



# SECURITY NATIONAL CORPORATION

Annual Report 2023



# FINANCIAL HIGHLIGHTS

## CONSOLIDATED DATA FOR SECURITY NATIONAL CORPORATION

*(Dollar amounts in thousands, except for share and per share information)*

|                             | <u>2023</u> | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|-----------------------------|-------------|-------------|-------------|-------------|-------------|
| Net Interest Income         | \$52,475    | \$48,662    | \$40,551    | \$40,504    | \$42,641    |
| Net Income                  | 27,617      | 27,311      | 22,472      | 19,617      | 21,209      |
| Return on Average Assets    | 1.55%       | 1.43%       | 1.18%       | 1.18%       | 1.49%       |
| Return on Average Equity    | 14.54%      | 14.72%      | 11.28%      | 10.66%      | 12.29%      |
| Earnings Per Share          |             |             |             |             |             |
| Basic                       | \$16.86     | \$16.48     | \$13.14     | \$11.33     | \$12.02     |
| Diluted                     | 16.60       | 16.25       | 12.96       | 11.16       | 11.85       |
| Assets                      | 1,809,335   | 1,807,797   | 1,958,819   | 1,807,719   | 1,474,811   |
| Deposits                    | 1,359,745   | 1,415,148   | 1,515,530   | 1,404,580   | 1,128,639   |
| Net Loans                   | 1,114,902   | 1,026,648   | 944,211     | 947,553     | 911,460     |
| Investment Securities       | 469,698     | 520,325     | 503,370     | 355,340     | 340,651     |
| Shareholders' Equity        | 200,832     | 180,468     | 195,932     | 191,190     | 174,094     |
| Allowance for Credit Losses | 19,760      | 17,767      | 17,755      | 17,673      | 18,107      |
| Shares Outstanding          | 1,657,633   | 1,669,271   | 1,683,998   | 1,734,875   | 1,779,915   |
| Shareholders of Record      | 188         | 185         | 193         | 195         | 198         |

## FROM THE CHAIRMAN, PRESIDENT AND CEO

To our shareholders:

I am pleased to report that Security National Corporation achieved record earnings in 2023 as net income rose to \$27.6 million. Per-share earnings – your proportionate share of the Corporation’s net income – were \$16.86 per share, a new high. In addition, shareholders received dividends totaling \$6 per share, a 43% increase over 2022.



**Security National Corporation Officers**

L to R: **Jeremy Uhl**, Treasurer; **D. Douglas Rice**, Chairman, President & CEO; **Lisa Talbert**, Secretary; **Jeremy Craighead**, Executive Vice President

The banking industry faced many issues in 2023 – volatile interest rates and resultant margin pressure, liquidity stress and capital adequacy concerns. Our business model and balance sheet management principles enabled us to successfully navigate this challenging environment.

The year's success was driven by efforts to build upon the Corporation's long-standing attributes including:

- A balanced and well-diversified customer base;
- A loan-to-deposit ratio that enables us to meet customer credit needs;
- Strong liquidity and capital positions to allow quick action when opportunities arise; and
- Significant revenue from Wealth Management and other fee-based activities that mitigate cyclical changes in interest rates.

Total loans rose to a record \$1.13 billion in 2023, an 8.6% increase. Our Sioux Falls presence was a significant contributor to this progress. Mortgage lending was steady in all markets despite headwinds from rising interest rates and low housing inventories. Agricultural loan volume was up slightly, and we also generated new lending opportunities from our business partners. This activity helped produce net interest income of \$52.5 million, a 7.8% increase over 2022.

The Corporation's capital reached \$200.8 million, an 11.3% increase from the previous year's level and the highest in our long history. This provides a solid foundation for continued growth.

Non-interest income – that derived from fees and services – was a noteworthy \$26 million in 2023. Wealth Management services and mortgage origination activities are important parts of our business model, and both made meaningful contributions to the year's progress.

A significant event during the year was the merger of Northwestern Bank into Security National Bank. Northwestern has been part of the Corporation for a half-century, serving the Orange City and Sheldon areas. This merger unites the Corporation's banks under one brand and will increase efficiencies, reduce regulatory expenses, and allow us to better serve customers.

Looking ahead, we are optimistic and see opportunities for growth in all of our markets. We will continue to focus on existing and prospective customers utilizing the strengths of our people, products and services. As always, we thank you for the confidence and support that you show in Security National Corporation.



**D. Douglas Rice**

Chairman, President and CEO

# INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Security National Corporation  
Dakota Dunes, South Dakota

## ***Opinions on the Consolidated Financial Statements and Internal Control over Financial Reporting***

We have audited the consolidated financial statements of Security National Corporation (the "Company"), which comprise the balance sheets as of December 31, 2023 and 2022, and the related statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited the Company's internal control over financial reporting as of December 31, 2023, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2023, based on COSO.

## ***Basis for Opinions***

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## ***Emphasis of Matter***

As discussed in Note 3 to the consolidated financial statements, the entity changed its method of accounting for allowance for credit losses in 2023 due to the adoption of *ASC 326 – Financial Instruments – Current Expected Credit Losses*. Our opinion is not modified with respect to this matter.

## ***Responsibilities of Management for the Consolidated Financial Statements and Internal Control over Financial Reporting***

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Report of Management.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that these consolidated financial statements are issued.

## ***Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting***

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit of consolidated financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the financial statement audit.

### ***Definition and Inherent Limitations of Internal Control over Financial Reporting***

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Security National Corporation's internal control over financial reporting included controls over the preparation of the financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to the basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (Call Report Instructions). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment 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 or procedures may deteriorate.

**FORVIS, LLP**

Omaha, Nebraska  
February 9, 2024

Security National Corporation and Subsidiaries

## CONSOLIDATED BALANCE SHEETS

(Columnar amounts in thousands)

|   | As of December 31 |              |
|---|-------------------|--------------|
|   | 2023              | 2022         |
| <b>Assets</b>   |                   |              |
| Cash and Due From Banks   | \$ 127,055        | \$ 163,697   |
| Federal Funds Sold  | 3,300             | 6,050        |
| Cash and Cash Equivalents   | 130,355           | 169,747      |
| Interest-Bearing Time Deposits Due from Banks   | -                 | 747          |
| Securities Available-for-Sale   | 404,342           | 450,320      |
| Securities Held-to-Maturity   | 60,395            | 66,111       |
| Non-Marketable Equity Securities  | 4,961             | 3,894        |
| Loans Held-for-Sale   | 1,289             | -            |
| Loans, Net of Allowance for Credit Losses of \$19,760,000 and<br>\$17,767,000 at December 31, 2023 and 2022, respectively   | 1,113,613         | 1,026,648    |
| Accrued Interest Receivable   | 13,971            | 10,589       |
| Premises and Equipment, Net   | 12,998            | 12,202       |
| Goodwill  | 1,736             | 1,736        |
| Net Deferred Income Tax Asset   | 14,682            | 17,007       |
| Other Assets  | 50,993            | 48,796       |
| Total Assets  | \$ 1,809,335      | \$ 1,807,797 |
| <b>Liabilities and Shareholders' Equity</b>   |                   |              |
| <b>Liabilities</b>  |                   |              |
| Demand Deposits   | \$ 471,730        | \$ 483,791   |
| Savings and Interest-Bearing Checking Deposits  | 643,811           | 784,229      |
| Time Deposits   | 244,204           | 147,128      |
| Total Deposits  | 1,359,745         | 1,415,148    |
| Other Borrowings  | 167,989           | 174,720      |
| Federal Home Loan Bank Debt   | 63,650            | 22,750       |
| Other Liabilities   | 17,119            | 14,711       |
| Total Liabilities   | 1,608,503         | 1,627,329    |
| <b>Shareholders' Equity</b>   |                   |              |
| Common Stock, \$10 Par Value;<br>5,000,000 Shares Authorized: 1,657,633 Shares Issued<br>and Outstanding in 2023 (1,669,271 Shares Issued and<br>Outstanding in 2022) | 16,576            | 16,693       |
| Additional Paid-in Capital  | 36,479            | 36,171       |
| Retained Earnings   | 174,238           | 160,562      |
| Accumulated Other Comprehensive (Loss)  | (26,461)          | (32,958)     |
| Total Shareholders' Equity  | 200,832           | 180,468      |
| Total Liabilities and Shareholders' Equity  | \$ 1,809,335      | \$ 1,807,797 |

The accompanying notes are an integral part of these consolidated financial statements.

