

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, 2011, 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 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.

| | |
|--|--|
| Class A Common Stock, \$2.00 par value | 9,179,226 |
| Title of Class | Number of Shares Outstanding as of May 13, 2011 |
| Class C Common Stock, \$.20 par value | 9,658,443 |
| Title of Class | Number of Shares Outstanding as of May 13, 2011 |

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
FORM 10-Q

QUARTER ENDED MARCH 31, 2011

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

| Assets | March 31, 2011 | December 31, 2010 |
|---|-----------------------|-----------------------|
| Investments: | | |
| Fixed maturity securities, held to maturity, at amortized cost | \$ 124,316,973 | \$ 98,048,016 |
| Equity securities, available for sale, at estimated fair value | 7,181,760 | 6,784,643 |
| Mortgage loans on real estate and construction loans, held for investment net of allowances for losses of \$7,058,358 and \$7,070,442 for 2011 and 2010 | 96,788,471 | 96,154,107 |
| Real estate held for investment, net of accumulated depreciation of \$3,935,269 and \$3,849,695 for 2011 and 2010 | 3,941,736 | 3,996,777 |
| Other real estate owned held for investment, net of accumulated depreciation of \$1,326,169 and \$1,090,532 for 2011 and 2010 | 46,685,820 | 44,422,829 |
| Other real estate owned held for sale | 5,631,170 | 5,086,400 |
| Policy and other loans, net of allowances for doubtful accounts of \$385,778 and \$380,506 for 2011 and 2010 | 18,110,072 | 17,044,897 |
| Short-term investments | 8,794,205 | 2,618,349 |
| Accrued investment income | 2,310,313 | 1,726,854 |
| Total investments | 313,760,520 | 275,882,872 |
| Cash and cash equivalents | 62,924,996 | 39,556,503 |
| Mortgage loans sold to investors | 21,773,455 | 63,226,686 |
| Receivables, net | 10,238,231 | 7,827,114 |
| Restricted assets of cemeteries and mortuaries | 3,179,504 | 3,066,379 |
| Cemetery perpetual care trust investments | 1,575,148 | 1,454,694 |
| Receivable from reinsurers | 6,045,231 | 4,476,237 |
| Cemetery land and improvements | 11,083,061 | 11,096,129 |
| Deferred policy and pre-need contract acquisition costs | 35,758,115 | 35,767,101 |
| Property and equipment, net | 10,811,544 | 11,111,059 |
| Value of business acquired | 10,530,752 | 9,017,696 |
| Goodwill | 1,075,039 | 1,075,039 |
| Other | 1,962,039 | 2,077,396 |
| Total Assets | \$ 490,717,635 | \$ 465,634,905 |

See accompanying notes to condensed consolidated financial statements.

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

| | <u>March 31,</u> <u>2011</u> | <u>December 31,</u> <u>2010</u> |
|---|---------------------------------|------------------------------------|
| Liabilities and Stockholders' Equity | | |
| Liabilities | | |
| Future life, annuity, and other benefits | \$ 367,569,805 | \$ 344,972,099 |
| Unearned premium reserve | 5,170,853 | 5,213,948 |
| Bank loans payable | 10,023,067 | 6,866,438 |
| Notes and contracts payable | 177,396 | 199,537 |
| Deferred pre-need cemetery and mortuary contract revenues | 13,043,386 | 13,192,499 |
| Cemetery perpetual care obligation | 2,885,242 | 2,853,727 |
| Accounts payable | 2,583,247 | 2,472,996 |
| Other liabilities and accrued expenses | 15,071,106 | 14,579,008 |
| Income taxes | 14,597,784 | 15,356,185 |
| Total liabilities | <u>431,121,886</u> | <u>405,706,437</u> |
| Stockholders' Equity | | |
| Common Stock: | | |
| Class A: common stock - \$2.00 par value; 20,000,000 shares authorized; issued 9,179,226 shares in 2011 and 9,178,945 shares in 2010 | 18,358,452 | 18,357,890 |
| 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 9,658,443 shares in 2011 and 9,660,152 in 2010 | 1,931,689 | 1,932,031 |
| Additional paid-in capital | 19,765,750 | 19,689,993 |
| Accumulated other comprehensive income, net of taxes | 1,221,461 | 1,188,246 |
| Retained earnings | 21,388,915 | 21,907,579 |
| Treasury stock at cost - 1,273,144 Class A shares in 2011 and 1,322,074 Class A shares in 2010 | (3,070,518) | (3,147,271) |
| Total stockholders' equity | <u>59,595,749</u> | <u>59,928,468</u> |
| Total Liabilities and Stockholders' Equity | <u>\$ 490,717,635</u> | <u>\$ 465,634,905</u> |

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, | |
|---|------------------------------|---------------------|
| | 2011 | 2010 |
| Revenues: | | |
| Insurance premiums and other considerations | \$ 12,692,303 | \$ 9,922,893 |
| Net investment income | 4,207,042 | 4,013,416 |
| Net mortuary and cemetery sales | 2,941,993 | 2,901,721 |
| Realized gains on investments and other assets | 345,090 | 364,446 |
| Other than temporary impairments | (35,129) | - |
| Mortgage fee income | 13,515,997 | 20,410,834 |
| Other | 504,884 | 353,817 |
| Total revenues | 34,172,180 | 37,967,127 |
| Benefits and expenses: | | |
| Death benefits | 6,148,663 | 4,834,822 |
| Surrenders and other policy benefits | 734,592 | 586,671 |
| Increase in future policy benefits | 4,104,539 | 3,907,828 |
| Amortization of deferred policy and pre-need acquisition costs and value of business acquired | 2,000,217 | 1,433,055 |
| Selling, general and administrative expenses: | - | - |
| Commissions | 7,860,633 | 12,238,962 |
| Salaries | 6,184,787 | 6,960,917 |
| Provision for loan losses and loss reserve | 691,794 | 1,020,485 |
| Costs related to funding mortgage loans | 844,505 | 1,440,707 |
| Other | 6,077,871 | 6,072,945 |
| Interest expense | 315,542 | 601,367 |
| Cost of goods and services sold-mortuaries and cemeteries | 531,619 | 542,282 |
| Total benefits and expenses | 35,494,762 | 39,640,041 |
| Loss before income taxes | (1,322,582) | (1,672,914) |
| Income tax benefit | 804,109 | 721,681 |
| Net loss | \$ (518,473) | \$ (951,233) |
| Net earnings (loss) per Class A Equivalent common share (1) | \$ (0.06) | \$ (0.11) |
| Net earnings (loss) per Class A Equivalent common share-assuming dilution (1) | \$ (0.06) | \$ (0.11) |
| Weighted-average Class A equivalent common share outstanding (1) | 8,865,068 | 8,636,286 |
| Weighted-average Class A equivalent common shares outstanding-assuming dilution (1) | 8,865,068 | 8,636,286 |

(1) Earnings (loss) 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 (loss) per common share represent net earnings (loss) per equivalent Class A common share. Net earnings (loss) 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 CASH FLOWS
(Unaudited)

| | Three Months Ended March 31, | |
|--|------------------------------|----------------------|
| | 2011 | 2010 |
| Cash flows from operating activities: | | |
| Net cash provided by (used in) operating activities | \$ 42,215,717 | \$ (11,435,436) |
| Cash flows from investing activities: | | |
| Securities held to maturity: | | |
| Purchase-fixed maturity securities | (32,119,583) | (5,086,897) |
| Calls and maturities - fixed maturity securities | 5,936,625 | 2,342,945 |
| Securities available for sale: | | |
| Purchase - equity securities | (2,223,406) | (2,117,658) |
| Sales - equity securities | 2,025,175 | 1,927,415 |
| Purchase of short-term investments | (9,728,102) | (2,520,901) |
| Sales of short-term investments | 3,552,246 | 5,001,270 |
| Sales (Purchase) of restricted assets | (97,965) | (189,932) |
| Changes in assets for perpetual care trusts | (70,728) | (86,068) |
| Amount received for perpetual care trusts | 31,515 | 41,455 |
| Mortgage, policy, and other loans made | (27,365,202) | (27,754,629) |
| Payments received for mortgage, policy and other loans | 25,350,613 | 19,934,431 |
| Purchase of property and equipment | (161,806) | (228,507) |
| Disposal of property and equipment | - | (91,000) |
| Purchase of real estate | (98,304) | (1,208,419) |
| Sale of real estate | - | 1,121,112 |
| Reinsurance with North America Life | 12,990,444 | - |
| Net cash provided by (used in) investing activities | (21,978,478) | (8,915,383) |
| Cash flows from financing activities: | | |
| Annuity contract receipts | 2,930,871 | 2,063,131 |
| Annuity contract withdrawals | (2,947,744) | (3,449,987) |
| Repayment of bank loans on notes and contracts | (410,899) | (677,858) |
| Proceeds from borrowing on bank loans | 3,559,026 | - |
| Change in line of credit borrowings | - | 4,900,000 |
| Net cash provided (used) by financing activities | 3,131,254 | 2,835,286 |
| Net change in cash and cash equivalents | 23,368,493 | (17,515,533) |
| Cash and cash equivalents at beginning of period | 39,556,503 | 39,463,803 |
| Cash and cash equivalents at end of period | \$ 62,924,996 | \$ 21,948,270 |
| Non Cash Investing and Financing Activities | | |
| Mortgage loans foreclosed into real estate | \$ 2,975,627 | \$ 4,033,159 |

See accompanying notes to condensed consolidated financial statements.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (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, 2010, 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, 2011 are not necessarily indicative of the results that may be expected for the year ending December 31, 2011.

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 2010 amounts have been reclassified to bring them into conformity with the 2011 presentation.

2) Recent Accounting Pronouncements

A Creditor's Determination of Whether a Restructuring Is a Troubled Debt Restructuring – In April 2011, the FASB issued guidance to assist creditors in determining whether a creditor has granted a concession and whether a debtor is experiencing financial difficulties for purposes of determining whether a restructuring constitutes a troubled debt restructuring. Under this guidance, in evaluating whether a restructuring constitutes a troubled debt restructuring, a creditor must separately conclude that both of the following exist: 1) the restructuring constitutes a concession; and 2) The debtor is experiencing financial difficulties. A creditor may determine that a debtor is experiencing financial difficulties, even though the debtor is not currently in default, if the creditor determines it is probable that the debtor would default on its payments for any of its debts in the foreseeable future without the loan modification. This guidance is effective for the first interim or annual period beginning on or after June 15, 2011, and must be applied retrospectively. Early adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's results of operations or financial position.

Reconsideration of Effective Control for Repurchase Agreements – In April 2011, the FASB issued guidance which amends the Transfers and Servicing topic of the FASB Codification to remove from the assessment of effective control (1) the criterion requiring the transferor to have the ability to repurchase or redeem the financial assets on substantially the agreed terms, even in the event of default by the transferee, and (2) the collateral maintenance implementation guidance related to that criterion. Other criteria applicable to the assessment of effective control are not changed by the amendments in this update. Those criteria indicate that the transferor is deemed to have maintained effective control over the financial assets transferred (and thus must account for the transaction as a secured borrowing) for agreements that both entitle and obligate the transferor to repurchase or redeem the financial assets before their maturity if all of the following conditions are met: (1) The financial assets to be repurchased or redeemed are the same or substantially the same as those transferred. (2) The agreement is to repurchase or redeem them before maturity, at a fixed or determinable price. (3) The agreement is entered into contemporaneously with, or in contemplation of, the transfer. This guidance is effective for the first interim or annual period beginning on or after December 15, 2011. The adoption of this guidance is not expected to 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, 2011 (Unaudited)

2) Recent Accounting Pronouncements (Continued)

Accounting for Costs Associated with Acquiring or Renewing Insurance Contracts - In October 2010, the FASB issued guidance to address the diversity in practice for the accounting for costs associated with acquiring or renewing insurance contracts. This guidance modifies the definition of acquisition costs to specify that a cost must be directly related to the successful acquisition of a new or renewal insurance contract in order to be deferred. The guidance is effective for fiscal years and interim periods beginning after December 15, 2011. The Company has not yet determined the effect, if any, the adoption of this guidance will have on its consolidated financial statements.

