SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
November 14, 2016

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarter ended September 30, 2016, or

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

For the Transition Period from _____ to ________

Commission file number: 000-09341

SECURITY NATIONAL FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

UTAH	87-0345941
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5300 South 360 West, Suite 250, Salt Lake City, Utah	84123
(Address of principal executive offices)	(Zip Code)

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

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

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

Large accelerated filer [ ]	Accelerated filer [ ]
Non-accelerated filer [ ] (Do not check if a smaller reporting company)	Smaller reporting company [X]

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

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

Class A Common Stock, $2.00 par value	13,153,850
Title of Class	Number of Shares Outstanding as of November 14, 2016
Class C Common Stock, $2.00 par value	1,706,829
Title of Class	Number of Shares Outstanding as of November 14, 2016

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED SEPTEMBER 30, 2016

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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

Part I - Financial Information

Item 1. Financial Statements.

Assets	September 30 2016 (Unaudited)	December 31 2015
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	$185,679,930	$145,558,425
Equity securities, available for sale, at estimated fair value	10,145,395	8,431,090
Mortgage loans on real estate and construction loans, held for investment net of allowances for loan losses of $2,231,362 and $1,848,120 for 2016 and 2015	129,873,757	112,546,905
Real estate held for investment, net of accumulated depreciation of $14,996,212 and $12,210,346 for 2016 and 2015	131,881,535	114,852,432
Policy loans and other investments, net of allowances for doubtful accounts of $1,106,374 and $906,616 for 2016 and 2015	39,981,571	39,582,421
Short-term investments	28,467,741	16,915,808
Accrued investment income	2,951,413	2,553,819
Total investments	528,981,342	440,440,900
Cash and cash equivalents	50,910,889	40,053,242
Mortgage loans sold to investors	92,599,755	115,286,455
Receivables, net	18,899,987	16,026,100
Restricted assets	9,823,488	9,359,802
Cemetery perpetual care trust investments	3,981,509	2,848,759
Receivable from reinsurers	13,095,111	13,400,527
Cemetery land and improvements	10,695,922	10,780,996
Deferred policy and pre-need contract acquisition costs	66,145,680	59,004,909
Mortgage servicing rights, net	17,432,325	12,679,755
Property and equipment, net	7,191,351	11,441,660
Value of business acquired	7,849,599	8,743,773
Goodwill	2,765,570	2,765,570
Other	7,205,606	7,100,869
Total Assets	$837,578,134	$749,933,317

See accompanying notes to condensed consolidated financial statements (unaudited).
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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS (Continued)

	September 30 2016 (Unaudited)	December 31 2015
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	$581,159,320	$517,177,388
Unearned premium reserve	4,535,837	4,737,305
Bank and other loans payable	43,697,461	40,908,915
Deferred pre-need cemetery and mortuary contract revenues	12,319,587	12,816,227
Cemetery perpetual care obligation	3,575,205	3,465,771
Accounts payable	4,212,321	3,502,046
Other liabilities and accrued expenses	34,703,368	31,027,381
Income taxes	27,789,751	25,052,059
Total liabilities	711,992,850	638,687,092
Stockholders' Equity		
Preferred Stock - non-voting - $1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class A: common stock - $2.00 par value; 20,000,000 shares authorized; issued 13,150,162 shares in 2016 and 13,109,100 shares in 2015	26,300,324	26,218,200
Class B: non-voting common stock - $1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - $2.00 par value; 3,000,000 shares authorized; issued 1,707,516 shares in 2016 and 1,709,640 shares in 2015	3,415,032	3,419,280
Additional paid-in capital	30,969,582	30,232,582
Accumulated other comprehensive income, net of taxes	2,025,048	1,533,828
Retained earnings	64,420,459	52,021,764
Treasury stock at cost - 728,955 Class A shares in 2016 and 930,546 Class A shares in 2015	(1,545,161)	(2,179,429)
Total stockholders' equity	125,585,284	111,246,225
Total Liabilities and Stockholders' Equity	$837,578,134	$749,933,317

See accompanying notes to condensed consolidated financial statements (unaudited).
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SECURITY NATIONAL FINANCIAL CORPORATION
AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2016	2015	2016	2015
Revenues:				
Insurance premiums and other considerations	$17,157,319	$14,563,582	$47,508,420	$42,331,991
Net investment income	9,732,652	8,432,414	27,860,663	24,845,931
Net mortuary and cemetery sales	2,776,023	2,811,329	9,541,950	8,701,417
Realized gains on investments and other assets	(39,169)	1,352,778	179,296	2,273,618
Other than temporary impairments on investments	(30,000)	(56,290)	(133,630)	(167,497)
Mortgage fee income	53,844,079	46,923,321	143,092,315	133,475,149
Other	1,798,864	1,467,552	4,944,670	4,124,324
Total revenues	85,239,768	75,494,686	232,993,684	215,584,933
Benefits and expenses:				
Death benefits	7,250,100	7,584,209	22,410,230	23,628,492
Surrenders and other policy benefits	630,735	715,209	1,709,915	1,888,606
Increase in future policy benefits	6,421,508	4,620,413	15,892,686	12,840,591
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	2,301,107	1,338,084	6,221,495	3,683,437
Selling, general and administrative expenses:				
Commissions	24,556,473	21,263,606	66,404,756	63,037,164
Personnel	17,755,070	15,768,614	52,535,277	45,333,563
Advertising	2,006,013	1,503,476	5,053,968	4,428,192
Rent and rent related	2,040,807	1,979,767	5,973,337	5,794,633
Depreciation on property and equipment	528,051	553,048	1,585,995	1,663,172
Provision for loan loss reserve	1,438,239	1,754,781	2,853,690	4,673,991
Costs related to funding mortgage loans	2,379,962	2,352,611	6,885,889	6,947,976
Other	8,157,807	6,606,960	21,650,786	19,674,568
Interest expense	1,476,137	1,191,627	3,775,483	3,551,242
Cost of goods and services sold-mortuaries and cemeteries	485,783	467,881	1,396,574	1,414,570
Total benefits and expenses	77,427,792	67,700,286	214,350,081	198,560,197
Earnings before income taxes	7,811,976	7,794,400	18,643,603	17,024,736
Income tax expense	(2,520,279)	(2,904,615)	(6,201,087)	(6,418,969)
Net earnings	$5,291,697	$4,889,785	$12,442,516	$10,605,767
Net earnings per Class A Equivalent common share (1)	$0.37	$0.35	$0.89	$0.78
Net earnings per Class A Equivalent common share-assuming dilution (1)	$0.36	$0.34	$0.86	$0.74
Weighted-average Class A equivalent common share outstanding (1)	14,113,005	13,804,061	14,027,706	13,681,406

Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	14,531,610	14,463,970	14,428,912	14,284,341

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

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

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

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2016	2015	2016	2015
Net earnings	$5,291,697	$4,889,785	$12,442,516	$10,605,767
Other comprehensive income:				
Net unrealized gains (losses) on derivative instruments	(516,269)	(859,581)	44,397	1,427,072
Net unrealized gains (losses) on available for sale securities	138,029	(619,641)	446,823	(1,013,757)
Other comprehensive income (loss)	(378,240)	(1,479,222)	491,220	413,315
Comprehensive income	$4,913,457	$3,410,563	$12,933,736	$11,019,082

