

SECURITY NATIONAL FINANCIAL CORP
Form 10-Q
May 15, 2013

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

FORM 10-Q

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

For the quarter ended March 31, 2013, or

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

For the Transition Period from _____ to _____

Commission file number: 000-09341

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

UTAH
(State or other jurisdiction of incorporation or
organization)

87-0345941
(I.R.S. Employer Identification No.)

5300 South 360 West, Suite 250 Salt Lake City, Utah
(Address of principal executive office)

84123
(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

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Class A Common Stock, \$2.00 par value	10,978,651
Title of Class	Number of Shares Outstanding as of May 14, 2013

Class C Common Stock, \$.20 par value	11,841,380
Title of Class	Number of Shares Outstanding as of May 14, 2013

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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED MARCH 31, 2013

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

	March 31 2013	December 31 2012
Assets		
Investments:		
Fixed maturity securities, held to maturity, at amortized cost	\$ 136,877,427	\$ 129,449,410
Equity securities, available for sale, at estimated fair value	4,956,549	5,405,112
Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$4,250,242 and \$4,239,861 for 2013 and 2012	80,033,044	84,462,205
Real estate held for investment, net of accumulated depreciation of \$7,918,236 and \$7,441,418 for 2013 and 2012	65,314,147	64,254,030
Policy and other loans, net of allowances for doubtful accounts of \$542,818 and \$505,030 for 2013 and 2012	20,006,527	20,188,516
Short-term investments	20,649,723	40,925,390
Accrued investment income	2,559,070	2,393,941
Total investments	330,396,487	347,078,604
Cash and cash equivalents	58,495,144	38,906,115
Mortgage loans sold to investors	96,757,120	94,597,969
Receivables, net	13,493,008	16,559,277
Restricted assets of cemeteries and mortuaries	4,041,916	3,955,127
Cemetery perpetual care trust investments	2,177,270	2,090,111
Receivable from reinsurers	14,642,846	14,529,144
Cemetery land and improvements	11,072,545	11,079,755
Deferred policy and pre-need contract acquisition costs	40,776,674	39,913,465
Mortgage servicing rights, net	3,452,421	2,797,470
Property and equipment, net	11,470,249	11,033,957
Value of business acquired	9,465,620	9,829,082
Goodwill	677,039	677,039
Other	4,252,885	4,169,508
Total Assets	\$ 601,171,224	\$ 597,216,623

See accompanying notes to condensed consolidated financial statements.

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

	March 31 2013	December 31 2012
Liabilities and Stockholders' Equity		
Liabilities		
Future life, annuity, and other benefits	\$440,717,810	\$438,003,813
Unearned premium reserve	5,323,415	5,383,800
Bank and other loans payable	11,491,183	11,910,343
Deferred pre-need cemetery and mortuary contract revenues	13,358,713	13,412,339
Cemetery perpetual care obligation	3,162,106	3,153,001
Accounts payable	2,466,909	2,715,834
Other liabilities and accrued expenses	25,621,792	24,902,086
Income taxes	17,205,937	17,923,298
Total liabilities	519,347,865	517,404,514
Stockholders' Equity		
Common Stock:		
Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 10,946,588 shares in 2013 and 10,843,576 shares in 2012	21,893,176	21,687,152
Class B: non-voting common stock - \$1.00 par value; 5,000,000 shares authorized; none issued or outstanding	-	-
Class C: convertible common stock - \$0.20 par value; 15,000,000 shares authorized; issued 11,398,388 shares in 2013 and 10,974,101 in 2012	2,279,678	2,194,820
Additional paid-in capital	21,304,941	21,262,140
Accumulated other comprehensive income, net of taxes	1,558,933	1,934,359
Retained earnings	37,147,338	35,114,072
Treasury stock at cost - 1,089,554 Class A shares in 2013 and 1,097,416 Class A shares in 2012	(2,360,707)	(2,380,434)
Total stockholders' equity	81,823,359	79,812,109
Total Liabilities and Stockholders' Equity	\$601,171,224	\$597,216,623

