | <u>7,099,712</u>    | <u>1,171,206</u>      |
| Deferred |                     |                       |
| Federal  | (1,838,947)         | (7,811,030)           |
| State    | (766,454)           | 59,002                |
|          | <u>(2,605,401)</u>  | <u>(7,752,028)</u>    |
| Total    | <u>\$ 4,494,311</u> | <u>\$ (6,580,822)</u> |

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

|   | <u>2018</u>         | <u>2017</u>           |
|---|---------------------|-----------------------|
| Computed expense at statutory rate            | \$ 5,497,882        | \$ 2,560,918          |
| State tax expense, net of federal tax benefit | (473,911)           | 195,070               |
| Change in valuation allowance                 | -                   | (431,802)             |
| Change in tax law                             | -                   | (8,973,722)           |
| Other, net                                    | (529,660)           | 68,714                |
| Income tax expense (benefit)                  | <u>\$ 4,494,311</u> | <u>\$ (6,580,822)</u> |

The Company's overall effective tax rate for the years ended December 31, 2018 and 2017 was 17.2% and (87.4%), respectively. The Company's effective tax rate reflects the reduction of the U.S. federal statutory corporate income tax rate from 35% to 21% beginning January 1, 2018 and differs from the 21% statutory rate partly due to its provision for state income taxes. The effective tax rate for 2017 included a benefit that primarily related to a re-measurement of deferred tax assets and liabilities taking the Tax Act's newly enacted tax rate into account.

At December 31, 2018, the Company had no significant unrecognized tax benefits. As of December 31, 2018, 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 2015 through 2018 are subject to examination by taxing authorities.

Net Operating Losses and Tax Credit Carryforwards:

| <u>Year of Expiration</u>  |                     |
|----------------------------|---------------------|
| 2019                       | 114,600             |
| 2020                       | 114,601             |
| 2021                       | 17,101              |
| 2022                       | -                   |
| 2023                       | -                   |
| Thereafter up through 2037 | <u>2,012,371</u>    |
|                            | <u>\$ 2,258,673</u> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

10) 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 2018 and 2017. 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 \$103,000,000 and approximately \$106,000,000 at December 31, 2018 and 2017, respectively.

**Mortgage Loan Loss Settlements**

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate potential losses on loans sold. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of December 31, 2018 and 2017, the balances were \$3,605,000 and \$2,575,000, respectively.

**Mortgage Loan Loss Litigation**

Lehman Brothers Holdings Litigation – Delaware and New York

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

10) Reinsurance, Commitments and Contingencies (Continued)

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

On September 17, 2018, certain defendants, including SecurityNational Mortgage, also filed a notice of appeal, and thereafter a motion for leave to file an interlocutory appeal as to the Bankruptcy Court's Decision pertaining to jurisdiction and improper venue as a "protective" appeal should the District Court decide not to treat the Decision as findings of fact and conclusions of law. Separately, certain other defendants also filed a notice of appeal and motion for leave to file an interlocutory appeal with respect to the Bankruptcy Court's Decision concerning improper venue. Lehman Holdings filed its response on October 22, 2018, and defendants are permitted to file a joint reply to Lehman Holdings' response no later than November 26, 2018. The motions to file appeals were consolidated before Valerie Caproni, U.S. District Court Judge, Case No. 18-cv-8986. Case No. 18-mc-00392 is also before Judge Caproni.

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

10) Reinsurance, Commitments and Contingencies (Continued)

**Non-Cancelable Leases**

The Company leases office space and equipment under various non-cancelable agreements. Minimum lease payments under these non-cancelable operating leases as of December 31, 2018, are approximately as follows:

| Years Ending<br>December 31 |                      |
|-----------------------------|----------------------|
| 2019                        | 5,579,386            |
| 2020                        | 3,417,632            |
| 2021                        | 1,838,767            |
| 2022                        | 808,846              |
| 2023                        | 689,716              |
| Thereafter                  | 2,339,371            |
| Total                       | <u>\$ 14,673,718</u> |

Total rent expense related to non-cancelable operating leases for the years ended December 31, 2018 and 2017 was approximately \$7,254,000 and \$7,374,000, respectively.

**Other Contingencies and Commitments**

The Company has entered into commitments to fund construction and land development loans and has also provided financing for land acquisition and development. As of December 31, 2018, the Company's commitments were approximately \$97,854,000, for these loans of which \$72,867,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees and interest for these loans and the interest rate is generally fixed 5.50% to 8.00% per annum. Maturities range between six and eighteen months.

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

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

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

11) 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 the years ended December 31, 2018 and 2017. At December 31, 2018, the ESOP held 472,017 shares of Class A and 292,849 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 \$18,500 and \$18,000 for the years 2018 and 2017, 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 the years ended December 31, 2018 and 2017 was \$1,480,913 and \$1,534,861, respectively under the “Safe Harbor” plan.

In 2001, the Company’s Board of Directors adopted a Non-Qualified Deferred Compensation Plan, and this plan was amended in 2005. 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 2018 and 2017.

On December 4, 2012, the Company entered into an employment agreement with Scott M. Quist, Chairman of the Board, President and Chief Executive Officer of the Company. The agreement was for a six-year term beginning on December 4, 2012 and ending on December 4, 2018. Under the terms of the Agreement, the Board of Directors may, in its sole discretion, extend the term of the agreement for an additional four-year term provided that Mr. Quist has continued to perform his duties with usual and customary care, diligence and prudence commensurate with his position with the Company. In addition, Mr. Quist is required to perform such additional duties as may be assigned to him from time to time by the Company’s Board of Directors.

Effective December 4, 2018, the Board members approved a motion to extend Mr. Quist’s employment agreement for an additional four-year term ending December 2022. Mr. Quist abstained from voting on the motion to extend his employment agreement for the additional four-year term. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company, serving as 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 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 of compensation.

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 paying 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 level of compensation. In the event that Mr. Quist dies prior to receiving all retirement benefits thereunder, the remaining benefits are to be paid to his heirs. The Company expensed \$660,000 and \$755,302 during the years ended December 31, 2018 and 2017, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued was \$5,191,670 and \$4,531,670 as of December 31, 2018 and 2017, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

11) Retirement Plans (Continued)

On December 31, 2015, J. Lynn Beckstead, Jr., who served as Vice President of Mortgage Operations and President of SecurityNational Mortgage, retired from the Company. Under the terms of the employment agreement that the Company, through its wholly owned subsidiary, SecurityNational Mortgage, had entered into with Mr. Beckstead, Mr. Beckstead is entitled to receive retirement benefits from the Company for a period of ten years in an amount equal to 50% of his rate of compensation at the time of his retirement, which was \$267,685 for the year ended December 31, 2015. Such retirement payments are paid monthly during the ten-year period. In determining Mr. Beckstead's current rate of compensation, stock option grants and incentive or similar bonuses are not included. In the event Mr. Beckstead dies prior to receiving all of his retirement benefits under his employment agreement, the remaining benefits will be made to his heirs. The company paid \$133,843 and \$133,843 in retirement compensation to Mr. Beckstead during the years ended December 31, 2018 and 2017, respectively. The liability accrued was \$841,591 and \$975,434 as of December 31, 2018 and 2017, respectively and is included in Other liabilities and accrued expenses on the consolidated balance sheets.

12) Capital Stock

The Company has one class of preferred stock of \$1.00 par value, 5,000,000 shares authorized, of which none are issued. The preferred stock is non-voting.

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) Plans.

Stockholders of both Class A and Class C common stock have received 5% stock dividends in the years 1990 through 2018, 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.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

12) Capital Stock (Continued)

The following table summarizes the activity in shares of capital stock for the two-year period ended December 31, 2018:

|                                  | Class A           | Class C          |
|----------------------------------|-------------------|------------------|
| Balance at December 31, 2016     | <u>13,819,006</u> | <u>1,902,229</u> |
| Exercise of stock options        | 8,183             | 103,402          |
| Stock dividends                  | 692,635           | 99,496           |
| Conversion of Class C to Class A | <u>15,753</u>     | <u>(15,753)</u>  |
| Balance at December 31, 2017     | <u>14,535,577</u> | <u>2,089,374</u> |
| Exercise of stock options        | 38,473            | -                |
| Stock dividends                  | 730,560           | 104,457          |
| Conversion of Class C to Class A | <u>188</u>        | <u>(188)</u>     |
| Balance at December 31, 2018     | <u>15,304,798</u> | <u>2,193,643</u> |

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

|   | 2018                 | 2017                 |
|---|----------------------|----------------------|
| Numerator:  |                      |                      |
| Net earnings  | <u>\$ 21,686,079</u> | <u>\$ 14,112,934</u> |
| Denominator:  |                      |                      |
| Denominator for basic earnings<br>per share-weighted-average shares                                 | <u>17,105,308</u>    | <u>16,794,146</u>    |
| Effect of dilutive securities   |                      |                      |
| Employee stock options  | 210,098              | 329,281              |
| Dilutive potential common shares  | <u>210,098</u>       | <u>329,281</u>       |
| Denominator for diluted earnings per share-adjusted weighted-average shares and assumed conversions | <u>17,315,406</u>    | <u>17,123,427</u>    |
| Basic earnings per share  | <u>\$ 1.27</u>       | <u>\$ 0.84</u>       |
| Diluted earnings per share  | <u>\$ 1.25</u>       | <u>\$ 0.82</u>       |

For the years ended December 31, 2018 and 2017, there were 862,915 and 589,822 of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net earnings per common share as their effect would be anti-dilutive.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

13) Stock Compensation Plans

The Company has two fixed option plans (the “2013 Plan” and the “2014 Director Plan”). Compensation expense for options issued of \$237,123 and \$395,603 has been recognized under these plans for the years ended December 31, 2018 and 2017, respectively, and is included in personnel expenses on the consolidated statements of earnings. As of December 31, 2018, the total unrecognized compensation expense related to the options issued in December 2018 was \$239,620, which is expected to be recognized over the vesting period of one year.

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

The following table summarizes the assumptions used in estimating the fair value of each option granted along with the weighted-average fair value of the options granted:

| Grant Date        | Plan      | Weighted-Average Fair Value of Each Option (1) | Assumptions             |                      |                             |  |  |
|-------------------|-----------|--|-------------------------|----------------------|-----------------------------|--|--|
|                   |           |  | Expected Dividend Yield | Underlying stock FMV | Weighted-Average Volatility | Weighted-Average Risk-Free Interest Rate | Weighted-Average Expected Life (years) |
| November 30, 2018 | All Plans | \$ 1.12  | 5%                      | \$ 4.91              | 34.61%                      | 2.86%                                    | 4.56                                   |
| December 1, 2017  | All Plans | \$ 1.20  | 5%                      | \$ 4.80              | 41.07%                      | 2.07%                                    | 4.35                                   |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

13) Stock Compensation Plans (Continued)

Activity of the stock option plans is summarized as follows:

|   | Number of<br>Class A<br>Shares | Weighted<br>Average<br>Exercise<br>Price | Number of<br>Class C<br>Shares | Weighted<br>Average<br>Exercise<br>Price |
|---|--------------------------------|--|--------------------------------|--|
| Outstanding at December 31, 2016  | 741,973                        | \$ 4.33                                  | 556,298                        | \$ 4.52                                  |
| Adjustment for the effect of stock dividends                                  | 40,978                         |  | 24,934                         |  |
| Granted   | 124,500                        |  | 70,000                         |  |
| Exercised   | (8,182)                        |  | (103,402)                      |  |
| Cancelled   | (18,843)                       |  | (24,227)                       |  |
| Outstanding at December 31, 2017  | 880,426                        | \$ 4.35                                  | 523,603                        | \$ 5.24                                  |
| Adjustment for the effect of stock dividends                                  | 48,168                         |  | 27,491                         |  |
| Granted   | 142,000                        |  | 90,000                         |  |
| Exercised   | (42,211)                       |  | -                              |  |
| Cancelled   | (17,109)                       |  | (63,814)                       |  |
| Outstanding at December 31, 2018  | 1,011,274                      | \$ 4.49                                  | 577,280                        | \$ 5.15                                  |
| Exercisable at end of year  | 862,174                        | \$ 4.31                                  | 482,780                        | \$ 5.13                                  |
| Available options for future grant  | 297,128                        |  | 146,425                        |  |
| Weighted average contractual term of options outstanding at December 31, 2018 | 6.14 years                     |  | 3.96 years                     |  |
| Weighted average contractual term of options exercisable at December 31, 2018 | 5.90 years                     |  | 2.80 years                     |  |
| Aggregated intrinsic value of options outstanding at December 31, 2018 (1)    | \$ 792,135                     |  | \$ 188,462                     |  |
| Aggregated intrinsic value of options exercisable at December 31, 2018 (1)    | \$ 792,135                     |  | \$ 188,462                     |  |

(1) The Company used a stock price of \$4.91 as of December 31, 2018 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, 2018 and 2017 was \$123,154 and \$611,126, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

14) 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 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:

|  | Statutory Net Income |                       | Statutory Capital and Surplus |                     |
|--|----------------------|-----------------------|-------------------------------|---------------------|
|  | 2018                 | 2017                  | 2018                          | 2017                |
| Amounts by insurance subsidiary:               |                      |                       |                               |                     |
| Security National Life Insurance Company       | \$ 17,963,528        | \$ (3,045,489)        | \$47,184,064                  | \$35,646,989        |
| First Guaranty Insurance Company               | 1,042,683            | 1,437,963             | 5,786,369                     | 4,583,346           |
| Memorial Insurance Company of America          | 94                   | 36                    | 1,088,880                     | 1,081,799           |
| Southern Security Life Insurance Company, Inc. | 68                   | 72                    | 1,586,915                     | 1,591,070           |
| Trans-Western Life Insurance Company           | 5,460                | 2,597                 | 508,390                       | 502,930             |
| Total  | <u>\$ 19,011,833</u> | <u>\$ (1,604,821)</u> | <u>\$56,154,618</u>           | <u>\$43,406,134</u> |

The Utah, Arkansas, Louisiana, Mississippi and Texas Insurance Departments impose minimum risk-based capital (RBC) requirements 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, 2018.

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, that exceed minimum statutory capital requirements. Additional requirements must be met depending on the state, and payments of such amounts as dividends are subject to approval by regulatory authorities.

Under the Utah Insurance Code, Security National Life Insurance Company is permitted to pay a stockholder dividend to the Company as long as the Company provides the Utah Insurance Commissioner (the "Utah Commissioner") with at least 30 days notice and the aggregate amount of all such dividends in any 12 month period does not exceed the lesser of: (i) 10% of its surplus to policyholders as of the end of the immediately preceding calendar year, or (ii) net gain from operations, not including realized capital gains, for the immediately preceding calendar year, not including pro rata distributions of the Company's own securities. In determining whether a dividend is extraordinary, the Company may include carryforward net income from the previous two calendar years, excluding realized capital gains less dividends paid in the second and immediately preceding calendar years. Security National Life Insurance Company will be permitted to pay a dividend to the Company in excess of the lesser of such two amounts only if it files notice of its intention to declare such a dividend and the amount thereof with the Utah Commissioner and the Utah Commissioner either approves the distribution of the dividend or does not disapprove the distribution within 30 days of its filing. In all cases, a dividend may not be paid that would reduce the insurer's total adjusted capital below the insurer's company action level risk-based capital, as defined for statutory reporting purposes. Amounts available to be paid as dividends in the next 12 months totals approximately \$1,633,000.

14) Statutory Financial Information and Dividend Limitations (Continued)

Under the Louisiana Insurance Code, First Guaranty Insurance Company is permitted to pay a stockholder dividend to Security National Life as long as First Guaranty Insurance Company's capital has been (i) fully paid in cash, (ii) is unimpaired, (iii) has a surplus beyond its capital stock and (iv) has a surplus beyond its minimum required surplus. In 2017, First Guaranty Insurance Company paid to Security National Life a cash dividend of \$1,000,000. Amounts available to be paid as dividends at December 31, 2018 totaled approximately \$1,886,000.