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

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

	Class A Common Stock	Class C Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Income	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2014	$24,918,480	$2,788,138	$25,931,119	$1,438,566	$44,101,252	$(2,086,454)	$97,091,101
Net earnings	-	-	-	-	10,605,767	-	10,605,767
Other comprehensive income	-	-	-	413,315	-	-	413,315
Grant of stock options	-	-	299,986	-	-	-	299,986
Exercise of stock options	41,862	228,046	(1,208)	-	-	(244,009)	24,691
Sale of treasury stock	-	-	489,746	-	-	380,956	870,702
Stock Dividends	480	2	728	-	(1,210)	-	-
Conversion Class C to Class A	1,256	(1,256)	-	-	-	-	-
Balance at September 30, 2015	$24,962,078	$3,014,930	$26,720,371	$1,851,881	$54,705,809	$(1,949,507)	$109,305,562
Balance at December 31, 2015	$26,218,200	$3,419,280	$30,232,582	$1,533,828	$52,021,764	$(2,179,429)	$111,246,225
Net earnings	-	-	-	-	12,442,516	-	12,442,516
Other comprehensive income	-	-	-	491,220	-	-	491,220
Grant of stock options	-	-	253,427	-	-	-	253,427
Exercise of stock options	64,834	-	12,374	-	-	-	77,208
Sale of treasury stock	-	-	440,420	-	-	634,268	1,074,688
Stock Dividends	274	12,768	30,779	-	(43,821)	-	-
Conversion Class C to	17,016	(17,016)					-

Class A							
Balance at September 30, 2016	$26,300,324	$3,415,032	$30,969,582	$2,025,048	$64,420,459	$(1,545,161)	$125,585,284

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

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

	Nine Months Ended Sept 30 2016	2015
Cash flows from operating activities:		
Net cash provided by (used in) operating activities	$41,532,794	$(3,677,377)
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(6,519,416)	(8,866,792)
Calls and maturities - fixed maturity securities	10,032,336	10,500,608
Securities available for sale:		
Purchase - equity securities	(3,726,194)	(3,457,180)
Sales - equity securities	3,349,728	1,823,404
Purchase of short-term investments	(13,379,112)	(31,768,007)
Sales of short-term investments	7,185,582	38,731,918
Purchases of restricted assets	(438,204)	(1,027,533)
Changes in assets for perpetual care trusts	(1,075,801)	(217,025)
Amount received for perpetual care trusts	109,434	59,472
Mortgage loans, policy loans, and other investments made	(338,457,602)	(272,667,236)
Payments received for mortgage loans, policy loans and other investments	330,303,396	278,315,445
Purchase of property and equipment	(1,303,979)	(2,286,053)
Sale of property and equipment	34,000	2,899,322
Purchase of real estate	(19,448,152)	(11,652,845)
Sale of real estate	5,672,484	11,194,483
Cash received from reinsurance	-	24,020,215
Cash paid for purchase of subsidiaries, net of cash acquired	(4,328,520)	-
Net cash provided by (used in) investing activities	(31,990,020)	35,602,196
Cash flows from financing activities:		
Annuity contract receipts	8,401,542	7,793,428
Annuity contract withdrawals	(9,957,964)	(9,249,285)
Proceeds from stock options exercised	77,208	24,691
Repayment of bank loans on notes and contracts	(1,169,233)	(1,583,942)
Proceeds from borrowing on bank loans	2,523,670	12,130,898
Change in line of credit borrowings	1,439,650	-
Net cash provided by financing activities	1,314,873	9,115,790
Net change in cash and cash equivalents	10,857,647	41,040,609
Cash and cash equivalents at beginning of period	40,053,242	30,855,320
Cash and cash equivalents at end of period	$50,910,889	$71,895,929
Non Cash Investing and Financing Activities		
Mortgage loans foreclosed into real estate	$1,703,476	$2,659,985

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

1) Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10 Q and Articles 8 and 10 of Regulation S X. Accordingly, they do not include all of the information and disclosures required by accounting principles generally accepted in the United States of America for complete financial statements. These financial statements should be read in conjunction with the consolidated financial statements of the Company and notes thereto for the year ended December 31, 2015, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the year ending December 31, 2016.

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

The estimates susceptible to significant change are those used in determining the value of interest rate locks and commitments, 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 valuation allowances for mortgage loans on real estate, those used in determining loan loss reserve, and those used in determining deferred tax assets and liabilities. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

2) Recent Accounting Pronouncements

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

ASU No. 2016-02: "Leases (Topic 842)" - Issued in February 2016, ASU 2016-02 supersedes the leases requirements in ASC Topic 840, "Leases", and was issued to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. The new authoritative guidance is effective for interim and annual periods beginning after December 15, 2018. The Company is in the process of evaluating the potential impact of this standard.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

2) Recent Accounting Pronouncements (Continued)

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

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

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of September 30, 2016 are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
September 30, 2016				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$4,472,581	$375,865	$(8,548)	$4,839,898
Obligations of states and political subdivisions	6,779,383	199,454	(41,571)	6,937,266
Corporate securities including public utilities	162,331,688	15,612,140	(2,572,792)	175,371,036
Mortgage-backed securities	11,472,643	416,243	(116,859)	11,772,027
Redeemable preferred stock	623,635	52,552	-	676,187
Total fixed maturity securities held to maturity	$185,679,930	$16,656,254	$(2,739,770)	$199,596,414
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	$10,940,465	$341,488	$(1,136,558)	$10,145,395
Total equity securities available for sale at estimated fair value	$10,940,465	$341,488	$(1,136,558)	$10,145,395
Mortgage loans on real estate and construction loans held for investment at amortized cost:				

Residential	$50,346,379
Residential construction	42,011,069
Commercial	39,747,671
Less: Allowance for loan losses	(2,231,362)
Total mortgage loans on real estate and construction loans held for investment	$129,873,757
Real estate held for investment - net of depreciation	$131,881,535
Policy loans and other investments are shown at amortized cost except for other investments that are shown at estimated fair value:	
Policy loans	$6,858,019
Insurance assignments	32,400,740
Promissory notes	48,797
Other investments at estimated fair value	1,780,389
Less: Allowance for doubtful accounts	(1,106,374)
Total policy loans and other investments	$39,981,571
Short-term investments at amortized cost	$28,467,741

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of December 31, 2015 are summarized as follows:

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2015:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	$3,560,579	$292,869	$(4,743)	$3,848,705
Obligations of states and political subdivisions	1,805,828	182,073	(1,040)	1,986,861
Corporate securities including public utilities	134,488,108	9,836,355	(5,501,743)	138,822,720
Mortgage-backed securities	5,091,887	190,867	(75,580)	5,207,174
Redeemable preferred stock	612,023	29,675	-	641,698
Total fixed maturity securities held to maturity	$145,558,425	$10,531,839	$(5,583,106)	$150,507,158
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	$9,891,500	$213,683	$(1,674,093)	$8,431,090
Total securities available for sale carried at estimated fair value	$9,891,500	$213,683	$(1,674,093)	$8,431,090
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	$46,020,490			
Residential construction	34,851,557			
Commercial	33,522,978			
Less: Allowance for loan losses	(1,848,120)			
Total mortgage loans on real estate and construction loans held for investment	$112,546,905			
Real estate held for investment - net of depreciation	$114,852,432			

Policy loans and other investments are shown at amortized cost except for other investments that are shown at estimated fair value:

Policy loans	$6,896,457
Insurance assignments	32,369,014
Promissory notes	48,797
Other investments at estimated fair value	1,174,769
Less: Allowance for doubtful accounts	(906,616)
Total policy loans and other investments	$39,582,421
Short-term investments at amortized cost	$16,915,808

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at September 30, 2016 and December 31, 2015. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed maturity securities:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Loss
At September 30, 2016					
U.S. Treasury Securities and Obligations of U.S. Government Agencies	$8,548	2	$-	0	$8,548
Obligations of states and political subdivisions	44,269	19	-	0	44,269
Corporate securities including public utilities	278,815	41	2,293,977	36	2,572,792
Mortgage-backed securities	93,184	37	20,977	1	114,161
Total unrealized losses	$424,816	99	$2,314,954	37	$2,739,770
Fair Value	$25,434,664		$11,731,253		$37,165,917
At December 31, 2015					
U.S. Treasury Securities and Obligations of U.S. Government Agencies	$4,743	2	$-	0	$4,743
Obligations of states and political subdivisions	-	0	1,040	1	1,040
Corporate securities including public utilities	3,701,572	98	1,800,171	18	5,501,743
Mortgage-backed securities	75,580	4	-	0	75,580
Total unrealized losses	$3,781,895	104	$1,801,211	19	$5,583,106
Fair Value	$34,076,401		$3,809,957		$37,886,358

The average market value of the related fixed maturities was 93.3% and 87.2% of amortized cost as of September 30, 2016 and December 31, 2015, respectively. During the three months ended September 30, 2016 and 2015 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $30,000 for each reporting period, and for the nine months ended September 30, 2016 and 2015 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of $90,000 for each reporting period.

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

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at September 30, 2016 and December 31, 2015. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available for sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At September 30, 2016					
Industrial, miscellaneous and all other	$327,241	126	$809,317	109	$1,136,558
Total unrealized losses	$327,241	126	$809,317	109	$1,136,558
Fair Value	$2,090,748		$2,040,729		$4,131,477
At December 31, 2015					
Industrial, miscellaneous and all other	$997,862	222	$676,232	74	$1,674,094
Total unrealized losses	$997,862	222	$676,232	74	$1,674,094
Fair Value	$4,177,709		$760,860		$4,938,569

The average market value of the equity securities available for sale was 78.4% and 74.7% of the original investment as of September 30, 2016 and December 31, 2015, respectively. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations, new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the three months ended September 30, 2016 and 2015, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of $-0- and $26,290, respectively, and for the nine months ended September 30, 2016 and 2015, an other than temporary decline in the fair value resulted in the recognition of an impairment loss on equity securities of $43,630 and $77,497, respectively.

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

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

The amortized cost and estimated fair value of fixed maturity securities at September 30, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2016	$1,200,208	$1,202,710
Due in 2017 through 2020	41,412,637	43,902,597
Due in 2021 through 2025	38,495,506	41,406,480
Due after 2025	92,475,301	100,636,414
Mortgage-backed securities	11,472,643	11,772,027
Redeemable preferred stock	623,635	676,187
Total held to maturity	$185,679,930	$199,596,415

The cost and estimated fair value of available for sale securities at September 30, 2016, by contractual maturity, are shown below. Expected maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Equities are valued using the specific identification method.

	Cost	Estimated Fair Value
Available for Sale:		
Common stock	$10,940,465	$10,145,395
Total available for sale	$10,940,465	$10,145,395

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

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2016	2015	2016	2015
Fixed maturity securities held to maturity:				
Gross realized gains	$65,179	$15,279	$259,635	$374,337
Gross realized losses	(4,527)	(22,796)	(7,405)	(82,166)
Other than temporary impairments	(30,000)	(30,000)	(90,000)	(90,000)
Securities available for sale:				
Gross realized gains	36,751	35,009	176,331	165,018

Gross realized losses	(4,544)	(2,521)	(37,146)	(3,536)
Other than temporary impairments	-	(26,290)	(43,630)	(77,497)
Other assets:				
Gross realized gains	191,992	1,731,939	468,675	2,187,271
Gross realized losses	(324,020)	(404,132)	(680,794)	(367,306)
Total	$(69,169)	$1,296,488	$45,666	$2,106,121

The net carrying amount of held to maturity securities sold was $1,989,159 and $2,543,312 for the nine months ended September 30, 2016 and 2015, respectively. The net realized gain related to these sales was $156,154 and $330,373 for the nine months ended September 30, 2016 and 2015, respectively.

There were no investments, aggregated by issuer, in excess of 10% of shareholders' equity (before net unrealized gains and losses on available for sale securities) at September 30, 2016, other than investments issued or guaranteed by the United States Government.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

Major categories of net investment income are as follows:

	Three Months Ended Sept 30		Nine Months Ended Sept 30	
	2016	2015	2016	2015
Fixed maturity securities	$2,410,641	$2,014,014	$6,472,847	$6,139,698
Equity securities	78,402	61,238	208,696	175,954
Mortgage loans on real estate	2,257,396	1,754,852	6,563,902	5,396,016
Real estate	2,736,301	2,320,242	8,162,574	6,674,594
Policy loans	205,537	219,916	558,778	597,101
Insurance assignments	2,952,170	2,540,028	8,915,654	7,736,439
Other investments	-	-	13,962	-
Short-term investments, principally interest on sale of mortgage loans and other	2,237,230	2,237,376	6,117,210	6,005,357
Gross investment income	12,877,677	11,147,666	37,013,623	32,725,159
Investment expenses	(3,145,025)	(2,715,252)	(9,152,960)	(7,879,228)
Net investment income	$9,732,652	$8,432,414	$27,860,663	$24,845,931

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of $113,289 and $119,963 for the three months ended September 30, 2016 and 2015, respectively, and $295,630 and $306,449 for the nine months ended September 30, 2016 and 2015, respectively.

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

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

Securities on deposit for regulatory authorities as required by law amounted to $9,370,867 at September 30, 2016 and $8,815,542 at December 31, 2015. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Real Estate

The Company continues to strategically deploy resources into real estate to match the income and yield durations of its primary obligations. The sources for these real estate assets come through its various business units in the form of acquisition, development and foreclosures on delinquent mortgage loans.

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 14 commercial properties in 8 states. These properties include industrial warehouses, office buildings, and retail centers and includes the redevelopment and expansion of its corporate campus at 53rd South which broke ground in December 2015 with a net ending balance of $15,913,913. The assets are primarily held without debt; however, the Company does use debt in strategic cases to leverage established yields or to acquire higher quality, or class, of asset.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

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

	Net Ending Balance				Total Square Footage	
	September 30 2016		December 31 2015		September 30 2016	December 31 2015
Arizona	$453,847	(1)	$463,774	(1)	16,270	16,270
Arkansas	101,422		-		3,200	-
Kansas	12,835,094		11,537,335		222,679	222,679
Louisiana	523,193		-		7,063	
Mississippi	3,842,630		-		33,821	-
New Mexico	7,000	(1)	7,000	(1)	-	-
Texas	3,745,003		3,768,542		23,470	23,470
Utah	33,340,242		17,403,746		433,244	253,244
	$54,848,431		$33,180,397		739,747	515,663

(1) Includes undeveloped land

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") in 2013 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 September 30, 2016, SNRE manages 132 residential properties in 8 states across the United States which includes a newly constructed apartment complex, Dry Creek at East Village, in Sandy, Utah with a net ending balance of $36,082,825.