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	31	
	2013	2012
Revenues:		
Insurance premiums and other considerations	\$12,421,543	\$12,587,788
Net investment income	5,085,999	6,054,047
Net mortuary and cemetery sales	2,877,523	2,874,949
Realized gains on investments and other assets	842,578	171,060
Other than temporary impairments on investments	(30,000)	(45,000)
Mortgage fee income	33,177,899	25,490,584
Other	476,692	189,795
Total revenues	54,852,234	47,323,223
Benefits and expenses:		
Death benefits	6,756,419	5,186,299
Surrenders and other policy benefits	750,249	838,740
Increase in future policy benefits	4,551,741	6,150,147
Amortization of deferred policy and pre-need acquisition costs and value of business acquired	1,493,905	1,412,229
Selling, general and administrative expenses:		
Commissions	17,570,585	14,885,790
Salaries	8,178,698	6,512,843
Provision for loan losses and loss reserve	552,289	402,474
Costs related to funding mortgage loans	1,607,235	1,360,304
Other	8,856,600	6,998,890
Interest expense	807,276	768,744
Cost of goods and services sold-mortuaries and cemeteries	499,614	478,171
Total benefits and expenses	51,624,611	44,994,631
Earnings before income taxes	3,227,623	2,328,592
Income tax expense	(1,194,357)	(666,409)
Net earnings	\$2,033,266	\$1,662,183
Net earnings per Class A Equivalent common share (1)	\$0.19	\$0.17
Net earnings per Class A Equivalent common share-assuming dilution (1)	\$0.17	\$0.16
Weighted-average Class A equivalent common share outstanding (1)	10,935,713	10,014,795
Weighted-average Class A equivalent common shares outstanding-assuming dilution (1)	11,930,897	10,110,295

(1) Net earnings per share amounts have been adjusted retroactively for the effect of annual stock dividends. The weighted-average shares outstanding includes the weighted-average Class A common shares and the weighted-average Class C common shares determined on an equivalent Class A common share basis. Net earnings per common share represent net earnings per equivalent Class A common share. Net earnings per Class C common share is equal to one-tenth (1/10) of such amount.

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended	
	March 31	
	2013	2012
Net earnings	\$2,033,266	\$1,662,183
Other comprehensive income:		
Net unrealized gains (losses) on derivative instruments	(578,647)	650,093
Net unrealized gains on available for sale securities	203,221	329,837
Other comprehensive income (loss)	(375,426)	979,930
Comprehensive income	\$1,657,840	\$2,642,113

See accompanying notes to condensed consolidated financial statements.

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 (Loss)	Retained Earnings	Treasury Stock	Total
Balance at December 31, 2011	\$ 19,277,596	\$ 2,027,195	\$ 19,487,565	\$ 654,443	\$ 22,546,623	\$(2,762,835)	\$ 61,230,587
Net earnings	-	-	-	-	1,662,183	-	1,662,183
Other comprehensive income	-	-	-	979,930	-	-	979,930
Grant of stock options	-	-	47,218	-	-	-	47,218
Sale of treasury stock	-	-	(41,121)	-	-	96,635	55,514
Balance at March 31, 2012	\$ 19,277,596	\$ 2,027,195	\$ 19,493,662	\$ 1,634,373	\$ 24,208,806	\$(2,666,200)	\$ 63,975,432
Balance at December 31, 2012	\$ 21,687,152	\$ 2,194,820	\$ 21,262,140	\$ 1,934,359	\$ 35,114,072	\$(2,380,434)	\$ 79,812,109
Net earnings	-	-	-	-	2,033,266	-	2,033,266
Other comprehensive loss	-	-	-	(375,426)	-	-	(375,426)
Grant of stock options	-	-	52,969	-	-	-	52,969
Exercise of stock options	204,206	86,677	(74,155)	-	-	-	216,728
Sale of treasury stock	-	-	63,986	-	-	19,727	83,713
Conversion Class C to Class A	1,818	(1,819)	1	-	-	-	-
Balance at March 31, 2013	\$ 21,893,176	\$ 2,279,678	\$ 21,304,941	\$ 1,558,933	\$ 37,147,338	\$(2,360,707)	\$ 81,823,359