Security National Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF INCOME

(Columnar amounts in thousands, except per share data)

|   | Years Ended December 31 |                  |
|---|-------------------------|------------------|
|   | 2023                    | 2022             |
| <b>Interest Income</b>                                |                         |                  |
| Loans   | \$ 51,590               | \$ 39,367        |
| Securities:   |                         |                  |
| Taxable   | 11,291                  | 8,123            |
| Non-Taxable   | 1,860                   | 1,794            |
| Other   | 6,531                   | 4,565            |
| Total Interest Income                                 | <u>71,272</u>           | <u>53,849</u>    |
| <b>Interest Expense</b>                               |                         |                  |
| Deposits  | 11,734                  | 3,538            |
| Other Borrowings and Federal Home Loan Bank Debt      | 7,063                   | 1,649            |
| Total Interest Expense                                | <u>18,797</u>           | <u>5,187</u>     |
| Net Interest Income                                   | 52,475                  | 48,662           |
| Provision for Credit Losses                           | -                       | -                |
| Net Interest Income after Provision for Credit Losses | <u>52,475</u>           | <u>48,662</u>    |
| <b>Non-Interest Income</b>                            |                         |                  |
| Trust Fees  | 14,555                  | 14,203           |
| Service Charges                                       | 10,153                  | 10,992           |
| Other   | 1,269                   | 871              |
| Total Non-Interest Income                             | <u>25,977</u>           | <u>26,066</u>    |
| <b>Non-Interest Expense</b>                           |                         |                  |
| Salaries and Employee Benefits                        | 27,598                  | 25,976           |
| Net Occupancy   | 1,802                   | 1,704            |
| Furniture and Equipment                               | 1,286                   | 1,213            |
| Other   | 11,986                  | 10,643           |
| Total Non-Interest Expense                            | <u>42,672</u>           | <u>39,536</u>    |
| Income Before Income Taxes                            | 35,780                  | 35,192           |
| Income Taxes:   |                         |                  |
| Current   | 7,872                   | 7,644            |
| Deferred  | 291                     | 237              |
| Net Income  | <u>\$ 27,617</u>        | <u>\$ 27,311</u> |
| <b>Earnings Per Share</b>                             |                         |                  |
| Basic   | \$ 16.86                | \$ 16.48         |
| Diluted   | 16.60                   | 16.25            |
| <b>Weighted Average Number of Shares Outstanding</b>  |                         |                  |
| Basic Shares  | 1,638                   | 1,657            |
| Diluted Shares  | 1,664                   | 1,681            |

The accompanying notes are an integral part of these consolidated financial statements.

Security National Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Columnar amounts in thousands)

|   | Years Ended December 31 |                   |
|---|-------------------------|-------------------|
|   | 2023                    | 2022              |
| <b>Net Income</b>   | <b>\$ 27,617</b>        | <b>\$ 27,311</b>  |
| <b>Other Comprehensive Income (Loss), Net of Tax</b>                            |                         |                   |
| Net Unrealized Gain (Loss) on Available-for-Sale Securities                     | 6,497                   | (33,696)          |
| Reclassification Adjustment for Realized Gains on Available-for-Sale Securities | -                       | 15                |
| <b>Other Comprehensive Income (Loss)</b>  | <b>6,497</b>            | <b>(33,681)</b>   |
| <b>Comprehensive Income (Loss)</b>  | <b>\$ 34,114</b>        | <b>\$ (6,370)</b> |

Security National Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Columnar amounts in thousands)

|  | Common<br>Stock  | Additional<br>Paid-in<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Total             |
|--|------------------|----------------------------------|----------------------|--|-------------------|
| <b>Balance, January 1, 2022</b>                      | \$ 16,840        | \$ 36,059                        | \$ 142,310           | \$ 723   | \$ 195,932        |
| Net Income   | -                | -                                | 27,311               | -  | 27,311            |
| Other Comprehensive Loss                             | -                | -                                | -                    | (33,681)   | (33,681)          |
| Purchase and Retirement of<br>Common Stock           | (198)            | (477)                            | (1,909)              | -  | (2,584)           |
| Employees and Directors<br>Common Stock Transactions | 51               | 589                              | (108)                | -  | 532               |
| Cash Dividend Declared<br>(\$4.20 Per Share)         | -                | -                                | (7,042)              | -  | (7,042)           |
| <b>Balance, December 31, 2022</b>                    | <b>\$ 16,693</b> | <b>\$ 36,171</b>                 | <b>\$ 160,562</b>    | <b>\$ (32,958)</b>                                     | <b>\$ 180,468</b> |
| Net Income   | -                | -                                | 27,617               | -  | 27,617            |
| Other Comprehensive Income                           | -                | -                                | -                    | 6,497  | 6,497             |
| Adoption of ASC 326                                  | -                | -                                | (2,007)              | -  | (2,007)           |
| Purchase and Retirement of<br>Common Stock           | (174)            | (382)                            | (1,743)              | -  | (2,299)           |
| Employees and Directors<br>Common Stock Transactions | 57               | 690                              | (229)                | -  | 518               |
| Cash Dividend Declared<br>(\$6.00 Per Share)         | -                | -                                | (9,962)              | -  | (9,962)           |
| <b>Balance, December 31, 2023</b>                    | <b>\$ 16,576</b> | <b>\$ 36,479</b>                 | <b>\$ 174,238</b>    | <b>\$ (26,461)</b>                                     | <b>\$ 200,832</b> |

The accompanying notes are an integral part of these consolidated financial statements.

Security National Corporation and Subsidiaries

## CONSOLIDATED STATEMENTS OF CASH FLOWS

(Columnar amounts in thousands)

|  | Years Ended December 31 |            |
|--|-------------------------|------------|
|  | 2023                    | 2022       |
| <b>Cash Flows from Operating Activities</b>                                |                         |            |
| Net Income   | \$ 27,617               | \$ 27,311  |
| Adjustments to Reconcile Net Income to Net Cash from Operating Activities: |                         |            |
| Loans Originated for Sale  | (20,527)                | (28,783)   |
| Proceeds from Loans Sold   | 19,238                  | 29,766     |
| Depreciation and Amortization  | 3,341                   | 4,467      |
| Net Realized (Gain) on Securities Available-for-Sale                       | -                       | (20)       |
| Provision for Deferred Income Taxes  | 291                     | 237        |
| (Increase) in Accrued Interest Receivable                                  | (3,382)                 | (2,299)    |
| Increase in Accrued Interest Payable                                       | 2,083                   | 43         |
| (Increase) in Other Assets   | (2,317)                 | (936)      |
| (Decrease) in Other Liabilities  | (274)                   | (363)      |
| Net Cash from Operating Activities   | 26,070                  | 29,423     |
| <b>Cash Flows from Investing Activities</b>                                |                         |            |
| Proceeds from Maturities of Interest-Bearing Time Deposits Due from Banks  | 747                     | -          |
| Purchase of Available-for-Sale Securities                                  | (11,457)                | (144,612)  |
| Proceeds from Calls or Maturities of Available-for-Sale Securities         | 64,672                  | 65,092     |
| Proceeds from Sales of Available-for-Sale Securities                       | -                       | 4,097      |
| Proceeds from Calls or Maturities of Held-to-Maturity Securities           | 5,311                   | 9,998      |
| Net (Increase) Decrease Non-Marketable Equity Securities                   | (1,067)                 | 189        |
| Net (Increase) in Loans  | (88,965)                | (82,437)   |
| Capital Expenditures   | (1,726)                 | (786)      |
| Net Cash (used in) Investing Activities                                    | (32,485)                | (148,459)  |
| <b>Cash Flows from Financing Activities</b>                                |                         |            |
| Net (Decrease) in Deposits   | (55,403)                | (100,382)  |
| Payments on Other Borrowings   | (14,066)                | (32,996)   |
| Proceeds from Other Borrowings   | 7,335                   | 7,000      |
| Proceeds from Federal Home Loan Bank Debt                                  | 135,350                 | -          |
| Repayments of Federal Home Loan Bank Debt                                  | (94,450)                | (9,100)    |
| Proceeds from Issuance of Common Stock                                     | 518                     | 532        |
| Payments to Acquire and Retire Common Stock                                | (2,299)                 | (2,584)    |
| Dividends Paid   | (9,962)                 | (7,042)    |
| Net Cash (used in) Financing Activities                                    | (32,977)                | (144,572)  |
| Net (Decrease) in Cash and Cash Equivalents                                | (39,392)                | (263,608)  |
| Cash and Cash Equivalents at Beginning of Year                             | 169,747                 | 433,355    |
| Cash and Cash Equivalents at End of Year                                   | \$ 130,355              | \$ 169,747 |
| <b>Supplemental Disclosure of Cash Flow Information</b>                    |                         |            |
| Cash Paid During the Year for:   |                         |            |
| Interest   | \$ 16,714               | \$ 5,144   |
| Income Taxes   | 8,342                   | 7,324      |