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

	Net Ending Balance	
	September 30 2016	December 31 2015
Arizona	$745,663	$944,614
California	6,131,083	6,158,253
Colorado	367,144	553,230

Florida	8,361,768	9,203,624
Illinois	-	165,800
Oklahoma	-	99,862
Ohio	46,658	-
Oregon	-	120,000
South Carolina	-	823,872
Texas	1,179,261	1,198,860
Utah	59,915,346	62,117,738
Washington	286,181	286,182
	$77,033,104	$81,672,035

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)
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 80,000 square feet, or 10% of the overall commercial real estate holdings.

As of September 30, 2016, real estate owned and occupied by the company is summarized as follows:

Location	Business Segment	Approximate Square Footage	Square Footage Occupied by the 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	5,522	27	%

(1) This asset is included in property and equipment on the Condensed Consolidated Balance Sheet

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5%, maturity dates range from three months to 30 years and are secured by real estate. Concentrations of credit risk arise when a number of mortgage loan debtors have similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic conditions. Although the Company has a diversified mortgage loan portfolio consisting of residential mortgages, commercial loans and residential construction loans and requires collateral on all real estate exposures, a substantial portion of its debtors' ability to honor obligations is reliant on the economic stability of the geographic region in which the debtors do business. At September 30, 2016, the Company had 48%, 14%, 9%, 8%, and 5% of its mortgage loans from borrowers located in the states of Utah, California, Texas, Florida, and Oregon, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of $2,231,362 and $1,848,120 at September 30, 2016 and December 31, 2015, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) 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

	Commercial	Residential	Residential Construction	Total
September 30, 2016				
Allowance for credit losses:				
Beginning balance - January 1, 2016	$187,129	$1,560,877	$100,114	$1,848,120
Charge-offs	-	(210,890)	-	(210,890)
Provision	-	594,132	-	594,132
Ending balance -September 30, 2016	$187,129	$1,944,119	$100,114	$2,231,362
Ending balance: individually evaluated for impairment	$-	$437,338	$-	$437,338
Ending balance: collectively evaluated for impairment	$187,129	$1,506,781	$100,114	$1,794,024
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-
Mortgage loans:				
Ending balance	$39,747,671	$50,346,379	$42,011,069	$132,105,119
Ending balance: individually evaluated for impairment	$202,721	$2,911,050	$403,000	$3,516,771
Ending balance: collectively evaluated for impairment	$39,544,950	$47,435,329	$41,608,069	$128,588,348
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-
December 31, 2015				
Allowance for credit losses:				
Beginning balance - January 1, 2015	$187,129	$1,715,812	$100,114	$2,003,055
Charge-offs	-	(123,942)	-	(123,942)
Provision	-	(30,993)	-	(30,993)
Ending balance - December 31, 2015	$187,129	$1,560,877	$100,114	$1,848,120
Ending balance: individually evaluated for impairment	$-	$305,962	$-	$305,962
Ending balance: collectively evaluated for impairment	$187,129	$1,254,915	$100,114	$1,542,158
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-

Mortgage loans:				
Ending balance	$33,522,978	$46,020,490	$34,851,557	$114,395,025
Ending balance: individually evaluated for impairment	$-	$3,087,161	$93,269	$3,180,430
Ending balance: collectively evaluated for impairment	$33,522,978	$42,933,329	$34,758,287	$111,214,594
Ending balance: loans acquired with deteriorated credit quality	$-	$-	$-	$-

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

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

e Analysis of Past Due Mortgage Loans

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days (1)	In Foreclosure (1)	Total Past Due	Current	Total Mortgage Loans	Allowance for Loan Losses	Net Mortgage Loans
tember 30, 2016									
mmercial	$-	$-	$-	$202,721	$202,721	$39,544,950	$39,747,671	$(187,129)	$39,560,54
idential	1,232,358	292,573	1,440,292	2,911,050	5,876,273	44,470,106	50,346,379	(1,944,119)	48,402,26
idential onstruction	-	74,714	64,895	403,000	542,609	41,468,460	42,011,069	(100,114)	41,910,95
al	$1,232,358	$367,287	$1,505,187	$3,516,771	$6,621,603	$125,483,516	$132,105,119	$(2,231,362)	$129,873,7
cember 31, 2015									
mmercial	$-	$-	$-	$-	$-	$33,522,978	$33,522,978	$(187,129)	$33,335,84
idential	1,162,102	884,143	2,212,993	3,087,161	7,346,399	38,674,091	46,020,490	(1,560,877)	44,459,61
idential onstruction	-	-	64,895	93,269	158,164	34,693,393	34,851,557	(100,114)	34,751,44
al	$1,162,102	$884,143	$2,277,888	$3,180,430	$7,504,563	$106,890,462	$114,395,025	$(1,848,120)	$112,546,9

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

Impaired Mortgage Loans

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

Impaired Loans

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
September 30, 2016					
With no related allowance recorded:					
Commercial	$202,721	$202,721	$ -	$202,721	$ -
Residential	-	-	-	-	-
Residential construction	403,000	403,000	-	403,000	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	2,911,050	2,911,050	437,338	2,911,050	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$202,721	$202,721	$ -	$202,721	$ -
Residential	2,911,050	2,911,050	437,338	2,911,050	-
Residential construction	403,000	403,000	-	403,000	-
December 31, 2015					
With no related allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	-	-	-	-	-
Residential construction	93,269	93,269	-	93,269	-
With an allowance recorded:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	3,087,161	3,087,161	305,962	3,087,161	-
Residential construction	-	-	-	-	-
Total:					
Commercial	$ -	$ -	$ -	$ -	$ -
Residential	3,087,161	3,087,161	305,962	3,087,161	-

Residential construction	93,269	93,269	-	93,269	-

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

3) Investments (Continued)

Credit Risk Profile Based on Performance Status

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

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

Mortgage Loan Credit Exposure
Credit Risk Profile Based on Payment Activity

	Commercial		Residential		Residential Construction		Total	
	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015	September 30, 2016	December 31, 2015
Performing	$39,544,950	$33,522,978	$45,995,036	$40,720,336	$41,543,174	$34,693,393	$127,083,160	$108,936,707
Nonperforming	202,721	-	4,351,343	5,300,154	467,895	158,164	5,021,959	5,458,318
Total	$39,747,671	$33,522,978	$50,346,379	$46,020,490	$42,011,069	$34,851,557	$132,105,119	$114,395,025

Non-Accrual Mortgage Loans

Once a loan is past due 90 days, it is the policy of the Company to end the accrual of interest income on the loan and write off any income that had been accrued. Interest not accrued on these loans totals $188,000 and $268,000 as of September 30, 2016 and December 31, 2015, respectively.

The following is a summary of mortgage loans on a nonaccrual status for the periods presented.

	Mortgage Loans on Nonaccrual Status	
	As of September 30 2016	As of December 31 2015
Commercial	$202,721	$-
Residential	4,351,343	5,300,154
Residential construction	467,895	158,164
Total	$5,021,959	$5,458,318

Loan Loss Reserve

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

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

	As of September 30 2016	As of December 31 2015
Balance, beginning of period	$2,805,900	$1,718,150
Provisions for losses	2,853,690	6,295,043
Charge-offs	(333,288)	(5,207,293)
Balance, end of period	$5,326,302	$2,805,900

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

4) Stock-Based Compensation

The Company has four fixed option plans (the "2003 Plan", the "2006 Director Plan", the "2013 Plan" and the "2014 Director Plan"). Compensation expense for options issued of $84,949 and $88,510 has been recognized for these plans for the three months ended September 30, 2016 and 2015, respectively, and $253,427 and $299,986 for the nine months ended September 30, 2016 and 2015, respectively. As of September 30, 2016, the total unrecognized compensation expense related to the options issued in December 2015 was $59,161, which is expected to be recognized over the vesting period of one year.