15) Business Segment Information

**Description of Products and Services by Segment**

The Company has three reportable business segments: life insurance, cemetery and mortuary, and mortgage. The Company's life insurance segment consists of life insurance premiums and operating expenses from the sale of insurance products sold by the Company's independent agency force and net investment income derived from investing policyholder and segment surplus funds. The Company's cemetery and mortuary segment consists of revenues and operating expenses from the sale of at-need cemetery and mortuary merchandise and services at its mortuaries and cemeteries, pre-need sales of cemetery spaces after collection of 10% or more of the purchase price and the net investment income from investing segment surplus funds. The Company's mortgage segment consists of fee income and expenses from the originations of residential mortgage loans and interest earned and interest expenses from warehousing 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 are managed separately due to the different products provided and the need to report separately to the various regulatory jurisdictions. The Company regularly reviews the quantitative thresholds and other criteria to determine when other business segments may need to be reported.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

15) Business Segment Information (Continued)

|   | 2018                 |                       |                       |                              |                      |
|---|----------------------|-----------------------|-----------------------|------------------------------|----------------------|
|   | Life<br>Insurance    | Cemetery/<br>Mortuary | Mortgage              | Intercompany<br>Eliminations | Consolidated         |
| Revenues:   |                      |                       |                       |                              |                      |
| From external sources:  |                      |                       |                       |                              |                      |
| Revenue from customers  | \$ 75,928,910        | \$ 13,726,518         | \$ 116,185,853        | \$ -                         | \$ 205,841,281       |
| Net investment income   | 38,720,365           | 283,343               | 909,559               | -                            | 39,913,267           |
| Gains on investments and other assets   | 21,396,282           | 2,301,342             | 243,555               | -                            | 23,941,179           |
| Other revenues  | 1,636,901            | 128,797               | 8,157,302             | -                            | 9,923,000            |
| Intersegment revenues:  |                      |                       |                       |                              |                      |
| Net investment income   | 3,972,532            | 429,312               | 503,794               | (4,905,638)                  | -                    |
| <b>Total revenues</b>   | <b>141,654,990</b>   | <b>16,869,312</b>     | <b>126,000,063</b>    | <b>(4,905,638)</b>           | <b>279,618,727</b>   |
| Expenses:   |                      |                       |                       |                              |                      |
| Death, surrenders and other policy benefits   | 39,185,087           | -                     | -                     | -                            | 39,185,087           |
| Increase in future policy benefits  | 24,332,088           | -                     | -                     | -                            | 24,332,088           |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 11,270,579           | 360,767               | -                     | -                            | 11,631,346           |
| Selling, general and administrative expenses:   |                      |                       |                       |                              |                      |
| Commissions   | 3,242,745            | 1,222,642             | 45,825,965            | -                            | 50,291,352           |
| Personnel   | 18,489,063           | 4,773,866             | 44,106,023            | -                            | 67,368,952           |
| Advertising   | 566,154              | 333,852               | 3,702,585             | -                            | 4,602,591            |
| Rent and rent related   | 321,701              | 33,138                | 7,250,536             | -                            | 7,605,375            |
| Depreciation on property and equipment  | 400,686              | 372,469               | 1,093,846             | -                            | 1,867,001            |
| Cost related to funding mortgage loans  | -                    | -                     | 6,423,944             | -                            | 6,423,944            |
| Intersegment  | 402,213              | 182,009               | 531,370               | (1,115,592)                  | -                    |
| Other   | 10,094,626           | 3,046,902             | 17,873,471            | -                            | 31,014,999           |
| Interest expense:   |                      |                       |                       |                              |                      |
| Intersegment  | 481,587              | 173,807               | 3,134,652             | (3,790,046)                  | -                    |
| Other   | 2,744,841            | 294,535               | 3,917,331             | -                            | 6,956,707            |
| Costs of goods and services sold-mortuaries and cemeteries                                    | -                    | 2,158,895             | -                     | -                            | 2,158,895            |
| <b>Total benefits and expenses</b>  | <b>111,531,370</b>   | <b>12,952,882</b>     | <b>133,859,723</b>    | <b>(4,905,638)</b>           | <b>253,438,337</b>   |
| Earnings before income taxes  | \$ 30,123,620        | \$ 3,916,430          | \$ (7,859,660)        | \$ -                         | \$ 26,180,390        |
| Income tax benefit (expense)  | (5,275,662)          | (946,820)             | 1,728,171             | -                            | (4,494,311)          |
| <b>Net earnings</b>   | <b>\$ 24,847,958</b> | <b>\$ 3,916,430</b>   | <b>\$ (6,131,489)</b> | <b>\$ -</b>                  | <b>\$ 21,686,079</b> |
| Identifiable assets   | \$928,251,387        | \$90,639,130          | \$159,680,649         | \$(130,525,613)              | \$1,048,045,553      |
| Goodwill  | \$ 2,765,570         | -                     | -                     | -                            | \$ 2,765,570         |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

15) Business Segment Information (Continued)

|   | 2017                 |                       |                      |                              | Consolidated         |
|---|----------------------|-----------------------|----------------------|------------------------------|----------------------|
|   | Life<br>Insurance    | Cemetery/<br>Mortuary | Mortgage             | Intercompany<br>Eliminations |                      |
| Revenues:   |                      |                       |                      |                              |                      |
| From external sources:  |                      |                       |                      |                              |                      |
| Revenue from customers  | \$ 70,412,476        | \$ 12,657,117         | \$ 153,797,171       | \$ -                         | \$ 236,866,764       |
| Net investment income   | 34,089,912           | 424,316               | 548,740              | -                            | 35,062,968           |
| Gains (losses) on investments and other assets  | (3,871,309)          | 186,335               | 736,492              | -                            | (2,948,482)          |
| Other than temporary impairments  | (774,339)            | -                     | -                    | -                            | (774,339)            |
| Other revenues  | 856,094              | 97,602                | 7,765,483            | -                            | 8,719,179            |
| Intersegment revenues:  |                      |                       |                      |                              |                      |
| Net investment income   | 5,987,731            | 422,623               | 401,283              | (6,811,637)                  | -                    |
| Total revenues  | <u>106,700,565</u>   | <u>13,787,993</u>     | <u>163,249,169</u>   | <u>(6,811,637)</u>           | <u>276,926,090</u>   |
| Expenses:   |                      |                       |                      |                              |                      |
| Death, surrenders and other policy benefits   | 36,095,018           | -                     | -                    | -                            | 36,095,018           |
| Increase in future policy benefits  | 23,622,750           | -                     | -                    | -                            | 23,622,750           |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 8,157,456            | 322,794               | -                    | -                            | 8,480,250            |
| Selling, general and administrative expenses:   |                      |                       |                      |                              |                      |
| Commissions   | 3,095,319            | 1,053,449             | 63,954,249           | -                            | 68,103,017           |
| Personnel   | 17,031,563           | 4,519,573             | 48,777,694           | -                            | 70,328,830           |
| Advertising   | 518,117              | 293,009               | 4,943,614            | -                            | 5,754,740            |
| Rent and rent related   | 446,701              | 51,742                | 8,212,251            | -                            | 8,710,694            |
| Depreciation on property and equipment  | 484,349              | 401,564               | 1,334,780            | -                            | 2,220,693            |
| Costs related to funding mortgage loans   | -                    | -                     | 8,663,223            | -                            | 8,663,223            |
| Intersegment  | 315,588              | 184,853               | 499,707              | (1,000,148)                  | -                    |
| Other   | 9,540,607            | 2,826,208             | 17,064,784           | -                            | 29,431,599           |
| Interest expense:   |                      |                       |                      |                              |                      |
| Intersegment  | 445,520              | 181,793               | 5,184,176            | (5,811,489)                  | -                    |
| Other   | 2,218,956            | 330,211               | 3,488,165            | -                            | 6,037,332            |
| Costs of goods and services sold-mortuaries and cemeteries                                    | -                    | 1,945,832             | -                    | -                            | 1,945,832            |
| Total benefits and expenses   | <u>101,971,944</u>   | <u>12,111,028</u>     | <u>162,122,643</u>   | <u>(6,811,637)</u>           | <u>269,393,978</u>   |
| Earnings before income taxes  | <u>\$ 4,728,621</u>  | <u>\$ 1,676,965</u>   | <u>\$ 1,126,526</u>  | <u>\$ -</u>                  | <u>\$ 7,532,112</u>  |
| Income tax benefit (expense)  | 6,301,872            | (606,293)             | 885,243              | -                            | 6,580,822            |
| Net earnings  | <u>\$ 11,030,493</u> | <u>\$ 1,676,965</u>   | <u>\$ 2,011,769</u>  | <u>\$ -</u>                  | <u>\$ 14,112,934</u> |
| Identifiable assets   | <u>\$858,068,899</u> | <u>\$95,097,729</u>   | <u>\$161,051,531</u> | <u>\$(134,810,675)</u>       | <u>\$979,407,484</u> |
| Goodwill  | <u>\$ 2,765,570</u>  | <u>\$ -</u>           | <u>\$ -</u>          | <u>\$ -</u>                  | <u>\$ 2,765,570</u>  |

16) 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. The Company and its Board of Directors is unaware of any related party transactions that require disclosure as of December 31, 2018.

17) Fair Value of Financial Instruments

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

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

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

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

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

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

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

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

Equity Securities: The fair values of investments in equity securities along with methods used to estimate such values are disclosed in Note 2 of the Notes to the Consolidated Financial Statements.

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

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

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

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

Loans Held for Sale: The Company elected the fair value option for all loans held for sale originated after July 1, 2017. The fair value is based on quoted market prices, when available. When a quoted market price is not readily available, the Company uses the market price from its last sale of similar assets.

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

The Company estimates the fair value of a loan commitment based on the change in estimated fair value of the underlying mortgage loan, quoted MBS prices, estimates of the fair value of mortgage servicing rights, and an estimate of the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the loan commitment is issued. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates and other factors from the Company's recent historical data are used to estimate the quantity and value of mortgage loans that will fund within the terms of the commitments.

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

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

It should be noted that for replacement cost, when determining the fair value of real estate held for investment, the Company uses 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 also considers area comparables and property condition when determining fair value.

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

Mortgage Servicing Rights: The Company initially recognizes 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.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) 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, 2018.

|   | Total                | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|--|--|
| Assets accounted for at fair value on a recurring basis                   |                      |  |  |  |
| Common stock  | \$ 5,558,611         | \$ 5,558,611   | \$ -   | \$ -   |
| Total equity securities   | \$ 5,558,611         | \$ 5,558,611   | \$ -   | \$ -   |
| Loans held for sale   | 136,210,853          | -  | -  | 136,210,853  |
| Restricted assets (1)   | 744,673              | 744,673  | -  | -  |
| Cemetery perpetual care trust investments (1)                             | 483,353              | 483,353  | -  | -  |
| Derivatives - loan commitments (2)  | 1,969,967            | -  | -  | 1,969,967  |
| <b>Total assets accounted for at fair value on a recurring basis</b>      | <b>\$144,967,457</b> | <b>\$ 6,786,637</b>  | <b>\$ -</b>                                      | <b>\$138,180,820</b>                               |
| Liabilities accounted for at fair value on a recurring basis              |                      |  |  |  |
| Derivatives - call options (3)  | \$ (4,629)           | \$ (4,629)   | \$ -   | \$ -   |
| Derivatives - put options (3)   | (296,053)            | (296,053)  | -  | -  |
| Derivatives - loan commitments (3)  | (378,151)            | -  | -  | (378,151)  |
| <b>Total liabilities accounted for at fair value on a recurring basis</b> | <b>\$ (678,833)</b>  | <b>\$ (300,682)</b>  | <b>\$ -</b>                                      | <b>\$ (378,151)</b>                                |

(1) Mutual funds and equity securities

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

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

For Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2018, the significant unobservable inputs used in the fair value measurements were as follows:

|                                      | Fair Value at<br>12/31/2018 | Valuation<br>Technique | Significant<br>Unobservable<br>Input(s)                               | Range of Inputs  |                  | Weighted<br>Average |
|--------------------------------------|-----------------------------|------------------------|---|------------------|------------------|---------------------|
|                                      |                             |                        |   | Minimum<br>Value | Maximum<br>Value |                     |
| Loans held for sale                  | \$136,210,853               | Market approach        | Investor contract pricing as a percentage of unpaid principal balance | 95.6%            | 107.5%           | 103.6%              |
| Derivatives - loan commitments (net) | 1,591,816                   | Market approach        | Fall-out factor   | 1.0%             | 99.0%            | 17.0%               |
|                                      |                             |                        | Initial-Value   | N/A              | N/A              | N/A                 |
|                                      |                             |                        | Servicing   | 50 bps           | 337 bps          | 151 bps             |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) Fair Value of Financial Instruments (Continued)

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

|  | Net<br>Derivatives<br>Loan<br>Commitments | Loans Held<br>for Sale |
|--|---|------------------------|
| Balance - December 31, 2017                    | \$ 1,996,589                              | \$ 133,414,188         |
| Originations                                   |   | 2,194,607,543          |
| Sales  |   | (2,259,145,473)        |
| Transfer to mortgage loans held for investment |   | (10,827,797)           |
| Total gains (losses):                          |   |                        |
| Included in earnings (1)                       | (404,773)                                 | 78,162,392             |
| Balance - December 31, 2018                    | <u>\$ 1,591,816</u>                       | <u>\$ 136,210,853</u>  |

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

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, 2018.

|  | Total               | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|---------------------|--|--|--|
| Assets accounted for at fair value on a nonrecurring basis       |                     |  |  |  |
| Impaired mortgage loans held for investment                      | \$ 1,253,302        | \$ -   | \$ -   | \$ 1,253,302                                       |
| Mortgage servicing rights additions                              | 3,922,816           | -  | -  | 3,922,816  |
| Impaired real estate held for investment                         | <u>1,611,384</u>    | <u>-</u>   | <u>-</u>   | <u>1,611,384</u>                                   |
| Total assets accounted for at fair value on a nonrecurring basis | <u>\$ 6,787,502</u> | <u>\$ -</u>  | <u>\$ -</u>                                      | <u>\$ 6,787,502</u>                                |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) 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, 2017.

|   | Total                | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|---|----------------------|--|--|--|
| Assets accounted for at fair value on a recurring basis                   |                      |  |  |  |
| Common stock  | \$ 6,037,855         | \$ 6,037,855   | \$ -   | \$ -   |
| Total equity securities   | \$ 6,037,855         | \$ 6,037,855   | \$ -   | \$ -   |
| Loans held for sale   | 133,414,188          | -  | -  | 133,414,188  |
| Restricted assets (1)   | 809,958              | 809,958  | -  | -  |
| Cemetery perpetual care trust investments (1)                             | 682,315              | 682,315  | -  | -  |
| Derivatives - loan commitments (2)  | 2,032,782            | -  | -  | 2,032,782  |
| <b>Total assets accounted for at fair value on a recurring basis</b>      | <b>\$142,977,098</b> | <b>\$ 7,530,128</b>  | <b>\$ -</b>                                      | <b>\$135,446,970</b>                               |
| Liabilities accounted for at fair value on a recurring basis              |                      |  |  |  |
| Derivative - call options (3)   | \$ (64,689)          | \$ (64,689)  | \$ -   | \$ -   |
| Derivatives - put options (3)   | (20,568)             | (20,568)   | -  | -  |
| Derivative - loan commitments (3)   | (36,193)             | -  | -  | (36,193)   |
| <b>Total liabilities accounted for at fair value on a recurring basis</b> | <b>\$ (121,450)</b>  | <b>\$ (85,257)</b>   | <b>\$ -</b>                                      | <b>\$ (36,193)</b>                                 |

(1) Mutual funds and equity securities

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

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

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

|  | Net<br>Derivatives<br>Loan<br>Commitments | Bank Loan<br>Interest<br>Rate<br>Swaps | Loans Held<br>for Sale |
|--|---|--|------------------------|
| Balance - December 31, 2016                | \$ 6,809,332                              | \$ (3,308)                             | \$ -                   |
| Originations                               |   |  | \$ 1,233,683,666       |
| Sales                                      |   |  | \$(1,151,031,388)      |
| Total gains (losses):                      |   |  |                        |
| Included in earnings (1)                   | (4,812,743)                               | -                                      | 50,761,910             |
| Included in other comprehensive income (2) | -   | 3,308                                  | -                      |
| <b>Balance - December 31, 2017</b>         | <b>\$ 1,996,589</b>                       | <b>\$ -</b>                            | <b>\$ 133,414,188</b>  |

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

(2) As a component of unrealized gains on derivative instruments on the consolidated statements of comprehensive income

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) 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, 2017.

|  | Total                | Quoted<br>Prices in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |
|--|----------------------|--|--|--|
| Assets accounted for at fair value on a nonrecurring basis       |                      |  |  |  |
| Impaired mortgage loans held for investment                      | \$ 1,363,440         | \$ -   | \$ -   | \$ 1,363,440                                       |
| Mortgage servicing rights additions                              | 6,085,352            | -  | -  | 6,085,352  |
| Impaired real estate held for investment                         | 8,500,000            | -  | -  | 8,500,000  |
| Impaired fixed maturity securities, held to maturity             | 426,984              | -  | 426,984  | -  |
| Total assets accounted for at fair value on a nonrecurring basis | <u>\$ 16,375,776</u> | <u>\$ -</u>  | <u>\$ 426,984</u>                                | <u>\$ 15,948,792</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, 2018 and 2017.

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, 2018:

|   | Carrying<br>Value | Level 1 | Level 2        | Level 3         | Total<br>Estimated Fair<br>Value |
|---|-------------------|---------|----------------|-----------------|----------------------------------|
| <b>Assets</b>                                 |                   |         |                |                 |                                  |
| Fixed maturity securities, held to maturity   | \$ 232,078,723    | \$ -    | \$ 229,668,844 | \$ 5,082,014    | \$ 234,750,858                   |
| Mortgage loans held for investment            |                   |         |                |                 |                                  |
| Residential                                   | 87,947,566        | -       | -              | 92,503,553      | 92,503,553                       |
| Residential construction                      | 70,886,702        | -       | -              | 70,886,702      | 70,886,702                       |
| Commercial                                    | 27,630,801        | -       | -              | 28,359,205      | 28,359,205                       |
| Mortgage loans held for investment, net       | \$ 186,465,069    | \$ -    | \$ -           | \$ 191,749,460  | \$ 191,749,460                   |
| Policy loans                                  | 6,424,325         | -       | -              | 6,424,325       | 6,424,325                        |
| Insurance assignments, net (1)                | 34,146,868        | -       | -              | 34,168,868      | 34,168,868                       |
| Restricted assets (2)                         | 1,258,397         | -       | 1,271,687      | -               | 1,271,687                        |
| Restricted assets (3)                         | 1,799,268         | -       | -              | 1,810,185       | 1,810,185                        |
| Cemetery perpetual care trust investments (2) | 990,390           | -       | 983,410        | -               | 983,410                          |
| Mortgage servicing rights, net                | 20,016,822        | -       | -              | 28,885,316      | 28,885,316                       |
| <b>Liabilities</b>                            |                   |         |                |                 |                                  |
| Bank and other loans payable                  | \$(187,521,188)   | \$ -    | \$ -           | \$(187,521,188) | \$(187,521,188)                  |
| Policyholder account balances (4)             | (46,479,853)      | -       | -              | (37,348,289)    | (37,348,289)                     |
| Future policy benefits - annuities (4)        | (98,137,615)      | -       | -              | (97,641,146)    | (97,641,146)                     |

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

(2) Fixed maturity securities held to maturity

(3) Participation in mortgage loans held for investment

(4) Included in future policy benefits and unpaid claims on the consolidated balance sheet

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) Fair Value of Financial Instruments (Continued)

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of December 31, 2017:

|   | Carrying<br>Value | Level 1 | Level 2       | Level 3         | Total<br>Estimated Fair<br>Value |
|---|-------------------|---------|---------------|-----------------|----------------------------------|
| <b>Assets</b>                                 |                   |         |               |                 |                                  |
| Fixed maturity securities, held to maturity   | \$ 228,397,623    | \$ -    | \$233,806,219 | \$ 7,692,190    | \$ 241,498,409                   |
| Mortgage loans held for investment            |                   |         |               |                 |                                  |
| Residential                                   | 99,816,535        | -       | -             | 106,050,169     | 106,050,169                      |
| Residential construction                      | 49,694,025        | -       | -             | 49,694,025      | 49,694,025                       |
| Commercial                                    | 54,700,325        | -       | -             | 56,473,156      | 56,473,156                       |
| Mortgage loans held for investment, net       | \$ 204,210,885    | \$ -    | \$ -          | \$ 212,217,350  | \$ 212,217,350                   |
| Policy loans                                  | 6,531,352         | -       | -             | 6,531,352       | 6,531,352                        |
| Insurance assignments, net (1)                | 35,455,098        | -       | -             | 35,455,098      | 35,455,098                       |
| Restricted assets (2)                         | 1,130,088         | -       | 1,152,324     | -               | 1,152,324                        |
| Restricted assets (3)                         | 1,701,811         | -       | -             | 1,796,910       | 1,796,910                        |
| Cemetery perpetual care trust investments (2) | 943,211           | -       | 953,404       | -               | 953,404                          |
| Cemetery perpetual care trust investments (3) | 4,128             | -       | -             | 4,411           | 4,411                            |
| Mortgage servicing rights, net                | 21,376,937        | -       | -             | 27,427,174      | 27,427,174                       |
| <b>Liabilities</b>                            |                   |         |               |                 |                                  |
| Bank and other loans payable                  | \$(157,450,925)   | \$ -    | \$ -          | \$(157,450,925) | \$(157,450,925)                  |
| Policyholder account balances (4)             | (47,867,037)      | -       | -             | (34,557,111)    | (34,557,111)                     |
| Future policy benefits - annuities (4)        | (99,474,392)      | -       | -             | (98,827,107)    | (98,827,107)                     |

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

(2) Fixed maturity securities held to maturity

(3) Participation in mortgage loans held for investment (commercial)

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

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

Fixed Maturity Securities, Held to Maturity: 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.