The accompanying notes are an integral part of these consolidated financial statements.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

## Note 1 - Summary of Significant Accounting Policies

**General** - The consolidated financial statements include the accounts of Security National Corporation and its wholly-owned subsidiaries (the Company), which consist of The Security National Bank of Sioux City, Iowa and Security National Bank of South Dakota. During 2023, Northwestern Bank merged into The Security National Bank of Sioux City, Iowa. The Company is principally engaged in commercial, agricultural, consumer and real estate lending and deposit activities. The Company also provides wealth management services. All intercompany transactions and accounts have been eliminated in consolidation.

**Adoption of New Accounting Standard** - On January 1, 2023, the Company adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* (ASC 326), as amended, which requires credit losses to be measured using a current expected credit loss (CECL) methodology over the expected life of certain financial assets. The standard is applicable to loans, held-to-maturity (HTM) debt securities and off-balance sheet credit exposures. In addition, for available-for-sale (AFS) debt securities, ASC 326 requires a potential allowance for any credit related impairment that is identified.

The Company adopted ASC 326 using the modified retrospective method. Periods beginning after January 1, 2023 are presented under ASC 326 while prior periods continue to be presented in accordance with previously applicable Generally Accepted Accounting Principles (GAAP) in the United States of America. The Company recorded a decrease to retained earnings of \$2,007,000, net of tax effect, as of January 1, 2023 for the cumulative effect of adopting ASC 326.

**Use of Estimates** - In preparing consolidated financial statements in conformity with GAAP, the Company is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities, as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change include the allowance for credit losses and fair value of financial instruments.

**Cash and Cash Equivalents** - Cash and cash equivalents includes cash on hand, due from banks, money market funds and federal funds sold with an original maturity date of three months or less.

**Interest-Bearing Time Deposits Due From Banks** - Interest-bearing time deposits due from banks are comprised of balances in financial institutions with original maturities greater than three months.

**Securities** - AFS securities consist of debt securities reported at estimated fair value with unrealized gains and losses, after applicable income taxes, reported in other comprehensive income (loss). AFS securities may be sold for management of general liquidity needs, response to market interest rate fluctuations, implementation of asset/liability management strategies, funding increased loan demand, or other similar factors. The fair value of securities is based on quoted market prices, or if quoted market prices are not available, then the fair value is estimated using quoted market prices for similar securities. HTM securities are reported at amortized cost and consist of debt securities for which the Company has the positive intent and ability to hold to maturity.

Premiums and discounts are amortized to the earliest call or maturity date of the related securities using the effective yield method. Gains and losses on the sales of securities are recognized using the specific identification method.

Prior to the adoption of ASC 326, the amortized cost of investment securities was adjusted for impairment in value deemed to be other-than-temporary in the period in which the determination was made. The Company did not change the revised cost basis for subsequent recoveries in value. The discount (or reduced premium) based on the new cost basis was accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

**Non-Marketable Equity Securities** - Federal Reserve stock and Federal Home Loan Bank stock are not actively traded and do not have readily determinable fair values. These securities are reported at cost as non-marketable equity securities.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

## Note 1 - Summary of Significant Accounting Policies

Continued

**Loans Held-for-Sale** - Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Gains and losses are recorded in non-interest income on the Consolidated Statements of Income.

**Loans** - Loans that the Company has the intent and ability to hold for the foreseeable future are stated at the amount of unpaid principal less an allowance for credit losses and any deferred fees and costs on originated loans. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding. The accrual of interest on loans is discontinued when the Company believes that the borrower may be unable to meet payments as scheduled, generally when the loan is 120 days past due. Loan origination fees, net of certain direct origination costs, are deferred and amortized as a level yield adjustment over the term of the loan.

Current year interest accrued but not collected for loans that are placed on nonaccrual or charged-off is reversed against interest income. Previous year interest accrued but not collected for loans placed on nonaccrual or charged-off is included in total charged-off loans.

**Allowance for Credit Losses – Loans** - The allowance for credit losses (ACL) for loans represents the Company's estimate of credit losses over the expected life of the portfolio. The ACL is adjusted as losses are expected to occur through a provision for credit losses charged against income. Loan losses are charged against the ACL when the Company believes the uncollectability of a loan is confirmed. Subsequent recoveries, if any, are credited to the ACL. The ACL is evaluated on a regular basis.

The Company estimates the ACL using relevant available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following five loan portfolio segments:

*Agricultural loans* generally consist of loans for working capital, livestock, equipment and farmland. Repayment is primarily dependent on the sale of agricultural commodities. Credit risk is driven by market changes in commodity and farmland values.

*Commercial loans* generally consist of loans for working capital and equipment. *Commercial real estate loans* generally consist of loans for construction and business expansion. Repayment of both commercial segments is primarily from the cash flow of the borrower's principal business operation. Credit risk is driven by the creditworthiness of the borrower, real estate values and general economic conditions.

*Residential real estate loans* are secured by owner-occupied family residences and home equity lines of credit. Repayment is primarily dependent on the personal income and creditworthiness of the borrower. Credit risk is driven by economic conditions affecting personal income and property values.

*Consumer loans* generally consist of short-term loans for personal purposes. Repayment is primarily dependent on the personal income and creditworthiness of the borrower. Credit risk is driven by the creditworthiness of the borrower and general economic conditions.

Historical loss experience is used for estimating the ACL. The Company also qualitatively adjusts for risk factors (Q-Factors) in assessing the expected credit losses within the loan portfolio segments. The risks considered in making Q-Factor adjustments include the impact of any changes in (1) lending policies and procedures, (2) national, regional, and local economic conditions, (3) the nature and volume of the loan portfolio segments, (4) the experience of lending staff, (5) underlying collateral values and (6) concentrations of credit.

Loans that do not share similar risk characteristics with the loan portfolio segments are evaluated individually based on underlying collateral values.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

## Note 1 - Summary of Significant Accounting Policies

Continued

**Allowance for Credit Losses – Unfunded Commitments** - The ACL for unfunded commitments represents expected losses resulting from contractual obligations to extend credit. The Company estimates the amount of expected losses by calculating a commitment usage factor and applying factors used in the ACL loan methodology noted above. The ACL for unfunded commitments is recorded at \$715,000 as of December 31, 2023 in other liabilities on the Consolidated Balance Sheets.

**Allowance for Credit Losses – Held-to-Maturity Securities** - The ACL for HTM securities represents expected losses based on a probability of default methodology. There is no ACL for HTM securities recorded on the Consolidated Balance Sheets.

**Premises and Equipment** - Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using the Modified Accelerated Cost Recovery System (MACRS) or straight-line method over the estimated useful lives of the assets. The Company's depreciation schedules range from 15 to 40 years for buildings and 5 to 10 years for furniture and equipment.

**Long-Lived Assets** - The Company evaluates long-lived assets for impairment whenever events or circumstances indicate the carrying amount may be less than fair value. No impairment was recognized during the years presented.

**Goodwill** - Goodwill arises from the excess of cost over net assets acquired in purchase transactions. Goodwill is not amortized but reviewed for impairment at least annually. No impairment of goodwill was recognized during the years presented.

**Trust Assets** - Assets held by the Company in fiduciary or agency capacities are not included on the Consolidated Balance Sheets.