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

A summary of the status of the Company's stock incentive plans as of September 30, 2016, and the changes during the nine months ended September 30, 2016, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2015	618,261	$ 3.89	577,436	$ 3.54
Granted	-		-	
Exercised	(32,417)	2.38	-	
Cancelled	-		-	
Outstanding at September 30, 2016	585,844		577,436	
As of September 30, 2016:				
Options exercisable	550,792	$ 3.82	551,186	$ 3.38
As of September 30, 2016:				
Available options for future grant	397,342		57,750	
Weighted average contractual term of options outstanding at September 30, 2016	6.99 years		2.00 years	
Weighted average contractual term of options exercisable at September 30, 2016	6.86 years		1.90 years	
Aggregated intrinsic value of options outstanding at September 30, 2016 (1)	$1,179,541		$1,460,167	
	$1,179,541		$1,460,167	

Aggregated intrinsic value of options exercisable at September 30,
2016 (1)

(1) The Company used a stock price of $5.86 as of September 30, 2016 to derive intrinsic value.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

4) Stock Based Compensation (Continued)

A summary of the status of the Company's stock incentive plans as of September 30, 2015, and the changes during the nine months ended September 30, 2015, are presented below:

	Number of Class A Shares	Weighted Average Exercise Price	Number of Class C Shares	Weighted Average Exercise Price
Outstanding at December 31, 2014	512,795	$ 3.20	691,591	$ 2.00
Granted	-		-	
Exercised	(23,820)	1.85	(114,023)	2.14
Cancelled	(8,846)	2.31	-	
Outstanding at September 30, 2015	480,129	$ 3.28	577,568	$ 2.62
As of September 30, 2015:				
Options exercisable	447,571	$ 3.17	550,693	$ 2.51
As of September 30, 2015:				
Available options for future grant	561,649		155,000	
Weighted average contractual term of options outstanding at September 30, 2015	7.15 years		2.43 years	
Weighted average contractual term of options exercisable at September 30, 2015	7.00 years		2.35 years	
Aggregated intrinsic value of options outstanding at September 30, 2015 (1)	$1,646,768		$2,363,921	
Aggregated intrinsic value of options exercisable at September 30, 2015 (1)	$1,583,605		$2,312,190	

(1) The Company used a stock price of $6.71 as of September 30, 2015 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 nine months ended September 30, 2016 and 2015 was $98,663 and $532,418, respectively.

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5) Earnings Per Share

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

	Three Months Ended September 30		Nine Months Ended September 30	
	2016	2015	2016	2015
Numerator:				
Net earnings	$5,291,697	$4,889,785	$12,442,516	$10,605,767
Denominator:				
Basic weighted-average shares outstanding	14,113,005	13,804,061	14,027,706	13,681,406
Effect of dilutive securities:				
Employee stock options	418,605	659,909	401,206	602,935
Diluted weighted-average shares outstanding	14,531,610	14,463,970	14,428,912	14,284,341
Basic net earnings per share	$0.37	$0.35	$0.89	$0.78
Diluted net earnings per share	$0.36	$0.34	$0.86	$0.74

Net earnings per share amounts have been adjusted for the effect of annual stock dividends. For the three and nine months ended September 30, 2016 and 2015, there were 250,039 and -0- of anti-dilutive employee stock option shares, respectively, that were not included in the computation of diluted net loss per common share as their effect would be anti-dilutive.

6) Business Segments

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 of the Form 10-K for the year ended December 31, 2015. 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.

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6) Business Segments (Continued)

	Life Insurance	Cemetery/ Mortuary	Mortgage	Eliminations	Consolidated
For the Three Months Ended September 30, 2016					
Revenues from external customers	$24,972,397	$2,900,917	$57,366,454	$-	$85,239,768
Intersegment revenues	3,318,369	107,745	79,164	(3,505,278)	-
Segment profit before income taxes	2,101,143	54,891	5,655,942	-	7,811,976
For the Three Months Ended September 30, 2015					
Revenues from external customers	$23,148,090	$3,123,168	$49,223,428	$-	$75,494,686
Intersegment revenues	3,206,703	292,445	76,159	(3,575,307)	-
Segment profit before income taxes	3,655,998	250,111	3,888,291	-	7,794,400
For the Nine Months Ended September 30, 2016					
Revenues from external customers	$70,616,968	$10,045,384	$152,331,332	$-	$232,993,684
Intersegment revenues	9,780,803	616,532	239,503	(10,636,838)	-
Segment profit before income taxes	5,669,786	1,283,553	11,690,264	-	18,643,603
Identifiable Assets	800,252,063	95,414,964	80,720,446	(138,809,339)	837,578,134
Goodwill	2,765,570	-	-	-	2,765,570
For the Nine Months Ended September 30, 2015					
Revenues from external customers	$65,610,558	$9,436,496	$140,537,879	$-	$215,584,933
Intersegment revenues	8,884,390	910,016	256,950	(10,051,356)	-
Segment profit before income taxes	7,175,036	811,261	9,038,439	-	17,024,736
Identifiable Assets	709,683,255	100,760,704	71,954,237	(133,002,358)	749,395,838
Goodwill	2,765,570	-	-	-	2,765,570

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7) Fair Value of Financial Instruments

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

Level 1: Financial assets and financial liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that 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 other significant financial instruments:

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

Securities Available for Sale and Held to Maturity: The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3 of the Notes to Condensed Consolidated Statements.

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

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

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

The items shown under Level 3 are valued as follows:

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

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7) Fair Value of Financial Instruments (Continued)

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

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

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

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

Other Investments: The fair values are estimated using one or more valuation techniques for which sufficient and reliable data is available. Factors considered when estimating the fair value include the original transaction price, recent transactions in the same or similar properties, historical lease rates, comparable lease rates of similar properties, discount rates, market capitalization rates, expected vacancy rates, and changes in financial ratios or cash flow.

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

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

It should be noted that for replacement cost, when determining the fair value of mortgage properties, the Company uses Marshall and Swift, a provider of building cost information to the real estate construction industry. For the investment analysis, the Company used market data based upon its real estate operation experience and projected the present value of the net rental income over seven years. The Company used 20% of the projected cash flow analysis and 80% of the replacement cost to approximate fair value of the collateral.

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.