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

Residential – The estimated fair value of mortgage loans is determined through a combination of discounted cash flows (estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages) and considering pricing of similar loans that were sold recently.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

17) Fair Value of Financial Instruments (Continued)

Policy Loans: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values because they are fully collateralized by the cash surrender value of the underlying insurance policies.

Insurance Assignments, Net: These investments are short in maturity. Accordingly, 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 due to their relatively short-term maturities and variable interest rates.

Policyholder Account Balances and Future Policy Benefits-Annuities: Future policy benefit reserves for interest-sensitive insurance products are computed under a retrospective deposit method and represent policy account balances before applicable surrender charges. Policy benefits and claims that are charged to expense include benefit claims incurred in the period in excess of related policy account balances. Interest crediting rates for interest-sensitive insurance products ranged from 1.5% to 6.5%. The fair values for these investment-type insurance contracts are estimated based on the present value of liability cash flows.

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

18) Accumulated Other Comprehensive Income

The following summarizes the changes in accumulated other comprehensive income:

|  | December 31         |                   |
|--|---------------------|-------------------|
|  | 2018                | 2017              |
| Unrealized gains on equity securities, restricted assets and cemetery perpetual care trust investments | \$ -                | \$ 421,499        |
| Cumulative effect adjustment upon adoption of new accounting standard (ASU 2016-01) (1)                | (603,170)           | -                 |
| Reclassification adjustment for net realized gains in net income                                       | -                   | 90,475            |
| Net unrealized gains before taxes  | (603,170)           | 511,974           |
| Tax expense  | -                   | (175,644)         |
| Net  | (603,170)           | 336,330           |
| Unrealized gains for bank loan interest rate swaps before taxes  | -                   | 3,308             |
| Tax expense  | -                   | (1,290)           |
| Net  | -                   | 2,018             |
| Unrealized gains for foreign currency translations adjustments   | (3,761)             | -                 |
| Tax expense  | 938                 | -                 |
| Net  | (2,823)             | -                 |
| Other comprehensive income changes   | <u>\$ (605,993)</u> | <u>\$ 338,348</u> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

18) Accumulated Other Comprehensive Income (Continued)

The following is the accumulated balances of other comprehensive income as of December 31, 2018:

|  | Beginning<br>Balance<br>December 31,<br>2017 | Change for<br>the period | Ending<br>Balance<br>December 31,<br>2018 |
|--|--|--------------------------|---|
| Unrealized gains on equity securities, restricted assets and cemetery perpetual care trust investments | \$ 603,170                                   | \$ (603,170) (1)         | \$ -                                      |
| Foreign currency translation adjustments   | -  | (2,823)                  | (2,823)                                   |
| Other comprehensive income   | <u>\$ 603,170</u>                            | <u>\$ (605,993)</u>      | <u>\$ (2,823)</u>                         |

The following is the accumulated balances of other comprehensive income as of December 31, 2017:

|  | Beginning<br>Balance<br>December<br>31,<br>2016 | Change for<br>the period | Ending<br>Balance<br>December<br>31,<br>2017 |
|--|---|--------------------------|--|
| Unrealized gains on equity securities, restricted assets and cemetery perpetual care trust investments | \$ 266,840                                      | \$ 336,330               | \$ 603,170                                   |
| Unrealized gains for bank loan interest rate swaps   | (2,018)   | 2,018                    | -  |
| Other comprehensive income   | <u>\$ 264,822</u>                               | <u>\$ 338,348</u>        | <u>\$ 603,170</u>                            |

(1) See Note 1 regarding the adoption of ASU 2016-01.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

19) Derivative Instruments

The following table shows the fair value of derivatives as of December 31, 2018 and 2017.

| Balance Sheet Location                             | Fair Values and Notional Amounts of Derivative Instruments |                      |                      |                   |                       |                      |                   |
|--|--|----------------------|----------------------|-------------------|-----------------------|----------------------|-------------------|
|  | December 31, 2018  |                      |                      | December 31, 2017 |                       |                      |                   |
|  | Notional Amount  | Asset Fair Value     | Liability Fair Value | Notional Amount   | Asset Fair Value      | Liability Fair Value |                   |
| Derivatives not designated as hedging instruments: |  |                      |                      |                   |                       |                      |                   |
| Loan commitments                                   | Other assets and Other liabilities                         | \$ 93,758,218        | \$ 1,969,967         | \$ 378,151        | \$ 105,679,107        | \$ 2,032,782         | \$ 36,193         |
| Call options                                       | Other liabilities  | 805,500              | --                   | 4,629             | 1,488,550             | --                   | 64,689            |
| Put options  | Other liabilities  | 4,861,700            | --                   | 296,053           | 2,265,900             | --                   | 20,568            |
| <b>Total</b>                                       |  | <b>\$ 99,425,418</b> | <b>\$ 1,969,967</b>  | <b>\$ 678,833</b> | <b>\$ 109,433,557</b> | <b>\$ 2,032,782</b>  | <b>\$ 121,450</b> |

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 into income or gains or losses recognized in income on derivatives ineffective portion or any amounts excluded from effective testing.

| Derivative           | Classification                        | Net Amount Gain (Loss) |                    |
|----------------------|---------------------------------------|------------------------|--------------------|
|                      |                                       | 2018                   | 2017               |
| Interest Rate Swaps  | Other comprehensive income            | \$ -                   | \$ 2,018           |
| Loan commitments     | Mortgage fee income                   | \$ (404,773)           | \$ (4,812,743) (1) |
| Call and put options | Gains on investments and other assets | \$ 187,786             | \$ 316,244         |

(1) Includes the transfer of loan commitments to the value of loans held for sale.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

20) Acquisitions

Beta Capital Corp.

On June 1, 2018, the Company completed a stock purchase transaction with Beta Capital Corp. ("Beta Capital") and Ronald D. Maxson ("Maxson"), the sole owner of all the outstanding shares of common stock of Beta Capital, to purchase all of the outstanding shares of common stock of Beta Capital. Beta Capital 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 Stock Purchase Agreement, dated June 1, 2018, by and among the Company, Beta Capital and Maxson, the Company paid Maxson the purchase consideration at the closing of the transaction equal to the sum of (i) \$890,000 in cash plus (ii) the accounts receivable value of \$2,515,783, representing the total amount of the Company's outstanding receivables as of the closing date of June 1, 2018, for a total closing payment of \$3,405,783. From the \$3,405,783 closing payment, a holdback amount equal to \$175,000 was deposited into an interest bearing escrow account to be held for a period of eighteen months from the closing date to pay off any uncollected accounts receivable and other liabilities of Beta Capital as of the closing date.

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

|  |                     |
|--|---------------------|
| Other investments - insurance assignments            | \$ 2,515,783        |
| Other - customer list intangible asset               | 890,000             |
| Total assets acquired                                | <u>3,405,783</u>    |
| Fair value of net assets acquired/consideration paid | <u>\$ 3,405,783</u> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

21) Mortgage Servicing Rights

The Company reports MSR activity pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

The following table presents the MSR activity for the periods presented.

|  | December 31          |                      |
|--|----------------------|----------------------|
|  | 2018                 | 2017                 |
| Amortized cost:  |                      |                      |
| Balance before valuation allowance at beginning of year                                    | \$ 21,376,937        | \$ 18,872,362        |
| MSR additions resulting from loan sales  | 3,922,816            | 6,085,352            |
| Amortization (1)   | (5,282,931)          | (3,580,777)          |
| Application of valuation allowance to write down MSRs with other than temporary impairment | -                    | -                    |
| Balance before valuation allowance at year end   | <u>\$ 20,016,822</u> | <u>\$ 21,376,937</u> |
| 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  | <u>\$ -</u>          | <u>\$ -</u>          |
| Mortgage servicing rights, net   | <u>\$ 20,016,822</u> | <u>\$ 21,376,937</u> |
| Estimated fair value of MSRs at year end   | <u>\$ 28,885,316</u> | <u>\$ 27,427,174</u> |

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

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, 2018 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<br>MSR<br>Amortization |
|------------|----------------------------------|
| 2019       | 2,948,860                        |
| 2020       | 2,457,300                        |
| 2021       | 2,120,792                        |
| 2022       | 1,816,710                        |
| 2023       | 1,563,832                        |
| Thereafter | 9,109,328                        |
| Total      | <u>\$ 20,016,822</u>             |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

21) Mortgage Servicing Rights (Continued)

During the years ended December 31, 2018 and 2017, the Company collected the following contractual servicing fee income and late fee income as reported in other revenues on the consolidated statements of earnings:

|                            | 2018                | 2017                |
|----------------------------|---------------------|---------------------|
| Contractual servicing fees | \$ 7,561,226        | \$ 7,199,649        |
| Late fees                  | 319,244             | 284,550             |
| <b>Total</b>               | <b>\$ 7,880,470</b> | <b>\$ 7,484,199</b> |

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

|                      | Years Ended December 31 |                      |
|----------------------|-------------------------|----------------------|
|                      | 2018                    | 2017                 |
| <b>Servicing UPB</b> | <b>2,941,231,563</b>    | <b>2,924,868,843</b> |

The following key assumptions were used in determining MSR value:

|                   | Prepayment<br>Speeds | Average<br>Life(Years) | Discount<br>Rate |
|-------------------|----------------------|------------------------|------------------|
| December 31, 2018 | 3.86%                | 6.33                   | 9.51             |
| December 31, 2017 | 3.67%                | 6.34                   | 10.01            |

22) Future Policy Benefits and Unpaid Claims

The Company reports future policy benefits and unpaid claims pursuant to the accounting policy discussed in Note 1 of the Notes to Consolidated Financial Statements.

The following table provides information regarding future policy benefits and unpaid claims and the related receivable from reinsurers.

|   | Years Ended<br>September 30 |                      |
|---|-----------------------------|----------------------|
|   | 2018                        | 2017                 |
| Life  | \$466,232,621               | \$445,247,671        |
| Annuities   | 98,137,615                  | 99,474,392           |
| Policyholder account balances                         | 46,479,853                  | 47,867,037           |
| Accident and health                                   | 482,693                     | 482,234              |
| Other policyholder funds                              | 4,431,296                   | 4,487,521            |
| Reported but unpaid claims                            | 3,365,872                   | 6,023,084            |
| Incurred but not reported claims                      | 1,269,764                   | 1,165,012            |
| <b>Gross future policy benefits and unpaid claims</b> | <b>\$620,399,714</b>        | <b>\$604,746,951</b> |
| <b><u>Receivable from reinsurers</u></b>              |                             |                      |
| Life  | 6,702,328                   | 7,291,996            |
| Annuities   | 4,078,666                   | 6,023,092            |
| Reported but unpaid claims                            | 33,108                      | 69,218               |
| Incurred but not reported claims                      | 6,000                       | 10,297               |
| <b>Total receivable from reinsurers</b>               | <b>10,820,102</b>           | <b>13,394,603</b>    |
| <b>Net future policy benefits and unpaid claims</b>   | <b>\$609,579,612</b>        | <b>\$591,352,348</b> |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

23) Revenues from Contracts with Customers

The Company reports revenues from contracts with customers pursuant to ASC No. 606, "Revenue from Contracts with Customers" (See Note 1 of the Notes to Consolidated Financial Statements).

**Contracts with Customers**

Information about Performance Obligations and Contract Balances

The Company's cemetery and mortuary segment sells a variety of goods and services to customers in both at-need and pre-need situations. Due to the timing of the fulfillment of the obligation, revenue is deferred until that obligation is fulfilled. The total contract liability for future obligations is included in deferred pre-need cemetery and mortuary contract revenues on the consolidated balance sheets and, as of December 31, 2018 and 2017, the balances were \$13,203,098 and 13,729,547, respectively.

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

Pre-need Merchandise and Service Revenue: All pre-need merchandise and service revenue is deferred and the funds are placed in trust until the need arises, the merchandise is received or the service is performed. The trust is then relieved, and the revenue and commissions are recognized. As of December 31, 2018 and 2017, the balances were \$12,870,416 and \$13,477,075, respectively.

At-need Specialty Merchandise Revenue: At-need specialty merchandise revenue consists of customizable merchandise ordered from a manufacturer such as markers and bases. When specialty merchandise is ordered, it can take time to manufacture and deliver the product. Revenue is deferred until the at-need merchandise is received. As of December 31, 2018 and 2017, the balances were \$327,302 and \$236,572, respectively. Deferred revenue for at-need specialty revenue is not placed in trust.

Deferred Pre-need Land Revenue: Deferred pre-need revenue and corresponding commissions are deferred until 10% of the funds are received from the customer through regular monthly payments. As of December 31, 2018 and 2017, the balances were \$5,380 and \$15,900, respectively. Deferred pre-need land revenue is not placed in trust.

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

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

|                      | Contract Balances  |                   |                       |
|----------------------|--------------------|-------------------|-----------------------|
|                      | Receivables<br>(1) | Contract<br>Asset | Contract<br>Liability |
| Opening (1/1/2018)   | \$ 3,608,379       | \$ -              | \$ 12,873,068         |
| Closing (12/31/2018) | 2,816,225          | -                 | 12,508,625            |
| Increase/(decrease)  | (792,154)          | -                 | (364,443)             |

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

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES  
Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

23) Revenues from Contracts with Customers (Continued)

The following table disaggregates the opening and closing balances of the Company's contract assets and contract liabilities.

|                                   | Contract Balances |                       |
|-----------------------------------|-------------------|-----------------------|
|                                   | Contract<br>Asset | Contract<br>Liability |
| Pre-need merchandise and services | \$ -              | \$ 12,620,596         |
| At-need specialty merchandise     | -                 | 236,572               |
| Pre-need land sales               | -                 | 15,900                |
| Opening (1/1/2018)                | <u>\$ -</u>       | <u>\$ 12,873,068</u>  |
| Pre-need merchandise and services | \$ -              | \$ 12,175,943         |
| At-need specialty merchandise     | -                 | 327,302               |
| Pre-need land sales               | -                 | 5,380                 |
| Closing (12/31/2018)              | <u>\$ -</u>       | <u>\$ 12,508,625</u>  |

The amount of revenue recognized for the year ended December 31, 2018 that was included in the opening contract liability balance was \$2,623,903.

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

Disaggregation of Revenue

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

|   | Year Ended<br>December<br>31<br><u>2018</u> |
|---|---|
| <u>Major goods/service lines</u>        |   |
| At-need                                 | \$ 10,391,976                               |
| Pre-need                                | 3,334,542                                   |
|   | <u>\$ 13,726,518</u>                        |
| <u>Timing of Revenue Recognition</u>    |   |
| Goods transferred at a point in time    | \$ 9,100,851                                |
| Services transferred at a point in time | 4,625,667                                   |
|   | <u>\$ 13,726,518</u>                        |

23) Revenues from Contracts with Customers (Continued)

**Significant Judgments and Estimates**

The Company's cemetery and mortuary segment recognizes revenue on future performance obligations when goods are delivered and when services are performed and is not determined by the terms or payments of the contract as long as any good or service is paid in full prior to delivery. Prices are determined based on the market at the time a contract is created. Goods or services are not partially completed. There are no significant judgements, estimations or allocation methods when revenue should be recognized.

**Practical Expedients**

The Company's cemetery and mortuary segment uses practical expedients in recognizing revenue for at-need specialty merchandise. At-need specialty merchandise consists of customized markers and bases ordered from a third-party manufacturer. These markers and bases can be ordered for at-need or pre-need contracts once the contract is paid in full. It is difficult to determine the exact point in time when each base and marker is delivered and installed. The Company uses practical expedients in determining when to recognize revenue. A marker is considered shipped and delivered once an invoice from the manufacturer is received requesting payment on the customized merchandise. The company uses the invoice as the method for considering obligations fulfilled on specialty merchandise.

**Contract Costs**

The Company's cemetery and mortuary segment defers certain costs associated with obtaining a contract on future obligations.

Pre-need Merchandise and Service Revenue: Pre-need merchandise and service revenues are deferred until the goods or services are delivered. Recognition can be years until the obligations are satisfied. Commissions and other costs are capitalized and deferred until the obligation is satisfied. Other costs include rent on pre-need offices and training rooms, and call center costs. Costs that are allocated based on a percentage include family service advisor compensation, bonuses, utilities and supplies that are all used to procure a pre-need sale.

At-need Specialty Merchandise Revenue: At-need specialty merchandise is ordered from a third-party manufacturer. Generally, at-need specialty merchandise is ordered and received within 90 days of order. These orders are also short-term in nature and only commissions are deferred until the product is received from the manufacturer and the obligation is satisfied.

Deferred Pre-need Land Revenue: Revenue is recognized on pre-need land sales when the customer has paid at least 10% toward the land price. In cases, where customers pay less than 10%, the revenue and associated commissions are deferred until such time when 10% of the contract price is received.