3) Investments

The Company's investments in fixed maturity securities held to maturity and equity securities available for sale as of March 31, 2011 are summarized as follows:

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|---|---------------------------|---------------------------------------|--|-------------------------------------|
| <u>March 31, 2011:</u> | | | | |
| Fixed maturity securities held to maturity carried at amortized cost: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities and obligations of U.S. Government agencies | \$ 2,833,052 | \$ 291,922 | \$ - | \$ 3,124,974 |
| Obligations of states and political subdivisions | 3,320,631 | 148,356 | (21,439) | 3,447,548 |
| Corporate securities including public utilities | 110,760,640 | 6,596,303 | (803,589) | 116,553,354 |
| Mortgage-backed securities | 5,800,692 | 272,840 | (490,243) | 5,583,289 |
| Redeemable preferred stock | 1,601,958 | 43,108 | (22,604) | 1,622,462 |
| Total fixed maturity securities held to maturity | <u>\$ 124,316,973</u> | <u>\$ 7,352,529</u> | <u>\$ (1,337,875)</u> | <u>\$ 130,331,627</u> |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (Unaudited)

3) Investments (Continued)

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|--|---------------------------|---------------------------------------|--|-------------------------------------|
| <u>March 31, 2011:</u> | | | | |
| Equity securities available for sale at estimated fair value: | | | | |
| Non-redeemable preferred stock | \$ 20,281 | \$ - | \$ (4,381) | \$ 15,900 |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | <u>6,897,780</u> | <u>644,125</u> | <u>(376,045)</u> | <u>7,165,860</u> |
| Total equity securities available for sale at estimated fair value | <u>\$ 6,918,061</u> | <u>\$ 644,125</u> | <u>\$ (380,426)</u> | <u>\$ 7,181,760</u> |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: | | | | |
| Residential | \$ 59,523,674 | | | |
| Residential construction | 17,938,609 | | | |
| Farm | 383,792 | | | |
| Commercial | 26,000,754 | | | |
| Less: Allowance for loan losses | <u>(7,058,358)</u> | | | |
| Total mortgage loans on real estate and construction loans held for investment | <u>\$ 96,788,471</u> | | | |
| Real estate held for investment - net of depreciation | \$ 3,941,736 | | | |
| Other real estate owned held for investment - net of depreciation | 46,685,820 | | | |
| Other real estate owned held for sale | <u>5,631,170</u> | | | |
| Total real estate | <u>\$ 56,258,726</u> | | | |
| Policy and other loans at amortized cost - net of allowance for doubtful accounts | <u>\$ 18,110,072</u> | | | |
| Short-term investments at amortized cost | <u>\$ 8,794,205</u> | | | |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (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, 2010 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
|--|----------------------|------------------------------|-------------------------------|----------------------------|
| December 31, 2010: | | | | |
| Fixed maturity securities held to maturity | | | | |
| carried at amortized cost: | | | | |
| Bonds: | | | | |
| U.S. Treasury securities | | | | |
| and obligations of U.S | | | | |
| Government agencies | \$ 2,855,303 | \$ 325,935 | \$ - | \$ 3,181,238 |
| Obligations of states and | | | | |
| political subdivisions | 1,773,904 | 122,565 | (18,574) | 1,877,895 |
| Corporate securities including | | | | |
| public utilities | 85,354,245 | 6,626,582 | (716,007) | 91,264,820 |
| Mortgage-backed securities | 6,469,942 | 239,719 | (654,959) | 6,054,702 |
| Redeemable preferred stock | <u>1,594,622</u> | <u>27,158</u> | <u>(32,171)</u> | <u>1,589,609</u> |
| Total fixed maturity | | | | |
| securities held to maturity | <u>\$ 98,048,016</u> | <u>\$ 7,341,959</u> | <u>\$ (1,421,711)</u> | <u>\$ 103,968,264</u> |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (Unaudited)

3) Investments (Continued)

| | <u>Amortized Cost</u> | <u>Gross Unrealized Gains</u> | <u>Gross Unrealized Losses</u> | <u>Estimated Fair Value</u> |
|--|---------------------------|---------------------------------------|--|-------------------------------------|
| <u>December 31, 2010:</u> | | | | |
| Equity securities available for sale at estimated fair value: | | | | |
| Non-redeemable preferred stock | \$ 20,282 | \$ - | \$ (4,224) | \$ 16,058 |
| Common stock: | | | | |
| Industrial, miscellaneous and all other | <u>6,418,151</u> | <u>707,798</u> | <u>(357,364)</u> | <u>6,768,585</u> |
| Total equity securities available for sale at estimated fair value | <u>\$ 6,438,433</u> | <u>\$ 707,798</u> | <u>\$ (361,588)</u> | <u>\$ 6,784,643</u> |
| Mortgage loans on real estate and construction loans held for investment at amortized cost: | | | | |
| Residential | \$ 60,285,273 | | | |
| Residential construction | 18,436,495 | | | |
| Commercial | 24,502,781 | | | |
| Less: Allowance for loan losses | <u>(7,070,442)</u> | | | |
| Total mortgage loans on real estate and construction loans held for investment | <u>\$ 96,154,107</u> | | | |
| Real estate held for investment - net of depreciation | \$ 3,996,777 | | | |
| Other real estate owned held for investment - net of depreciation | 44,422,829 | | | |
| Other real estate owned held for sale | <u>5,086,400</u> | | | |
| Total real estate | <u>\$ 53,506,006</u> | | | |
| Policy and other loans at amortized cost - net of allowance for doubtful accounts | <u>\$ 17,044,897</u> | | | |
| Short-term investments at amortized cost | <u>\$ 2,618,349</u> | | | |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (Unaudited)

3) Investments (Continued)

Fixed Maturity Securities

The following tables summarize unrealized losses on fixed-maturities securities, which are carried at amortized cost, at March 31, 2011 and December 31, 2010. The unrealized losses were primarily related to interest rate fluctuations. The tables set forth unrealized losses by duration and number of investment positions, together with the fair value of the related fixed-maturity securities:

| | Unrealized Losses for Less than Twelve Months | No. of Investment Positions | Unrealized Losses for More than Twelve Months | No. of Investment Positions | Total Unrealized Loss |
|--|---|-----------------------------------|---|-----------------------------------|-----------------------------|
| <u>At March 31, 2011</u> | | | | | |
| Redeemable preferred stock | \$ 6,092 | 5 | \$ 16,512 | 1 | \$ 22,604 |
| Obligations of States and Political Subdivisions | | 0 | 21,439 | 3 | 21,439 |
| Corporate securities | 324,556 | 29 | 479,033 | 21 | 803,589 |
| Mortgage and other | | | | | |
| asset-backed securities | 9,507 | 2 | 480,736 | 3 | 490,243 |
| Total unrealized losses | <u>\$ 340,155</u> | <u>36</u> | <u>\$ 997,720</u> | <u>28</u> | <u>\$ 1,337,875</u> |
| Fair Value | <u>\$ 16,462,195</u> | | <u>\$ 9,003,060</u> | | <u>\$ 25,465,255</u> |
| <u>At December 31, 2010</u> | | | | | |
| Redeemable preferred stock | \$ 4,022 | 4 | \$ 28,149 | 1 | \$ 32,171 |
| Obligations of States and Political Subdivisions | - | 0 | 18,574 | 3 | 18,574 |
| Corporate securities | 70,934 | 10 | 645,073 | 25 | 716,007 |
| Mortgage and other | | | | | |
| asset-backed securities | 8,971 | 2 | 645,988 | 3 | 654,959 |
| Total unrealized losses | <u>\$ 83,927</u> | <u>16</u> | <u>\$ 1,337,784</u> | <u>32</u> | <u>\$ 1,421,711</u> |
| Fair Value | <u>\$ 4,527,041</u> | | <u>\$ 10,037,150</u> | | <u>\$ 14,564,191</u> |

As of March 31, 2011, the average fair value of the related fixed maturities was 95.0% of amortized cost and the average fair value was 91.1% of amortized cost as of December 31, 2010. During the first three months ended March 31, 2011 and for the year ended December 31, 2010, an other-than-temporary decline in fair value resulted in the recognition of an impairment loss on fixed maturity securities of \$35,129 and \$150,059, respectively. No other-than-temporary impairment loss was considered to exist for these fixed maturity securities as of March 31, 2011 and December 31, 2010.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (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, 2011 and December 31, 2010. 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 |
|---|---|-----------------------------------|---|-----------------------------------|-------------------------------|
| <u>At March 31, 2011</u> | | | | | |
| Non-redeemable preferred stock | \$ - | - | \$ 4,381 | 2 | \$ 4,381 |
| Industrial, miscellaneous and all other | 262,852 | 47 | 113,193 | 8 | 376,045 |
| Total unrealized losses | <u>\$ 262,852</u> | <u>47</u> | <u>\$ 117,574</u> | <u>10</u> | <u>\$ 380,426</u> |
| Fair Value | <u>\$ 2,130,592</u> | | <u>\$ 393,869</u> | | <u>\$ 2,524,461</u> |
| <u>At December 31, 2010</u> | | | | | |
| Non-redeemable preferred stock | \$ - | - | \$ 4,224 | 2 | \$ 4,224 |
| Industrial, miscellaneous and all other | 192,742 | 42 | 164,622 | 13 | 357,364 |
| Total unrealized losses | <u>\$ 192,742</u> | <u>42</u> | <u>\$ 168,846</u> | <u>15</u> | <u>\$ 361,588</u> |
| Fair Value | <u>\$ 1,895,632</u> | | <u>\$ 530,253</u> | | <u>\$ 2,425,885</u> |

As of March 31, 2011, the average fair value of the equity securities available for sale was 86.9% of the original investment and the average fair value was 87.0% of the original investment as of December 31, 2010. 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 first three months ended March 31, 2011 and for the year ended December 31, 2010, an other-than-temporary decline in fair value resulted in the recognition of an impairment loss on equity securities of \$0 and \$23,922, respectively. No other-than-temporary impairment loss was considered to exist for these equity securities as of March 31, 2011 and December 31, 2010.

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, 2011, 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, 2011 (Unaudited)

3) Investments (Continued)

| | Amortized Cost | Estimated Fair Value |
|----------------------------|-----------------------|-------------------------|
| Held to Maturity: | | |
| Due in 2011 | \$ 1,307,342 | \$ 1,351,841 |
| Due in 2012 through 2015 | 17,776,477 | 19,387,020 |
| Due in 2016 through 2020 | 46,648,365 | 49,721,432 |
| Due after 2020 | 51,182,139 | 52,665,583 |
| Mortgage-backed securities | 5,800,692 | 5,583,289 |
| Redeemable preferred stock | 1,601,958 | 1,622,462 |
| Total held to maturity | <u>\$ 124,316,973</u> | <u>\$ 130,331,627</u> |

The amortized cost and estimated fair value of available-for-sale securities at March 31, 2011, 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 2011 | \$ - | \$ - |
| Due in 2012 through 2015 | - | - |
| Due in 2016 through 2020 | - | - |
| Due after 2020 | - | - |
| Non-redeemable preferred stock | 20,281 | 15,900 |
| Common stock | 6,897,780 | 7,165,860 |
| Total available for sale | <u>\$ 6,918,061</u> | <u>\$ 7,181,760</u> |

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, | |
|--|------------------------------|-------------------|
| | 2011 | 2010 |
| Fixed maturity securities held to maturity: | | |
| Gross realized gains | \$ 153,491 | \$ 272,697 |
| Gross realized losses | (38,085) | (195,242) |
| Other than temporary impairments | (35,129) | - |
| Securities available for sale: | | |
| Gross realized gains | 288,251 | 296,504 |
| Gross realized losses | (6,853) | (30,929) |
| Other than temporary impairments | - | - |
| Other assets: | | |
| Gross realized gains | 9,156 | 53,054 |
| Gross realized losses | (60,870) | (31,638) |
| Other than temporary impairments | - | - |
| Total | <u>\$ 309,961</u> | <u>\$ 364,446</u> |

Generally gains and losses from held to maturity securities are a result of early calls and related amortization of premiums or discounts. However, credit losses of \$30,000 and \$0 were recognized during the three months ended March 31, 2011 and 2010, respectively from other-than-temporary declines in fair value of held to maturity securities.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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March 31, 2011 (Unaudited)

3) Investments (Continued)

The net carrying amount of held to maturity securities sold was \$2,945,060 and \$16,220,943 for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. The net realized gain related to these sales was \$71,885 and \$346,225 for the three months ended March 31, 2011 and the year ended December 31, 2010, respectively. Certain circumstances lead to these decisions to sell. Bonds categorized as held to maturity and sold in 2010 were liquidated in order to meet an unexpected increase in mortgage funding demand and the non-renewal of an expired loan purchase agreement with a warehouse bank by SecurityNational Mortgage during the latter part of 2010. The expired loan purchase agreement was renewed in December 2010 for a one year term. This was a rare and unusual event in the history of the Company.