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March	
	31	
	2013	2012
Cash flows from operating activities:		
Net cash provided by operating activities	\$5,449,312	\$25,192,747
Cash flows from investing activities:		
Securities held to maturity:		
Purchase-fixed maturity securities	(9,919,352)	(4,573,813)
Calls and maturities - fixed maturity securities	2,406,652	1,406,357
Securities available for sale:		
Purchase - equity securities	(425,877)	(202,883)
Sales - equity securities	1,252,757	1,262,645
Purchase of short-term investments	(10,206,512)	(3,416,721)
Sales of short-term investments	30,482,179	5,135,398
Purchase of restricted assets	(56,243)	(241,247)
Changes in assets for perpetual care trusts	(54,533)	(68,720)
Amount received for perpetual care trusts	9,105	31,189
Mortgage, policy, and other loans made	(27,324,342)	(29,559,249)
Payments received for mortgage, policy and other loans	30,188,402	29,240,276
Purchase of property and equipment	(810,223)	(635,862)
Disposal of property and equipment	-	14,768
Purchase of real estate	(30,317)	(53,910)
Sale of real estate	757,150	251,720
Net cash provided by (used in) investing activities	16,268,846	(1,410,052)
Cash flows from financing activities:		
Annuity contract receipts	2,189,717	2,194,651
Annuity contract withdrawals	(4,125,531)	(3,591,348)
Proceeds from stock options exercised	216,728	-
Repayment of bank loans on notes and contracts	(535,814)	(396,815)
Proceeds from borrowing on bank loans	4,733,975	-
Change in line of credit borrowings	(4,608,204)	(4,400,000)
Net cash used in financing activities	(2,129,129)	(6,193,512)
Net change in cash and cash equivalents	19,589,029	17,589,183
Cash and cash equivalents at beginning of period	38,906,115	17,083,604
Cash and cash equivalents at end of period	\$58,495,144	\$34,672,787
Non Cash Investing and Financing Activities		

Mortgage loans foreclosed into real estate	\$1,747,802	\$9,021,747
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See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (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, 2012, included in the Company's Annual Report on Form 10-K (file number 000-09341). In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three months ended March 31, 2013 are not necessarily indicative of the results that may be expected for the year ending December 31, 2013.

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 liability for future policy benefits and claims, those used in determining valuation allowances for mortgage loans on real estate and construction loans held for investment, those used in determining loan loss reserve, and those used in determining the estimated future costs for pre-need sales. Although some variability is inherent in these estimates, management believes the amounts provided are fairly stated in all material respects.

Certain 2012 amounts have been reclassified to bring them into conformity with the 2013 presentation.

2) Recent Accounting Pronouncements

Disclosures about Offsetting Assets and Liabilities – In December 2011, the Financial Accounting Standards Board ("FASB") issued authoritative guidance related to balance sheet offsetting. The new guidance requires disclosures about assets and liabilities that are offset or have the potential to be offset. These disclosures are intended to address differences in the asset and liability offsetting requirements under U.S. GAAP and International Financial Reporting Standards ("IFRS"). This new guidance will be effective for the Company for interim and annual reporting periods beginning January 1, 2013, with retrospective application required. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

Presentation of Comprehensive Income - On February 5, 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2013-02 "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" ("ASU 2013-02"), which requires an entity to report, either on the face of the statement where net income is presented or in the notes, the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The guidance in ASU 2013-02 is effective prospectively for fiscal years, and interim periods within those years, beginning

after December 15, 2012. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2013:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,598,089	\$ 486,779	\$ -	\$ 3,084,868
Obligations of states and political subdivisions	2,134,029	295,921	(7,398)	2,422,552
Corporate securities including public utilities	126,954,323	16,812,155	(527,918)	143,238,560
Mortgage-backed securities	4,430,908	335,923	(11,467)	4,755,364
Redeemable preferred stock	760,078	51,516	-	811,594
Total fixed maturity securities held to maturity	\$ 136,877,427	\$ 17,982,294	\$ (546,783)	\$ 154,312,938

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
March 31, 2013:				
Equity securities available for sale at estimated fair value:				
Common stock:				
Industrial, miscellaneous and all other	\$ 5,373,763	\$ 354,215	\$ (771,429)	\$ 4,956,549
Total equity securities available for sale at estimated fair value	\$ 5,373,763	\$ 354,215	\$ (771,429)	\$ 4,956,549
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 49,359,697			
Residential construction	1,196,029			
Commercial	33,727,560			
Less: Allowance for loan losses	(4,250,242)			
Total mortgage loans on real estate and construction loans held for investment	\$ 80,033,044			
Real estate held for investment - net of depreciation	\$ 3,494,107			
Other real estate owned held for investment - net of depreciation	61,820,040			
Other real estate owned held for sale	-			
Total real estate	\$ 65,314,147			
Policy and other loans at amortized cost - net of allowance for doubtful	\$ 20,006,527			

accounts

Short-term investments at
amortized cost \$ 20,649,723

During the first quarter 2013, the Company reclassified its Other real estate owned held for sale to Other real estate owned held for investment. The properties are now being depreciated and are held as rental properties and are not listed for sale.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (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, 2012 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012:				
Fixed maturity securities held to maturity carried at amortized cost:				
Bonds:				
U.S. Treasury securities and obligations of U.S. Government agencies	\$ 2,602,589	\$ 514,572	\$ -	\$ 3,117,161
Obligations of states and political subdivisions	2,040,277	285,241	(3,982)	2,321,536
Corporate securities including public utilities	118,285,147	16,230,468	(607,322)	133,908,293
Mortgage-backed securities	5,010,519	327,871	(76,056)	5,262,334
Redeemable preferred stock	1,510,878	98,087	(1,200)	1,607,765
Total fixed maturity securities held to maturity	\$ 129,449,410	\$ 17,456,239	\$ (688,560)	\$ 146,217,089