**Securities Sold Under Agreements to Repurchase** - The Company enters into sales of securities under agreements to repurchase which provides for the repurchase of the same security. Securities sold under agreements to repurchase are treated as financings, and the obligations to repurchase such securities are reflected as a liability in other borrowings on the Consolidated Balance Sheets. The securities underlying the agreements remain in the asset accounts on the Consolidated Balance Sheets.

**Income Taxes** - The Company files a consolidated federal income tax return and separate state income tax returns for each subsidiary. Current income tax expense reflects income taxes incurred for the current period by applying the provisions of enacted income tax laws to the Company's taxable income. Deferred income tax assets and liabilities are recorded based on differences between the financial statement and tax basis of assets and liabilities, using enacted income tax rates. Deferred income tax expense or benefit results from changes in deferred income tax assets and liabilities between periods.

During the fourth quarter of each year, the Company evaluates the liability related to uncertain income tax positions. Income tax positions are recognized if it is more-likely-than-not, based on the technical merits, that the income tax position would be realized or sustained upon examination. The determination of whether or not an income tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to the Company's judgment.

**Earnings Per Share** - Basic earnings per share is computed using the weighted average number of shares outstanding during the year. Diluted earnings per share reflects the potential dilution that could occur if restricted shares were included.

**Revenue Recognition** - The Company recognizes revenue as it is earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The principal source of revenue is interest income from loans and investments. The Company also earns non-interest income from various banking and financial services offered to its customers. Certain specific policies related to non-interest income include the following:

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 1 - Summary of Significant Accounting Policies

Continued

*Service Charges on Deposit Accounts* - Service charges on deposit accounts, primarily customer overdraft and account operating fees, are recognized as transactions occur and services are provided.

*Interchange Fees* - Interchange fees are primarily from debit card transactions processed through card association networks, merchant services, and other card related services, and are recognized as transactions occur.

*Trust Fees* - Trust fees include fees from asset management, custody, recordkeeping, investment advisory and administrative services and are recognized as services are provided.

### Note 2 - Securities

The amortized cost and fair value with gross unrealized gains and losses of debt securities at December 31 are as follows:

|                              | 2023              |   |                    |                  | 2022              |   |                    |                   |
|------------------------------|-------------------|---|--------------------|------------------|-------------------|---|--------------------|-------------------|
|                              | Amortized<br>Cost | Gross<br>Unrealized<br>Gains / (Losses) |                    | Fair<br>Value    | Amortized<br>Cost | Gross<br>Unrealized<br>Gains / (Losses) |                    | Fair<br>Value     |
| <b>Available-for-Sale</b>    |                   |   |                    |                  |                   |   |                    |                   |
| U.S. Treasury & Gov't        |                   |   |                    |                  |                   |   |                    |                   |
| Agency Securities            | \$ 69,309         | \$ -                                    | \$ (4,242)         | \$ 65,067        | \$ 76,042         | \$ -                                    | \$ (6,158)         | \$ 69,884         |
| Mortgage-Backed Securities   | 286,379           | 70                                      | (24,581)           | 261,868          | 328,249           | 70                                      | (30,900)           | 297,419           |
| Other Securities             | 25,138            | 14                                      | (497)              | 24,655           | 31,454            | 29                                      | (974)              | 30,509            |
| State & Municipal Securities | 23,642            | 182                                     | (1,509)            | 22,315           | 23,352            | 103                                     | (1,761)            | 21,694            |
| Corporate Securities         | 34,666            | 9                                       | (4,238)            | 30,437           | 35,167            | -                                       | (4,353)            | 30,814            |
| <b>Total</b>                 | <b>\$439,134</b>  | <b>\$ 275</b>                           | <b>\$ (35,067)</b> | <b>\$404,342</b> | <b>\$ 494,264</b> | <b>\$ 202</b>                           | <b>\$ (44,146)</b> | <b>\$ 450,320</b> |
| <b>Held-to-Maturity</b>      |                   |   |                    |                  |                   |   |                    |                   |
| State & Municipal Securities | <b>\$ 60,395</b>  | <b>\$ 14</b>                            | <b>\$ (1,765)</b>  | <b>\$ 58,644</b> | <b>\$ 66,111</b>  | <b>\$ 14</b>                            | <b>\$ (2,110)</b>  | <b>\$ 64,015</b>  |

Gross gains of \$20,000 resulting from sales of securities were realized in 2022, none in 2023. There were no gross losses resulting from sales of securities realized in 2023 and 2022. Realized gains and losses from sales of securities are included in other non-interest income on the Consolidated Statements of Income.

Securities with a carrying value of \$236,672,000 and \$236,420,000 at December 31, 2023 and 2022, respectively, were pledged for securities sold under agreements to repurchase and for other purposes as required or permitted by law.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 2 - Securities

Continued

Individual securities by the length of time each has been in a continuous loss position as of December 31 are as follows:

|   | 2023                       |                 |                          |                    |                   |                    |
|---|----------------------------|-----------------|--------------------------|--------------------|-------------------|--------------------|
|   | <u>Less Than 12 Months</u> |                 | <u>12 Months Or More</u> |                    | <u>Total</u>      |                    |
|   | Unrealized                 |                 | Unrealized               |                    | Unrealized        |                    |
|   | Fair Value                 | (Losses)        | Fair Value               | (Losses)           | Fair Value        | (Losses)           |
| U.S. Treasury & Gov't Agency Securities | \$ -                       | \$ -            | \$ 65,068                | \$ (4,242)         | \$ 65,068         | \$ (4,242)         |
| Mortgage-Backed Securities              | 18,351                     | (167)           | 238,743                  | (24,414)           | 257,094           | (24,581)           |
| Other Securities                        | 1,246                      | (52)            | 20,850                   | (445)              | 22,096            | (497)              |
| State & Municipal Securities            | 13,202                     | (119)           | 55,536                   | (3,155)            | 68,738            | (3,274)            |
| Corporate Securities                    | -                          | -               | 29,496                   | (4,238)            | 29,496            | (4,238)            |
| Total                                   | <u>\$ 32,799</u>           | <u>\$ (338)</u> | <u>\$ 409,693</u>        | <u>\$ (36,494)</u> | <u>\$ 442,492</u> | <u>\$ (36,832)</u> |

  

|   | 2022                       |                    |                          |                    |                   |                    |
|---|----------------------------|--------------------|--------------------------|--------------------|-------------------|--------------------|
|   | <u>Less Than 12 Months</u> |                    | <u>12 Months Or More</u> |                    | <u>Total</u>      |                    |
|   | Unrealized                 |                    | Unrealized               |                    | Unrealized        |                    |
|   | Fair Value                 | (Losses)           | Fair Value               | (Losses)           | Fair Value        | (Losses)           |
| U.S. Treasury & Gov't Agency Securities | \$ 16,162                  | \$ (506)           | \$ 53,721                | \$ (5,652)         | \$ 69,883         | \$ (6,158)         |
| Mortgage-Backed Securities              | 172,928                    | (12,485)           | 118,814                  | (18,415)           | 291,742           | (30,900)           |
| Other Securities                        | 13,969                     | (189)              | 15,117                   | (785)              | 29,086            | (974)              |
| State & Municipal Securities            | 68,342                     | (2,471)            | 8,662                    | (1,400)            | 77,004            | (3,871)            |
| Corporate Securities                    | 17,683                     | (2,074)            | 13,132                   | (2,279)            | 30,815            | (4,353)            |
| Total                                   | <u>\$ 289,084</u>          | <u>\$ (17,725)</u> | <u>\$ 209,446</u>        | <u>\$ (28,531)</u> | <u>\$ 498,530</u> | <u>\$ (46,256)</u> |

The total fair value of individual securities in an unrealized loss position at December 31, 2023 and 2022 was \$442,492,000 and \$498,530,000, respectively, which is approximately 96% and 97%, respectively, of the Company's investment portfolio fair values. The unrealized losses associated with each category were caused primarily by changes in interest rates. Prices are expected to recover as they approach maturity. The Company has the intent and ability to hold these securities to maturity and does not believe it is more-likely-than-not that it will be required to sell the securities before recovery.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 2 - Securities