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, 2011, 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, | |
|--|------------------------------|---------------------|
| | 2011 | 2010 |
| Fixed maturity securities | \$ 1,752,777 | \$ 1,769,432 |
| Equity securities | 67,986 | 51,663 |
| Mortgage loans on real estate | 1,287,213 | 1,418,094 |
| Real estate | 507,906 | 398,626 |
| Policy and other loans | 213,118 | 228,042 |
| Short-term investments, principally gains on sale of | | |
| mortgage loans and other | 1,374,332 | 1,374,732 |
| Gross investment income | 5,203,332 | 5,240,589 |
| Investment expenses | (996,290) | (1,227,173) |
| Net investment income | <u>\$ 4,207,042</u> | <u>\$ 4,013,416</u> |

Net investment income includes income earned by the restricted assets of the cemeteries and mortuaries of \$84,149 and \$81,795 for three months ended March 31, 2011 and 2010, 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 \$9,301,142 at March 31, 2011 and \$9,302,578 at December 31, 2010. 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 do business. At March 31, 2011, the Company has 37%, 13% and 15% of its mortgage loans from borrowers located in the states of Utah, Florida and California, respectively. The mortgage loans on real estate balances on the consolidated balance sheet are reflected net of an allowance for loan losses of \$7,058,358 and \$7,070,442 at March 31, 2011 and December 31, 2010, 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, 2011 (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

| | <u>Commercial</u> | <u>Residential</u> | <u>Residential Construction</u> | <u>Total</u> |
|---|----------------------|----------------------|-------------------------------------|-----------------------|
| March 31, 2011 | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance | \$ - | \$ 6,212,072 | \$ 858,370 | \$ 7,070,442 |
| Charge-offs | - | (55,196) | (60,871) | (116,067) |
| Provision | - | 46,928 | 57,055 | 103,983 |
| Ending balance | <u>\$ -</u> | <u>\$ 6,203,804</u> | <u>\$ 854,554</u> | <u>\$ 7,058,358</u> |
| Ending balance: individually evaluated for impairment | <u>\$ -</u> | <u>\$ 5,135,595</u> | <u>\$ 679,129</u> | <u>\$ 5,814,724</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ -</u> | <u>\$ 1,068,209</u> | <u>\$ 175,425</u> | <u>\$ 1,243,634</u> |
| Ending balance: loans acquired with deteriorated credit quality | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Mortgage loans: | | | | |
| Ending balance | <u>\$ 26,398,534</u> | <u>\$ 59,523,674</u> | <u>\$ 17,924,621</u> | <u>\$ 103,846,829</u> |
| Ending balance: individually evaluated for impairment | <u>\$ -</u> | <u>\$ 8,544,354</u> | <u>\$ 1,719,097</u> | <u>\$ 10,263,451</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ 26,398,534</u> | <u>\$ 50,979,320</u> | <u>\$ 16,205,524</u> | <u>\$ 93,583,378</u> |
| Ending balance: loans acquired with deteriorated credit quality | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| December 31, 2010 | | | | |
| Allowance for credit losses: | | | | |
| Beginning balance | \$ - | \$ 5,917,792 | \$ 891,011 | \$ 6,808,803 |
| Charge-offs | - | (335,853) | (32,641) | (368,494) |
| Provision | - | 630,133 | - | 630,133 |
| Ending balance | <u>\$ -</u> | <u>\$ 6,212,072</u> | <u>\$ 858,370</u> | <u>\$ 7,070,442</u> |
| Ending balance: individually evaluated for impairment | <u>\$ -</u> | <u>\$ 5,131,779</u> | <u>\$ 740,000</u> | <u>\$ 5,871,779</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ -</u> | <u>\$ 1,080,293</u> | <u>\$ 118,370</u> | <u>\$ 1,198,663</u> |
| Ending balance: loans acquired with deteriorated credit quality | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Mortgage loans: | | | | |
| Ending balance | <u>\$ 24,502,781</u> | <u>\$ 60,285,273</u> | <u>\$ 18,436,495</u> | <u>\$ 103,224,549</u> |
| Ending balance: individually evaluated for impairment | <u>\$ -</u> | <u>\$ 7,236,095</u> | <u>\$ 2,085,467</u> | <u>\$ 9,321,562</u> |
| Ending balance: collectively evaluated for impairment | <u>\$ 24,502,781</u> | <u>\$ 53,049,178</u> | <u>\$ 16,351,028</u> | <u>\$ 93,902,987</u> |
| Ending balance: loans acquired with deteriorated credit quality | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

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

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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March 31, 2011 (Unaudited)

3) Investments (Continued)

Age 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 |
|-----------------------------|------------------------|------------------------|----------------------------|----------------------|----------------------|----------------------|-------------------------|------------------------------|-----------------------|
| March 31, 2011 | | | | | | | | | |
| Commercial | \$ - | \$ - | \$ - | \$ 1,204,425 | \$ 1,204,425 | \$ 25,194,109 | \$ 26,398,534 | \$ - | \$ 26,398,534 |
| Residential | 1,202,548 | 1,152,867 | 3,536,482 | 8,544,355 | 14,436,252 | 45,087,422 | 59,523,674 | (6,203,804) | 53,319,870 |
| Residential Construction | 166,843 | 706,784 | 1,738,531 | 1,719,097 | 4,331,255 | 13,593,366 | 17,924,621 | (854,554) | 17,070,067 |
| Total | \$ 1,369,391 | \$ 1,859,651 | \$ 5,275,013 | \$ 11,467,877 | \$ 19,971,932 | \$ 83,874,897 | \$ 103,846,829 | \$ (7,058,358) | \$ 96,788,471 |
| December 31, 2010 | | | | | | | | | |
| Commercial | \$ - | \$ 734,756 | \$ - | \$ 439,794 | \$ 1,174,550 | \$ 23,328,231 | \$ 24,502,781 | \$ - | \$ 24,502,781 |
| Residential | 767,970 | 782,174 | 3,537,616 | 7,236,095 | 12,323,855 | 47,961,418 | 60,285,273 | (6,212,072) | 54,073,201 |
| Residential Construction | 849,375 | 1,543,593 | 994,046 | 2,085,467 | 5,472,481 | 12,964,014 | 18,436,495 | (858,370) | 17,578,125 |
| Total | \$ 1,617,345 | \$ 3,060,523 | \$ 4,531,662 | \$ 9,761,356 | \$ 18,970,886 | \$ 84,253,663 | \$ 103,224,549 | \$ (7,070,442) | \$ 96,154,107 |

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

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:

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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March 31, 2011 (Unaudited)

3) Investments (Continued)

Impaired Loans

| | <u>Recorded Investment</u> | <u>Unpaid Principal Balance</u> | <u>Related Allowance</u> | <u>Average Recorded Investment</u> | <u>Interest Income Recognized</u> |
|-------------------------------------|--------------------------------|---|------------------------------|--|---|
| March 31, 2011 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | \$ 1,204,425 | \$ 1,204,425 | | \$ 1,204,425 | \$ - |
| Residential | 3,536,482 | 3,536,482 | | 3,536,482 | - |
| Residential construction | 1,738,531 | 1,738,531 | | 1,738,531 | - |
| With an allowance recorded: | | | | | |
| Commercial | \$ - | \$ - | \$ - | \$ - | \$ - |
| Residential | 8,544,355 | 8,544,355 | 5,135,595 | 8,544,355 | - |
| Residential construction | 1,719,097 | 1,719,097 | 679,129 | 1,719,097 | - |
| Total: | | | | | |
| Commercial | \$ 1,204,425 | \$ 1,204,425 | \$ - | \$ 1,204,425 | \$ - |
| Residential | 12,080,837 | 12,080,837 | 5,135,595 | 12,080,837 | - |
| Residential construction | 3,457,628 | 3,457,628 | 679,129 | 3,457,628 | - |
| December 31, 2010 | | | | | |
| With no related allowance recorded: | | | | | |
| Commercial | \$ 439,794 | \$ 439,794 | | \$ 439,794 | \$ - |
| Residential | 3,537,616 | 3,537,616 | | 3,537,616 | - |
| Residential construction | 994,046 | 994,046 | | 994,046 | - |
| With an allowance recorded: | | | | | |
| Commercial | \$ - | \$ - | \$ - | \$ - | \$ - |
| Residential | 7,236,095 | 7,236,095 | 5,131,779 | 7,236,095 | - |
| Residential construction | 2,085,467 | 2,085,467 | 740,000 | 2,085,467 | - |
| Total: | | | | | |
| Commercial | \$ 439,794 | \$ 439,794 | \$ - | \$ 439,794 | \$ - |
| Residential | 10,773,711 | 10,773,711 | 5,131,779 | 10,773,711 | - |
| Residential construction | 3,079,513 | 3,079,513 | 740,000 | 3,079,513 | - |

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 past due 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**

| | <u>Commercial</u> | | <u>Residential</u> | | <u>Residential Construction</u> | | <u>Total</u> | |
|---------------|---------------------------|------------------------------|---------------------------|------------------------------|---------------------------------|------------------------------|---------------------------|------------------------------|
| | <u>March 31, 2011</u> | <u>December 31, 2010</u> | <u>March 31, 2011</u> | <u>December 31, 2010</u> | <u>March 31, 2011</u> | <u>December 31, 2010</u> | <u>March 31, 2011</u> | <u>December 31, 2010</u> |
| Performing | \$25,194,109 | \$24,062,987 | \$47,442,837 | \$49,511,562 | \$14,466,993 | \$15,356,982 | \$ 87,103,939 | \$ 88,931,531 |
| Nonperforming | 1,204,425 | 439,794 | 12,080,837 | 10,773,711 | 3,457,628 | 3,079,513 | 16,742,890 | 14,293,018 |
| Total | <u>\$26,398,534</u> | <u>\$24,502,781</u> | <u>\$59,523,674</u> | <u>\$60,285,273</u> | <u>\$17,924,621</u> | <u>\$18,436,495</u> | <u>\$103,846,829</u> | <u>\$103,224,549</u> |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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3) Investments (Continued)

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 \$1,833,000 and \$1,852,000 as of March 31, 2011 and 2010, respectively.

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

Mortgage Loans on Nonaccrual Status

| | As of March 31, 2011 | As of December 31 2010 |
|--------------------------|-------------------------|---------------------------|
| Commercial | \$ 1,204,425 | \$ 439,794 |
| Residential | 12,080,837 | 10,773,711 |
| Residential construction | 3,457,628 | 3,079,513 |
| Total | <u>\$ 16,742,890</u> | <u>\$ 14,293,018</u> |

Loan Loss Reserve

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

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

| | As of March 31, 2011 | As of December 31, 2010 |
|------------------------------|-------------------------|----------------------------|
| Balance, beginning of period | \$ 5,899,025 | \$ 11,662,897 |
| Provisions for losses | 1,490,028 | 4,534,231 |
| Charge-offs | (1,168,618) | (10,298,103) |
| Balance | <u>\$ 6,220,435</u> | <u>\$ 5,899,025</u> |

The Company believes the allowance for loan losses and the loan loss reserve represent probable loan losses incurred as of the balance sheet date, including the Wells Fargo settlement as described below. The loan loss reserve may not be adequate, however, for claims asserted by third party investors, if SecurityNational Mortgage is unable to negotiate acceptable settlement agreements with these third party investors, litigation ensues, and SecurityNational Mortgage is not successful in what it believes are its significant defenses to these claims. In such event, a substantial judgment could be entered against SecurityNational Mortgage that exceeds the amount of the loan loss reserve.

4) Comprehensive Income

For the three months ended March 31, 2011 and 2010, total comprehensive income (loss) amounted to \$(485,258) and \$(832,514), respectively.

5) Stock-Based Compensation

The Company has four fixed option plans (the "1993 Plan," the "2000 Plan", the "2003 Plan" and the "2006 Plan"). Compensation expense for options issued of \$64,344 and \$134,120 has been recognized for these plans for the quarters ended March 31, 2011 and 2010, respectively. Deferred tax credit has been recognized related to the compensation expense of \$21,877 and \$45,601 for the quarters ended March 31, 2011 and 2010, respectively.

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements
March 31, 2011 (Unaudited)

5) Stock-Based Compensation (Continued)

Options to purchase 330,500 shares of the Company's common stock were granted December 4, 2009. The fair value relating to stock-based compensation is \$542,275 and will be expensed as options become available to exercise at the rate of 25% at the end of each quarter over the twelve months ending December 31, 2010.