The following table disaggregates contract costs that are included in deferred policy and pre-need contract acquisition costs on the consolidated balances sheets.

|                                   | Year Ended<br>December<br>31<br><u>2018</u> |
|-----------------------------------|---|
| Pre-need merchandise and services | \$ 3,575,032                                |
| At-need specialty merchandise     | 15,926                                      |
| Pre-need land sales               | 1,237                                       |
|                                   | \$ 3,592,195                                |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Notes to Consolidated Financial Statements  
Years Ended December 31, 2018 and 2017

24) Subsequent Events

Acquisition of Probst Family Funerals and Cremations and Heber Valley Funeral Home

On February 15, 2019, the Company, through its wholly-owned subsidiary, Memorial Mortuary Inc., completed an asset purchase transaction with Probst Family Funerals and Cremations, LLC. (“Probst Family Funerals”) and Heber Valley Funeral Home, Inc. (“Heber Valley Funeral Home”). These funeral homes are both located in Heber Valley, a community situated about 45 miles southeast of Salt Lake City. For the year ended December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined revenues of \$1,055,634 and a combined net pre-tax income of \$179,613. As of December 31, 2018, Probst Family Funerals and Heber Valley Funeral Home had combined assets of \$1,161,029 and a combined total equity of \$18,052.

Under the terms of the transaction, as set forth in the Asset Purchase Agreement, dated February 15, 2019, by and among SN Probst LLC, a wholly owned subsidiary of Memorial Mortuary (“SN Probst”), and Probst Family Funerals, Heber Valley Funeral Home, Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha L. Probst, Memorial Mortuary, through its wholly owned subsidiary SN Probst, paid the purchase price of \$3,300,000 for the business and assets of Probst Family Funerals and Heber Valley Funeral Home, subject to a \$150,000 holdback. At the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$907,407 principal balance and \$4,340 in interest on a loan at Zions Bank that was secured by the Heber Valley Funeral Home. Also, at the closing, Probst Funeral Homes and Heber Valley Funeral Home paid off the \$157,148 loan with Utah Community Credit Union and the \$32,987 line of credit with Zions Bank.

25) Quarterly Financial Data (Unaudited)

|   | 2018               |               |               |               |
|---|--------------------|---------------|---------------|---------------|
|   | Three Months Ended |               |               |               |
|   | March 31           | June 30       | September 30  | December 31   |
| Revenues  | \$ 82,076,109      | \$ 68,865,126 | \$ 67,223,093 | \$ 61,454,399 |
| Benefits and expenses                               | 60,888,928         | 64,702,895    | 65,011,295    | 62,835,219    |
| Earnings before income taxes                        | 21,187,181         | 4,162,231     | 2,211,798     | (1,380,820)   |
| Income tax expense                                  | (4,261,258)        | (924,014)     | (198,052)     | 889,013       |
| Net earnings  | 16,925,923         | 3,238,217     | 2,013,746     | (491,807)     |
| Net earnings per common share (1)                   | \$ 1.00            | \$ 0.19       | \$ 0.12       | \$ (0.03)     |
| Net earnings per common share assuming dilution (1) | \$ 0.99            | \$ 0.19       | \$ 0.12       | \$ (0.03)     |

|   | 2017               |               |               |               |
|---|--------------------|---------------|---------------|---------------|
|   | Three Months Ended |               |               |               |
|   | March 31           | June 30       | September 30  | December 31   |
| Revenues  | \$ 70,829,297      | \$ 73,171,558 | \$ 71,971,851 | \$ 60,953,384 |
| Benefits and expenses                               | 67,931,527         | 69,177,259    | 70,833,834    | 61,451,358    |
| Earnings before income taxes                        | 2,897,770          | 3,994,299     | 1,138,017     | (497,974)     |
| Income tax expense                                  | (1,037,770)        | (1,508,435)   | (41,179)      | 9,168,206     |
| Net earnings  | 1,860,000          | 2,485,864     | 1,096,838     | 8,670,232     |
| Net earnings per common share (1)                   | \$ 0.11            | \$ 0.15       | \$ 0.07       | \$ 0.51       |
| Net earnings per common share assuming dilution (1) | \$ 0.11            | \$ 0.15       | \$ 0.06       | \$ 0.51       |

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

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

None

### Item 9A. Controls and Procedures

Under the supervision and with the participation of the Company's management, including the Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its disclosure controls and procedures as required by Exchange Act Rule 13a-15(b) as of the end of the period covered by this report. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures are effective.

(a) Management's annual report on internal control over financial reporting.

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control over financial reporting is a process that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles ("GAAP"), and includes those policies and procedures that:

- Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of the Company,
- Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that receipts and expenditures are being made only in accordance with authorizations of management and the Board of Directors of the Company, and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018 based on the framework in "Internal Control-Integrated Framework (2013)" issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of December 31, 2018. Based on that assessment management believes that at December 31, 2018, the Company's internal control over financial reporting was effective.

This annual report on internal control over financial reporting does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

(b) Changes in internal control over financial reporting.

There was no change in the Company's internal control over financial reporting that occurred in the fourth quarter 2018 that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

### Item 9B. Other Information

None

**Item 10. Directors, Executive Officers and Corporate Governance**

The Company's Board of Directors consists of eight persons, five of whom are not employees of the Company. There are no family relationships between or among any of the directors and executive officers, except that Scott M. Quist and Christie Q. Overbaugh are brother and sister, Jason G. Overbaugh is the son of Ms. Christie Q. Overbaugh, and S. Andrew Quist and Adam G. Quist are the sons of Scott M. Quist. The following table sets forth certain information with respect to the directors and executive officers of the Company.

| Name                  | Age | Position with the Company  |
|-----------------------|-----|--|
| Scott M. Quist        | 65  | Chairman of the Board, President, Chief Executive Officer and Director       |
| Garrett S. Sill       | 48  | Chief Financial Officer and Treasurer  |
| Jason G. Overbaugh    | 44  | Vice President, National Marketing Director of Life Insurance and Director   |
| S. Andrew Quist       | 38  | Vice President, General Counsel, and Director                                |
| Jeffrey R. Stephens   | 65  | Senior General Counsel and Secretary   |
| Stephen C. Johnson    | 62  | Vice President of Mortgage Operations  |
| Christie Q. Overbaugh | 70  | Senior Vice President of Life Insurance Internal Operations                  |
| Adam G. Quist         | 33  | Vice President - Memorial Services, Assistant Secretary, and General Counsel |
| John L. Cook          | 64  | Director   |
| Gilbert A. Fuller     | 78  | Director   |
| Robert G. Hunter      | 59  | Director   |
| H. Craig Moody        | 67  | Director   |
| Norman G. Wilbur      | 80  | Director   |

**Directors**

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

*Scott M. Quist* has served as Chairman of the Board and Chief Executive Officer of the Company since 2012. Mr. Quist also serves as the Company's President, a position he has held since 2002. He has additionally served as a director of the Company since 1986. From 1993 to 2013, Mr. Quist served as Treasurer and a director of the National Alliance of Life Companies (NALC), a national trade association of over 200 life insurance companies, and as its President from 1990 to 2000. From 1986 to 1991, Mr. Quist was Treasurer and a director of The National Association of Life Companies, a trade association of 642 insurance companies until its merger with the American Council of Life Companies. Mr. Quist has been a member of the Board of Governors of the Forum 500 Section (representing small insurance companies) of the American Council of Life Insurance. He has also served as a regional director of Key Bank of Utah since 1993. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree also from Brigham Young University. Mr. Quist's significant expertise and deep understanding of the technical, organizational and strategic business aspects of the insurance industry, his management expertise, his 17 year tenure as President of the Company and 32 year tenure as a director, and his years of business and leadership experience led the Board of Directors to conclude that Mr. Quist should serve as Chairman of the Board, President, and Chief Executive Officer of the Company.

*Jason G. Overbaugh* has served as a director of the Company since July 2013. Mr. Overbaugh has also served as a Vice President and the Assistant Secretary of the Company from 2002 to 2013. Mr. Overbaugh has additionally served as Vice President and National Marketing Director of Security National Life Insurance Company since 2006. From 2003 to 2006, he served as a Vice President of Security National Life Insurance Company with responsibilities as an investment manager over construction lending and commercial real estate investments. From 2000 to 2003, he served as a Vice President of Memorial Estates, Inc., with responsibilities over operations and sales. Mr. Overbaugh has served since 2007 as a director of the LOMA Life Insurance Council, a trade association of life insurance companies. He is also a member of the NFDA Trade Association. Mr. Overbaugh received a B.S. degree in Finance from the University of Utah. Mr. Overbaugh's expertise in insurance and marketing, and his 22 years of experience with the Company in its insurance, real estate, and mortuary and cemetery operations led the Board of Directors to conclude that he should serve as a director of the Company.

*S. Andrew Quist* has served as a director of the Company since July 2013. Mr. Quist has also served as a Vice President of the Company since 2010. In addition, from 2007 to December 2017, he served as the Company's Associate General Counsel and since December 2017 as the Company's General Counsel, where his responsibilities have included the Company's regulatory matters and acquisitions. In addition, Mr. Quist has served as Executive Vice President and Chief Operating Officer since 2010, and as Vice President from 2008 to 2010, of C&J Financial, LLC, which funds the purchase of funeral and burial policies from funeral homes after the death of the insureds. Mr. Quist has also served since 2013 as a director of the National Alliance of Life Companies (NALC), a national trade association of over 200 life insurance companies. From 2014 to 2016, he served as President of the NALC. Mr. Quist previously served as President of the Utah Life Convention, a consortium of Utah domestic life insurers. Mr. Quist holds a B.S. degree in Accounting from Brigham Young University and received his law degree from the University of Southern California. Mr. Quist is a member of the State Bar of California. Mr. Quist's expertise in insurance, legal and regulatory matters led the Board of Directors to conclude that he should serve as a director of the Company.

*John L. Cook* has served as a director of the Company since December 2013. Mr. Cook has served since 1982 as co-owner and operator of Cook Brothers Painting, Inc., a company that provides painting services for contractors and builders of residential and commercial properties. In addition, Mr. Cook attended the University of Utah. As a director, Mr. Cook advised the Board concerning the Company's investments in commercial and residential real estate projects. Moreover, Mr. Cook's extensive background in construction and building is important as the Company continues to acquire new real estate holdings and develop its current portfolio of undeveloped land. Mr. Cook's years of experience in the construction industry and with construction projects led the Board of Directors to conclude that he should serve as a director of the Company.

*Gilbert A. Fuller* has served as a director of the Company since 2012. From 2006 until his retirement in 2008, Mr. Fuller served as Executive Vice President, Chief Financial Officer and Secretary of USANA Health Sciences, Inc., a multinational manufacturer and direct seller of nutritional supplements. Mr. Fuller joined USANA in 1996 as the Vice President of Finance and served in that role until 1999 when he was appointed as its Senior Vice President. Mr. Fuller has served as a member of the Board of Directors of USANA since 2008. Mr. Fuller received a B.S. degree in Accounting and an M.B.A. degree from the University of Utah. Mr. Fuller's accounting, finance and corporate strategy expertise and his years of financial, accounting and business experience with public and private companies, including USANA Health Sciences, Inc., which is listed on the New York Stock Exchange, where he served as an executive officer and continues to serve as a director, led the Board of Directors to conclude that he should serve as a director of the Company.

*Robert G. Hunter, M.D.* has served as a director of the Company since 1998. Dr. Hunter is currently a practicing physician in private practice. Dr. Hunter is Department Head of Otolaryngology, Head and Neck Surgery at Intermountain Medical Center and a past President of the medical staff of the Intermountain Medical Center. He is also a delegate to the Utah Medical Association and has served as a delegate representing the State of Utah to the American Medical Association. Dr. Hunter holds a B.S. degree in Microbiology from the University of Utah and received his medical degree from the University of Utah College of Medicine. Dr. Hunter's medical expertise and experience, and his administrative and leadership experience from serving in a number of administrative positions in the medical profession led the Board of Directors to conclude that he should serve as a director of the Company.

*H. Craig Moody* has served as a director of the Company since 1995. Mr. Moody is owner of Moody & Associates, a political consulting and real estate company. He is a former Speaker and House Majority Leader of the House of Representatives of the State of Utah. From 1989 to 1992, Mr. Moody was Co-Chairman of the Utah Legislative Audit Committee. Mr. Moody holds a B.S. degree in Political Science from the University of Utah. Mr. Moody's real estate and governmental affairs expertise and years of business and leadership experience led the Board of Directors to conclude that he should serve as a director of the Company.

*Norman G. Wilbur* has served as a director of the Company since 1998. Mr. Wilbur worked for J.C. Penny's regional offices in budget and analysis. His final position was Manager of Planning and Reporting for J.C. Penny's stores. After 36 years with J.C. Penny's, Mr. Wilbur opted for early retirement in 1997. Mr. Wilbur holds a B.S. degree in Accounting from the University of Utah. Mr. Wilbur's financial expertise and business experience from a successful career at J.C. Penny's led the Board of Directors to conclude that he should serve as a director of the Company. In addition, the Board of Directors' determination that Mr. Wilbur is the Audit Committee "financial expert" lends further support to his financial acumen and qualification for serving as a director of the Company.

### **The Board of Directors, Board Committees, and Meetings**

The Company's Bylaws provide that the Board of Directors shall consist of not less than five or more than twelve members. The term of office of each director is for a period of one year or until the election and qualification of his successor. A director is not required to be a resident of the State of Utah or a stockholder of the Company. The Board of Directors held a total of five meetings during the fiscal year ended December 31, 2018. Each of the directors attended 75% or more of the meetings of the Board of Directors during 2018.

The size of the Board of Directors of the Company is eight members. A majority of the Board of Directors must qualify as "independent" as that term is defined in Rule 4200 of the listing standards of the Nasdaq Stock Market. The Board of Directors has affirmatively determined that five of the eight members of the Board of Directors, namely Messrs. John L. Cook, Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur, are independent under the listing standards of the Nasdaq Stock Market.

There are four committees of the Board of Directors, which meet periodically during the year: the Audit Committee, the Compensation Committee, the Executive Committee, and the Nominating and Corporate Governance Committee.

The Audit Committee directs the auditing activities of the Company's internal auditors and outside public accounting firm and approves the services of the outside public accounting firm. The Audit Committee consists of Messrs. John L. Cook, Gilbert A. Fuller, H. Craig Moody, and Norman G. Wilbur (Chairman of the committee). During 2018, the Audit Committee met on three occasions.

The Compensation Committee is responsible for recommending to the Board of Directors for approval the annual compensation of each executive officer of the Company and the executive officers of the Company's subsidiaries, developing policy in the areas of compensation and fringe benefits, contributions under the Employee Stock Ownership Plan, contributions under the 401(k) Retirement Savings Plans, Non-Qualified Deferred Compensation Plan, granting of options under the stock option plans, and creating other employee compensation plans. The Compensation Committee consists of Messrs. John L. Cook, Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody and Norman G. Wilbur (Chairman of the committee). During 2018, the Compensation Committee met on two occasions.

The Executive Committee reviews Company policy, major investment activities and other pertinent transactions of the Company. The Executive Committee consists of Messrs. Gilbert A. Fuller, H. Craig Moody, S. Andrew Quist and Scott M. Quist (Chairman of the committee). During 2018, the Executive Committee met on one occasion.

The Nominating and Corporate Governance Committee identifies individuals qualified to become Board members consistent with criteria approved by the Board, recommends to the Board the persons to be nominated by the Board for election as directors at a meeting of stockholders, and develops and recommends to the Board a set of corporate governance principles. The Nominating and Corporate Governance Committee consists of Messrs. John L. Cook, Gilbert A. Fuller, Robert G. Hunter, M.D., H. Craig Moody (Chairman of the committee), and Norman G. Wilbur. The Nominating and Corporate Governance Committee is composed solely of independent directors, as defined in the listing standards of the Nasdaq Stock Market. During 2018, the Nominating and Corporate Governance Committee met on two occasions.

### **Director Nominating Process**

The process for identifying and evaluating nominees for directors include the following steps: (1) the Nominating and Corporate Governance Committee, Chairman of the Board or other board members identify a need to fill vacancies or add newly created directorships; (2) the Chairman of the Nominating and Corporate Governance Committee initiates a search and seeks input from board members and senior management and, if necessary, obtains advice from legal or other advisors (but does not hire an outside search firm); (3) director candidates, including any candidates properly proposed by stockholders in accordance with the Company's Bylaws, are identified and presented to the Nominating and Corporate Governance Committee; (4) initial interviews with candidates are conducted by the Chairman of the Nominating and Corporate Governance Committee; (5) the Nominating and Corporate Governance Committee meets to consider and approve final candidate(s) and conduct further interviews as necessary; and (6) the Nominating and Corporate Governance Committee makes recommendations to the board for inclusion in the slate of directors at the annual meeting. The evaluation process will be the same whether the nominee is recommended by a stockholder or by a member of the Board of Directors.

## Meetings of Non-Management Directors

The Company's independent directors meet regularly in executive session without management. The Board of Directors has designated a lead director to preside at executive sessions of independent directors. Mr. H. Craig Moody is currently the lead director.

## Executive Officers

*Garrett S. Sill* has served as Chief Financial Officer and Treasurer since July 2013. From January 2013 to July 2013, Mr. Sill served as Acting Chief Financial Officer and Acting Treasurer. From 2011 to January 2013, Mr. Sill served as Vice President and Assistant Treasurer of Security National Life Insurance Company, a wholly owned subsidiary of the Company. From 2002 to 2011, Mr. Sill was Chief Financial Officer and Treasurer of SecurityNational Mortgage, a wholly owned subsidiary of the Company. Mr. Sill is a certified public accountant, having been licensed since 2002. He holds a B.A. degree in Accounting from Weber State University and a Master's degree in Business Administration from the University of Utah. Mr. Sill also serves as a member of the Advisory Council of the School of Accounting and Taxation at Weber State University.

*Jeffrey R. Stephens* has served as Senior General Counsel of the Company since December 2017, as General Counsel from 2006 to December 2017, and as Secretary of the Company since 2008. Mr. Stephens was in private practice from 1981 to 2006 in the states of Washington and Utah. Mr. Stephens holds a B.A. degree in Geography from the University of Utah and received his law degree from Brigham Young University. Mr. Stephens is a member of the Utah State Bar Association and the Washington State Bar Association.