Continued

The maturities of mortgage-backed and other securities are disclosed separately because assets underlying the securities may be called or repaid without penalty. The amortized cost and estimated fair value of debt securities, by contractual maturity, as of December 31, 2023 are as follows:

|                                      | Amortized<br>Cost | Fair<br>Value |
|--------------------------------------|-------------------|---------------|
| <b>Available-for-Sale</b>            |                   |               |
| Due in One Year or Less              | \$ 15,466         | \$ 15,153     |
| Due between One Year and Five Years  | 70,342            | 65,023        |
| Due between Five Years and Ten Years | 37,751            | 33,754        |
| Due after Ten Years                  | 4,058             | 3,889         |
|                                      | 127,617           | 117,819       |
| Mortgage-Backed Securities           | 286,379           | 261,868       |
| Other Securities                     | 25,138            | 24,655        |
| Total                                | \$ 439,134        | \$ 404,342    |
| <b>Held-to-Maturity</b>              |                   |               |
| Due in One Year or Less              | \$ 8,002          | \$ 7,962      |
| Due between One Year and Five Years  | 34,640            | 33,715        |
| Due between Five Years and Ten Years | 17,753            | 16,967        |
| Total                                | \$ 60,395         | \$ 58,644     |

### Note 3 - Loans and Allowance for Credit Losses

Nearly all of the Company's loans are to Iowa and South Dakota based customers. Although the loan portfolio is well-diversified by industry, the economies of Iowa and South Dakota are largely dependent upon the agricultural economy.

The Company's policy for requiring collateral and guarantees varies with the creditworthiness of each borrower. The portfolio is generally secured by accounts receivable, inventory, crops, property, plant and equipment, income producing commercial properties, marketable and non-marketable securities or interest-bearing time deposits.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

Loan balances as of December 31, 2022 are as follows:

|  | Agricultural | Commercial | Residential<br>Real Estate | Consumer  | Total Loans  | Net<br>Deferred<br>Loan Fees | Allowance<br>for Credit<br>Losses | Net Loans    |
|--|--------------|------------|----------------------------|-----------|--------------|------------------------------|-----------------------------------|--------------|
| Ending balance                           | \$ 377,802   | \$ 386,770 | \$ 209,819                 | \$ 71,865 | \$ 1,046,256 | \$ (1,841)                   | \$ (17,767)                       | \$ 1,026,648 |
| Ending balance<br>individually evaluated | \$ 7,751     | \$ 4,703   | \$ 220                     | \$ 69     | \$ 12,743    |                              |                                   |              |
| Ending balance<br>collectively evaluated | \$ 370,051   | \$ 382,067 | \$ 209,599                 | \$ 71,796 | \$ 1,033,513 |                              |                                   |              |

Prior to the adoption of ASC 326, the allowance for credit losses was based on risk inherent in the portfolio and followed guidance established by GAAP. The actual allocations were based on allowances for specific loans identified as probable losses. In addition, the Company used historical loss experience and current environmental factors to determine the amount of risk associated with each portfolio segment. Current environmental factors included items such as changes in the local and national economy, the nature and volume of the portfolio, and other external factors such as competition, legal or regulatory issues. The risk associated with each portfolio segment determined if additional allocations were made.

Activity for the allowance for credit losses by loan portfolio segment for the year ended December 31, 2022 is as follows:

|                                       | Agricultural | Commercial | Residential<br>Real Estate | Consumer | Total     |
|---------------------------------------|--------------|------------|----------------------------|----------|-----------|
| Beginning balance                     | \$ 7,197     | \$ 8,526   | \$ 1,356                   | \$ 676   | \$ 17,755 |
| Charge-offs                           | -            | (3)        | -                          | (29)     | (32)      |
| Recoveries                            | 37           | -          | 2                          | 5        | 44        |
| Provision                             | -            | -          | -                          | -        | -         |
| Ending balance                        | \$ 7,234     | \$ 8,523   | \$ 1,358                   | \$ 652   | \$ 17,767 |
| Ending balance individually evaluated | \$ -         | \$ 18      | \$ -                       | \$ -     | \$ 18     |
| Ending balance collectively evaluated | \$ 7,234     | \$ 8,505   | \$ 1,358                   | \$ 652   | \$ 17,749 |

In order to effectively manage credit risk within the Company's agricultural and commercial loan portfolio, loans are risk rated in accordance with the Company's established eight-level system. Risk ratings are assigned to the Company's loans based on various characteristics including management quality, financial condition, repayment ability and collateral coverage. Risk ratings are derived from standard regulatory rating definitions. "Pass" ratings are assigned to those borrowers that do not have identified potential or well defined weaknesses and for which there is a high probability of orderly repayment. Loans rated "Special Mention" have potential weaknesses that require management's closer attention but not sufficient risk to warrant adverse classification. The Company's "Watch List" ratings include substandard, doubtful and potential loss rated loans which have risk characteristics that make collection in full on the basis of current facts questionable to improbable.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

The Company evaluates residential real estate and consumer portfolios based on payment activity. Loans past due 90 days or more and accruing and nonaccrual loans are considered nonperforming.

The credit quality of each agricultural and commercial loan is monitored on an annual basis by the lender to determine the appropriate risk rating based on the most recent information and events. In addition, loan reviews are performed which independently evaluate credit quality and determine if loans are appropriately rated. Loans determined to be of a higher risk to the Company are evaluated more often than others. At a minimum, all "Watch List" loans are assessed on an annual basis, while the remaining "Pass" and "Special Mention" loans are assessed in proportion to their relative risk to the loan portfolio as a whole.

Credit quality indicators by loan portfolio segment as of December 31, 2022 are as follows:

|                 | Agricultural      | Commercial        |
|-----------------|-------------------|-------------------|
| Pass            | \$ 365,470        | \$ 374,204        |
| Special Mention | -                 | -                 |
| Watch List      | 12,332            | 12,566            |
|                 | <u>\$ 377,802</u> | <u>\$ 386,770</u> |

  

|               | Residential<br>Real Estate | Consumer         |
|---------------|----------------------------|------------------|
| Performing    | \$ 209,819                 | \$ 71,802        |
| Nonperforming | -                          | 63               |
|               | <u>\$ 209,819</u>          | <u>\$ 71,865</u> |

An age analysis of past due and nonaccrual loans by portfolio segment as of December 31, 2022 is as follows:

|                         | 30-89 Days<br>Past Due | 90 Days or More<br>Past Due | Nonaccrual      | Total Past Due<br>and Nonaccrual | Current             | Total Loans         |
|-------------------------|------------------------|-----------------------------|-----------------|----------------------------------|---------------------|---------------------|
| Agricultural            | \$ -                   | \$ -                        | \$ 1,866        | \$ 1,866                         | \$ 375,936          | \$ 377,802          |
| Commercial              | 305                    | -                           | 151             | 456                              | 386,314             | 386,770             |
| Residential Real Estate | 1,093                  | -                           | -               | 1,093                            | 208,726             | 209,819             |
| Consumer                | 308                    | 42                          | 20              | 370                              | 71,495              | 71,865              |
|                         | <u>\$ 1,706</u>        | <u>\$ 42</u>                | <u>\$ 2,037</u> | <u>\$ 3,785</u>                  | <u>\$ 1,042,471</u> | <u>\$ 1,046,256</u> |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

Prior to the adoption of ASC 326, loans were considered impaired when based on current information and events it became improbable to collect the full contractual principal balance and interest according to the terms of the original loan agreement. Impairment was evaluated on an individual loan by loan basis. If a loan was deemed impaired, a valuation allowance was allocated based on either the present value of estimated future cash flows using the loan's effective interest rate or the fair value of the collateral if repayment was expected to be solely from the sale of the collateral. Interest payments on impaired loans were applied to principal only for potential loss rated loans, otherwise interest payments were recognized on a cash basis if collectability is reasonably assured. Impaired loans were charged-off when uncollectible.