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2012:				
Equity securities available for sale at estimated fair value:				
Non-redeemable preferred stock	\$ 20,281	\$ -	\$ (1,486)	\$ 18,795
Common stock:				
Industrial, miscellaneous and all other	6,047,474	309,752	(970,909)	5,386,317
Total equity securities available for sale at estimated fair value	\$ 6,067,755	\$ 309,752	\$ (972,395)	\$ 5,405,112
Mortgage loans on real estate and construction loans held for investment at amortized cost:				
Residential	\$ 50,584,923			
Residential construction	3,161,112			
Commercial	34,956,031			
Less: Allowance for loan losses	(4,239,861)			
Total mortgage loans on real estate and construction loans held for investment	\$ 84,462,205			
Real estate held for investment - net of depreciation	\$ 3,543,751			
Other real estate owned held for investment - net of depreciation	55,027,669			
Other real estate owned held for sale	5,682,610			
Total real estate	\$ 64,254,030			

Policy and other loans at amortized cost - net of allowance for doubtful accounts	\$ 20,188,516
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Short-term investments at amortized cost	\$ 40,925,390
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SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed maturity securities, which are carried at amortized cost, at March 31, 2013 and December 31, 2012. 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 March 31, 2013					
Obligations of states and political subdivisions	\$ 5,022	1	\$ 2,376	1	\$ 7,398
Corporate securities including public utilities	119,319	27	408,599	6	527,918
Mortgage-backed securities	-	-	11,467	1	11,467
Total unrealized losses	\$ 124,341	28	\$ 422,442	8	\$ 546,783
Fair Value	\$ 6,754,332		\$ 2,505,475		\$ 9,259,807
At December 31, 2012					
Obligations of states and political subdivisions	\$ -	0	\$ 3,982	2	\$ 3,982
Corporate securities including public utilities	191,662	16	415,660	9	607,322
Mortgage-backed securities	-	0	76,056	3	76,056
Redeemable preferred stock	1,200	1	-	0	1,200
Total unrealized losses	\$ 192,862	17	\$ 495,698	14	\$ 688,560
Fair Value	\$ 4,609,268		\$ 3,972,091		\$ 8,581,359

As of March 31, 2013, the average market value of the related fixed maturities was 94.4% of amortized cost and the average market value was 92.6% of amortized cost as of December 31, 2012. During the three months ended March 31, 2013 and 2012 an other than temporary decline in fair value resulted in the recognition of credit losses on fixed maturity securities of \$30,000 and \$45,000, respectively.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

Equity Securities

The following tables summarize unrealized losses on equity securities that were carried at estimated fair value based on quoted trading prices at March 31, 2013 and December 31, 2012. The unrealized losses were primarily the result of decreases in fair value due to overall equity market declines. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related equity securities available-for-sale in a loss position:

	Unrealized Losses for Less than Twelve Months	No. of Investment Positions	Unrealized Losses for More than Twelve Months	No. of Investment Positions	Total Unrealized Losses
At March 31, 2013					
Industrial, miscellaneous and all other	\$ 91,222	22	\$ 680,207	43	\$ 771,429
Total unrealized losses	\$ 91,222	22	\$ 680,207	43	\$ 771,429
Fair Value	\$ 826,874		\$ 1,429,969		\$ 2,256,843
At December 31, 2012					
Non-redeemable preferred stock	\$ 686	1	\$ 800	1	\$ 1,486
Industrial, miscellaneous and all other	236,293	39	734,616	44	970,909
Total unrealized losses	\$ 236,979	40	\$ 735,416	45	\$ 972,395
Fair Value	\$ 1,422,436		\$ 1,493,538		\$ 2,915,974

As of March 31, 2013, the average market value of the equity securities available for sale was 74.5% of the original investment and the average market value was 75.0% of the original investment as of December 31, 2012. The intent of the Company is to retain equity securities for a period of time sufficient to allow for the recovery in fair value. However, the Company may sell equity securities during a period in which the fair value has declined below the amount of the original investment. In certain situations new factors, including changes in the business environment, can change the Company's previous intent to continue holding a security. During the three months ended March 31, 2013 and 2012, there was no other than temporary decline in fair value.