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7) Fair Value of Financial Instruments (Continued)

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

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

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

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

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at September 30, 2016.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Common stock	$10,145,395	$10,145,395	$ -	$-
Total securities available for sale	$10,145,395	$10,145,395	$ -	$-
Restricted assets of cemeteries and mortuaries	$711,926	$711,926	$ -	$-
Cemetery perpetual care trust investments	687,803	687,803	-	-
Derivatives - interest rate lock commitments	3,966,966	-	-	3,966,966
Other investments	1,780,389	-	-	1,780,389
	$17,292,479	$11,545,124	$ -	$5,747,355

Total assets accounted for at fair value on a recurring basis				
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(49,739,946)	$-	$ -	$(49,739,946)
Future policy benefits - annuities	(99,446,330)	-	-	(99,446,330)
Derivatives - bank loan interest rate swaps	(8,406)	-	-	(8,406)
- call options	(26,109)	(26,109)	-	-
- put options	(16,161)	(16,161)	-	-
- interest rate lock commitments	(566,633)	-	-	(566,633)
Total liabilities accounted for at fair value on a recurring basis	$(149,803,585)	$(42,270)	$ -	$(149,761,315)

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7) Fair Value of Financial Instruments (Continued)

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps	Other Investments
Balance - December 31, 2015	$(50,694,953)	$(69,398,617)	$ 3,333,091	$(13,947)	$ 1,174,769
Purchases	-	(30,294,480)	-	-	600,000
Total gains (losses):					
Included in earnings	955,007	246,767	-	-	-
Included in other comprehensive income	-	-	67,242	5,541	5,620
Balance - September 30, 2016	$(49,739,946)	$(99,446,330)	$ 3,400,333	$(8,406)	$ 1,780,389

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at September 30, 2016.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	$6,432,715	$ -	$ -	$ 6,432,715
Real estate held for investment	2,361,079	-	-	2,361,079
Total assets accounted for at fair value on a nonrecurring basis	$8,793,794	$ -	$ -	$ 8,793,794

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7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a recurring basis by their classification in the condensed consolidated balance sheet at December 31, 2015.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a recurring basis				
Common stock	$8,431,090	$8,431,090	$ -	$-
Total securities available for sale	$8,431,090	$8,431,090	$ -	$-
Restricted assets of cemeteries and mortuaries	$686,444	$686,444	$ -	$-
Cemetery perpetual care trust investments	630,854	630,854	-	-
Derivatives - interest rate lock commitments	3,440,758	-	-	3,440,758
Other investments	1,174,769	-	-	1,174,769
Total assets accounted for at fair value on a recurring basis	$14,363,915	$9,748,388	$ -	$4,615,527
Liabilities accounted for at fair value on a recurring basis				
Policyholder account balances	$(50,694,953)	$-	$ -	$(50,694,953)
Future policy benefits - annuities	(69,398,617)	-	-	(69,398,617)
Derivatives - bank loan interest rate swaps	(13,947)	-	-	(13,947)
- call options	(16,342)	(16,342)	-	-
- put options	(28,829)	(28,829)	-	-
- interest rate lock commitment	(107,667)	-	-	(107,667)
Total liabilities accounted for at fair value on a recurring basis	$(120,260,355)	$(45,171)	$ -	$(120,215,184)

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

	Policyholder Account Balances	Future Policy Benefits - Annuities	Interest Rate Lock Commitments	Bank Loan Interest Rate Swaps	Other Investments
Balance - December 31, 2014	$(45,310,699)	$(65,540,985)	$ 1,929,851	$(31,370)	$ -
Purchases	-	-	-	-	1,200,000
Total gains (losses):					
Included in earnings	(5,384,254)	(3,857,632)	-	-	-
Included in other comprehensive income	-	-	1,403,240	17,423	(25,231)

Balance - December 31, 2015	$(50,694,953)	$(69,398,617)	$ 3,333,091	$(13,947)	$ 1,174,769

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7) Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the condensed consolidated balance sheet at December 31, 2015.

	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets accounted for at fair value on a nonrecurring basis				
Mortgage servicing rights	$6,217,551	$ -	$ -	$ 6,217,551
Real estate held for investment	95,000	-	-	95,000
Total assets accounted for at fair value on a nonrecurring basis	$6,312,551	$ -	$ -	$ 6,312,551

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 September 30, 2016 and December 31, 2015. The estimated fair value amounts for September 30, 2016 and December 31, 2015 have been measured as of period-end, and have not been reevaluated or updated for purposes of these Condensed Consolidated Financial Statements subsequent to those dates. As such, the estimated fair values of these financial instruments subsequent to the reporting date may be different than the amounts reported at period-end.

The carrying values and estimated fair values for such financial instruments, and their corresponding placement in the fair value hierarchy, are summarized as follows as of September 30, 2016:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					

Residential	$48,402,260	$ -	$ -	$51,607,045	$51,607,045
Residential construction	41,910,955	-	-	41,910,955	41,910,955
Commercial	39,560,542	-	-	41,181,866	41,181,866
Mortgage loans, net	$129,873,757	$ -	$ -	$134,699,866	$134,699,866
Policy loans	6,858,019	-	-	6,858,019	6,858,019
Insurance assignments, net	31,343,162	-	-	31,343,162	31,343,162
Short-term investments	28,467,741	-	-	28,467,741	28,467,741
Liabilities					
Bank and other loans payable	$(43,705,867)	$ -	$ -	$(43,705,867)	$(43,705,867)

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7) 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, 2015:

	Carrying Value	Level 1	Level 2	Level 3	Total Estimated Fair Value
Assets					
Mortgage loans:					
Residential	$44,459,613	$ -	$ -	$47,193,950	$47,193,950
Residential construction	34,751,443	-	-	34,751,443	34,751,443
Commercial	33,335,849	-	-	34,778,136	34,778,136
Mortgage loans, net	$112,546,905	$ -	$ -	$116,723,529	$116,723,529
Policy loans	6,896,457	-	-	6,896,457	6,896,457
Insurance assignments, net	31,511,195	-	-	31,511,195	31,511,195
Short-term investments	16,915,808	-	-	16,915,808	16,915,808
Liabilities					
Bank and other loans payable	$(40,894,968)	$ -	$ -	$(40,894,968)	$(40,894,968)

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

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

Residential – The estimated fair value of mortgage loans originated prior to 2013 is determined by estimating expected future cash flows of interest payments and discounting them using current interest rates from single family mortgages. The estimated fair value of mortgage loans originated in 2013 thru 2016 is determined from pricing of similar loans that were sold in 2014 and 2015

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

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

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

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

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

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8) Allowance for Doubtful Accounts, Allowance for Loan Losses and Impaired Loans

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

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

The Company provides allowances for losses on its mortgage loans held for investment through an allowance for loan losses. The allowance is comprised of two components. The first component is an allowance for collectively evaluated impairment that is based upon the Company's historical experience in collecting similar receivables. The second component is based upon individual evaluation of loans that are determined to be impaired. Upon determining impairment the Company establishes an individual impairment allowance based upon an assessment of the fair value of the underlying collateral. See the schedules in Note 3 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.

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.

9) Derivative Commitments

Interest Rate Locks and Commitments

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

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

The Company estimates the fair value of a mortgage loan commitment based on the change in estimated fair value of the underlying mortgage loan and the probability that the mortgage loan will fund within the terms of the commitment. The change in fair value of the underlying mortgage loan is measured from the date the mortgage loan commitment is issued. Therefore, at the time of issuance, the estimated fair value is zero. Following issuance, the value of a mortgage loan commitment can be either positive or negative depending upon the change in value of the underlying mortgage loans. Fallout rates derived from the Company's recent historical empirical data are used to estimate the quantity of mortgage loans that will fund within the terms of the commitments. The Company utilizes forward loan sales commitments to economically hedge the price risk associated with its outstanding mortgage loan commitments. A forward loan sales commitment protects the Company from losses on sales of the loans arising from exercise of the loan commitments by securing the ultimate sales price and delivery date of the loans. Management expects these derivatives will experience changes in fair value opposite to changes in fair value of the derivative loan commitments, thereby reducing earnings volatility related to the recognition in earnings of changes in the values of the commitments.