Impaired loan balances as of December 31, 2022 are as follows:

|                         | Unpaid<br>Contractual<br>Principal<br>Balance | Recorded<br>Investment<br>With No<br>Allowance | Recorded<br>Investment<br>With<br>Allowance | Total<br>Recorded<br>Investment | Average<br>Recorded<br>Investment | Interest<br>Income<br>Recognized |
|-------------------------|---|--|---|---------------------------------|-----------------------------------|----------------------------------|
| Agricultural            | \$ 8,194                                      | \$ 7,751                                       | \$ -  | \$ 7,751                        | \$ 7,706                          | \$ 274                           |
| Commercial              | 4,786   | 4,673  | 30  | 4,703                           | 4,951                             | 256                              |
| Residential Real Estate | 220   | 220  | -   | 220                             | 227                               | 11                               |
| Consumer                | 69  | 61   | 8   | 69                              | 73                                | 3                                |
| Total                   | <u>\$ 13,269</u>                              | <u>\$ 12,705</u>                               | <u>\$ 38</u>                                | <u>\$ 12,743</u>                | <u>\$ 12,957</u>                  | <u>\$ 544</u>                    |

Prior to the adoption of ASC 326, the restructuring of a loan was considered a troubled debt restructuring (TDR) if both the borrower was experiencing financial difficulties and the creditor had granted a concession. Concessions may have included interest rate reductions or below market interest rates, principal forgiveness, restructuring amortization schedules and other actions intended to minimize potential losses. Upon restructuring, an allowance was allocated to the credit loss reserve by measuring the difference between the loan's original carrying amount and the present value of estimated future cash flows using the loan's effective interest rate. If any portion of the loan's principal or interest was forgiven at the time of restructuring, the amount was allocated to the allowance for credit losses. There were no material subsequently defaulted restructurings during the year ended December 31, 2022. The Company had no TDRs during 2022.

The Company had four loans modified to borrowers experiencing financial difficulty (MBFD) totaling \$142,000 during 2023. There was no subsequent impact to the allowance for credit losses from MBFD during 2023.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

As described in Note 1, the Company identified five loan portfolio segments. Balances by loan portfolio segment as of December 31, 2023 are as follows:

|                             |                     |
|-----------------------------|---------------------|
| Agricultural                | \$ 381,977          |
| Commercial                  | 145,824             |
| Commercial Real Estate      | 305,494             |
| Residential Real Estate     | 271,380             |
| Consumer                    | <u>30,445</u>       |
| Total Loans                 | 1,135,120           |
| Net Deferred Loan Fees      | (1,747)             |
| Allowance for Credit Losses | <u>(19,760)</u>     |
| Net Loans                   | <u>\$ 1,113,613</u> |

Activity for the allowance for credit losses by loan portfolio segment for the year ended December 31, 2023 is as follows:

|                         | Beginning<br>Balance | Adoption of<br>ASC 326 | Charge-offs    | Recoveries   | Provision   | Ending<br>Balance |
|-------------------------|----------------------|------------------------|----------------|--------------|-------------|-------------------|
| Agriculture             | \$ 9,891             | \$ 932                 | \$ -           | \$ 10        | \$ -        | \$ 10,833         |
| Commercial              | 2,413                | 402                    | -              | -            | -           | 2,815             |
| Commercial Real Estate  | 3,078                | 397                    | -              | -            | -           | 3,475             |
| Residential Real Estate | 2,128                | 239                    | -              | 1            | -           | 2,368             |
| Consumer                | 257                  | 30                     | (22)           | 4            | -           | 269               |
| Total                   | <u>\$ 17,767</u>     | <u>\$ 2,000</u>        | <u>\$ (22)</u> | <u>\$ 15</u> | <u>\$ -</u> | <u>\$ 19,760</u>  |

Collateral-dependent loans evaluated individually by portfolio segment and type of underlying collateral as of December 31, 2023 are as follows:

|                        | Real Estate     | Business<br>Assets | Total           |
|------------------------|-----------------|--------------------|-----------------|
| Agricultural           | \$ 405          | \$ 445             | \$ 850          |
| Commercial             | 1,496           | 1,984              | 3,480           |
| Commercial Real Estate | 1,906           | -                  | 1,906           |
|                        | <u>\$ 3,807</u> | <u>\$ 2,429</u>    | <u>\$ 6,236</u> |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

Credit quality indicators by loan portfolio segment as of December 31, 2023 are as follows:

|                          | Term Loans Origination Year |           |           |            | Revolving<br>Loans | Total      |
|--------------------------|-----------------------------|-----------|-----------|------------|--------------------|------------|
|                          | 2023                        | 2022      | 2021      | Prior      |                    |            |
| Agricultural:            |                             |           |           |            |                    |            |
| Pass                     | \$ 48,795                   | \$ 46,449 | \$ 47,332 | \$ 99,631  | \$ 135,372         | \$ 377,579 |
| Special Mention          | 332                         | 1,432     | 563       | 431        | 435                | 3,193      |
| Watch List               | 44                          | -         | 156       | 405        | 600                | 1,205      |
| Total                    | \$ 49,171                   | \$ 47,881 | \$ 48,051 | \$ 100,467 | \$ 136,407         | \$ 381,977 |
| Commercial:              |                             |           |           |            |                    |            |
| Pass                     | \$ 35,049                   | \$ 46,113 | \$ 8,249  | \$ 20,236  | \$ 26,297          | \$ 135,944 |
| Special Mention          | 77                          | 193       | 5,475     | 267        | 313                | 6,325      |
| Watch List               | 75                          | -         | -         | 480        | 3,000              | 3,555      |
| Total                    | \$ 35,201                   | \$ 46,306 | \$ 13,724 | \$ 20,983  | \$ 29,610          | \$ 145,824 |
| Commercial Real Estate:  |                             |           |           |            |                    |            |
| Pass                     | \$ 40,080                   | \$ 94,194 | \$ 55,214 | \$ 97,907  | \$ 6,345           | \$ 293,740 |
| Special Mention          | -                           | 2,171     | 208       | 851        | -                  | 3,230      |
| Watch List               | 102                         | -         | -         | 8,422      | -                  | 8,524      |
| Total                    | \$ 40,182                   | \$ 96,365 | \$ 55,422 | \$ 107,180 | \$ 6,345           | \$ 305,494 |
| Residential Real Estate: |                             |           |           |            |                    |            |
| Performing               | \$ 50,082                   | \$ 55,920 | \$ 50,515 | \$ 108,563 | \$ 6,290           | \$ 271,370 |
| Nonperforming            | -                           | -         | -         | 10         | -                  | 10         |
| Total                    | \$ 50,082                   | \$ 55,920 | \$ 50,515 | \$ 108,573 | \$ 6,290           | \$ 271,380 |
| Consumer:                |                             |           |           |            |                    |            |
| Performing               | \$ 14,963                   | \$ 6,499  | \$ 6,013  | \$ 2,560   | \$ 390             | \$ 30,425  |
| Nonperforming            | 12                          | 3         | 2         | -          | 3                  | 20         |
| Total                    | \$ 14,975                   | \$ 6,502  | \$ 6,015  | \$ 2,560   | \$ 393             | \$ 30,445  |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 3 - Loans and Allowance for Credit Losses

Continued

An age analysis of past due and nonaccrual loans by portfolio segment as of December 31, 2023 is as follows:

|                         | 30-89 Days Past<br>Due | 90 Days or<br>More Past Due | Nonaccrual    | Total Past Due<br>and Nonaccrual | Current             | Total Loans         |
|-------------------------|------------------------|-----------------------------|---------------|----------------------------------|---------------------|---------------------|
| Agricultural            | \$ 225                 | \$ -                        | \$ 406        | \$ 631                           | \$ 381,346          | \$ 381,977          |
| Commercial              | 3,480                  | -                           | 126           | 3,606                            | 142,218             | 145,824             |
| Commercial Real Estate  | 451                    | -                           | -             | 451                              | 305,043             | 305,494             |
| Residential Real Estate | 887                    | 10                          | -             | 897                              | 270,483             | 271,380             |
| Consumer                | 155                    | 7                           | 13            | 175                              | 30,270              | 30,445              |
|                         | <u>\$ 5,198</u>        | <u>\$ 17</u>                | <u>\$ 545</u> | <u>\$ 5,760</u>                  | <u>\$ 1,129,360</u> | <u>\$ 1,135,120</u> |

The Company had no nonaccrual loans with specific allowances for credit losses recorded as of December 31, 2023.