Options to purchase 345,600 shares of the Company's common stock were granted December 3, 2010. The fair value relating to stock-based compensation is \$257,376 and was expensed as options became available to exercise at the rate of 25% at the end of each quarter over the twelve months ending December 31, 2011.

The weighted-average fair value of each option granted during 2010 under the 2003 Plan and the 2006 Plan, is estimated at \$0.77 and \$0.71 for the December 3, 2010 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 65%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The weighted-average fair value of each option granted in 2009 under the 2003 Plan and the 2006 Plan, is estimated at \$1.55 and \$1.70 for the December 4, 2009 options as of the grant date using the Black Scholes Option Pricing Model with the following assumptions: dividend yield of 5%, volatility of 72%, risk-free interest rate of 3.4%, and an expected life of five to ten years.

The Company generally estimates the expected life of the options based upon the contractual term of the options. Future volatility is estimated based upon the historical volatility of the Company's Class A common stock 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.

6) Capital Stock

The Company has two classes of common stock with shares outstanding, Class A and Class C. Class C shares are convertible into Class A shares at any time on a ten to one ratio. The year to date March 31, 2011 decrease in outstanding Class C shares and the corresponding increase in Class A shares was due to conversion of Class C to Class A common stock. The decrease in treasury stock was the result of treasury stock being used to fund the Company's 401-K and Deferred Compensation plans.

7) Earnings (Loss) Per Share

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

| | Three Months Ended March 31, | |
|---|------------------------------|--------------|
| | 2011 | 2010 |
| Numerator: | | |
| Net earnings (loss) | \$ (518,473) | \$ (951,233) |
| Denominator: | | |
| Basic weighted-average shares outstanding | 8,865,068 | 8,636,286 |
| Effect of dilutive securities: | | |
| Employee stock options | - | - |
| Dilutive potential common shares | - | - |
| Diluted weighted-average shares outstanding | 8,865,068 | 8,636,286 |
| Basic earnings loss per share | \$ (0.06) | \$ (0.11) |
| Diluted earnings loss per share | \$ (0.06) | \$ (0.11) |

Earnings (loss) per share amounts have been adjusted for the effect of annual stock dividends. For the three months ended March 31, 2011 and 2010 there were 1,939,930 and 1,506,958 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.

8) 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 loan segment consists of loan originations fee income and expenses from the originations of residential and commercial mortgage loans and interest earned and interest expenses from warehousing pre-sold loans before the funds are received from financial institutional investors.

Measurement of Segment Profit or Loss and Segment Assets

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

Factors Management Used to Identify the Enterprise's Reportable Segments

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

| | <u>Life Insurance</u> | <u>Cemetery/ Mortuary</u> | <u>Mortgage</u> | <u>Reconciling Items</u> | <u>Consolidated</u> |
|---|-----------------------|-------------------------------|-----------------|------------------------------|---------------------|
| For the Three Months Ended | | | | | |
| <u>March 31, 2011</u> | | | | | |
| Revenues from external customers | \$ 17,148,321 | \$ 3,033,086 | \$ 13,990,773 | \$ - | \$ 34,172,180 |
| Intersegment revenues | 2,066,712 | 468,025 | 60,337 | (2,595,074) | - |
| Segment profit (loss) before income taxes | 1,079,479 | 151,624 | (2,553,685) | - | (1,322,582) |
| Identifiable Assets | 471,629,809 | 110,839,889 | 27,621,213 | (119,373,276) | 490,717,635 |
| Goodwill | 391,848 | 683,191 | - | - | 1,075,039 |
| For the Three Months Ended | | | | | |
| <u>March 31, 2010</u> | | | | | |
| Revenues from external customers | \$ 14,294,197 | \$ 2,964,650 | \$ 20,708,280 | \$ - | \$ 37,967,127 |
| Intersegment revenues | 1,770,185 | 381,276 | 56,685 | (2,208,146) | - |
| Segment profit (loss) before income taxes | 155,410 | (55,044) | (1,773,280) | - | (1,672,914) |
| Identifiable Assets | 437,402,931 | 99,592,083 | 35,457,153 | (103,045,552) | 469,406,615 |
| Goodwill | 391,848 | 683,191 | - | - | 1,075,039 |

9) Fair Value of Financial Instruments

The fair values of investments in fixed maturity and equity securities along with methods used to estimate such values are disclosed in Note 3. The following methods and assumptions were used by the Company in estimating the fair value disclosures related to other significant financial instruments:

Restricted Assets of the Cemeteries and Mortuaries: The carrying amounts reported in the accompanying consolidated balance sheet for these financial instruments approximate their fair values. Included in these assets are mutual funds and equity securities.

9) Disclosure about Fair Value of Financial Instruments (Continued)

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

Investment Contracts: The fair values for the Company's liabilities under investment-type insurance contracts (policyholder account balances and future policy benefits – annuities) are estimated based on the contracts' cash surrender values.

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

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

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

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

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

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

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

The items shown under Level 1 are valued as follows:

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.

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.

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9) Disclosure about Fair Value of Financial Instruments (Continued)

The items shown under Level 3 are valued as follows:

Investment type insurance contracts. 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%.

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.

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

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 March 31, 2011.

| | Total | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|-------------------------|--|--|--|
| Assets accounted for at fair value on a recurring basis | | | | |
| Non-redeemable preferred stock | \$ 15,900 | \$ 15,900 | \$ - | \$ - |
| Common stock | 7,165,860 | 7,165,860 | - | - |
| Total securities available for sale | <u>7,181,760</u> | <u>7,181,760</u> | - | - |
| Restricted assets of cemeteries and mortuaries | 569,247 | 569,247 | - | - |
| Cemetery perpetual care trust investments | 577,398 | 577,398 | - | - |
| Derivatives - interest rate lock commitments | 941,458 | - | - | 941,458 |
| Total assets accounted for at fair value on a recurring basis | <u>\$ 9,269,863</u> | <u>\$ 8,328,405</u> | <u>\$ -</u> | <u>\$ 941,458</u> |
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Policyholder account balances | \$ (51,872,150) | \$ - | \$ - | \$ (51,872,150) |
| Future policy benefits - annuities | (65,574,358) | - | - | (65,574,358) |
| Derivatives - bank loan interest rate swaps | (102,894) | - | - | (102,894) |
| - call options | (196,702) | (196,702) | - | - |
| - interest rate lock commitments | (10,548) | - | - | (10,548) |
| Total liabilities accounted for at fair value on a recurring basis | <u>\$ (117,756,652)</u> | <u>\$ (196,702)</u> | <u>\$ -</u> | <u>\$ (117,559,950)</u> |

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9) Disclosure about Fair Value of Financial Instruments (Continued)

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

| | <u>Policyholder Account Balances</u> | <u>Future Policy Benefits - Annuities</u> | <u>Interest Rate Lock Commitments</u> | <u>Bank Loan Interest Rate Swaps</u> |
|--|--|---|---|--|
| Balance - December 31, 2010 | \$ (52,340,807) | \$ (65,936,445) | \$ 873,059 | \$ (116,533) |
| Total gains (losses): | | | | |
| Included in earnings | 468,657 | 362,087 | - | - |
| Included in other comprehensive income (loss) | - | - | 57,851 | 13,639 |
| Balance - March 31, 2011 | <u>\$ (51,872,150)</u> | <u>\$ (65,574,358)</u> | <u>\$ 930,910</u> | <u>\$ (102,894)</u> |

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at March 31, 2011.

| | <u>Total</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|-------------------|---|--|--|
| Assets accounted for at fair value on a nonrecurring basis | | | | |
| Investment in securities held-to-maturity | \$ - | \$ - | \$ - | \$ - |
| Mortgage loans on real estate | 110,095 | - | - | 110,095 |
| Other real estate owned held for investment | - | - | - | - |
| Other real estate owned held for sale | 544,770 | - | - | 544,770 |
| Total assets accounted for at fair value on a nonrecurring basis | <u>\$ 654,865</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 654,865</u> |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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9) Disclosure about 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, 2010.

| | <u>Total</u> | <u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u> | <u>Significant Observable Inputs (Level 2)</u> | <u>Significant Unobservable Inputs (Level 3)</u> |
|---|-------------------------|---|--|--|
| Assets accounted for at fair value on a recurring basis | | | | |
| Non-redeemable preferred stock | \$ 16,058 | \$ 16,058 | \$ - | \$ - |
| Common stock | 6,768,585 | 6,768,585 | - | - |
| Total securities available for sale | <u>6,784,643</u> | <u>6,784,643</u> | - | - |
| Restricted assets of cemeteries and mortuaries | 545,433 | 545,433 | - | - |
| Cemetery perpetual care trust investments | 527,672 | 527,672 | - | - |
| Derivatives - interest rate lock commitments | 1,024,587 | - | - | 1,024,587 |
| Total assets accounted for at fair value on a recurring basis | <u>\$ 8,882,335</u> | <u>\$ 7,857,748</u> | <u>\$ -</u> | <u>\$ 1,024,587</u> |
| Liabilities accounted for at fair value on a recurring basis | | | | |
| Policyholder account balances | \$ (52,340,807) | \$ - | \$ - | \$ (52,340,807) |
| Future policy benefits - annuities | (65,936,445) | - | - | (65,936,445) |
| Derivatives - bank loan interest rate swaps | (116,533) | - | - | (116,533) |
| - call options | (157,319) | (157,319) | - | - |
| - interest rate lock commitment | (151,528) | - | - | (151,528) |
| Total liabilities accounted for at fair value on a recurring basis | <u>\$ (118,702,632)</u> | <u>\$ (157,319)</u> | <u>\$ -</u> | <u>\$ (118,545,313)</u> |

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

| | <u>Policyholder Account Balances</u> | <u>Future Policy Benefits - Annuities</u> | <u>Interest Rate Lock Commitments</u> | <u>Bank Loan Interest Rate Swaps</u> |
|---|--|---|---|--|
| Balance - December 31, 2009 | \$ (54,356,491) | \$ (61,407,257) | \$ 1,554,711 | \$ (101,206) |
| Options sold | - | - | - | - |
| Total gains (losses): | | | | |
| Included in earnings | 2,015,684 | (4,529,188) | - | - |
| Included in other comprehensive income | - | - | (681,652) | (15,327) |
| Balance - December 31, 2010 | <u>\$ (52,340,807)</u> | <u>\$ (65,936,445)</u> | <u>\$ 873,059</u> | <u>\$ (116,533)</u> |

SECURITY NATIONAL FINANCIAL CORPORATION AND SUBSIDIARIES
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9) Disclosure about Fair Value of Financial Instruments (Continued)

The following tables summarize Level 1, 2 and 3 financial assets and financial liabilities measured at fair value on a nonrecurring basis by their classification in the consolidated balance sheet at December 31, 2010.

| | 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 | | | | |
| Investment in securities held-to-maturity | \$ 346,219 | \$ - | \$ 346,219 | \$ - |
| Mortgage loans on real estate | 523,971 | - | - | 523,971 |
| Other real estate owned held for investment | 2,158,110 | - | - | 2,158,110 |
| Other real estate owned held for sale | 1,444,000 | - | - | 1,444,000 |
| Total assets accounted for at fair value on a nonrecurring basis | <u>\$ 4,472,300</u> | <u>\$ -</u> | <u>\$ 346,219</u> | <u>\$ 4,126,081</u> |

10) Other Business Activity

Mortgage Operations

Over 40% of the Company's revenues and expenses are through its wholly owned subsidiary, SecurityNational Mortgage. SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life, and with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the three months ended March 31, 2011 and 2010, SecurityNational Mortgage originated and sold 1,569 loans (\$262,602,124 total volume), and 2,361 loans (\$426,767,000 total volume), respectively.

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at March 31, 2011 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to the warehouse bank. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with Wells Fargo Securities that expired on June 30, 2010 for an additional one year term.

Key accounting policies related to mortgage operations are as follows:

Mortgage loans on real estate, and construction loans are carried at their principal balances adjusted for chargeoffs, the related allowance for loan losses, and net deferred fees or costs on originated loans. The Company defers related material loan origination fees, net of related direct loan origination costs, and amortizes the net fees over the term of the loans.

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

10) Other Business Activity (Continued)

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

Real estate held for investment is carried at cost, less accumulated depreciation provided on a straight-line basis over the estimated useful lives of the properties, or is adjusted to a new basis for impairment in value, if any.