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9) Derivative Commitments (Continued)

Call and Put Options

The Company uses a strategy of selling "out of the money" call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company 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. In the event an option is exercised, the Company recognizes a gain on the sale of the equity security and a gain from the sale of the option. If the option expires unexercised, the Company recognizes a gain from the sale of the option.

The following table shows the fair value of derivatives as of September 30, 2016 and December 31, 2015.

	Fair Value of Derivative Instruments							
	Asset Derivatives				Liability Derivatives			
	September 30, 2016		December 31, 2015		September 30, 2016		December 31, 2015	
	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value	Balance Sheet Location	Fair Value
Derivatives designated as hedging instruments:								
Interest rate lock and forward sales commitments	other assets	$3,966,966	other assets	$3,440,758	Other liabilities	$566,633	Other liabilities	$107,667
Call options	--	--	--	--	Other liabilities	26,109	Other liabilities	16,342
Put options	--	--	--	--	Other liabilities	16,161	Other liabilities	28,829
Interest rate swaps	--	--	--	--	Bank loans payable	8,406	Bank loans payable	13,947
Total		$3,966,966		$3,440,758		$617,309		$166,785

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

	Net Amount Gain (Loss) Recognized in OCI Three Months Ended Sept 30	Net Amount Gain (Loss) Recognized in OCI Nine Months Ended Sept 30

Derivative - Cash Flow Hedging Relationships:	2016	2015	2016	2015
Interest Rate Lock Commitments	$(846,341)	$(1,431,809)	$67,242	$2,308,092
Interest Rate Swaps	-	22,659	5,541	31,370
Sub Total	(846,341)	(1,409,150)	72,783	2,339,462
Tax Effect	(330,072)	(549,569)	28,386	912,390
Total	$(516,269)	$(859,581)	$44,397	$1,427,072

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

10) Reinsurance, Commitments and Contingencies

Reinsurance

Reinsurance Agreement with North America Life Insurance Company

On May 8, 2015, the Company, through its wholly owned subsidiary, Security National Life, signed a paid-up business offer under the coinsurance agreement effective December 1, 2010 to reinsure certain life insurance policies from North America Life Insurance Company ("North America Life"). Pursuant to the paid-up business offer, North America Life ceded and transferred to Security National Life all contractual obligations and risks under the coinsured policies. Security National Life paid a ceding commission to North America Life in the amount of $281,908. As a result of the ceding commission, North America Life transferred $8,900,282 of cash and $9,182,190 in statutory reserves, or liabilities, to Security National Life.

Reinsurance Agreement with American Republic Insurance Company

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

Mortgage Loan Loss Settlements

Future loan losses can be extremely difficult to estimate. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its potential losses on loans sold. The amounts expensed for loan losses for the three months ended September 30, 2016 and 2015 were $1,438,000 and $1,755,000 respectively, and for the nine months ended September 30, 2016 and 2015 were $2,853,000 and $4,674,000, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of September 30, 2016 and December 31, 2015, the balances were $5,326,000 and $2,806,000, respectively.

Settlement of Investigation by U.S. Department of Justice and the Office of the Inspector General for the U.S. Department of Housing and Urban Development (HUD) of Certain FHA-Insured Mortgage Loans Originated

On September 30, 2016, the Company, through its wholly owned subsidiary, SecurityNational Mortgage Company ("SecurityNational Mortgage") announced the execution of a settlement agreement with the U.S. Department of Justice ("DOJ") and the United States Attorney's Office in connection with the origination and underwriting by SecurityNational Mortgage of certain Federal Housing Administration (FHA) insured loans. Pursuant to the agreement, SecurityNational Mortgage is required to make a payment in the amount of $4,250,000 to the DOJ within ten days from the effective date of the settlement agreement. Payment was made to the DOJ on October 4, 2016.

SecurityNational Mortgage made no admission of liability or fault, but chose to resolve the matter through a settlement agreement rather than engage in protracted and costly litigation. SecurityNational Mortgage continues to be able to participate fully in all Federal Housing Administration (FHA) programs as this settlement agreement does not affect SecurityNational Mortgage's status with the U.S. Department of Housing and Urban Development (HUD). In addition, this settlement does not include any allegations or findings against any particular individuals, such as officers, directors, employees or agents of SecurityNational Mortgage.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

10) Reinsurance, Commitments and Contingencies (Continued)

Prior to executing the settlement agreement, SecurityNational Mortgage, like many other high volume FHA- approved lenders, was being reviewed by the U.S. Department of Justice and the Office of the Inspector General of HUD for loan origination activities that occurred as long as nine years ago. Without any admission of liability and in order to avoid the extended distractions and expenses associated with protracted litigation, SecurityNational Mortgage made a business decision to resolve this matter. This settlement in no way affects SecurityNational Mortgage's ability to originate FHA-insured mortgage loans in the future.

Mortgage Loan Loss Litigation

For a description of the litigation involving SecurityNational Mortgage and Lehman Brothers and Aurora Loan Services, reference is to Part II, Item 1. Legal Proceedings.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of September 30, 2016, the Company's commitments were $60,623,000 for these loans of which $42,011,000 had been funded. The Company will advance funds once the work has been completed and an independent inspection is made. The maximum loan commitment ranges between 50% and 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.50% as of September 30, 2016). Maturities range between six and twelve months.

The Company belongs to a captive insurance group for certain casualty insurance, worker compensation and liability programs. Insurance reserves are maintained relative to these programs. The level of exposure from catastrophic events is limited by the purchase of stop-loss and aggregate liability reinsurance coverage. When estimating the insurance liabilities and related reserves, the captive insurance management considers a number of factors, which include historical claims experience, demographic factors, severity factors and valuations provided by independent third-party actuaries. If actual claims or adverse development of loss reserves occurs and exceed these estimates, additional reserves may be required. The estimation process contains uncertainty since captive insurance management must use judgment to estimate the ultimate cost that will be incurred to settle reported claims and unreported claims for incidents incurred but not reported as of the balance sheet date. At September 30, 2016, $795,183 of reserves was established related to such insurance programs versus $834,855 at December 31, 2015.

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.

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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

11) Mortgage Servicing Rights

The following is a summary of the MSR activity for the periods presented.

	As of September 30 2016	As of December 31 2015
Amortized cost:		
Balance before valuation allowance at beginning of year	$12,679,755	$7,834,747
MSRs proceeds from loan sales	6,432,715	6,217,551
Amortization	(1,680,145)	(1,372,543)
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance before valuation allowance at year end	$17,432,325	$12,679,755
Valuation allowance for impairment of MSRs:		
Balance at beginning of year	$-	$-
Additions	-	-
Application of valuation allowance to write down MSRs with other than temporary impairment	-	-
Balance at end of period	$-	$-
Mortgage servicing rights, net	$17,432,325	$12,679,755
Estimated fair value of MSRs at end of period	$18,642,682	$13,897,160

The Company reports these MSRs pursuant to the accounting policy discussed in Note 7.