The Company has various loans outstanding to directors and executive officers, including their immediate families and companies in which they are the principal owners. Such loans are made in the ordinary course of business at comparable terms and conditions as loans made to unrelated parties. Total loans to related parties at December 31, 2023 and 2022 amounted to \$38,382,000 and \$62,593,000, respectively.

### Note 4 - Premises and Equipment

Premises and equipment at December 31 are as follows:

|                                   | 2023             | 2022             |
|-----------------------------------|------------------|------------------|
| Land                              | \$ 2,529         | \$ 4,291         |
| Premises                          | 18,143           | 17,815           |
| Furniture, Fixtures and Equipment | 13,040           | 10,474           |
|                                   | <u>33,712</u>    | <u>32,580</u>    |
| Less: Accumulated Depreciation    | <u>(20,714)</u>  | <u>(20,378)</u>  |
| Net Carrying Value                | <u>\$ 12,998</u> | <u>\$ 12,202</u> |

Depreciation expense amounted to \$1,021,000 and \$1,074,000 for the years ended December 31, 2023 and 2022, respectively. These amounts are included in the net occupancy and furniture and equipment line items on the Consolidated Statements of Income.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 5 - Deposits

At December 31, 2023, the scheduled maturities of time deposits are as follows:

|            |                   |
|------------|-------------------|
| 2024       | \$ 221,511        |
| 2025       | 15,651            |
| 2026       | 5,050             |
| 2027       | 1,542             |
| 2028       | 430               |
| Thereafter | 20                |
| Total      | <u>\$ 244,204</u> |

Time deposits that exceed the Federal Deposit Insurance Corporation Insurance limit of \$250,000 at December 31, 2023 and 2022 were \$68,592,000 and \$28,109,000, respectively. Brokered time deposits at December 31, 2023 and 2022 were \$1,093,000 and \$2,332,000, respectively.

The Company has entered into deposit transactions with its executive officers and directors and their affiliates. The aggregate amount of deposits with such related parties at December 31, 2023 and 2022 were \$34,466,000 and \$28,567,000, respectively.

### Note 6 - Other Borrowings and Federal Home Loan Bank Debt

Securities underlying repurchase agreements had an amortized cost of approximately \$227,123,000 and \$233,575,000 and fair value of approximately \$209,973,000 and \$211,745,000 at December 31, 2023 and 2022, respectively. The gross obligation by the class of collateral pledged and the remaining contractual maturity of the agreements at December 31 is as follows:

|                                     | <u>Remaining Contractual Maturity of the Agreements</u> |                      |                                 |                   |
|-------------------------------------|---|----------------------|---------------------------------|-------------------|
|                                     | <u>Overnight and<br/>Continuous</u>                     | <u>Up to 30 Days</u> | <u>Greater than<br/>90 Days</u> | <u>Total</u>      |
| <b>2023 Repurchase Agreements</b>   |   |                      |                                 |                   |
| U.S. Treasury and Agency Securities | \$ 36,791   | \$ -                 | \$ 1,092                        | \$ 37,883         |
| Mortgage-Backed Securities          | 119,567   | -                    | 4,908                           | 124,475           |
| Total Repurchase Agreements         | <u>\$ 156,358</u>                                       | <u>\$ -</u>          | <u>\$ 6,000</u>                 | <u>\$ 162,358</u> |
| <b>2022 Repurchase Agreements</b>   |   |                      |                                 |                   |
| U.S. Treasury and Agency Securities | \$ 33,639   | \$ -                 | \$ 1,985                        | \$ 35,624         |
| Mortgage-Backed Securities          | 125,785   | -                    | 3,015                           | 128,800           |
| Total Repurchase Agreements         | <u>\$ 159,424</u>                                       | <u>\$ -</u>          | <u>\$ 5,000</u>                 | <u>\$ 164,424</u> |

Total other borrowings for the years ended December 31 are as follows:

|  | <u>2023</u>       | <u>2022</u>       |
|--|-------------------|-------------------|
| Securities Sold Under Agreements to Repurchase | \$ 162,358        | \$ 164,424        |
| Federal Funds Purchased                        | 5,631             | 4,296             |
| Line of Credit                                 | -                 | 6,000             |
| Total  | <u>\$ 167,989</u> | <u>\$ 174,720</u> |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 6 - Other Borrowings and Federal Home Loan Bank Debt

Continued

Securities sold under agreements to repurchase consist of obligations of the Company to other parties and generally mature overnight following the transaction date. Securities sold under agreements to repurchase from related parties totaled \$49,614,000 and \$56,894,000 at December 31, 2023 and 2022, respectively.

Federal funds purchased, securities sold under agreements to repurchase, and Federal Reserve Bank borrowings generally mature within one year from their transaction date.

At December 31, 2023 and 2022, collateral available for Federal Reserve Bank borrowings included commercial and agricultural loans totaling \$208,211,000 and \$228,458,000, respectively.

At December 31, 2023 the Company's term borrowings of \$63,650,000 from the Federal Home Loan Bank of Des Moines had interest rates ranging from 1.06% to 6.07% with \$31,500,000 maturing in 2024, \$8,800,000 in 2025, \$4,050,000 in 2026, \$5,175,000 in 2027, \$12,125,000 in 2028 and \$2,000,000 in 2029. At December 31, 2022, the Company had term borrowings of \$22,750,000 from the Federal Home Loan Bank of Des Moines.

At December 31, 2023 and 2022, collateral available for outstanding advances with the Federal Home Loan Bank of Des Moines included real estate loans totaling \$111,156,000 and \$147,956,000, respectively.

At December 31, 2023, the Company had a \$10,000,000 line of credit expiring March 31, 2024 with a variable interest rate equal to 8.50% as of December 31, 2023. There was no amount outstanding under the line of credit as of December 31, 2023, \$6,000,000 as of December 31, 2022.

### Note 7 - Income Taxes

Reconciliations of income tax computed at statutory rates compared to the provision for income taxes are as follows:

|  | <u>2023</u>     | <u>2022</u>     |
|--|-----------------|-----------------|
| Federal Tax at Statutory Rates                 | \$ 7,514        | \$ 7,390        |
| Benefit of Tax-Exempt Interest                 | (484)           | (463)           |
| Benefit of Cash Surrender Value Life Insurance | (277)           | (245)           |
| State Tax, Net of Federal Benefit              | 1,412           | 1,410           |
| Other  | (2)             | (211)           |
|  | <u>\$ 8,163</u> | <u>\$ 7,881</u> |
| Provision for Income Taxes                     |                 |                 |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 7 - Income Taxes

Continued

The approximate income tax effect of each type of temporary difference which gave rise to deferred income tax assets and deferred income tax liabilities at December 31 is as follows:

|   | 2023      | 2022      |
|---|-----------|-----------|
| <b>Deferred Income Tax Assets</b>                         |           |           |
| Allowance for Credit Losses                               | \$ 4,901  | \$ 4,460  |
| Deferred Compensation                                     | 2,326     | 2,277     |
| Vacation Accrual  | 71        | 92        |
| Other-Than-Temporary Impairment Prior to ASC 326 Adoption | 100       | 105       |
| Unrecognized Tax Benefits                                 | 169       | 172       |
| Unrealized Loss on Securities Available-for-Sale          | 8,322     | 10,971    |
|   | \$ 15,889 | \$ 18,077 |
| <b>Deferred Income Tax Liabilities</b>                    |           |           |
| Premises and Equipment                                    | \$ 660    | \$ 550    |
| Loan Fees   | 160       | 173       |
| Prepaid Expense   | 139       | 172       |
| Core Deposit Intangible Asset                             | 27        | 50        |
| Other   | 221       | 125       |
|   | \$ 1,207  | \$ 1,070  |
| <b>Net Deferred Income Tax Asset</b>                      | \$ 14,682 | \$ 17,007 |

Reconciliations of unrecognized income tax benefits for the years ended December 31 are as follows:

|  | 2023   | 2022   |
|--|--------|--------|
| Unrecognized Tax Benefits - Opening Balance    | \$ 746 | \$ 780 |
| Gross Increases - Current Period Tax Positions | 56     | 36     |
| Lapse of Statute of Limitations                | (71)   | (70)   |
|  | \$ 731 | \$ 746 |

The Company recorded a benefit of \$14,000 that decreased the effective tax rate for 2023. For the year ending December 31, 2023, the liability for interest was \$71,000 and a benefit of \$4,000 was recorded for interest during the year. The tax years that remain subject to examination for Federal and State tax include 2023, 2022, 2021 and 2020 resulting from a statute of limitation of three years. All of the gross unrecognized income tax benefits would impact the Company's effective tax rate if recognized. Any interest and penalties on income tax assessments or income tax refunds are recognized on the Consolidated Statements of Income as a component of the income tax expense. The amount of unrecognized income tax benefits is not expected to change significantly over the next 12 months.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

## Note 8 - Employee Benefit Plans

**Retirement Savings Plan** - The Company has a 401(k) Retirement Savings Plan which covers substantially all full-time employees who elect to participate. The Company makes matching contributions equal to 100% of the employee contribution, with the Company contribution not to exceed 6% of the employee's salary. Company contributions to the plan totaled \$1,052,000 and \$1,025,000 for 2023 and 2022, respectively.