Other real estate owned held for investment are foreclosed properties which the Company intends to hold for investment purposes. These properties are recorded at the lower of cost or fair value upon foreclosure. Deprecation is provided on a straight line basis over the estimated useful life of the properties. These properties are analyzed for impairment periodically in accordance with our policy for long-lived assets.

Other real estate owned held for sale are foreclosed properties which the Company intends to sell. These properties are carried at the lower of cost or fair value, less cost to sell.

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

Mortgage fee income consists of origination fees, processing fees, and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of mortgage loans comply with the sales criteria for the transfer of financial assets, which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans, prior to warehouse banks purchasing the loans under the purchase commitments. As of March 31, 2011, there were \$47,566,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by SecurityNational Mortgage are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

10) Other Business Activity (Continued)

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

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

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

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

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

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

11) Allowance for Doubtful Accounts and Loan Losses and Impaired Loans

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

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

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 footnote 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 and proceeds to foreclose on the real estate. All expenses for foreclosure are expensed as incurred. Once foreclosed, the carrying value will approximate its fair value and the amount is classified as other real estate owned held for investment or sale. The Company will rent the properties until it is deemed desirable to sell them.

11) Allowance for Doubtful Accounts and Loan Losses and Impaired Loans (Continued)

Loan Loss Reserve

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

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

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

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

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

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

12) Derivative Investments

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

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

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

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

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12) Derivative Investments (Continued)

The Company has adopted a strategy of selling “out of the money” call options on its available for sale equity securities as a source of revenue. The options give the purchaser the right to buy from the Company specified equity securities at a set price up to a pre-determined date in the future. The Company receives an immediate payment of cash for the value of the option and establishes a liability for the fair value of the option. The liability for call options is adjusted to fair value at each reporting date. The fair value of outstanding call options as of March 31, 2011 and December 31, 2010 was \$196,702 and \$157,319, respectively. 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 and retains the underlying equity security.

The following table shows the fair value of derivatives as of March 31, 2011 and December 31, 2010.

| | | Fair Value of Derivative Instruments | | | | | | | |
|--|--------------|---|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|-------------------------------|-------------------|
| | | Asset Derivatives | | | | Liability Derivatives | | | |
| | | March 31, 2011 | | December 31, 2010 | | March 31, 2011 | | December 31, 2010 | |
| | | 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 | \$ 941,458 | | other assets | \$ 1,024,587 | Other liabilities | \$ 10,548 | Other liabilities | \$ 151,528 |
| Call Options | -- | -- | | -- | -- | Other liabilities | 196,702 | Other liabilities | 157,319 |
| Interest rate swaps | | | | | | | | | |
| | -- | -- | | -- | -- | Bank loans payable | 102,894 | Bank loans payable | 116,532 |
| Total | | \$ 941,458 | | \$ 1,024,587 | | \$ 310,144 | | \$ 425,379 | |

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

| <u>Derivative - Cash Flow Hedging Relationships:</u> | Gross Amount Gain (Loss) | |
|--|-------------------------------------|-----------------|
| | Recognized in OCI | |
| | Three Months Ended March 31, | |
| | 2011 | 2010 |
| Interest Rate Lock Commitments | \$ 57,851 | \$ 13,155 |
| Interest Rate Swaps | 13,639 | (7,461) |
| Total | \$ 71,490 | \$ 5,694 |

13) Reinsurance, Commitments and Contingencies

Reinsurance with North American Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, Security National Life agreed to be responsible for all of the contractual liabilities under the coinsured policies, including to administer the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement.

13) Reinsurance, Commitments and Contingencies (Continued)

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,525,875. In addition, North America Life transferred \$15,703,641 in assets and \$19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,641 in assets included \$12,990,444 in cash, \$8,997 in policy loans, and \$2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

Reinsurance with American Life and Security Corporations

On May 24, 2010, the Company completed a stock purchase transaction with American Life and Security Corporation (“American Life”) a Nebraska domiciled insurance company, to sell all the outstanding shares of common stock of Capital Reserve to American Life and its shareholders. Under the terms of the Stock Purchase Agreement among the Company, American Life, and the shareholders of the Company, American Life paid the Company at closing purchase consideration equal to the capital and surplus of Capital Reserve as of May 24, 2010 in the amount of \$1,692,576, plus additional consideration in the amount of \$105,000 for a total of \$1,797,576. This sale is in accordance with the Agreement and Plan of Complete Liquidation to liquidate Capital Reserve into the Company in the same manner as the liquidation described in Private Letter Ruling 9847027 in order to achieve the same tax treatment and consequences under Section 332 of the Internal Revenue code of 1986, as amended, and other applicable provisions described in such Letter Ruling. American Life obtained approvals from the Nebraska and Missouri insurance departments in order to complete this transaction.

On June 4, 2010, the Company entered into an Indemnity Coinsurance Reinsurance Agreement with American Life effective January 1, 2010. Under the terms of the agreement, the Company ceded to American Life a block of deferred annuities in the amount of \$2,678,931 and a block of whole life policies in the amount of \$1,048,134, together with net due and deferred premiums in the amount of \$12,305, advance premiums in the amount of \$353, claims liability in the amount of \$14,486, and net policy loans in the amount of \$128,487. The total initial consideration of \$3,601,112 in cash was transferred to Wells Fargo as custodian of the assets. American Life has control of the assets subject to the terms of a custodial agreement. American Life agreed to pay the Company an initial ceding commission of \$375,000 and a management fee of \$3,500 per quarter to administer the policies. American Life agreed to indemnify the Company for these contracts and risks. The initial term on this agreement will be for a period of one year. After the initial one year term, this agreement will be automatically renewed unless American Life notifies the Company in writing of its intention not to renew no less than 180 days prior to the expiration of the then current agreement. Each automatic renewal period of this agreement will be for a term of one year. The accounting and settlement of this agreement will be on a quarterly basis and calculated pursuant to the terms thereof.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. (“Wells Fargo”). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party’s claims. Under the terms of the settlement agreement, SecurityNational Mortgage is required to pay an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo will deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. SecurityNational Mortgage is also required to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo. These funds are to be deposited into an account and then paid to Wells Fargo within ten calendar days of the end of each month. Finally, SecurityNational Mortgage is required to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 26 real estate properties with a total book value of \$5,086,400 as of March 31, 2011.

13) Reinsurance, Commitments and Contingencies (Continued)

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, agree to release SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage agrees to release Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of March 31, 2011, the Company reserved and accrued \$6,220,435 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers. Of the \$6,220,435 reserved for mortgage loan losses, \$4,300,000 was reserved for the \$3,300,000 settlement payment that SecurityNational Mortgage made to Wells Fargo shortly after the settlement agreement was executed on April 7, 2011 and for the \$1,000,000 in settlement payments that SecurityNational Mortgage made to Wells Fargo in January 2011.

Third Party Investors

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

As of March 31, 2011, third party investors have asserted total estimated potential claims of \$24,000,000 relating to loan repurchases, loan indemnifications and other loan issues. The Company has estimated the potential losses for the asserted claims by these third party investors to be less. The Company has reserved and accrued \$6,220,435 as of March 31, 2011 to settle all such investor related claims, including the Wells Fargo settlement described above. The Company believes this amount is adequate to resolve these claims and the amount represents the Company's estimate of possible losses relating to any outstanding claims by these investors.

These claims are greater than the net asset value of SecurityNational Mortgage, which was \$15,992,000 on March 31, 2011, and its reserve for mortgage loan loss, which was \$6,220,435 on March 31, 2011. The Company disagrees with the claims asserted by third party investors against SecurityNational Mortgage and believes it has significant defenses to these claims. Any additional loss in excess of the current loan loss reserve cannot be estimated as negotiations are still in progress. It is possible that future negotiations could result in a change in the estimate of the loan loss reserve.

If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment was entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

Termination of Business Relationship with Third Party Investor

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal, which it regarded as unreasonable and onerous, the investor notified SecurityNational Mortgage by letter dated October 20, 2010, of its decision to terminate its business relationship with SecurityNational Mortgage. In particular, the letter provided notice of termination of a loan purchase agreement with the investor. As a result, the investor is no longer accepting any new commitments for mortgage loans from SecurityNational Mortgage. However, the investor completed the purchase of mortgage loans from SecurityNational Mortgage involving mortgage loan commitments that had been made before October 20, 2010.

13) Reinsurance, Commitments and Contingencies (Continued)

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. Accompanying the termination letter to SecurityNational Mortgage was a notice letter from the investor, also dated October 20, 2010. In the notice letter the investor stated that it was withdrawing all prior and pending settlement proposals involving SecurityNational Mortgage and the Company. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting \$5,970,941 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage. The investor also maintained it had the right to debit additional amounts credited to the over/under account for payment of additional obligations that SecurityNational Mortgage allegedly owed to the investor.

The Company believes the investor wrongfully applied the \$5,970,941 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. In a letter dated October 22, 2010 to the investor, SecurityNational Mortgage stated, without waiving any of its rights against the investor, that it objected to the investor debiting \$5,970,941 from the over/under account, as well as any amount attempted to be debited thereafter without specific written approval of SecurityNational Mortgage. SecurityNational Mortgage had sent letters to the investor requesting a withdrawal of funds from the over/under account before the investor had debited the \$5,970,941 from the account. SecurityNational Mortgage recognized this withdrawal of funds by the investor by reducing the balance of SecurityNational Mortgage's accrued losses on loans sold (a liability account) and its restricted cash held by the investor.

SecurityNational Mortgage is currently determining what action to take against the investor for wrongfully debiting the funds from the over/under account. As a result of the termination of the business relationship with the investor, SecurityNational Mortgage will have less flexibility on pricing when selling mortgage loans to third party investors.

Lehman Brothers Bank - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that are not among the 54 mortgage loans.

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

13) Reinsurance, Commitments and Contingencies (Continued)

Since the reserve account was established in 2007, funds had been paid from the account to indemnify \$4,269,000 in losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. The estimated potential losses from 17 of the remaining mortgage loans, which would allegedly have required indemnification by SecurityNational Mortgage for such losses, is \$2,826,000. An additional six mortgage loans are not included among the 17 remaining loans because SecurityNational Mortgage had not received payment demands in regards to such loans. Payment demands of \$724,000 have also been made for five other mortgage loans with alleged breaches.

During 2008, 2009 and 2010, the Company recognized alleged losses of \$1,636,000, \$1,032,000 and \$1,289,000, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. The Company has not accrued for losses under the Indemnification Agreement as of March 31, 2011. SecurityNational Mortgage has been involved in discussions with Lehman Bank and Lehman Brothers Holdings, Inc. as to issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 have been abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Lehman Bank and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement with Lehman Bank and Aurora Loan Services. The complaint alleges material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans when payments relating to such loans were demanded from and made by SecurityNational Mortgage. Thus, the complaint asserts there was no basis under the Indemnification Agreement for the amount of payments claimed by Lehman Bank and Aurora Loan Services to be made by SecurityNational Mortgage. As a result, SecurityNational Mortgage alleges it is entitled to judgment in excess of \$4,000,000 against Lehman Bank and Aurora Loan Services.

Other Contingencies and Commitments

The Company has entered into commitments to fund new residential construction loans. As of March 31, 2011 the Company's commitments are \$21,754,680 for these loans of which \$17,924,621 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% to 80% of appraised value. The Company receives fees from the borrowers and the interest rate is generally 2% to 6.75% over the bank prime rate (3.25% as of December 31, 2010). Maturities range between six and twelve months.

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.

14) Sale of Assets of Greer-Wilson and Crystal Rose Funeral Home

On May 10, 2011, the Company and its subsidiary, Greer-Wilson Funeral Home, Inc. ("Greer-Wilson"), completed an asset sales transaction with SCI Arizona Funeral Services, Inc. ("SCI") an Arizona corporation, to sell substantially all of the operating assets of Greer-Wilson and Crystal Rose Funeral Home, Inc. to SCI. Under the terms of the asset purchase agreement among the Company, Greer-Wilson, Paradise Chapel Funeral Home, Inc. ("Paradise") and SCI, SCI paid \$2,225,000 at closing to the Company and Greer-Wilson. The agreement also granted a right of first refusal to SCI to purchase Paradise, for a period of three years. If the Company elects to sell Paradise within the three year period, the Company must provide a bona fide third party offer to SCI after which SCI has ten business days to exercise its right to purchase Paradise for the offer amount.

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 lower interest rates by originating and refinancing mortgage loans.