*Stephen C. Johnson* began serving as the Vice President of Mortgage Operations of the Company and as the President of SecurityNational Mortgage in January 2016. Prior to Mr. Johnson's appointment as President of SecurityNational Mortgage, Mr. Johnson served as Executive Vice President and Chief Operating Officer of SecurityNational Mortgage. Mr. Johnson has over 30 years of experience at the executive management level in the mortgage banking industry. Mr. Johnson holds a B.A. degree in International Relations from Brigham Young University and Master's degree in International Management and Finance from the American Graduate School of International Management (Thunderbird).

*Christie Q. Overbaugh* has served as Senior Vice President of Life Insurance Internal Operations of the Company since 2006, and a Vice President of the Company from 1998 to June 2006. Ms. Overbaugh has also served as Vice President of Underwriting for Security National Life Insurance Company since 1998. From 1986 to 1991, she was Chief Underwriter for Investors Equity Life Insurance Company of Hawaii and Security National Life Insurance Company. From 1990 to 1991, Ms. Overbaugh was President of the Utah Home Office Underwriters Association. Ms. Overbaugh is currently a member of the Utah Home Office Underwriters Association and an Associate Member of LOMA (Life Office Management Association).

*Adam G. Quist* has served as Vice President – Memorial Services and Assistant Secretary of the Company since July 2015. From July 2015 to December 2017, he also served as the Company's Associate General Counsel. Since December 2017, Mr. Quist has served as the Company's General Counsel. Mr. Quist has also served since July 2015 as Vice President of Memorial Estates, Inc. ("Memorial Estates") and since July 2016 as Chief Operating Officer of Memorial Estates. Additionally, Mr. Quist has further served since July 2015 as Vice President of Memorial Mortuary, Inc. ("Memorial Mortuary") and since July 2016 as Chief Operating Officer of Memorial Mortuary. Both Memorial Estates and Memorial Mortuary are wholly owned subsidiaries of the Company. Mr. Quist hold a B.S. degree and a Master's degree in Accounting with an emphasis on taxation from Brigham Young University. He received his law degree from the University of Utah. Mr. Quist is a member of the Utah State Bar.

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

All executive officers and directors of the Company hold office until the next Annual Meeting of Stockholders and until their successors have been elected and qualified.

## Corporate Governance

**Corporate Governance Guidelines.** The Board of Directors has adopted the Security National Financial Corporation Corporate Governance Guidelines. These guidelines outline the functions of the board, director qualifications and responsibilities, and various processes and procedures designed to insure effective and responsive governance. The Board of Directors has also adopted a written committee charter for its Audit Committee and Compensation Committee. The guidelines and committee charters are reviewed from time to time in response to regulatory requirements and best practices and are revised accordingly. The full text of the guidelines and the committee charters are available on the Company's website at [www.securitynational.com](http://www.securitynational.com). A copy of the Corporate Governance Guidelines may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

**Code of Business Conduct and Ethics.** All of the Company's officers, employees, and directors are required to comply with the Company's Code of Business Conduct and Ethics to help insure that the Company's business is conducted in accordance with appropriate standards of ethical behavior. The Company's Code of Business Conduct and Ethics covers all areas of professional conduct, including customer relationships, conflicts of interest, insider trading, financial disclosures, intellectual property, and confidential information, as well as requiring adherence to all laws and regulations applicable to the Company's business. Employees are required to report any violations or suspected violations of the Code. The Code includes an anti-retaliation statement. The full text of the Code of Business Conduct and Ethics is available on the Company's website at [www.securitynational.com](http://www.securitynational.com). A copy of the Code of Business Conduct and Ethics may also be obtained at no charge by written request to the attention of Jeffrey R. Stephens, Secretary, Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.

**Item 11. Executive Compensation**

The following table sets forth, for each of the last two fiscal years, the compensation received by the Company’s Chief Executive Officer, the Company’s Chief Financial Officer, and the Company’s three other most highly compensated executive officers who were serving as executive officers at the end of 2018 (collectively, the “Named Executive Officers”).

**SUMMARY COMPENSATION TABLE**

| Name and Principal Position   | Year | Salary (\$) | Bonus (\$) | Options Awards (\$) | Non-Equity Incentive Plan Compensation (\$) | Change in Pension Value Non-qualified Deferred Compensation Earnings (1) (\$) | All Other Compensation (2) (\$) | Total (\$) |
|---|------|-------------|------------|---------------------|---|---|---------------------------------|------------|
| Scott M. Quist<br>Chairman of the Board,<br>President and Chief Executive Officer | 2018 | \$ 489,174  | \$ 124,500 | --                  | --  | --  | \$ 47,221                       | \$ 660,895 |
|   | 2017 | 487,925     | 174,500    | --                  | --  | --  | 46,108                          | 708,533    |
| Garrett S. Sill<br>Chief Financial Officer and Treasurer                          | 2018 | \$ 214,165  | \$ 25,457  | --                  | --  | --  | \$ 27,107                       | \$ 266,729 |
|   | 2017 | 206,185     | 25,007     | --                  | --  | --  | 28,018                          | 259,210    |
| Stephen C. Johnson<br>Vice President of Mortgage Operations                       | 2018 | \$ 361,284  | \$ 17,900  | --                  | --  | --  | \$ 18,257                       | \$ 397,441 |
|   | 2017 | 356,145     | 27,900     | --                  | --  | --  | 18,219                          | 402,264    |
| S. Andrew Quist<br>Vice President and General Counsel                             | 2018 | \$ 221,228  | \$ 41,075  | --                  | --  | --  | \$ 27,163                       | \$ 289,466 |
|   | 2017 | 206,374     | 40,325     | --                  | --  | --  | 27,630                          | 274,329    |
| Jeffrey R. Stephens<br>Senior General Counsel and Secretary                       | 2018 | \$ 190,250  | \$ 13,525  | --                  | --  | --  | \$ 24,434                       | \$ 228,209 |
|   | 2017 | 184,229     | 13,225     | --                  | --  | --  | 26,668                          | 224,122    |

(1) The amounts indicated under “Change in Pension Value and Non-Qualified Deferred Compensation Earnings” consist of amounts that the Company contributed into a trust for the benefit of the Named Executive Officers under the Company’s Non-Qualified Deferred Compensation Plan.

(2) The amounts indicated under “All Other Compensation” consist of the following amounts that the Company paid for the benefit of the Named Executive Officers:

- a) payments related to the operation of automobiles for Scott M. Quist (\$7,200 for each of the years 2018 and 2017); and Garrett S. Sill, Stephen C. Johnson, S. Andrew Quist, and Jeffrey R. Stephens (\$-0- for each of the years 2018 and 2017). However, such payments do not include the furnishing of an automobile by the Company to Scott M. Quist, nor the payment of insurance and property taxes with respect to the automobile operated by such executive officer;
- b) group life insurance premiums that the Company paid to a group life insurance plan for Scott M. Quist, Garrett S. Sill, Stephen C. Johnson, S. Andrew Quist, and Jeffrey R. Stephens (\$178 for each of the years 2018 and 2017);
- c) life insurance premiums that the Company paid for the benefit of Scott M. Quist (\$14,934 for each of the years 2018 and 2017); and Garrett S. Sill, Stephen C. Johnson, S. Andrew Quist, and Jeffrey R. Stephens (\$-0- for each of the years 2018 and 2017);
- d) medical insurance premiums that the Company paid to a medical insurance plan for Scott M. Quist (\$13,658 for 2018 and \$12,745 for 2017); Garrett S. Sill (\$19,657 for 2018 and \$18,341 for 2017); Stephen C. Johnson (\$6,790 for 2018 and \$6,790 for 2017); S. Andrew Quist (\$19,654 for 2018 and \$18,341 for 2017); and Jeffrey R. Stephens (\$18,140 for 2018 and \$18,341 for 2017);
- e) long term disability insurance premiums that the Company paid to a provider of such insurance for Scott M. Quist, Garrett S. Sill, Stephen C. Johnson, S. Andrew Quist, and Jeffrey R. Stephens (\$251 for each of the years 2018 and 2017);
- f) contributions that the Company made to defined contribution plans for Scott M. Quist (\$11,000 for 2018 and \$10,800 for 2017); Garrett S. Sill (\$9,248 for 2018 and \$8,561 for 2017); Stephen C. Johnson (\$10,838 for 2018 and \$10,800 for 2017); S. Andrew Quist (\$7,080 for 2018 and \$8,860 for 2017); and Jeffrey R. Stephens (\$5,865 for 2018 and \$7,898 for 2017); and
- g) contributions that the Company made to health savings accounts for Scott M. Quist, Garrett S. Sill, S. Andrew Quist and Jeffrey R. Stephens (\$-0- for



**SUPPLEMENTAL ALL OTHER COMPENSATION TABLE**

The following table sets forth all other compensation provided the Named Executive Officers for fiscal years 2018 and 2017.

| Name of Executive Officer  | Year | Perks and Other Personal Benefits | Tax Reimbursements | Discounted Securities Purchases | Payments/Accruals on Termination Plans | Registrant Contributions to Defined Contribution Plans | Insurance Premiums | Dividends or Earnings on Stock or Option Awards | Other (1) |
|----------------------------|------|-----------------------------------|--------------------|---------------------------------|--|--|--------------------|---|-----------|
| <b>Scott M. Quist</b>      |      |                                   |                    |                                 |  |  |                    |   |           |
|                            | 2018 | \$ 7,200                          | -                  | -                               | -                                      | \$ 11,000  | \$ 29,021          | -   | -         |
|                            | 2017 | 7,200                             | -                  | -                               | -                                      | 10,800   | 28,108             | -   | -         |
| <b>Garrett S. Sill</b>     |      |                                   |                    |                                 |  |  |                    |   |           |
|                            | 2018 | -                                 | -                  | -                               | -                                      | \$ 7,021   | \$ 20,086          | -   | -         |
|                            | 2017 | -                                 | -                  | -                               | -                                      | 9,248  | 18,770             | -   | -         |
| <b>Stephen C. Johnson</b>  |      |                                   |                    |                                 |  |  |                    |   |           |
|                            | 2018 | -                                 | -                  | -                               | -                                      | \$ 10,838  | \$ 7,419           | -   | -         |
|                            | 2017 | -                                 | -                  | -                               | -                                      | 10,800   | 7,419              | -   | -         |
| <b>S. Andrew Quist</b>     |      |                                   |                    |                                 |  |  |                    |   |           |
|                            | 2018 | -                                 | -                  | -                               | -                                      | \$ 7,080   | \$ 20,083          | -   | -         |
|                            | 2017 | -                                 | -                  | -                               | -                                      | 8,860  | 18,770             | -   | -         |
| <b>Jeffrey R. Stephens</b> |      |                                   |                    |                                 |  |  |                    |   |           |
|                            | 2018 | -                                 | -                  | -                               | -                                      | \$ 5,865   | \$ 18,569          | -   | -         |
|                            | 2017 | -                                 | -                  | -                               | -                                      | 7,898  | 18,770             | -   | -         |

GRANTS OF PLAN-BASED AWARDS

The following table sets forth certain information regarding options granted to the Named Executive Officers during the fiscal year ended December 31, 2018.

| Name of Executive Officer | Grant Date | Estimated Future Payouts Under Equity Incentive Plan Awards |             |              | All Other Awards: Number of Securities Underlying Options (#) | Exercise or Base Price of Option Awards (\$/Sh) | Closing Price on Grant Date (\$/Sh) | Grant Date Fair Value of Stock and Option Awards (\$) |
|---------------------------|------------|---|-------------|--------------|---|---|-------------------------------------|---|
|                           |            | Threshold (\$)  | Target (\$) | Maximum (\$) |   |   |                                     |   |
| Scott M. Quist            | 11/30/18   | --  | --          | --           | 73,500 (1)  | \$ 5.77 (2)                                     | \$ 5.24 (2)                         | \$ 64,762   |
| Garrett S. Sill           | 11/30/18   | --  | --          | --           | 21,000 (1)  | 5.24 (2)  | 5.24 (2)                            | 25,681  |
| Stephen C. Johnson        | --         | --  | --          | --           | --  | --  | --                                  | --  |
| S. Andrew Quist           | 11/30/18   | --  | --          | --           | 26,250 (1)  | 5.24 (2)  | 5.24 (2)                            | 32,102  |
| Jeffrey R. Stephens       | 11/30/18   | --  | --          | --           | 7,875 (1)   | 5.24 (2)  | 5.24 (2)                            | 9,630   |

(1) The stock options have been adjusted for the 5% annual stock dividend declared on November 30, 2018 and paid on February 1, 2019.

(2) Prices have been adjusted for the effect of the 5% annual stock dividend declared on November 30, 2018 and paid on February 1, 2019.

## OUTSTANDING EQUITY AWARDS

The following table sets forth information concerning outstanding equity awards held by Named Executive Officers at December 31, 2018.

| Name of Executive Officer | Option Awards     |   |   |                                |                        | Stock Awards           |   |  |   |  |
|---------------------------|-------------------|---|---|--------------------------------|------------------------|------------------------|---|--|---|--|
|                           | Option Grant Date | Number of Securities Underlying Unexercised Options Exercisable (1) (#) | Number of Securities Underlying Unexercised Options (1) (#) | Option Exercise Price (2) (\$) | Option Expiration Date | Stock Award Grant Date | Number of Shares or Units of Stock That Have Not Vested (#) | Market Value of Shares or Units of Stock That Have Not Vested (\$) | Unearned Shares, Units or Other Rights That Have Not Vested (#) | Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested (\$) |
| Scott M. Quist            | 07/02/14          | 63,814 (3)  | --  | \$ 3.66                        | 07/02/19               | --                     | --  | --   | --  | --   |
|                           | 12/05/14          | 127,629 (4)   | --  | 4.27                           | 12/05/19               | --                     | --  | --   | --  | --   |
|                           | 12/04/15          | 121,551 (5)   | --  | 6.02                           | 12/04/20               | --                     | --  | --   | --  | --   |
|                           | 12/02/16          | 92,610 (6)  | --  | 6.63                           | 12/02/21               | --                     | --  | --   | --  | --   |
|                           | 12/01/17          | 82,688  | --  | 5.02                           | 12/02/22               | --                     | --  | --   | --  | --   |
|                           | 11/30/18          | --  | 73,500 (9)  | 5.77                           | 11/30/23               | --                     | --  | --   | --  | --   |
| Garrett S. Sill           | 12/06/13          | 5,361   | --  | \$ 3.56                        | 12/06/23               | --                     | --  | --   | --  | --   |
|                           | 07/02/14          | 5,106   | --  | 3.33                           | 07/02/24               | --                     | --  | --   | --  | --   |
|                           | 12/05/14          | 10,210  | --  | 3.89                           | 12/05/24               | --                     | --  | --   | --  | --   |
|                           | 12/04/15          | 12,155  | --  | 5.47                           | 12/04/25               | --                     | --  | --   | --  | --   |
|                           | 12/02/16          | 11,576  | --  | 6.03                           | 12/02/26               | --                     | --  | --   | --  | --   |
|                           | 12/01/17          | 16,538 (7)  | --  | 4.56                           | 12/01/27               | --                     | --  | --   | --  | --   |
|                           | 11/30/18          | --  | 21,000 (8)  | 5.24                           | 11/30/28               | --                     | --  | --   | --  | --   |
| Stephen C. Johnson        | 04/13/12          | 4,221   | --  | \$ 1.09                        | 04/13/22               | --                     | --  | --   | --  | --   |
|                           | 12/06/13          | 4,020   | --  | 3.56                           | 12/06/23               | --                     | --  | --   | --  | --   |
|                           | 07/02/14          | 3,829   | --  | 3.33                           | 07/02/24               | --                     | --  | --   | --  | --   |
|                           | 12/05/14          | 7,658   | --  | 3.89                           | 12/05/24               | --                     | --  | --   | --  | --   |
|                           | 12/04/15          | 12,155  | --  | 5.47                           | 12/04/25               | --                     | --  | --   | --  | --   |
|                           | 12/02/16          | 5,789   | --  | 6.03                           | 12/02/26               | --                     | --  | --   | --  | --   |
|                           | 12/01/17          | 11,025  | --  | 4.56                           | 12/01/27               | --                     | --  | --   | --  | --   |
| S. Andrew Quist           | 04/13/12          | 21,107  | --  | \$ 1.09                        | 04/13/22               | --                     | --  | --   | --  | --   |
|                           | 12/06/13          | 13,401  | --  | 3.56                           | 12/06/23               | --                     | --  | --   | --  | --   |
|                           | 07/02/14          | 12,763  | --  | 3.33                           | 07/02/24               | --                     | --  | --   | --  | --   |
|                           | 12/05/14          | 25,527  | --  | 3.89                           | 12/05/24               | --                     | --  | --   | --  | --   |
|                           | 12/04/15          | 24,311  | --  | 5.47                           | 12/04/25               | --                     | --  | --   | --  | --   |
|                           | 12/02/16          | 23,153  | --  | 6.03                           | 12/02/26               | --                     | --  | --   | --  | --   |
|                           | 12/01/17          | 22,050 (7)  | --  | 4.80                           | 12/01/27               | --                     | --  | --   | --  | --   |
|                           | 11/30/18          | --  | 26,250 (8)  | 5.24                           | 11/30/28               | --                     | --  | --   | --  | --   |
| Jeffrey R. Stephens       | 04/13/12          | 3,519   | --  | \$ 1.09                        | 04/13/22               | --                     | --  | --   | --  | --   |
|                           | 12/06/13          | 3,351   | --  | 3.56                           | 12/06/23               | --                     | --  | --   | --  | --   |
|                           | 07/02/14          | 3,191   | --  | 3.33                           | 07/02/24               | --                     | --  | --   | --  | --   |
|                           | 12/05/14          | 6,382   | --  | 3.89                           | 12/05/24               | --                     | --  | --   | --  | --   |
|                           | 12/04/15          | 6,078   | --  | 5.47                           | 12/04/25               | --                     | --  | --   | --  | --   |
|                           | 12/02/16          | 5,789   | --  | 6.03                           | 12/02/26               | --                     | --  | --   | --  | --   |
|                           | 12/01/17          | 5,513   | --  | 4.56                           | 12/01/27               | --                     | --  | --   | --  | --   |
|                           |                   | 11/30/18  | --  | 7,875 (9)                      | 5.24                   | 11/30/28               | --  | --   | --  | --   |

(1) Except for options granted to Scott M. Quist that have five-year terms, such grants have ten year terms. The vesting of any unvested shares is subject to the recipient's continuous employment. This reflects the equivalent of Class A common shares.