12) Acquisitions

Acquisition of First Guaranty Insurance Company

On July 11, 2016, the Company, through its wholly owned subsidiary, Security National Life completed the stock purchase transaction with the shareholders of Reppond Holding Corporation, an Arkansas corporation ("Reppond Holding") and sole shareholder of First Guaranty Insurance Company, a Louisiana domestic stock legal reserve life insurance company ("First Guaranty"), to purchase all the outstanding shares of common stock of Reppond Holding. Under the terms of the stock purchase agreement, dated February 17, 2016, between Security National Life and Reppond Holding, which was later amended on March 4 and 17, 2016, Security National Life paid a total of $6,753,000 at the closing in consideration for the purchase of all the outstanding shares of stock of Reppond Holding from its shareholders. Reppond Holding holds all of the outstanding shares of common stock of First Guaranty.

The fair values of assets acquired and liabilities assumed are subject to adjustment during the first twelve months after the acquisition date if additional information becomes available to indicate a more accurate or appropriate value for an asset or liability. As the acquisition was completed at quarter end, the fair values of substantially all of the net assets are considered preliminary.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
September 30, 2016 (Unaudited)

12) Acquisitions (Continued)

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

Fixed maturity securities, held to maturity	$43,878,084
Equity securities, available for sale	646,335
Mortgage loans on real estate	4,528,582
Real estate held for investment	528,947
Policy loans	145,953
Short-term investments	5,358,403
Accrued investment income	585,985
Cash and cash equivalents	2,424,480
Receivables	73,347
Property and equipment	21,083
Deferred tax asset	1,190,862
Receivable from reinsurers	34,948
Other	57,768
Total assets acquired	59,474,777
Future life, annuity, and other benefits	(52,648,838)
Accounts payable	(6,953)
Other liabilities and accrued expenses	(65,986)
Total liabilities assumed	(52,721,777)
Fair value of net assets acquired/consideration paid	$6,753,000

The estimated fair value of the fixed maturity securities and the equity securities is based on unadjusted quoted prices for identical assets in an active market. These types of financial assets are considered Level 1 under the fair value hierarchy. The estimated fair value of future life, annuity, and other benefits is based on assumptions of the future value of the business acquired. Based on the unobservable nature of certain of these assumptions, the valuation for these financial liabilities is considered to be Level 3 under the fair value hierarchy. The Company determined that the estimated fair value of the remaining assets and liabilities acquired approximated their book values.

The following unaudited pro forma information has been prepared to present the results of operations of the Company assuming the acquisition of First Guaranty had occurred at the beginning of the nine month periods ended September 30, 2016 and 2015. This pro forma information is supplemental and does not necessarily present the operations of the Company that would have occurred had the acquisition occurred on those dates and may not reflect the operations that will occur in the future:

	For the Three Months Ended September 30	For the Nine Months Ended September 30

	(unaudited)		(unaudited)	
	2016	2015	2016	2015
Total revenues	$85,239,768	$76,729,711	$235,130,553	$218,985,731
Net earnings	$5,291,697	$5,235,350	$12,177,542	$10,212,460
Net earnings per Class A equivalent common share	$0.37	$0.38	$0.87	$0.75
Net earnings per Class A equivalent common share assuming dilution	$0.36	$0.36	$0.84	$0.71

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

Overview

The Company's operations over the last several years generally reflect three trends or events which the Company expects to continue: (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 and an improved housing market by originating mortgage loans.

Insurance Operations

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

A funeral plan is a small face value life insurance policy that generally has face coverage of up to $25,000. The Company believes that funeral plans represent a marketing niche that has less 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 the person's death. On a per thousand dollar cost of insurance basis, these policies can be more expensive to the policy holder 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.

The following table shows the condensed financial results of the insurance operations for the three and nine months ended September 30, 2016 and 2015. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2016	2015	% Increase (Decrease)	2016	2015	% Increase (Decrease)
Revenues from external customers						
Insurance premiums	$17,157	$14,564	18%	$47,508	$42,332	12%
Net investment income	7,267	6,127	19%	21,122	18,617	13%
Income from loan originations	561	700	(20%)	1,646	1,813	(9%)
Other	(13)	1,757	(101%)	341	2,849	(88%)
Total	$24,972	$23,148	8%	$70,617	$65,611	8%
Intersegment revenue	$3,319	$3,206	4%	$9,781	$8,884	10%
Earnings before income taxes	$2,101	$3,656	(43%)	$5,670	$7,175	(21%)

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company ("SecurityNational Mortgage"). Profitability in the three and nine months ended September 30, 2016 has decreased due to a decrease in realized gains on investments and other assets, which was partially offset by an increase in net investment income and an increase in insurance premiums.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah. The Company also sells cemetery products and services through its five cemeteries in Salt Lake City, Utah and one cemetery in San Diego County, California. Cemetery land sales and at-need product sales and services are recognized as revenue at the time of sale or when the services are performed. Pre-need cemetery product sales are deferred until the merchandise is delivered and services performed.

The following table shows the condensed financial results of the Cemetery and Mortuary operations for the three and nine months ended September 30, 2016 and 2015. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)			Nine months ended September 30 (in thousands of dollars)		
	2016	2015	% Increase (Decrease)	2016	2015	% Increase (Decrease)
Revenues from external customers						
Mortuary revenues	$1,029	$1,169	(12%)	$3,681	$3,523	4%
Cemetery revenues	1,903	1,769	8%	6,271	5,550	13%
Other	(32)	185	(117%)	93	363	(75%)
Total	$2,901	$3,123	(7%)	$10,045	$9,436	6%
Earnings before income taxes	$55	$250	(78%)	$1,284	$811	58%

Included in other revenue is 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 is offset by property insurance, taxes and maintenance expenses. Memorial Estates has recorded depreciation on these properties of $176,000 and $183,000 for the three months ended September 30, 2016 and 2015, respectively, and $543,000 and 634,000 for the nine months ended September 30, 2016 and 2015, respectively.

Mortgage Operations

Overview

The Company's wholly owned subsidiaries, SecurityNational Mortgage and EverLEND Mortgage Company (formerly known as Green Street Mortgage Services, Inc.), 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), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage and EverLEND Mortgage obtain mortgage loans originated in retail offices and through independent brokers. Mortgage loans originated by the Company's mortgage subsidiaries are funded through loan purchase agreements from Security National Life and unaffiliated financial institutions.

The Company's mortgage subsidiaries receive fees from the borrowers and secondary fees from third party investors that purchase their loans. Loans originated by SecurityNational Mortgage 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 30% of its loan origination volume. These loans are serviced by an approved third party sub-servicer.

For the nine months ended September 30, 2016 and 2015, SecurityNational Mortgage originated and sold 11,720 loans ($2,252,108,000 total volume) and 11,689 loans ($2,192,849,000 total volume), respectively. For the nine months ended September 30, 2016 and 2015, EverLEND Mortgage originated and sold 1 loan ($256,000 total volume) and 79 loans ($17,949,000 total volume), respectively.

The following table shows the condensed financial results of the mortgage operations for the three and nine months ended September 30, 2016 and 2015. See Note 6 to the Condensed Consolidated Financial Statements.

	Three months ended September 30 (in thousands of dollars)				Nine months ended September 30 (in thousands of dollars)			
	2016	2015	% Increase (Decrease)		2016	2015	% Increase (Decrease)	
Revenues from external customers								
Income from loan originations	$45,794	$38,784	18	%	$124,797	$115,374	8	%
Secondary gains from investors	11,572	10,440	11	%	27,534	25,164	9	%
Total	$57,366	$49,224	17					