Results of Operations

Mortgage Operations

Overview

SecurityNational Mortgage is a mortgage lender incorporated under the laws of the State of Utah. SecurityNational Mortgage is approved and regulated by the Federal Housing Administration (FHA), a department of the U.S. Department of Housing and Urban Development (HUD), to originate mortgage loans that qualify for government insurance in the event of default by the borrower. SecurityNational Mortgage obtains loans primarily from its retail offices and independent brokers. SecurityNational Mortgage funds the loans from internal cash flows, including loan purchase agreements from Security National Life, and with unaffiliated financial institutions. SecurityNational Mortgage receives fees from the borrowers and other secondary fees from third party investors that purchase its loans. SecurityNational Mortgage sells its loans to third party investors and does not retain servicing of these loans. SecurityNational Mortgage pays the brokers and retail loan officers a commission for loans that are brokered through SecurityNational Mortgage. For the three months ended March 31, 2011 and 2010, SecurityNational Mortgage originated and sold 1,569 loans (\$262,602,124 total volume), and 2,361 loans (\$426,767,000 total volume), respectively.

The loan volume in 2011 was lower than 2010 primarily due to reduced refinancing activity in 2011. For the first three months of 2010, the loan volume was primarily from home purchases and was lower from the same period in 2009 due to the slow-down in the economy, the reduced demand in the housing sector, and new regulations affecting mortgage origination and lending activities. For the third and fourth quarters of 2010, the loan volume increased from the previous two quarters due to an increase in refinancing activity. SecurityNational Mortgage anticipates the loan volume for 2011 to be at the \$80,000,000 to \$150,000,000 per month range compared to \$125,000,000 to \$200,000,000 per month range in 2010. As a result, SecurityNational Mortgage has taken steps to reduce staff and funding costs to adjust to these reduced levels of production. The reason for the anticipated reduction in loan volume in 2011 is due to the low demand in the housing sector and rising interest rates that adversely impacts the refinancing markets.

The following table shows the condensed financial results for the three months ended March 31, 2011 and 2010. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

| | Three months ended March 31 | | |
|---------------------------------------|-----------------------------|------------------|--------------------------|
| | (in thousands of dollars) | | |
| | 2011 | 2010 | % Increase (Decrease) |
| Revenues from external customers | | | |
| Income from loan originations | \$ 9,426 | \$ 13,823 | (32%) |
| Secondary gains from investors | 4,564 | 6,885 | (34%) |
| Total | \$ 13,990 | \$ 20,708 | (32%) |
| Earnings (Losses) before income taxes | \$ (2,554) | \$ (1,773) | (44%) |

Overall this decrease in profitability for the three months is due to the lower loan volume and lower secondary gains from investors.

Significant Accounting Policies

SecurityNational Mortgage has entered into a loan purchase agreement to originate and sell mortgage loans to an unaffiliated warehouse bank. The amount available to originate loans under this agreement at March 31, 2011 was \$55,000,000. SecurityNational Mortgage originates the loans and immediately sells them to the warehouse bank. Generally, when mortgage loans are sold to warehouse banks, SecurityNational Mortgage is no longer obligated, except in certain circumstances, to pay the amounts outstanding on the mortgage loans, but is required to pay a fee in the form of interest on a portion of the mortgage loans between the date that the loans are sold to warehouse banks and the date of settlement with third party investors. The terms of the loan purchase agreements are typically for one year, with interest rates on a portion of the mortgage loans ranging from 2.5% to 2.75% over the 30 day Libor rate. SecurityNational Mortgage renewed its loan purchase agreement with Wells Fargo Securities that expired on June 30, 2010 for an additional one year term.

Mortgage fee income consists of origination fees, processing fees, and certain other income related to the origination and sale of mortgage loans. For mortgage loans sold to third party investors, mortgage fee income and related expenses are recognized pursuant to generally accepted accounting principles at the time the sales of mortgage loans comply with the sales criteria for the transfer of financial assets, which are: (i) the transferred assets have been isolated from the Company and its creditors, (ii) the transferee has the right to pledge or exchange the mortgage, and (iii) the Company does not maintain effective control over the transferred mortgage. The Company must determine that all three criteria are met at the time a loan is funded. All rights and title to the mortgage loans are assigned to unrelated financial institution investors, including investor commitments for the loans, prior to warehouse banks purchasing the loans under the purchase commitments. As of March 31, 2011, there were \$47,566,000 in mortgage loans in which settlements with third party investors were still pending.

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

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

Loan purchase commitments generally specify a date 30 to 45 days after delivery upon which the underlying loans should be settled. Depending on market conditions, these commitment settlement dates can be extended at a cost to the Company. Generally, a ten day extension will cost .125% (12.5 basis points) of the loan amount. The Company's historical data shows that 99% of all loans originated by SecurityNational Mortgage are generally settled by the investors as agreed within 16 days after delivery. There are situations, however, when the Company determines that it is unable to enforce the settlement of loans rejected by the third-party investors and that it is in its best interest to repurchase those loans from the warehouse banks. It is the Company's policy to cure any documentation problems regarding such loans at a minimal cost for up to a six-month time period and to pursue efforts to enforce loan purchase commitments from third-party investors concerning the loans. The Company believes that six months allows adequate time to remedy any documentation issues, to enforce purchase commitments, and to exhaust other alternatives. Remedial methods include the following:

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

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

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

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

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

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

As of March 31, 2011, the Company's long term mortgage loan portfolio consisted of \$16,743,000 in mortgage loans with delinquencies more than 90 days. Of this amount, \$11,468,000 of the loans were in foreclosure proceedings. The Company has not received or recognized any interest income on the \$16,743,000 in mortgage loans with delinquencies more than 90 days. During the three month ended March 31, 2011 and 2010, the Company decreased and increased its allowance for mortgage losses by \$12,084 and \$166,862, respectively which was charged to loan loss expense and included in selling, general and administrative expenses for the period. The allowances for mortgage loan losses as of March 31, 2011 and December 31, 2010 were \$7,058,000 and \$7,070,000, respectively.

Also at March 31, 2011, the Company had foreclosed on a total of \$52,317,000 in long term mortgage loans, of which \$2,976,000 of the loans foreclosed were reclassified as other real estate held for investment or sale during 2011. The Company carries the foreclosed properties in Security National Life, Memorial Estates, and SecurityNational Mortgage, its respective life, cemeteries and mortuaries, and mortgage subsidiaries, and will rent the properties until it is deemed economically desirable to sell them.

Mortgage Loan Loss Settlements

The mortgage industry has seen potential loan losses increase. Future loan losses are extremely difficult to estimate, especially in the current market. However, management believes that the Company's reserve methodology and its current practice of property preservation allow it to estimate its losses on loans sold. The amounts accrued for loan losses for the three months ended March 31, 2011 and for the year ended December 31, 2010 were \$530,460 and \$4,534,231, respectively. The estimated liability for indemnification losses is included in other liabilities and accrued expenses and, as of March 31, 2011 and as of December 31, 2010, the balances were \$6,220,435 and \$5,899,025, respectively.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. ("Wells Fargo"). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party's claims. Under the terms of the settlement agreement, SecurityNational Mortgage is required to pay an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo will deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. SecurityNational Mortgage is also required to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo. These funds are to be deposited into an account and then paid to Wells Fargo within ten calendar days of the end of each month. Finally, SecurityNational Mortgage is required to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 26 real estate properties with a total book value of \$5,086,400 as of March 31, 2011.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, agree to release SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage agrees to release Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of March 31, 2011, the Company reserved and accrued \$6,220,435 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers. Of the \$6,220,435 reserved for mortgage loan losses, \$4,300,000 was reserved for the \$3,300,000 settlement payment that SecurityNational Mortgage made to Wells Fargo shortly after the settlement agreement was executed on April 7, 2011 and for the \$1,000,000 in settlement payments that SecurityNational Mortgage made to Wells Fargo in January 2011.

Mortgage Loan Loss Settlement Discussions

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

As of March 31, 2011, third party investors have asserted total estimated potential claims of \$24,000,000 relating to loan repurchases, loan indemnifications and other loan issues. The Company has estimated the potential losses for the asserted claims by these third party investors to be less. The Company has reserved and accrued \$6,220,435 as of March 31, 2011 to settle all such investor related claims, including the Wells Fargo settlement described above. The Company believes this amount is adequate to resolve these claims and the amount represents the Company's estimate of possible losses relating to any outstanding claims by these investors.

These claims are greater than the net asset value of SecurityNational Mortgage, which was \$15,992,000 on March 31, 2011, and its reserve for mortgage loan loss, which was \$6,220,435 on March 31, 2011. The Company disagrees with the claims asserted by third party investors against SecurityNational Mortgage and believes it has significant defenses to these claims. Any additional loss in excess of the current loan loss reserve cannot be estimated as negotiations are still in progress. It is possible that future negotiations could result in a change in the estimate of the loan loss reserve.

If SecurityNational Mortgage is unable to negotiate acceptable terms with the third party investors, legal action may ensue in an effort to obtain amounts that the third party investors claim are allegedly due. In the event of legal action, if SecurityNational Mortgage is not successful in its defenses against claims asserted by these third party investors to the extent that a substantial judgment was entered against SecurityNational Mortgage that is beyond its capacity to pay, SecurityNational Mortgage may be required to curtail or cease operations.

During settlement discussions with one of the third party investors during the second and third quarters of 2010, the investor made a settlement proposal to SecurityNational Mortgage. When SecurityNational Mortgage declined to accept the settlement proposal, which it regarded as unreasonable and onerous, the investor notified SecurityNational Mortgage by letter dated October 20, 2010, of its decision to terminate its business relationship with SecurityNational Mortgage. In particular, the letter provided notice of termination of a loan purchase agreement with the investor. As a result, the investor is no longer accepting any new commitments for mortgage loans from SecurityNational Mortgage. However, the investor completed the purchase of mortgage loans from SecurityNational Mortgage involving mortgage loan commitments that had been made before October 20, 2010.

The investor also stated in the October 20, 2010 letter that termination of its business relationship with SecurityNational Mortgage would not affect the obligations, representations, warranties or indemnifications by SecurityNational Mortgage under mortgage loans previously sold to the investor under a loan purchase agreement. Accompanying the termination letter to SecurityNational Mortgage was a notice letter from the investor, also dated October 20, 2010. In the notice letter the investor stated that it was withdrawing all prior and pending settlement proposals involving SecurityNational Mortgage and the Company. The investor further stated that it intended to exercise certain rights under a loan purchase agreement by debiting \$5,970,941 from amounts in an over/under account that it had been holding for the benefit of SecurityNational Mortgage. The investor also maintained it had the right to debit additional amounts credited to the over/under account for payment of additional obligations that SecurityNational Mortgage allegedly owed to the investor.

The Company believes the investor wrongfully applied the \$5,970,941 from the over/under account toward payment of outstanding obligations that SecurityNational Mortgage allegedly owed to the investor. In a letter dated October 22, 2010 to the investor, SecurityNational Mortgage stated, without waiving any of its rights against the investor, that it objected to the investor debiting \$5,970,941 from the over/under account, as well as any amount attempted to be debited thereafter without specific written approval of SecurityNational Mortgage. SecurityNational Mortgage had sent letters to the investor requesting a withdrawal of funds from the over/under account before the investor had debited the \$5,970,941 from the account. SecurityNational Mortgage recognized this withdrawal of funds by the investor by reducing the balance of SecurityNational Mortgage's accrued losses on loans sold (a liability account) and its restricted cash held by the investor.

SecurityNational Mortgage is currently determining what action to take against the investor for wrongfully debiting the funds from the over/under account. As a result of the termination of the business relationship with the investor, SecurityNational Mortgage will have less flexibility on pricing when selling mortgage loans to third party investors.

Mortgage Loan Loss Litigation

Lehman Brothers Bank - Aurora Loan Services Litigation

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

On December 17, 2007, SecurityNational Mortgage entered into an Indemnification Agreement with Lehman Bank and Aurora Loan Services. Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services may incur as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. SecurityNational Mortgage is released from any obligation to pay the remaining 25% of such losses. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that are not among the 54 mortgage loans.

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

Since the reserve account was established in 2007, funds had been paid from the account to indemnify \$4,269,000 in losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement and ten other mortgage loans with alleged breaches. The estimated potential losses from 17 of the remaining mortgage loans, which would allegedly have required indemnification by SecurityNational Mortgage for such losses, is \$2,826,000. An additional six mortgage loans are not included among the 17 remaining loans because SecurityNational Mortgage had not received payment demands in regards to such loans. Payment demands of \$724,000 have also been made for five other mortgage loans with alleged breaches.