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.

The amortized cost and estimated fair value of fixed maturity securities at March 31, 2013, 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.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

	Amortized Cost	Estimated Fair Value
Held to Maturity:		
Due in 2013	\$ 1,703,989	\$ 1,744,859
Due in 2014 through 2017	20,964,972	23,065,578
Due in 2018 through 2022	44,938,154	51,439,135
Due after 2022	64,079,326	72,496,407
Mortgage-backed securities	4,430,908	4,755,364
Redeemable preferred stock	760,078	811,594
Total held to maturity	\$ 136,877,427	\$ 154,312,937

The amortized cost and estimated fair value of available for sale securities at March 31, 2013, 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.

	Amortized Cost	Estimated Fair Value
Available for Sale:		
Due in 2013	\$ -	\$ -
Due in 2014 through 2017	-	-
Due in 2018 through 2022	-	-
Due after 2022	-	-
Non-redeemable preferred stock	-	-
Common stock	5,373,763	4,956,549
Total available for sale	\$ 5,373,763	\$ 4,956,549

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

	Three Months Ended March 31	
	2013	2012
Fixed maturity securities held to maturity:		
Gross realized gains	\$ 12,892	\$ 7,605
Gross realized losses	(5,475)	(334)
Other than temporary impairments	(30,000)	(45,000)
Securities available for sale:		
Gross realized gains	133,956	137,208
Gross realized losses	(737)	(5,705)
Other than temporary impairments	-	-

Other assets:

Gross realized gains	710,787	32,286
Gross realized losses	(8,845)	-
Other than temporary impairments	-	-
Total	\$ 812,578	\$ 126,060

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

The net carrying amount of held to maturity securities sold was \$505,976 and \$2,174,300 for the three months ended March 31, 2013 and the year ended December 31, 2012, respectively. The net realized gain related to these sales was \$1,524 and \$271,364 for the three months ended March 31, 2013 and the year ended December 31, 2012, respectively. Certain circumstances lead to these decisions to sell. In 2013 and 2012, the Company sold certain held to maturity bonds in gain positions to reduce its risk in certain industries or companies.

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 March 31, 2013, other than investments issued or guaranteed by the United States Government.

Major categories of net investment income are as follows:

	Three Months Ended March 31	
	2013	2012
Fixed maturity securities	\$ 1,953,040	\$ 1,910,344
Equity securities	65,760	63,578
Mortgage loans on real estate	1,124,756	2,068,974
Real estate	1,079,129	1,096,164
Policy and other loans	203,135	228,327
Short-term investments, principally gains on sale of mortgage loans and other	2,207,594	2,041,340
Gross investment income	6,633,414	7,408,727
Investment expenses	(1,547,415)	(1,354,680)
Net investment income	\$ 5,085,999	\$ 6,054,047

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$91,470 and \$82,752 for three months ended March 31, 2013 and 2012, respectively.

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

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 \$9,188,168 at March 31, 2013 and \$9,190,012 at December 31, 2012. The restricted securities are included in various assets under investments on the accompanying condensed consolidated balance sheets.

Mortgage Loans

Mortgage loans consist of first and second mortgages. The mortgage loans bear interest at rates ranging from 2.0% to 10.5% per annum, 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 live or do business. At March 31, 2013, the Company had 25%, 18%, 13% and 12% of its mortgage loans from borrowers located in the states of Utah, California, Texas and Florida, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$4,250,242 and \$4,239,861 at March 31, 2013 and December 31, 2012, respectively.

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2013 (Unaudited)

3) Investments (Continued)

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

Allowance for Credit Losses and Recorded Investment in Mortgage Loans

	Commercial	Residential	Residential Construction	Total
March 31, 2013				
Allowance for credit losses:				
Beginning balance - January 1, 2013	\$ -	\$ 4,193,674	\$ 46,187	\$ 4,239,861
Charge-offs	-	(52,657)	-	(52,657)
Provision	-	63,038	-	63,038
Ending balance -March 31, 2013	\$ -	\$ 4,204,055	\$ 46,187	\$ 4,250,242
Ending balance: individually evaluated for impairment	\$ -	\$ 651,752	\$ -	\$ 651,752
Ending balance: collectively evaluated for impairment	\$ -	\$ 3,552,303	\$ 46,187	\$ 3,598,490
Ending balance: loans acquired with deteriorated credit quality	\$ -	\$ -	\$ -	\$ -