(2) Exercise prices have been adjusted for the effect of annual stock dividends.

(3) On July 2, 2014, Scott Quist was granted stock options to purchase 50,000 shares of Class A common stock at an exercise price of \$3.66 per share or 50,000 shares of Class C common stock at an exercise price of \$3.66 per share, or any combination thereof.

(4) On December 5, 2014, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$4.27 per share or 100,000 shares of Class C common stock at an exercise price of \$4.27 per share, or any combination thereof.

(5) On December 4, 2015, Scott Quist was granted stock options to purchase 100,000 shares of Class A common stock at an exercise price of \$6.02 per share or 100,000 shares of Class C common stock at an exercise price of \$6.02 per share, or any combination thereof.

(6) On December 2, 2016, Scott Quist was granted stock options to purchase 80,000 shares of Class A common stock at an exercise price of \$6.63 per share or 80,000 shares of Class C common stock at an exercise price of \$6.63 per share, or any combination thereof.

(7) On December 1, 2017, Garrett S. Sill was granted stock options to purchase 15,000 shares of Class A common stock at an exercise price of \$4.56 per

share or 15,000 shares of Class C common stock at an exercise price of \$4.56 per share, or any combination thereof. Also, on December 1, 2017, S. Andrew Quist was granted stock options to purchase 20,000 shares of Class A common stock at an exercise price of \$4.56 per share or 20,000 shares of Class C common stock at an exercise price of \$4.56 per share, or any combination thereof.

- (8) On November 30, 2018, Garrett S. Sill was granted stock options to purchase 20,000 shares of Class A common stock at an exercise price of \$5.24 per share or 20,000 shares of Class C common stock at an exercise price of \$5.24 per share, or any combination thereof. Also, on November 30, 2018, S. Andrew Quist was granted stock options to purchase 25,000 shares of Class A common stock at an exercise price of \$5.24 per share or 20,000 shares of Class C common stock at an exercise price of \$5.24 per share, or any combination thereof.
- (9) Stock options vest at the rate of 25% of the total number of shares subject to the options on March 1, 2019 and 25% of the total number of shares on the last day of each three month period thereafter.

### OPTION AWARDS VESTING SCHEDULE

The following table sets forth the vesting schedule of unexercisable options reported in the “Number of Securities Underlying Unexercised Options – Unexercisable” column of the table above.

| Grant Date | Vesting   |
|------------|---|
| 4/13/12    | These options vested 25% per quarter over a one year period after the grant date. |
| 12/06/13   | These options vested 25% per quarter over a one year period after the grant date. |
| 07/02/14   | These options vested 25% per quarter over a one year period after the grant date. |
| 12/05/14   | These options vested 25% per quarter over a one year period after the grant date. |
| 12/04/15   | These options vested 25% per quarter over a one year period after the grant date. |
| 12/02/16   | These options vested 25% per quarter over a one year period after the grant date. |
| 12/01/17   | These options vested 25% per quarter over a one year period after the grant date. |
| 11/30/18   | These options vest 25% per quarter over a one year period after the grant date.   |

### OPTION EXERCISES AND STOCK VESTED

The following table sets forth all stock options exercised and value received upon exercise, and all stock awards vested and value realized upon vesting, by the Named Executive Officers during the year ended December 31, 2018.

| Name of Executive Officer | Option Awards                             |                                 | Stock Awards                             |                                |
|---------------------------|---|---------------------------------|--|--------------------------------|
|                           | Number of Shares Acquired on Exercise (#) | Value Realized on Exercise (\$) | Number of Shares Acquired on Vesting (#) | Value Realized on Vesting (\$) |
| Scott M. Quist            | --  | --                              | --                                       | --                             |
| Garrett S. Sill           | --  | --                              | --                                       | --                             |
| Stephen C. Johnson        | --  | --                              | --                                       | --                             |
| S. Andrew Quist           | 20,102                                    | \$ 74,176                       | --                                       | --                             |
| Jeffrey R. Stephens       | --  | --                              | --                                       | --                             |

## PENSION BENEFITS

The following table sets forth the present value as of December 31, 2018 of the benefit of the Named Executive Officers under the defined benefit pension plan.

| Name of Executive Officer | Plan Name | Number of Years Credited Service (#) | Present Value of Accumulated Benefit (\$) | Payments During Last Fiscal Year (\$) |
|---------------------------|-----------|--------------------------------------|---|---------------------------------------|
| Scott M. Quist            | None      | --                                   | --  | --                                    |
| Garrett S. Sill           | None      | --                                   | --  | --                                    |
| Stephen C. Johnson        | None      | --                                   | --  | --                                    |
| S. Andrew Quist           | None      | --                                   | --  | --                                    |
| Jeffrey R. Stephens       | None      | --                                   | --  | --                                    |

## EQUITY COMPENSATION PLAN INFORMATION

The following table sets forth certain information as of December 31, 2018 with respect to compensation plans (including individual compensation arrangements) under which the Company's equity securities are authorized for issuance, aggregated as follows:

- All compensation plans previously approved by security holders; and
- All compensation plans not previously approved by security holders.

| <u>Plan Category</u>                                   | <u>A</u>   | <u>B</u>   | <u>C</u>   |
|--|--|--|--|
|  | <b>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights</b> | <b>Weighted Average Exercise Price of Outstanding Options, Warrants and Rights</b> | <b>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column A)</b> |
| Equity compensation plans approved by stockholders (1) | 1,588,554(2)   | \$ 4.49(2)   | 443,553(3)   |
| Equity compensation plans not approved by stockholders | 0  | -  | 0  |

(1) This reflects the 2013 Stock Option Plan (the "2013 Plan") and the 2014 Director Stock Option Plan (the "2014 Director Plan"). The 2013 Plan was approved by the stockholders at the annual stockholders meeting held on July 12, 2013, which reserved 450,000 shares of Class A common stock of which 150,000 shares of Class A common stock could be issued in place of up to 150,000 shares of Class C common stock for issuance thereunder. The 2014 Director Plan was approved by stockholders at the annual stockholders meeting held on July 2, 2014, which reserved 150,000 shares of Class A common stock for issuance thereunder. The 2013 Plan was amended by the stockholders at the annual stockholders meeting held on July 1, 2015 to authorize an additional 450,000 shares of Class A common stock to be available for issuance under the Plan, of which up to 200,000 Class A common shares may be issued as up to 200,000 shares of Class C common stock. The 2013 Plan was further amended by the stockholders at the annual stockholders meeting held on June 29, 2017 to authorize an additional 500,000 shares of Class A common stock to be available for issuance under the Plan, of which up to 250,000 Class A common shares may be issued in place of up to 250,000 shares of Class C common stock.

(2) The weighted average exercise prices reflect solely the shares of Class A common stock that will be issued upon exercise of outstanding options.

(3) This number includes 396,782 shares of Class A common stock available for future issuance under the 2013 Plan, and 46,771 shares of Class A common stock available for future issuance under the 2014 Director Plan.

## Employment Agreements

### Employment Agreement with Scott M. Quist

On December 4, 2012, the Company entered into an employment agreement with Scott M. Quist, Chairman of the Board, President and Chief Executive Officer of the Company. The agreement was for a six-year term beginning on December 4, 2012 and ending on December 4, 2018. Under the terms of the Agreement, the Board of Directors may, in its sole discretion, extend the term of the agreement for an additional four-year term provided that Mr. Quist has continued to perform his duties with usual and customary care, diligence and prudence commensurate with his position with the Company. In addition, Mr. Quist is required to perform such additional duties as may be assigned to him from time to time by the Company's Board of Directors.

Effective December 4, 2018, the Board members approved a motion to extend Mr. Quist's employment agreement for an additional four-year term ending December 2022. Mr. Quist abstained from voting on the motion to extend his employment agreement for the additional four-year term. Under the terms of the agreement, Mr. Quist is to devote his full time to the Company, serving as 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 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 of compensation.

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 paying Mr. Quist's current compensation and benefits for seven years following the merger or sale. The employment 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 level of compensation. In the event that Mr. Quist dies prior to receiving all retirement benefits thereunder, the remaining benefits are to be paid to his heirs. The Company expensed \$660,000 and \$755,302 during the years ended December 31, 2018 and 2017, respectively, to cover the present value of anticipated retirement benefits under the employment agreement. The liability accrued was \$5,191,670 and \$4,531,670 as of December 31, 2018 and 2017, respectively.

### Director Compensation

Directors of the Company (but not including directors who are employees) are currently paid a director's fee of \$21,600 per year by the Company for their services and are reimbursed for their expenses in attending board and committee meetings. An additional fee of \$750 is paid to each audit committee member for each audit committee meeting attended. Each director is provided with an annual grant of stock options to purchase 1,000 shares of Class A common stock, which occurred under the 2000 Director Stock Option Plan for years 2000 to 2005, under the 2006 Director Stock Option Plan and under the 2014 Director Plan for years 2006 to 2018. During 2018 each director was granted additional stock options to purchase 1,000 shares of Class A common stock.

#### DIRECTOR COMPENSATION

The following table sets forth the compensation of the Company's non-employee directors for fiscal 2018.

| Name                          | Fees Earned<br>or Paid in<br>Cash<br>(\$) | Stock<br>Awards (\$) | Option<br>Awards (\$) | Non-Equity<br>Incentive Plan<br>Compensation<br>(\$) | Change in<br>Pension Value<br>and<br>Nonqualified<br>Deferred<br>Compensation<br>Earnings | All Other<br>Compensation<br>(\$) | Total<br>(\$) |
|-------------------------------|---|----------------------|-----------------------|--|---|-----------------------------------|---------------|
| John L. Cook (1)              | \$ 23,850                                 | --                   | \$ 7,704              | --   | --  | --                                | \$ 31,554     |
| Gilbert A. Fuller<br>(2)      | 23,850                                    | --                   | 7,704                 | --   | --  | --                                | 31,554        |
| Robert G. Hunter,<br>M.D. (3) | 21,600                                    | --                   | 7,704                 | --   | --  | --                                | 29,304        |
| H. Craig Moody<br>(4)         | 23,850                                    | --                   | 7,704                 | --   | --  | --                                | 31,554        |
| Norman G. Wilbur<br>(5)       | 23,850                                    | --                   | 7,704                 | --   | --  | --                                | 31,554        |

- 
- (1) Mr. Cook has options to purchase 37,132 shares of the Company's Class A common stock.
  - (2) Mr. Fuller has options to purchase 38,540 shares of the Company's Class A common stock.
  - (3) Dr. Hunter has options to purchase 73,526 shares of the Company's Class A common stock.
  - (4) Mr. Moody has options to purchase 73,526 shares of the Company's Class A common stock.
  - (5) Mr. Wilbur has options to purchase 30,711 shares of the Company's Class A common stock.

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

In 1995, the Company's Board of Directors adopted a 401(k) Retirement Savings Plan. Under the terms of the 401(k) plan, effective as of January 1, 1995, the Company made discretionary employer matching contributions to its employees who choose to participate in the plan. The plan allowed the board to determine the amount of the contribution at the end of each year. During the period from January 1, 1995 to December 31, 2007 the Board had adopted a contribution formula specifying that such discretionary employer matching contributions would equal 50% of the participating employee's contribution to the plan to purchase the Company's stock up to a maximum discretionary employee contribution of 1/2 of 1% of participating employees' compensation, as defined by the plan.

All persons who have completed at least one year's service with the Company and satisfy other plan requirements are eligible to participate in the 401(k) plan. All Company matching contributions are invested in the Company's Class A common stock. Also, the Company may contribute at the discretion of the Company's Board of Directors an Employer Profit Sharing Contribution to the 401(k) plan. The Employer Profit Sharing Contribution is to be divided among three different classes of participants in the plan based upon the participant's title in the Company. All amounts contributed to the plan are deposited into a trust fund administered by an independent trustee.

Beginning January 1, 2008, the Company elected to be a "Safe Harbor" Plan for its matching 401(k) contributions. The Company will match 100% of up to 3% of an employee's total annual compensation and 50% of 4% to 5% of an employee's annual compensation. The match is in shares of the Company's Class A common stock. The Company's contribution for 2018 and 2017 was \$1,480,913 and \$1,534,861 respectively, under the "Safe Harbor" plan.

### **Stock Repurchase Plan**

On September 7, 2018, the Board approved the Security National Financial Stock Repurchase Plan that authorized the repurchase of 300,000 shares of the Company's Class A Common Stock in the open market. The repurchased shares of Class A common stock will be held as treasury shares to be used as the Company's employer matching contribution to the Employee 401(k) Retirement Savings Plan.

### **Employee Stock Ownership Plan (ESOP)**

Effective January 1, 1980, the Company adopted an employee stock ownership plan (the "ESOP Plan") for the benefit of career employees of the Company and its subsidiaries. Under the ESOP Plan, the Company has discretionary power to make contributions on behalf of all eligible employees into a trust created under the ESOP Plan. Employees become eligible to participate in the ESOP Plan when they have attained the age of 19 and have completed one year of service (a twelve-month period in which the Employee completes at least 1,040 hours of service).

The Company's contributions under the ESOP Plan are allocated to eligible employees on the same ratio that each eligible employee's compensation bears to total compensation for all eligible employees during each year. To date, the ESOP Plan has approximately 287 participants and had \$-0- contributions payable to the Plan in 2018. Benefits under the ESOP Plan vest as follows: 20% after the second year of eligible service by an employee, an additional 20% in the third, fourth, fifth and sixth years of eligible service by an employee.

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

## Non-Qualified Deferred Compensation Plan

In 2001, the Company's Board of Directors adopted a Non-Qualified Deferred Compensation Plan, and this plan was amended in 2005. 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 2018 and 2017. The investment committees of the Company's Non-Qualified Deferred Compensation Plan consists of Scott M. Quist, Stephen C. Johnson, and Garrett S. Sill.

### NON-QUALIFIED DEFERRED COMPENSATION

The following table sets forth contributions to the non-qualified deferred compensation account of the Named Executive Officers in fiscal 2018 and the aggregate balance of deferred compensation of the Named Executive Officers at December 31, 2018.

| <u>Name</u>         | <u>Executive Contributions In Last FY (\$)</u> | <u>Registrant Contributions In Last FY (\$)</u> | <u>Aggregate Earnings in last FY (\$)</u> | <u>Aggregate Withdrawals Distributions (\$)</u> | <u>Aggregate Balance at last FYE (\$)</u> |
|---------------------|--|---|---|---|---|
| Scott M. Quist      | --   | --  | --  | --  | \$ 475,367                                |
| Garrett S. Sill     | --   | --  | --  | --  | --  |
| Stephen C. Johnson  | --   | --  | --  | --  | \$ 31,326                                 |
| S. Andrew Quist     | --   | --  | --  | --  | --  |
| Jeffrey R. Stephens | --   | --  | --  | --  | --  |

## 2013 Amended Stock Option Plan

On August 24, 2013, the Company adopted the Security National Financial Corporation 2013 Stock Option Plan (the "2013 Plan"), which reserved 450,000 shares of Class A common stock to be made available for issuance thereunder, of which up to 150,000 shares of Class C common stock could be issued in place of up to 150,000 shares of Class A common stock. The 2013 Plan provides for the grant of options and the award or sale of stock to officers, directors, and employees of the Company. Both "incentive stock options", as defined under Section 422A of the Internal Revenue Code of 1986 and "non-qualified options" may be granted under the 2013 Plan.

On July 1, 2015, the stockholders approved an amendment to the 2013 Plan to authorize an additional 450,000 shares of Class A common stock under the Plan, of which up to 200,000 Class C common stock may be issued in place of up to 200,000 shares of Class A common stock. On June 29, 2017, the stockholders approved an amendment to the 2013 Plan to authorize an additional 500,000 shares of Class A common stock under the Plan, of which up to 250,000 Class C common stock may be issued in place of up to 250,000 shares of Class A common stock.

The 2013 Plan is to be administered by the Board of Directors or by a committee designated by the Board. The terms of options granted or stock awards or sales affected under the 2013 Plan are to be determined by the Board of Directors or its committee. No options may be exercised for a term of more than ten years from the date of the grant. Options intended as incentive stock options may be issued only to employees, and must meet certain conditions imposed by the Internal Revenue Code, including a requirement that the option exercise price be no less than the fair market value of the option shares on the date of grant. The 2013 Plan provides that the exercise price for non-qualified options will not be less than at least 50% of the fair market value of the stock subject to such option as of the date of grant of such options, as determined by the Company's Board of Directors.

The 2013 Plan also provides that if the shares of common stock shall be subdivided or combined into a greater or smaller number of shares or if the Company shall issue any shares of common stock as a stock dividend on its outstanding common stock, the number of shares of common stock deliverable upon the exercise of options shall be increased or decreased proportionately, an appropriate adjustments shall be made in the purchase prices to reflect such subdivision, combination or stock dividend. In addition, the number of shares of common stock reserved for purposes of the plan shall be adjusted by the same proportion. No options may be exercised for a term of more than ten years from the date of grant.

On December 4, 2015, the Board of Directors approved a resolution to amend the Company's 2013 Stock Option Plan to include additional equity incentive awards. These additional incentive awards in the plan consist of Stock Appreciation Rights (SARs), Restricted Stock Units (RSUs) and Performance Share Awards. Stock Appreciation Rights are awards that entitle the recipient to receive cash or stock equal to the excess of the Company's stock price on the date the SAR is exercised. Restricted Stock Units entitle the recipient to receive RSUs that require the Company on the distribution dates to transfer to the recipient one unrestricted, fully transferable share of stock for each RSU scheduled to be paid out on that date. Performance Share Awards entitle the recipient to receive stock based on the Company meeting certain performance goals.

The 2013 Plan has a term of ten years. The Board of Directors may amend or terminate the 2013 Plan at any time, from time to time, subject to approval of certain modifications to the 2013 Plan by the stockholders of the Company as may be required by law or the 2013 Plan.