During 2008, 2009 and 2010, the Company recognized alleged losses of \$1,636,000, \$1,032,000 and \$1,289,000, respectively. However, management cannot fully determine the total losses because there may be potential claims for losses that have not yet been determined. The Company has not accrued for losses under the Indemnification Agreement as of March 31, 2011. SecurityNational Mortgage has been involved in discussions with Lehman Bank and Lehman Brothers Holdings, Inc. as to issues under the Indemnification Agreement. During the discussion period, monthly payments for December 2010 and January, February, March and April of 2011 totaling \$625,000 have been abated or deferred.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Lehman Bank and Aurora Loan Services in the United States District Court for the District of Utah because it had been unable to resolve certain issues under the Indemnification Agreement with Lehman Bank and Aurora Loan Services. The complaint alleges material breach of the Indemnification Agreement, including a claim that neither Lehman Bank nor Aurora Loan Services owned mortgage loans when payments relating to such loans were demanded from and made by SecurityNational Mortgage. Thus, the complaint asserts there was no basis under the Indemnification Agreement for the amount of payments claimed by Lehman Bank and Aurora Loan Services to be made by SecurityNational Mortgage. As a result, SecurityNational Mortgage alleges it is entitled to judgment in excess of \$4,000,000 against Lehman Bank and Aurora Loan Services.

Cemetery and Mortuary Operations

The Company sells mortuary services and products through its seven mortuaries in Salt Lake City, Utah and one mortuary in Phoenix, Arizona. The Company also sells cemetery products and services through its six 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.

As of May 10, 2011 the Company sold two of its mortuaries in Phoenix, Arizona. See footnote 14 of the Notes to Condensed Consolidated Financial Statements.

The following table shows the condensed financial results for the three months ended March 31, 2011 and 2010. See footnote 8 of the Notes to Condensed Consolidated Financial Statements.

| | Three months ended March 31 (in thousands of dollars) | | |
|---------------------------------------|--|----------|--------------------------|
| | 2011 | 2010 | % Increase (Decrease) |
| Revenues from external customers | | | |
| Mortuary revenues | \$ 1,559 | \$ 1,554 | 0% |
| Cemetery revenues | 1,503 | 1,436 | 5% |
| Other | (29) | (25) | (14%) |
| Total | \$ 3,033 | \$ 2,965 | 2% |
| Earnings (Losses) before income taxes | \$ 152 | \$ (55) | 276% |

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, maintenance expenses and interest payments made to Security National Life. Memorial Estates has recorded depreciation on these properties of \$251,000 and \$201,000 for the three months ended March 31, 2011, and 2010, respectively. Due to the economy, commercial leasing activity was down in 2010 but commercial and residential leasing are up in 2011 and Memorial Estates has incurred an operating gain and loss before depreciation of \$35,000 and \$(18,000) for the three months ended March 31, 2011 and 2010, respectively.

Insurance Operations

The Company's insurance business includes funeral plans, and interest sensitive life insurance as well as other traditional life and accident 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 \$15,000. The Company believes that funeral plans represents a marketing niche that has lower competition because most insurance companies do not offer similar coverage. The purpose of the funeral plan policy is to pay the costs and expenses incurred at the time of 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 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 for the three months ended March 31, 2011 and 2010. See the footnote 8 of the Notes to Condensed Consolidated Financial Statements.

| | Three months ended March 31 (in thousands of dollars) | | |
|----------------------------------|--|-----------|--------------------------|
| | 2011 | 2010 | % Increase (Decrease) |
| Revenues from external customers | | | |
| Insurance premiums | \$ 12,692 | \$ 9,923 | 28% |
| Net investment income | 3,742 | 3,771 | (1%) |
| Other | 714 | 601 | 19% |
| Total | \$ 17,148 | \$ 14,295 | 20% |
| Intersegment revenue | \$ 2,067 | \$ 1,770 | 17% |
| Earnings before income taxes | \$ 1,079 | \$ 155 | 596% |

Intersegment revenues are primarily interest income from the warehouse line provided to SecurityNational Mortgage Company. Profitability in 2011 has improved due to increases in insurance premiums due to the reinsurance transaction with North America Life. (see footnote 13)

Consolidation

Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010

Total revenues decreased by \$3,795,000, or 10%, to \$34,172,000 for the three months ended March 31, 2011, from \$37,967,000 for the three months ended March 31, 2010. Contributing to this decrease in total revenues was a decrease of \$6,895,000 in mortgage fee income and a \$54,000 decrease in realized gains on investments and other assets other than temporary impairments. This decrease in total revenues was offset by a \$194,000 increase in net investment income, a \$2,769,000 increase in insurance premiums and other considerations, a \$40,000 increase in net cemetery and mortuary sales, and a \$151,000 increase in other revenue.

Insurance premiums and other considerations increased by \$2,769,000, or 27.9%, to \$12,692,000 for the three months ended March 31, 2011, from \$9,923,000 for the comparable period in 2010. This increase was primarily the result of a reinsurance transaction with North America Life Insurance Company, an increase in renewal premiums, and an increase in insurance sales causing an increase in first year premiums.

Net investment income increased by \$193,000, or 4.8%, to \$4,207,000 for the three months ended March 31, 2011, from \$4,013,000 for the comparable period in 2010. This increase was primarily attributable to an increase in real estate investment income and a decrease in investment expenses.

Net cemetery and mortuary sales increased by \$40,000, or 1.4%, to \$2,942,000 for the three months ended March 31, 2011, from \$2,902,000 for the comparable period in 2010. This increase was primarily due to an increase in pre-need land sales of burial spaces in the cemetery and mortuary operations and an increase in at-need sales of mortuary operations.

Realized gains on investments and other assets increased by \$19,000, or 5.3%, to a \$345,000 realized gain for the three months ended March 31, 2011, from a \$364,000 realized gain for the comparable period in 2010. This increase in realized gains on investments was due to gains from the sale of fixed maturity securities and equity securities.

Other than temporary impairments on investments increased by \$35,000, or 100.0%, to \$35,000 for the three months ended March 31, 2011, from \$0 for the comparable period in 2010. This increase was due to impairments on fixed maturity securities held-to-maturity.

Mortgage fee income decreased by \$6,895,000, or 33.8%, to \$13,516,000 for the three months ended March 31, 2011, from \$20,411,000 for the comparable period in 2010. This decrease was primarily attributable to a decrease in secondary gains on mortgage loans sold to investors, a decrease in loan volume due to a reduced demand in the housing sector, and rising interest rates that adversely impacted the refinancing markets.

Other revenues increased by \$151,000, or 42.7%, to \$505,000 for the three months ended March 31, 2011, from \$354,000 for the comparable period in 2010. This increase was due to additional miscellaneous revenues throughout the Company's operations.

Total benefits and expenses were \$35,495,000, or 103.9% of total revenues, for the three months ended March 31, 2011, as compared to \$39,640,000, or 104.4% of total revenues, for the comparable period in 2010.

Death benefits, surrenders and other policy benefits, and increase in future policy benefits increased by an aggregate of \$1,658,000 or 17.8%, to \$10,988,000 for the three months ended March 31, 2011, from \$9,329,000 for the comparable period in 2010. This increase was primarily the result of increased future policy benefits, increased death benefits, and increased surrender and other policy benefits primarily due to the reinsurance transaction with North America Life.

Amortization of deferred policy and pre-need acquisition costs and value of business acquired increased by \$567,000, or 39.6%, to \$2,000,000 for the three months ended March 31, 2011, from \$1,433,000 for the comparable period in 2010. This increase was primarily due to the reinsurance transaction with North America Life and an increase in business in force.

Selling, general and administrative expenses decreased by \$6,074,000, or 21.9%, to \$21,660,000 for the three months ended March 31, 2011, from \$27,734,000 for the comparable period in 2010. This decrease was the result of a reduction in commission expenses of \$4,378,000, from \$12,239,000 in 2010 to \$7,861,000 in 2011, due to reduced mortgage loan origination costs made by SecurityNational Mortgage, offset by an increase in sales at the cemetery operations, and a increase in life insurance first year and renewal commissions during 2011. Salaries decreased by \$776,000 from \$6,961,000 in 2010 to \$6,185,000 in 2011, primarily due to a reduction in the number of employees. Provision for loan losses decreased by \$329,000 from \$1,020,000 in 2010 to \$692,000 in 2011 due primarily to a decreased loan loss reserve and loan allowance balances at SecurityNational Mortgage. Costs related to funding mortgage loans decreased by \$596,000 from \$1,441,000 in 2010 to \$845,000 in 2011 due primarily to a decrease in loans funded. Other expenses increased by \$5,000 from \$6,073,000 in 2010 to \$6,078,000 in 2011.

Interest expense decreased by \$286,000, or 47.5%, to \$316,000 for the three months ended March 31, 2011, from \$601,000 for the comparable period in 2010. This reduction was primarily due to decreased borrowing rates on warehouse lines.

Cost of goods and services sold of the cemeteries and mortuaries decreased by \$11,000, or 2.0%, to \$532,000 for the three months ended March 31, 2011, from \$542,000 for the comparable period in 2010.

Comprehensive income for the three months ended March 31, 2011 and 2010 amounted to a loss of \$485,000 and a loss of \$833,000, respectively. This increase of \$347,000 in 2011 was primarily the result of a \$433,000 increase in net income, a \$121,000 decrease in unrealized gains in securities available for sale, and an increase of \$36,000 in derivatives related to mortgage loans.

Income taxes for the insurance segment have a lower effective tax rate of 13.6% due to the deduction for small life companies. Cemetery, mortuary and mortgage segments have an effective tax rate of 34%.

Liquidity and Capital Resources

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

During the three months ended March 31, 2011, the Company's operations provided cash of \$42,216,000. This was due primarily to a \$41,453,000 decrease in the first three months of 2011 in the balance of mortgage loans sold to investors. During the three months ended March 31, 2010, the Company's operations used cash of \$11,435,000. This was due primarily to a \$12,999,000 increase for the first three months of 2010 in the balance of mortgage loans sold to investors.

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

The Company attempts to match the duration of invested assets with its policyholder and cemetery and mortuary liabilities. The Company may sell investments other than those held-to-maturity in the portfolio to help in this timing. The Company purchases short-term investments on a temporary basis to meet the expectations of short-term requirements of the Company's products.

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

The Company's investment policy is to invest predominantly in fixed maturity securities, mortgage loans, and warehousing of mortgage loans on a short-term basis before selling the loans to investors in accordance with the requirements and laws governing the life insurance subsidiaries. Bonds owned by the insurance subsidiaries amounted to \$122,715,000 as of March 31, 2011 compared to \$96,453,000 as of December 31, 2010. This represents 39.4% and 35.0% of the total investments as of March 31, 2011, and December 31, 2010, respectively. Generally, all bonds owned by the life insurance subsidiaries are rated by the National Association of Insurance Commissioners. Under this rating system, there are six categories used for rating bonds. At March 31, 2011, 4.36% (or \$5,353,000) and at December 31, 2010, 6.2% (or \$6,019,000) of the Company's total bond investments were invested in bonds in rating categories three through six, which are considered non-investment grade.

The Company has classified its fixed income securities as held to maturity. Business conditions, however, may develop in the future which may indicate a need for a higher level of liquidity in the investment portfolio. In that event the Company believes it could sell short-term investment grade securities before liquidating higher-yielding longer-term securities.

The Company is subject to risk based capital guidelines established by statutory regulators requiring minimum capital levels based on the perceived risk of assets, liabilities, disintermediation, and business risk. At March 31, 2011, and December 31, 2010, the life insurance subsidiary exceeded the regulatory criteria.

The Company's total capitalization of stockholders' equity, bank debt and notes payable were \$69,796,000 as of March 31, 2011, as compared to \$66,994,000 as of December 31, 2010. Stockholders' equity as a percent of total capitalization was 85.4% and 89.5% as of March 31, 2011 and December 31, 2010, respectively. Bank debt and notes payable increased \$3,134,000 for the three months ended March 31, 2011 when compared to December 31, 2010, thus decreasing the stockholders equity percentage.

Lapse rates measure the amount of insurance terminated during a particular period. The Company's lapse rate for life insurance in 2010 was 8.0% as compared to a rate of 9.0% for 2009. The 2011 lapse rate to date has been approximately the same as 2010.

At March 31, 2011, \$24,619,000 of the Company's consolidated stockholders' equity represents the statutory stockholders' equity of the Company's life insurance subsidiaries. The life insurance subsidiaries cannot pay a dividend to its parent Company without the approval of insurance regulatory authorities.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

There have been no significant changes since the annual report on Form 10-K filed for the year ended December 31, 2010.

Item 4. Controls and Procedures.

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

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

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

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

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

Management performed an assessment of the effectiveness of the Company's internal control over financial reporting as of March 31, 2011 based on the framework in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The objective of this assessment was to determine whether the Company's internal control over financial reporting was effective as of March 31, 2011. Based on that assessment the Company believes that, at March 31, 2011, its internal control over financial reporting was effective.

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

(b) Changes in internal control over financial reporting.

There was no change in our internal control over financial reporting that occurred in the first quarter of 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings.

On May 11, 2011, SecurityNational Mortgage filed a complaint against Lehman Brothers Bank ("Lehman Bank") and Aurora Loan Services, LLC ("Aurora Loan Services") in the United States District Court for the District of Utah. The complaint alleges material breach of a certain Indemnification Agreement dated December 17, 2007, among Lehman Bank, Aurora Loan Services, and SecurityNational Mortgage, including a claim that neither Lehman Bank nor Aurora Loan Services owned the mortgage loans that they had purchased from SecurityNational Mortgage when payments relating to such loans were demanded from and made by SecurityNational Mortgage under the Indemnification Agreement.

Under the terms of the Indemnification Agreement, SecurityNational Mortgage agreed to indemnify Lehman Bank and Aurora Loan Services for 75% of all losses that Lehman Brothers and Aurora Loan Services incurred as a result of any defaults by mortgagors on 54 mortgage loans that were purchased from SecurityNational Mortgage. The Indemnification Agreement also required SecurityNational Mortgage to indemnify Lehman Bank and Aurora Loan Services for 100% of any future losses incurred on mortgage loans with breaches that are not among the 54 mortgage loans.

Under the Indemnification Agreement SecurityNational Mortgage paid \$4,269,000 to Lehman Bank and Aurora Loan Services to indemnify losses from 31 mortgage loans that were among the 54 mortgage loans with alleged breaches that were covered by the Indemnification Agreement. Prior to filing the complaint, SecurityNational Mortgage had been involved in discussions with Lehman Bank and Lehman Brothers Holdings, Inc. in regards to issues under the Indemnification Agreement. The complaint asserts there was no basis under the Indemnification Agreement for the amount of payments claimed by Lehman Bank and Aurora Loan Services to be made by SecurityNational Mortgage. As a result, SecurityNational Mortgage alleges in the complaint that it is entitled to a judgment in excess of \$4,000,000 against Lehman Bank and Aurora Loan Services. Lehman Bank and Aurora Loan Services have not yet filed a responsive pleading to the complaint.

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

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None

Item 3. Defaults Upon Senior Securities.

None

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

None

Item 5. Other Information.

Reinsurance with North American Life Insurance Company

On March 30, 2011, the Company, through its wholly owned subsidiary, Security National Life, completed a Coinsurance Agreement with North America Life Insurance Company (“North America Life”), a Texas domiciled insurance company. Under the terms of the Coinsurance Agreement, Security National Life agreed to reinsure certain insurance policies of North America Life in exchange for the settlement amount of \$15,703,641. Effective as of December 1, 2010, North America Life ceded or transferred to Security National Life, and Security National Life accepted and coinsured all of North America Life’s contractual liabilities under the coinsured policies by means of indemnity reinsurance. The Coinsurance Agreement was approved by the Texas Department of Insurance.

The Coinsurance Agreement also provides that on and after the effective date of December 1, 2010, Security National Life is entitled to exercise all contractual rights of North America Life under the coinsured policies in accordance with the terms and provisions of such policies. Moreover, after the closing date of March 30, 2011, Security National Life agreed to be responsible for all of the contractual liabilities under the coinsured policies, including to administer the coinsured policies at its sole expense in accordance with the terms and conditions of a services agreement.

Pursuant to the terms of the Coinsurance Agreement, Security National Life paid a ceding commission to North America Life in the amount of \$3,525,875. In addition, North America Life transferred \$15,703,641 in assets and \$19,229,516 in statutory reserves, or liabilities net of due and deferred premiums, to Security National Life. The \$15,703,641 in assets included \$12,990,444 in cash, \$8,997 in policy loans, and \$2,704,200 in promissory notes secured by real estate properties located in Bexar, Liberty, Travis and Wilson Counties in the State of Texas. The promissory notes are also guaranteed by business entities and an individual.

Settlement with Wells Fargo

On April 7, 2011, SecurityNational Mortgage, a wholly owned subsidiary of the Company, entered into a settlement agreement with Wells Fargo Funding, Inc. (“Wells Fargo”). The settlement agreement provides that it is intended to be a pragmatic commercial accommodation between SecurityNational Mortgage and Wells Fargo and is not to be construed as an admission of responsibility, liability or fault for either party’s claims. Under the terms of the settlement agreement, SecurityNational Mortgage is required to pay an initial settlement amount to Wells Fargo in the amount of \$4,300,000, of which \$1,000,000 had already been paid to Wells Fargo in January 2011, leaving a balance of \$3,300,000. The \$3,300,000 balance was paid shortly after the parties executed the settlement agreement.

In addition, under the terms of the settlement agreement, Wells Fargo will deduct 10 basis points (.0010) from the purchase proceeds of each loan that SecurityNational Mortgage sells to Wells Fargo during the period from April 8, 2011 to March 31, 2017. SecurityNational Mortgage is also required to set aside 10 basis points (.0010) during the period from April 8, 2011 to March 31, 2017 from the purchase proceeds of any loans that it sells to any mortgage loan purchaser other than Wells Fargo. These funds are to be deposited into an account and then paid to Wells Fargo within ten calendar days of the end of each month. Finally, SecurityNational Mortgage is required to set aside 50% from the net proceeds that it receives from any sale, liquidation or other transfer of certain real estate properties that it owns, after subtracting taxes, commissions, recording fees and other transaction costs. These real estate properties consist of 26 real estate properties with a total book value of \$5,086,400 as of March 31, 2011.

In consideration for SecurityNational Mortgage making the initial settlement payment to Wells Fargo, Wells Fargo and related parties, including Wells Fargo Bank, agree to release SecurityNational Mortgage and related parties, including the Company and Security National Life Insurance Company, from any claims, demands, damages, obligations, liabilities, or causes of action relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. Similarly, SecurityNational Mortgage agrees to release Wells Fargo and its related parties from any claims, demands, damages, obligations, liabilities, or causes of actions relating to residential mortgage loans that Wells Fargo purchased from SecurityNational Mortgage prior to December 31, 2009. SecurityNational Mortgage is not aware of any repurchase or indemnification demands by Wells Fargo for residential mortgage loans with a closing date after December 31, 2009.

As of March 31, 2011, the Company reserved and accrued \$6,220,435 to settle investor related claims against SecurityNational Mortgage for the allegedly defective mortgage loans that SecurityNational Mortgage sold to Wells Fargo and other mortgage loan purchasers. Of the \$6,220,435 reserved for mortgage loan losses, \$4,300,000 was reserved for the \$3,300,000 settlement payment that SecurityNational Mortgage made to Wells Fargo shortly after the settlement agreement was executed on April 7, 2011 and for the \$1,000,000 in settlement payments that SecurityNational Mortgage made to Wells Fargo in January 2011.

Sale of Assets of Greer-Wilson and Crystal Rose Funeral Home

On May 10, 2011, the Company and its subsidiary, Greer-Wilson Funeral Home, Inc. (“Greer-Wilson”), completed an asset sales transaction with SCI Arizona Funeral Services, Inc. (“SCI”) an Arizona corporation, to sell substantially all of the operating assets of Greer-Wilson and Crystal Rose Funeral Home, Inc. to SCI. Under the terms of the asset purchase agreement among the Company, Greer-Wilson, Paradise Chapel Funeral Home, Inc. (“Paradise”) and SCI, SCI paid \$2,225,000 at closing to the Company and Greer-Wilson. The agreement also granted a right of first refusal to SCI to purchase Paradise, for a period of three years. If the Company elects to sell Paradise within the three year period, the Company must provide a bona fide third party offer to SCI after which SCI has ten business days to exercise its right to purchase Paradise for the offer amount.

Item 6. Exhibits, Financial Statements Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

See “Table of Contents – Part I – Financial Information” under page 2 above

(a)(2) Financial Statement Schedules

None

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

(a)(3) Exhibits

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

- 3.1 Articles of Restatement of Articles of Incorporation (4)
- 3.2 Amended Bylaws (6)
- 4.1 Specimen Class A Stock Certificate (1)
- 4.2 Specimen Class C Stock Certificate (1)
- 4.3 Specimen Preferred Stock Certificate and Certificate of Designation of Preferred Stock (1)
- 10.1 Restated and Amended Employee Stock Ownership Plan and Trust Agreement (1)
- 10.2 2003 Stock Option Plan (5)
- 10.3 2006 Director Stock Option Plan (12)
- 10.4 Deferred Compensation Agreement with George R. Quist (2)
- 10.5 Deferred Compensation Plan (3)
- 10.6 Employment agreement with J. Lynn Beckstead, Jr. (7)
- 10.7 Employment agreement with Scott M. Quist (8)
- 10.8 Indemnification Agreement among SecurityNational Mortgage Company, Lehman Brothers Bank, and Aurora Loan Services (9)
- 10.9 Agreement and Plan of Complete Liquidation of Security National Life Insurance Company of Louisiana into Security National Life Insurance Company (10)
- 10.10 Assumption Reinsurance Agreement between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (10)
- 10.11 Assignment between Security National Life Insurance Company of Louisiana and Security National Life Insurance Company (10)
- 10.12 Agreement and Plan of Complete Liquidation of Capital Reserve Life Insurance Company into Security National Life Insurance Company (10)
- 10.13 Assignment between Capital Reserve Life Insurance Company and Security National Life Insurance Company (10)
- 10.14 Settlement Agreement and Release with Wells Fargo Funding (11)
- 10.15 Coinsurance Agreement between Security National Life Insurance Company and North American Life Insurance Company (12)
- 31.1 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification pursuant to 18 U.S.C. Section 1350, as enacted by Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

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- (1) Incorporated by reference from Registration Statement on Form S-1, as filed on September 29, 1987
 - (2) Incorporated by reference from Annual Report on Form 10-K, as filed on March 31, 1989
 - (3) Incorporated by reference from Annual Report on Form 10-K, as filed on April 3, 2002
 - (4) Incorporated by reference from Report on Form 8-K/A, as filed on January 8, 2003
 - (5) Incorporated by reference from Schedule 14A Definitive Proxy Statement, as filed on September 5, 2003, relating to the Company's Annual Meeting of Shareholders
 - (6) Incorporated by reference from Report on Form 10-Q, as filed on November 14, 2003
 - (7) Incorporated by reference from Report on Form 10-K, as filed on March 30, 2004
 - (8) Incorporated by reference from Report on Form 10-Q, as filed on August 13, 2004
 - (9) Incorporated by reference from Report on Form 10-K, as filed on March 31, 2009
 - (10) Incorporated by reference from Report on Form 8-K, as filed on January 12, 2010
 - (11) Incorporated by reference from Report on Form 8-K, as filed on April 12, 2011
 - (12) Incorporated by reference from Report on Form 8-K/A, as filed on May 6, 2011

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

REGISTRANT

SECURITY NATIONAL FINANCIAL CORPORATION

Registrant

Dated: May 13, 2011

/s/ George R. Quist

George R. Quist

Chairman of the Board and Chief Executive Officer

(Principal Executive Officer)

Dated: May 13, 2011

/s/ Stephen M. Sill

Stephen M. Sill

Vice President, Treasurer and Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACTED BY
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, George R. Quist, certify that:

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

Dated: May 13, 2011

/s/ George R. Quist
George R. Quist
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ENACED BY
SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Stephen M. Sill, certify that:

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

Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Dated: May 13, 2011

/s/ Stephen M. Sill
Stephen M. Sill
Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

EXHIBIT 32.1
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, George R. Quist, Chairman of the Board and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Dated: May 13, 2011

/s/ George R. Quist
George R. Quist
Chairman of the Board and Chief Executive Officer
(Principal Executive Officer)

EXHIBIT 32.2
CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Security National Financial Corporation (the "Company") on Form 10-Q for the period ending March 31, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stephen M. Sill, Vice President, Treasurer and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of my knowledge:

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

Dated: May 13, 2011

/s/ Stephen M. Sill
Stephen M. Sill
Vice President, Treasurer and Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)