#### **2014 Director Stock Option Plan**

On May 16, 2014, the Company adopted the 2014 Director Stock Option Plan (the "2014 Director Plan"). The 2014 Director Plan provides for the grant by the Company of options to purchase up to an aggregate of 150,000 shares of Class A common stock for issuance there under. The 2014 Director Plan provides that each member of the Company's Board of Directors who is not an employee or paid consultant of the Company is automatically eligible to receive options to purchase the Company's Class A common stock under the plan. The 2014 Director Plan replaces the Company's 2006 Director Plan, which was terminated on July 2, 2014.

In addition, the 2014 Director Plan provides that beginning on December 7, 2014, and on each anniversary date thereof during the term plan, each outside director shall automatically receive an option to purchase 1,000 shares of Class A common stock. Also, each new outside director who joins the Board after the effective date shall be granted an option to purchase 1,000 shares of Class A common stock upon the date which such person first becomes an outside director and an annual grant of an option to purchase 1,000 shares of Class A common stock on each anniversary date thereof during the term of the 2014 Director Plan. The options granted to outside directors shall vest in four equal quarterly installments over a one year period from the date of grant, until such shares are fully vested. The primary purposes of the 2014 Director Plan are to enhance the Company's ability to attract and retain well-qualified persons for service as directors and to provide incentives to such directors to continue their association with the Company.

In the event of a merger of the Company with or into another company, or a consolidation, acquisition of stock or assets or other change in control transaction involving the Company, each option granted under the 2014 Director Plan becomes exercisable in full, unless such option is assumed by the successor corporation. In the event the transaction is not approved by a majority of the "Continuing Directors" (as defined in the 2014 Director Plan), each option becomes fully vested and exercisable in full immediately prior to the consummation of such transaction, whether or not assumed by the successor corporation.

#### **Stock Purchase Plan**

On September 11, 2015, the Board approved the Security National Financial Corporation Stock Purchase Plan for the mutual benefit of the Company and its stockholders. Under the terms of the Plan, the Company has the option to purchase shares of Class A common stock from its officers and directors who exercise the stock options granted to them under any of the Company's stock option plans with the proceeds from such purchase to be used to pay the taxes owed by such officers and directors as a result of the exercise of their stock options. Additionally, the officers and directors who exercise their stock options may, in their discretion, request that the Company purchase shares of their Class A common stock with the proceeds from such sale to be used to pay the taxes owed by such officers and directors as a result of the exercise of their stock options.

The Company is authorized under the plan to purchase no more than 60,000 shares of Class A common stock in any calendar year to pay the taxes owed by the officers and directors who exercise their stock options under the Stock Purchase Plan. The Company's purchase price for the Class A common stock under the Stock Purchase Plan shall be equal to the closing sales price of the Company's Class A common stock as reported by The Nasdaq National Market on the day that the applicable stock options are exercised by such officers and directors. The Company may only purchase shares of Class A common stock from the officers and directors exercising their stock options under the Stock Purchase Plan during the "Trading Window" as defined in the Company's Insider Trading Policy and Guidelines.

## Compliance with Section 16(a) of the Securities Exchange Act of 1934

Section 16(a) of the Securities Exchange Act of 1934, as amended, requires the Company's executive officers, directors and persons who own more than 10% of a registered class of the Company's equity securities to file reports of ownership and periodic changes in ownership of the Company's Class A and Class C common stock with the Securities and Exchange Commission. Such persons are also required to furnish the Company with copies of all Section 16(a) reports they file.

Based solely on its review of the copies of stock reports received by the Company with respect to fiscal 2018, or written representations from certain reporting persons, the Company believes that its directors, executive officers and greater than 10% beneficial owners complied with all Section 16(a) filing requirements applicable to them, except that each of the executive officers and directors, through an oversight, filed one late Form 4 report disclosing the granting of stock options on November 30, 2018.

### Item 12 - Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The following table sets forth security ownership information of the Company's Class A and Class C common stock as of March 31, 2019, (i) for persons who own beneficially more than 5% of the Company's outstanding Class A or Class C common stock, (ii) for each director of the Company, and (iii) for all executive officers and directors of the Company as a group.

| Name and Address (1)   | Class A<br>Common Stock         |                        | Class C<br>Common Stock         |                        | Class A and<br>Class C<br>Common Stock |                        |
|--|---------------------------------|------------------------|---------------------------------|------------------------|--|------------------------|
|  | Amount<br>Beneficially<br>Owned | Percent<br>of<br>Class | Amount<br>Beneficially<br>Owned | Percent<br>of<br>Class | Amount<br>Beneficially<br>Owned        | Percent<br>of<br>Class |
| George R. and Shirley C. Quist<br>Family Partnership, Ltd. (2) | 1,525,732                       | 10.1%                  | 664,946                         | 30.3%                  | 2,190,678                              | 12.7%                  |
| 401(k) Retirement Savings Plan (3)                             | 2,148,760                       | 14.3%                  | -                               | -                      | 2,148,760                              | 12.5%                  |
| Scott M. Quist (4)(5)(6)(7)(8)                                 | 439,959                         | 2.9%                   | 1,563,161                       | 60.1%                  | 2,003,120                              | 11.3%                  |
| Jordan Capital Partners, L.P. (9)                              | 994,851                         | 6.6%                   | -                               | -                      | 994,851                                | 5.8%                   |
| Non-Qualified Deferred<br>Compensation Plan (10)               | 879,956                         | 5.8%                   | -                               | -                      | 879,956                                | 5.1%                   |
| Employee Stock Ownership Plan<br>(ESOP) (11)                   | 495,618                         | 3.3%                   | 307,491                         | 14.0%                  | 803,109                                | 4.7%                   |
| Christie Q. Overbaugh (12)                                     | 316,306                         | 2.1%                   | 31,912                          | 1.5%                   | 348,218                                | 2.0%                   |
| Jason G. Overbaugh (13)  | 272,638                         | 1.8%                   | 28,612                          | *                      | 301,250                                | 1.7%                   |
| S. Andrew Quist (6)(14)  | 201,652                         | 1.3%                   | 28,612                          | *                      | 230,264                                | 1.3%                   |
| Associated Investors (15)                                      | 82,558                          | *                      | 129,807                         | 5.9%                   | 212,365                                | 1.2%                   |
| Estate of George R. Quist                                      | 125,137                         | *                      | 77,280                          | 3.5%                   | 202,417                                | 1.2%                   |
| Garrett S. Sill (5)(7)(16)                                     | 103,794                         | *                      | 21,788                          | *                      | 125,582                                | *                      |
| Jeffrey R. Stephens (17)                                       | 120,442                         | *                      | -                               | -                      | 120,442                                | *                      |
| H. Craig Moody (18)  | 94,909                          | *                      | -                               | -                      | 94,909                                 | *                      |
| Robert G. Hunter, M.D. (6)(19)                                 | 80,598                          | *                      | -                               | -                      | 80,598                                 | *                      |
| Stephen C. Johnson(5)(7)(20)                                   | 79,029                          | *                      | -                               | -                      | 79,029                                 | *                      |
| Adam G. Quist (21)   | 34,362                          | *                      | 21,788                          | *                      | 56,150                                 | *                      |
| Gilbert A. Fuller (22)   | 34,484                          | *                      | -                               | -                      | 34,484                                 | *                      |
| John L. Cook (23)  | 32,406                          | *                      | -                               | -                      | 32,406                                 | *                      |
| Norman G. Wilbur (24)  | 27,059                          | *                      | -                               | -                      | 27,059                                 | *                      |
| All directors and executive officers<br>(13 persons)           | 1,837,638                       | 11.6%                  | 1,695,873                       | 62.8%                  | 3,533,511                              | 19.1%                  |

\* Less than 1%

- (1) Unless otherwise indicated, the address of each listed stockholder is c/o Security National Financial Corporation, 5300 South 360 West, Suite 250, Salt Lake City, Utah 84123.
- (2) This stock is owned by the George R. and Shirley C. Quist Family Partnership, Ltd., of which Scott M. Quist is the managing general partner and, accordingly, exercises sole voting and investment powers with respect to such shares.
- (3) The investment committee of the 401(k) Retirement Savings Plan consists of Scott M. Quist, Stephen C. Johnson and Garrett S. Sill, who exercise shared voting and investment powers with respect to such shares.
- (4) Mr. Scott Quist is the Company's Chairman of the Board, President, and Chief Executive Officer. Includes options to purchase 101,063 shares of Class A common stock and 405,604 shares of Class C common stock that are currently exercisable or will become exercisable within 60 days of March 31, 2019. Mr. Quist's options to purchase 405,604 shares of Class C common stock may also, at Mr. Quist's election, consist of options to purchase 405,604 shares of Class A common stock, or any combination thereof. Mr. Quist has elected to purchase Class C common shares with such options to the extent there are sufficient authorized but unissued Class C common shares available for issuance with respect to such options. Otherwise, Mr. Quist will elect to purchase shares of Class A common stock with respect to such options.
- (5) Does not include 2,148,760 shares of Class A common stock owned by the Company's 401(k) Retirement Savings Plan, of which Scott M. Quist, Stephen C. Johnson and Garrett S. Sill are members of the investment committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (6) Does not include 495,618 shares of Class A common stock and 307,491 shares of Class C common stock owned by the Company's Employee Stock Ownership Plan (ESOP), of which Scott M. Quist, S. Andrew Quist and Robert G. Hunter are the trustees and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (7) Does not include 879,956 shares of Class A common stock owned by the Company's Non-Qualified Deferred Compensation Plan, of which Scott M. Quist, Stephen C. Johnson and Garrett S. Sill are members of the investment committee and, accordingly, exercise shared voting and investment powers with respect to such shares.
- (8) Does not include 82,558 shares of Class A common stock and 129,807 shares of Class C common stock owned by Associated Investors, a Utah general partnership, of which Scott M. Quist is the managing partner and, accordingly, exercises sole voting and investment powers with respect to such shares.
- (9) Based solely on the Schedule 13G filed on February 8, 2019, Jordan Capital Partners, L.P. has shared voting and dispositive power with respect to 910,851 shares of the Company's Class A common stock, or 6.0% of the outstanding shares of Class A common stock. Jordan Capital AM, LLC is the general partner of Jordan Capital Partners, L.P., which has shared voting and dispositive power with respect to 994,851 shares of the Company's Class A common stock, or 6.6% of the outstanding shares of Class A common stock. The address for Jordan Capital Partners, L.P. and Jordan Capital AM, LLC is 6001 River Road, Suite 100, Columbus, Georgia 31904.
- (10) The investment committee of the Company's Non-Qualified Deferred Compensation Plan consists of Scott M. Quist, Stephen C. Johnson and Garrett S. Sill, who exercise shared voting and investment powers with respect to such shares.
- (11) The trustees of the Employee Stock Ownership Plan (ESOP) consist of Scott M. Quist, S. Andrew Quist and Robert G. Hunter who exercise shared voting and investment powers with respect to such shares.
- (12) Ms. Overbaugh is the Company's Senior Vice President of Life Insurance Internal Operations. Includes options to purchase 40,587 shares of Class A common stock granted to Ms. Overbaugh that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (13) Mr. Overbaugh is the Company's Vice President, National Marketing Director of Life Insurance, and a director. Includes options to purchase 99,155 shares of Class A common stock and options to purchase 28,612 shares of Class C common stock that are currently exercisable or will become exercisable within 60 days of March 31, 2019. The options to purchase 28,612 shares of Class C common stock may also, at Mr. Overbaugh's election, consist of options to purchase 28,612 shares of Class A common stock, or any combination thereof. Mr. Overbaugh has elected to purchase Class C common shares with such options to the extent there are sufficient authorized but unissued Class C common shares available for issuance with respect to such options. Otherwise, Mr. Overbaugh will elect to purchase shares of Class A common stock with respect to such options.
- (14) Mr. Andrew Quist is the Company's Vice President, General Counsel, and a director. Includes options to purchase 120,262 shares of Class A common stock and options to purchase 28,612 shares of Class C common stock that are currently exercisable or will become exercisable within 60 days of March 31, 2019. The options to purchase 28,612 shares of Class C common stock may also, at Mr. Quist's election, consist of options to purchase 28,612 shares of Class A common stock, or any combination thereof. Mr. Andrew Quist has elected to purchase Class C common shares with such options to the extent there are sufficient authorized but unissued Class C common shares available for issuance with respect to such options. Otherwise, Mr. Quist will elect to purchase shares of Class A common stock with respect to such options.

- (15) The managing general partner of Associated Investors is Scott M. Quist, who exercises sole voting and investment powers with respect to such shares.
- (16) Mr. Sill is the Company's Chief Financial Officer and Treasurer. Includes options to purchase 44,408 shares of Class A common stock and options to purchase 21,788 shares of Class C common stock that are currently exercisable or will become exercisable within 60 days of March 31, 2019. The options to purchase 21,788 shares of Class C common stock may also, at Mr. Sill's election, consist of options to purchase 21,788 shares of Class A common stock, or any combination thereof. Mr. Sill has elected to purchase Class C common shares with such options to the extent there are sufficient authorized but unissued Class C common shares available for issuance with respect to such options. Otherwise, Mr. Sill will elect to purchase shares of Class A common stock with respect to such options.
- (17) Mr. Stephens is the Company's Senior General Counsel and Secretary. Includes options to purchase 35,791 shares of Class A common stock granted to Mr. Stephens that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (18) Mr. Moody is a director of the Company. Includes options to purchase 68,800 shares of Class A common stock granted to Mr. Moody that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (19) Dr. Hunter is a director of the Company. Includes options to purchase 68,800 shares of Class A common stock granted to Dr. Hunter that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (20) Mr. Johnson is the Company's Vice President of Mortgage Operations. Includes options to purchase 48,697 shares of Class A common stock granted to Mr. Johnson that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (21) Mr. Adam Quist is the Vice President – Memorial Services, Assistant Secretary, and General Counsel of the Company. Includes options to purchase 22,638 shares of Class A common stock and options to purchase 21,788 shares of Class C common stock that are currently exercisable or will become exercisable within 60 days of March 31, 2019. The options to purchase 21,788 shares of Class C common stock may also, at Mr. Quist's election, consist of options to purchase 21,788 shares of Class A common stock, or any combination thereof. Mr. Adam Quist has elected to purchase Class C common shares with such options to the extent there are sufficient authorized but unissued Class C common shares available for issuance with respect to such options. Otherwise, Mr. Quist will elect to purchase shares of Class A common stock with respect to such options.
- (22) Mr. Fuller is a director of the Company. Includes options to purchase 33,814 shares of Class A common stock granted to Mr. Fuller that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (23) Mr. Cook is a director of the Company. Includes options to purchase 32,406 shares of Class A common stock granted to Mr. Cook that are currently exercisable or will become exercisable within 60 days of March 31, 2019.
- (24) Mr. Wilbur is a director of the Company. Includes options to purchase 25,985 shares of Class A common stock granted to Mr. Wilbur that are currently exercisable or will become exercisable within 60 days of March 31, 2019.

The Company's executive officers and directors, as a group, own beneficially approximately 19.1% of the outstanding shares of the Company's Class A and Class C common stock.

### **Item 13. Certain Relationships and Related Transactions and Director Independence**

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.

**Item 14. Principal Accounting Fees and Services**

The following table summarizes the fees of the Company's current independent auditors, billed to the Company for each of the last two fiscal years for audit and other services. All of these fees were reviewed and approved by the Audit Committee of the Board of Directors:

| <u>Fee Category</u>    | <u>2018</u>       | <u>2017</u>       |
|------------------------|-------------------|-------------------|
| Audit Fees (1)         | \$ 778,738        | \$ 853,567        |
| Audit-Related Fees (2) | 25,500            | 33,000            |
| Tax Fees (3)           | 90,800            | 93,000            |
| All Other Fees (4)     | -                 | -                 |
|                        | <u>\$ 895,038</u> | <u>\$ 979,567</u> |

- (1) Audit fees consist of aggregate fees billed for professional services rendered for the audit of the Company's annual financial statements and review of the interim financial statements included in quarterly reports or services that are normally provided by the independent auditor in connection with statutory and regulatory filings for the years ended December 31, 2018 and 2017.
- (2) Audit related fees consist of aggregate fees billed for assurance and related services that are reasonably related to the performance of the audit or review of the Company's financial statements and are not reported under "Audit Fees". These fees include review of registration statements, and audits of the Company's ESOP and 401(k) Plans.
- (3) Tax fees consist of aggregate fees billed for professional services for tax compliance, tax advice, and tax planning.
- (4) All other fees consist of aggregate fees billed for products and services by the independent auditors, other than those disclosed above.

**PART IV****Item 15. Exhibits, Financial Statement Schedules****(a)(1) Financial Statements**

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

**(a)(2) Financial Statement Schedules**

- II. Condensed Balance Sheets as of December 31, 2018 and 2017 and Condensed Statement of Earnings and Cash Flows for the years ended 2018 and 2017
- IV. Reinsurance
- V. Valuation and Qualifying Accounts

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

(a)(3) Exhibits

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

|         |  |
|---------|--|
| 3.1     | <a href="#">Articles of Amendment and Restatement to Articles of Incorporation (6)</a>   |
| 3.2     | <a href="#">Amended and Restated Bylaws (8)</a>  |
| 4.1     | Specimen Class A Stock Certificate (1)   |
| 4.2     | Specimen Class C Stock Certificate (1)   |
| 4.3     | Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)   |
| 7.1     | <a href="#">Letter from Eide Bailly, LLP (7)</a>   |
| 10.1    | Amended and Restated Employee Stock Ownership Plan (ESOP) and Trust Agreement (1)  |
| 10.2    | <a href="#">2013 Amended and Restated Stock Option and Other Equity Incentive Awards Plan (2)</a>  |
| 10.3    | <a href="#">2014 Director Stock Option Plan (3)</a>  |
| 10.4    | <a href="#">Employment Agreement with Scott M. Quist (4)</a>   |
| 10.5    | <a href="#">Stock Purchase Agreement among Security National Financial Corporation, Beta Capital Corp., and Ronald D. Maxson (9)</a>   |
| 10.6    | <a href="#">Stock Repurchase Plan (10)</a>   |
| 10.7    | <a href="#">Asset Purchase Agreement among SN Probst LLC, Probst Family Funerals and Cremations, L.L.C, Heber Valley Funeral Home, Inc., Joe T. Probst, Clinton Wayne Probst, Calle J. Probst, and Marsha J. Probst (11)</a> |
| 21      | <a href="#">Subsidiaries of the Registrant</a>   |
| 23.1    | <a href="#">Consent of Eide Bailly LLP (5)</a>   |
| 23.2    | <a href="#">Consent of Mackey Price &amp; Mecham (5)</a>   |
| 31.1    | <a href="#">Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 31.2    | <a href="#">Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002</a>  |
| 32.1    | <a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 32.2    | <a href="#">Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>   |
| 101.xml | Instance Document  |
| 101.xsd | Taxonomy Extension Schema Document   |
| 101.cal | Taxonomy Extension Calculation Linkbase Document   |
| 101.def | Taxonomy Extension Definition Linkbase Document  |
| 101.lab | Taxonomy Extension Label Linkbase Document   |
| 101.pre | Taxonomy Extension Presentation Linkbase Document  |

- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
- (2) Incorporated by reference from Report on Form 10-Q, as filed on August 15, 2016
- (3) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 2, 2014, related to Company's Annual Meeting of Stockholders
- (4) Incorporated by reference from Report on Form 10-Q, as filed on November 15, 2015
- (5) Incorporated by reference from Registration Statement on Form S-8, as filed on October 20, 2015
- (6) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2017
- (7) Incorporated by reference from Report on Form 8-K, as filed on August 4, 2017
- (8) Incorporated by reference from Report on Form 10-Q, as filed on August 25, 2017
- (9) Incorporated by reference from Report on Form 8-K, as filed on June 6, 2018
- (10) Incorporated by reference from Report on Form 10-Q, as filed on November 13, 2018
- (11) Incorporated by reference from Report on Form 8-K, as filed on February 28, 2019

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

## SECURITY NATIONAL FINANCIAL CORPORATION

Dated: March 29, 2019

By: /s/ Scott M. Quist  
 Scott M. Quist  
 Chairman of the Board, President and Chief Executive Officer

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

| <u>SIGNATURE</u>                                    | <u>TITLE</u>   | <u>DATE</u>    |
|---|--|----------------|
| <u>/s/ Scott M. Quist</u><br>Scott M. Quist         | Chairman of the Board, President<br>and Chief Executive Officer<br>(Principal Executive Officer) | March 29, 2019 |
| <u>/s/ Garrett S. Sill</u><br>Garrett S. Sill       | Chief Financial Officer and<br>Treasurer (Principal Financial<br>and Accounting Officer)         | March 29, 2019 |
| <u>/s/ Jason G. Overbaugh</u><br>Jason G. Overbaugh | Vice President and Director  | March 29, 2019 |
| <u>/s/ S. Andrew Quist</u><br>S. Andrew Quist       | Vice President and Director  | March 29, 2019 |
| <u>/s/ John L. Cook</u><br>John L. Cook             | Director   | March 29, 2019 |
| <u>/s/ Gilbert A. Fuller</u><br>Gilbert A. Fuller   | Director   | March 29, 2019 |
| <u>/s/ Robert G. Hunter</u><br>Robert G. Hunter     | Director   | March 29, 2019 |
| <u>/s/ H. Craig Moody</u><br>H. Craig Moody         | Director   | March 29, 2019 |
| <u>/s/ Norman G. Wilbur</u><br>Norman G. Wilbur     | Director   | March 29, 2019 |

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Condensed Financial Information

Condensed Balance Sheets

|   | December 31           |                       |
|---|-----------------------|-----------------------|
|   | 2018                  | 2017                  |
| <b>Assets</b>   |                       |                       |
| Mortgage loans held for investment  | \$ 2,179,000          | \$ 1,725,000          |
| Cash  | 6,217,897             | 1,153,067             |
| Investment in subsidiaries (equity method)  | 166,020,225           | 146,573,888           |
| Receivable from affiliates  | 13,136,647            | 15,014,821            |
| Restricted cash   | 3,265,075             | 3,261,910             |
| Property and equipment, at cost, net of accumulated depreciation of \$1,659,613 for 2018 and \$1,659,613 for 2017 | -                     | -                     |
| <b>Total assets</b>   | <b>\$ 190,818,844</b> | <b>\$ 167,728,686</b> |

See accompanying notes to condensed financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Condensed Financial Information

Condensed Balance Sheets (Continued)

|   | December 31           |                       |
|---|-----------------------|-----------------------|
|   | 2018                  | 2017                  |
| <b>Liabilities and Stockholders' Equity</b>   |                       |                       |
| <b>Liabilities</b>  |                       |                       |
| Bank and other loans payable:   |                       |                       |
| Current installments  | \$ 579,286            | \$ 640,204            |
| Long-term   | 1,238,619             | 1,817,905             |
| Advances from affiliated companies  | 9,089,255             | 9,078,031             |
| Other liabilities and accrued expenses  | 1,892,261             | 1,140,107             |
| Income taxes  | 6,208,250             | 6,484,449             |
| Total liabilities   | 19,007,671            | 19,160,696            |
| <b>Stockholders' Equity</b>   |                       |                       |
| Preferred stock - non-voting - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding  | -                     | -                     |
| Class A common stock \$2.00 par value; 20,000,000 shares authorized; issued 15,304,798 shares in 2018 and 14,535,577 shares in 2017                                 | 30,609,596            | 29,071,154            |
| Class B non-voting common stock-\$1.00 par value; 5,000,000 shares authorized; none issued or outstanding   | -                     | -                     |
| Class C convertible common stock, \$2.00 par value; 3,000,000 shares authorized; issued 2,193,643 shares in 2018 and 2,089,374 shares in 2017                       | 4,387,286             | 4,178,748             |
| Additional paid-in capital  | 41,821,778            | 38,125,042            |
| Accumulated other comprehensive income, net of taxes  | (2,823)               | 603,170               |
| Retained Earnings   | 95,201,732            | 77,520,951            |
| Treasury stock at cost - 302,541 Class A shares and -0- Class C shares in 2018; 537,203 Class A shares and -0- Class C shares in 2017, held by affiliated companies | (206,396)             | (931,075)             |
| Total stockholders' equity  | 171,811,173           | 148,567,990           |
| <b>Total Liabilities and Stockholders' Equity</b>   | <b>\$ 190,818,844</b> | <b>\$ 167,728,686</b> |

See accompanying notes to condensed financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Condensed Financial Information

Condensed Statements of Earnings

|   | <b>Year Ended December 31</b> |                      |
|---|-------------------------------|----------------------|
|   | <b>2018</b>                   | <b>2017</b>          |
| <b>Revenue</b>  |                               |                      |
| Net investment income   | \$ 186,464                    | \$ 79,634            |
| Fees from affiliates  | 1,151,763                     | 1,215,110            |
| Other Income  | 48,219                        | 78,427               |
| Total revenue   | <u>1,386,446</u>              | <u>1,373,171</u>     |
| <b>Benefits and Expenses:</b>                                     |                               |                      |
| General and administrative expenses                               | 570,869                       | 800,444              |
| Interest expense  | 90,793                        | 144,801              |
| Total benefits and expenses                                       | <u>661,662</u>                | <u>945,245</u>       |
| <b>Earnings before income taxes, and earnings of subsidiaries</b> | 724,784                       | 427,926              |
| Income tax benefit  | 20,793                        | 6,862,757            |
| Equity in earnings of subsidiaries                                | <u>20,940,502</u>             | <u>6,822,251</u>     |
| <b>Net earnings</b>   | <u>\$ 21,686,079</u>          | <u>\$ 14,112,934</u> |

See accompanying notes to condensed financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Condensed Financial Information

Condensed Statements of Cash Flow

|   | <b>Year Ended December 31</b> |                     |
|---|-------------------------------|---------------------|
|   | <b>2018</b>                   | <b>2017</b>         |
| <b>Cash flows from operating activities:</b>  |                               |                     |
| Net earnings  | \$ 21,686,079                 | \$ 14,112,934       |
| Adjustments to reconcile net earnings to net cash provided by operating activities:           |                               |                     |
| Undistributed earnings of affiliates  | 20,940,502                    | 6,723,454           |
| Provision for deferred and other income taxes   | (21,034)                      | (7,271,698)         |
| Stock based compensation expense  | 237,123                       | 395,603             |
| Benefit plans funded with treasury stock  | 1,480,913                     | 1,534,861           |
| Change in assets and liabilities:   |                               |                     |
| Other assets  | -                             | 2,803               |
| Other liabilities   | 752,154                       | 466,508             |
| Net cash provided by operating activities   | <u>45,075,737</u>             | <u>15,964,465</u>   |
|   | -                             | -                   |
| <b>Cash flows from investing activities:</b>  |                               |                     |
| Investment in subsidiaries  | (40,644,827)                  | (12,094,288)        |
| Mortgage loans held for investment made   | (3,893,000)                   | (1,725,000)         |
| Payments received for mortgage loans held for investment                                      | 3,439,000                     | 2,300,000           |
| Net cash used in investing activities   | <u>(41,098,827)</u>           | <u>(11,519,288)</u> |
| <b>Cash flows from financing activities:</b>  |                               |                     |
| Advances to affiliates  | 1,889,398                     | (1,983,044)         |
| Purchase of treasury stock  | (215,521)                     | (382,734)           |
| Proceeds from stock options exercised   | 57,412                        | 9,847               |
| Repayment of bank loans   | (640,204)                     | (1,539,594)         |
| Net cash provided by (used in) financing activities   | <u>1,091,085</u>              | <u>(3,895,525)</u>  |
| <b>Net change in cash, cash equivalents, restricted cash and restricted cash equivalents</b>  | 5,067,995                     | 549,652             |
| Cash, cash equivalents, restricted cash and restricted cash equivalents at beginning of year  | 4,414,977                     | 3,865,325           |
| <b>Cash, cash equivalents, restricted cash and restricted cash equivalents at end of year</b> | <u>\$ 9,482,972</u>           | <u>\$ 4,414,977</u> |

See accompanying notes to condensed financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION  
(Parent Company Only)  
Condensed Financial Information

Notes to Condensed Financial Statements

1) Bank and Other Loans Payable

|  | December 31         |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| 4.27% fixed note payable in monthly installments of \$53,881 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, due November 2021.      | 1,817,905           | 2,372,690           |
| 3.85% note payable in monthly installments of \$85,419 including principal and interest, collateralized by shares of Security National Life Insurance Company stock, paid in full in January 2018. | -                   | 85,419              |
| <b>Total bank and other loans</b>  | <b>1,817,905</b>    | <b>2,458,109</b>    |
| Less current installments  | 579,286             | 640,204             |
| <b>Bank and other loans, excluding current installments</b>  | <b>\$ 1,238,619</b> | <b>\$ 1,817,905</b> |

The Company has a \$2,000,000 revolving line-of-credit with a bank with interest payable at the prime rate minus .75%, secured by the capital stock of Security National Life and maturing September 30, 2019, renewable annually. At December 31, 2018, the Company was contingently liable under a standby letter of credit aggregating \$625,405, to be used as collateral to cover any contingency related to additional risk assessments pertaining to the Company's captive insurance program and under a standby letter of credit aggregating \$48,220 issued as a security deposit 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. These standby letters of credit will draw on the line of credit if necessary. 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, 2018, there were no amounts outstanding under the revolving line-of-credit.

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

|              |                     |
|--------------|---------------------|
| 2019         | \$ 579,286          |
| 2020         | 604,729             |
| 2021         | 633,890             |
| 2022         | -                   |
| 2023         | -                   |
| Thereafter   | -                   |
| <b>Total</b> | <b>\$ 1,817,905</b> |

2) Advances from Affiliated Companies

|  | December 31         |                     |
|--|---------------------|---------------------|
|  | 2018                | 2017                |
| Non-interest bearing advances from affiliates: |                     |                     |
| Cemetery and Mortuary subsidiary               | \$ 1,459,841        | \$ 1,459,841        |
| Life insurance subsidiaries                    | 7,629,414           | 7,618,190           |
|  | <b>\$ 9,089,255</b> | <b>\$ 9,078,031</b> |

3) Dividends and Capital Contributions

In 2017, SecurityNational Mortgage Company, a wholly owned subsidiary of the Registrant, paid to the registrant cash dividends of \$2,288,222. In 2018, SecurityNational Mortgage Company paid cash dividends of \$204,886 and declared cash dividends of \$3,195,841 to be paid to the registrant at a future date to be determined by the Board of Directors.

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Reinsurance

|                                 | Direct<br>Amount | Ceded to<br>Other<br>Companies | Assumed<br>from Other<br>Companies | Net<br>Amount | Percentage<br>of Amount<br>Assumed<br>to Net |
|---------------------------------|------------------|--------------------------------|------------------------------------|---------------|--|
| <u>2018</u>                     |                  |                                |                                    |               |  |
| Life Insurance in force (\$000) | \$ 1,735,888     | \$ 56,707                      | \$ 102,600                         | \$ 1,781,781  | 5.8%   |
| Premiums:                       |                  |                                |                                    |               |  |
| Life Insurance                  | \$ 75,754,594    | \$ 432,647                     | \$ 510,514                         | \$75,832,461  | 0.7%   |
| Accident and Health Insurance   | 96,437           | -                              | 12                                 | 96,449        | 0.0%   |
| Total premiums                  | \$ 75,851,031    | \$ 432,647                     | \$ 510,526                         | \$75,928,910  | 0.7%   |
| <u>2017</u>                     |                  |                                |                                    |               |  |
| Life Insurance in force (\$000) | \$ 1,652,902     | \$ 60,564                      | \$ 106,246                         | \$ 1,698,584  | 6.3%   |
| Premiums:                       |                  |                                |                                    |               |  |
| Life Insurance                  | \$ 70,665,987    | \$ 943,120                     | \$ 585,508                         | \$70,308,375  | 0.8%   |
| Accident and Health Insurance   | 104,084          | -                              | 17                                 | 104,101       | 0.0%   |
| Total premiums                  | \$ 70,770,071    | \$ 943,120                     | \$ 585,525                         | \$70,412,476  | 0.8%   |

SECURITY NATIONAL FINANCIAL CORPORATION  
AND SUBSIDIARIES

Valuation and Qualifying Accounts

|   | Balance at<br>Beginning<br>of Year | Additions<br>Charged to<br>Costs and<br>Expenses | Deductions<br>Disposals<br>and<br>Write-offs | Balance<br>at End of<br>Year |
|---|------------------------------------|--|--|------------------------------|
| <u>For the Year Ended December 31, 2018</u>                 |                                    |  |  |                              |
| Accumulated depreciation on real estate held for investment | \$ 18,788,869                      | \$ 3,589,184                                     | \$ (5,638,475)                               | \$ 16,739,578                |
| Allowance for losses on mortgage loans held for investment  | 1,768,796                          | (415,099)  | (5,725)                                      | 1,347,972                    |
| Accumulated depreciation on property and equipment          | 17,572,326                         | 1,867,001  | (1,942,726)                                  | 17,496,601                   |
| Allowance for doubtful accounts on receivables              | 1,544,518                          | 71,326   | (96,002)                                     | 1,519,842                    |
| Allowance for doubtful accounts on other investments        | 846,641                            | 721,456  | (475,569)                                    | 1,092,528                    |
| <u>For the Year Ended December 31, 2017</u>                 |                                    |  |  |                              |
| Accumulated depreciation on real estate held for investment | \$ 16,138,439                      | \$ 4,059,745                                     | \$ (1,409,315)                               | \$ 18,788,869                |
| Allowance for losses on mortgage loans held for investment  | 1,748,783                          | 436,264  | (416,251)                                    | 1,768,796                    |
| Accumulated depreciation on property and equipment          | 19,912,664                         | 2,220,693  | (4,561,031)                                  | 17,572,326                   |
| Allowance for doubtful accounts on receivables              | 2,355,482                          | 111,095  | (922,059)                                    | 1,544,518                    |
| Allowance for doubtful accounts on other investments        | 1,119,630                          | 606,713  | (879,702)                                    | 846,641                      |

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Subsidiaries of Security National  
Financial Corporation  
as of March 31, 2019

5300 Development LLC  
Affordable Funerals and Cremations of America, Inc.  
American Funeral Financial, LLC  
Beta Capital Corp.  
C & J Financial, LLC  
California Memorial Estates, Inc.  
Canadian Funeral Financial, LLC  
Cottonwood Mortuary, Inc.  
Deseret Memorial, Inc.  
Dry Creek Property Development, Inc.  
EverLEND Mortgage Company  
FFC Acquisition Co., LLC dba Funeral Funding Center  
First Guaranty Insurance Company  
Greer-Wilson Funeral Home, Inc.  
Holladay Cottonwood Memorial Foundation  
Holladay Memorial Park, Inc.  
Insuradyne Corporation  
Marketing Source Center, Inc. dba Security National Travel Services  
Memorial Estates, Inc.  
Memorial Insurance Company of America  
Memorial Mortuary, Inc.  
Mortician's Choice, LLC  
New York Land Holdings, Inc.  
Paradise Chapel Funeral Home  
Reppond Holding Company  
Security National Funding Company  
Security National Life Insurance Company  
Security National Real Estate Services, Inc. also dba Security National Commercial Capital  
SecurityNational Mortgage Company  
Select Appraisal Management, Inc.  
SN Diamond LLC  
SN Farmington LLC  
SN Mapleton, LLC  
SN Midway, LLC  
SN Shadow Cliffs, LLC  
SN Sunset LLC  
SNFC Subsidiary, LLC  
Southern Security Life Insurance Company, Inc.  
Trans-Western Life Insurance Company

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CERTIFICATION OF CHIEF EXECUTIVE OFFICER  
PURSUANT TO 18 U.S.C. § 1350,  
AS REQUIRED BY  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Scott M. Quist, certify that:

1. I have reviewed this annual report on Form 10-K of Security National Financial Corporation.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2019

By: /s/ Scott M. Quist  
Scott M. Quist  
Chairman of the Board, President and  
Chief Executive Officer  
(Principal Executive Officer)

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CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350,  
AS REQUIRED BY  
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Garrett S. Sill, certify that:

1. I have reviewed this annual report on Form 10-K of Security National Financial Corporation.
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period covered in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 29, 2019

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

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CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350,  
AS REQUIRED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Security National Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Garrett S. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

March 29, 2019

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CERTIFICATION OF CHIEF FINANCIAL OFFICER  
PURSUANT TO 18 U.S.C. § 1350,  
AS REQUIRED BY  
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report of Security National Financial Corporation (the "Company") on Form 10-K for the period ending December 31, 2018, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Garrett S. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge and belief:

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

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

March 29, 2019

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