**Restricted Stock Plan** - The Company has a Restricted Stock Plan whereby 80,000 shares of the Company's common stock may be awarded at the discretion of the Board of Directors. Recipients of restricted stock have the usual rights of a shareholder including the right to receive cash dividends and to vote the shares. The restricted stock vests at the lesser of normal retirement or five years. No shares are to be granted after December 31, 2027. The Company issued shares totaling 7,213 and 5,660 in 2023 and 2022, respectively. There were 24,169 and 23,412 non-vested shares outstanding as of December 31, 2023 and 2022, respectively. The Company recognized expense of \$502,000 and \$531,000 attributable to this plan in 2023 and 2022, respectively. As of December 31, 2023, there was \$1,972,000 of unrecognized compensation expense related to non-vested restricted stock awards.

**Deferred Compensation Plans** - The Company has a Director Deferred Fee Plan whereby directors may elect to receive cash or to defer director fees under the terms of the plan. The costs of the plan are fully expensed and the amount deferred totaled \$7,104,000 and \$6,769,000 as of December 31, 2023 and 2022, respectively. The Company has an Executive Deferred Compensation Plan whereby discretionary contributions may be made to participants under the terms of the plan. Contributions fully vest after five years. The amount deferred totaled \$162,000 and \$75,000 as of December 31, 2023 and 2022, respectively.

**Other Plans** - The Company has adopted several non-qualified benefit plans. The plans are used to provide special compensation and supplemental retirement benefits for certain key officers. There was no expense attributable to these plans in 2023 and 2022. The Company has adopted an agreement to provide certain executives with salary continuation in the event of termination. No expense has been recorded in conjunction with this plan.

## Note 9 - Commitments and Contingencies

In the normal course of business, the Company makes various commitments to extend credit which are not reflected in the accompanying financial statements. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The creditworthiness of each customer is evaluated on a case-by-case basis. The amount and type of collateral obtained, if it is deemed necessary upon extension of credit, is based on the Company's credit evaluation of the counter-party. The Company had undisbursed lines of credit to existing borrowers of \$319,923,000 and \$409,302,000 at December 31, 2023 and 2022, respectively.

Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. The guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions. These commitments are completed in the ordinary course of business, and the credit risk involved in issuing letters of credit and the amount or type of collateral obtained is essentially the same as that involved in extending loan facilities to customers. The Company had standby letters of credit outstanding of \$5,664,000 and \$5,961,000 at December 31, 2023 and 2022, respectively. No material future payments or losses are anticipated as a result of these transactions, the time frame is generally one year or less and the fair value of these guarantees is estimated to be immaterial. Therefore, the Company has not recorded a liability for the contingencies on the Consolidated Balance Sheets.

**Litigation** - In the normal course of business, the Company is occasionally a party to various legal proceedings. The Company periodically assesses its liabilities and contingencies in connection with these matters, based upon the latest information available. As additional information becomes available, the Company adjusts its assessment and estimates of such liabilities accordingly. The Company is not involved with any legal proceedings that would have a material effect on the Company's financial position.

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

### Note 10 - Regulatory Matters

The Company's subsidiary banks are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory or discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. The regulations require the Company's subsidiary banks to meet specific capital adequacy guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The Company's subsidiary banks' capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

The Company's subsidiary banks have adopted the Community Bank Leverage Ratio (CBLR) Framework as defined in Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. To be categorized as well capitalized, the Company's subsidiary banks must maintain a CBLR of 9%.

The most recent notifications from the regulatory agencies categorize the Company's subsidiary banks as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since those notifications that management believes have changed the categories.

Regulatory Tier 1 Capital amounts and Leverage Ratios under the CBLR Framework for the subsidiary banks of the Company as of December 31 are as follows:

|  | 2023       |        | 2022       |        |
|--|------------|--------|------------|--------|
|  | Amount     | Ratio  | Amount     | Ratio  |
| The Security National Bank of Sioux City, Iowa | \$ 192,413 | 12.01% | \$ 154,277 | 11.22% |
| Northwestern Bank                              | N/A        | N/A    | \$ 30,882  | 12.25% |
| Security National Bank of South Dakota         | \$ 30,130  | 13.43% | \$ 29,569  | 12.31% |

Dividends received from the Company's subsidiary banks are the primary source of funds available to the Company for payment of dividends to its shareholders. Banking regulations require minimum capital levels to be maintained and impose certain restrictions on the amount of dividends that the subsidiary banks may pay in any given year. In accordance with these regulatory requirements, \$42,524,000 of undivided profits was available for the payment of dividends from the subsidiary banks at December 31, 2023.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

## Note 11 - Fair Value of Financial Instruments

Fair value estimates are based on existing balance sheet financial instruments. The estimates do not include the value of anticipated future business, the value of long-term relationships with depositors (core retail intangibles) or the value of assets and liabilities that are not considered financial instruments. Fair values are calculated based on the value without regard to any premium or discount that may result from concentrations of ownership of a financial instrument, possible tax ramifications or estimated transaction costs.

Estimated fair values are made at a specific point in time based on relevant market information about the financial instrument. Because no market information is available for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding current economic conditions, risk characteristics and other factors. These estimates are subjective in nature and cannot be determined with precision. Changes in assumptions could significantly affect the estimated fair values.

GAAP establishes three levels for measuring fair value. Level 1 uses quoted prices for identical instruments in active markets. Level 2 uses quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable. Level 3 uses value drivers that are not observable and include subjective estimates. Examples of value drivers used include comparable security trades, company stock prices, and evaluations of financial statements. There have been no significant changes in the valuation techniques during the period ending December 31, 2023.

Fair value estimates, as well as the methods and assumptions used to determine estimated fair values, as of December 31 are as follows:

|  | Estimated Fair Value       |                                      |  |            | Carrying Value |
|--|----------------------------|--------------------------------------|--|------------|----------------|
|  | Significant                |                                      |  | Total      |                |
|  | Quoted Prices<br>(Level 1) | Other Observable Inputs<br>(Level 2) | Significant Unobservable Inputs<br>(Level 3) |            |                |
| <b>December 31, 2023</b>                       |                            |                                      |  |            |                |
| <b>Financial Assets</b>                        |                            |                                      |  |            |                |
| Cash and Due From Banks                        | \$ 127,055                 | \$ -                                 | \$ -   | \$ 127,055 | \$ 127,055     |
| Federal Funds Sold                             | 3,300                      | -                                    | -  | 3,300      | 3,300          |
| Securities Available-for-Sale                  | 64,370                     | 338,472                              | 1,500  | 404,342    | 404,342        |
| Securities Held-to-Maturity                    | -                          | 58,644                               | -  | 58,644     | 60,395         |
| Non-Marketable Equity Securities               | -                          | 4,961                                | -  | 4,961      | 4,961          |
| Loans Held-for-Sale                            | -                          | 1,289                                | -  | 1,289      | 1,289          |
| Net Loans                                      | -                          | -                                    | 1,046,131                                    | 1,046,131  | 1,113,613      |
| Accrued Interest Receivable                    | -                          | 13,971                               | -  | 13,971     | 13,971         |
| <b>Financial Liabilities</b>                   |                            |                                      |  |            |                |
| Demand Deposits                                | -                          | 471,730                              | -  | 471,730    | 471,730        |
| Savings and Interest-Bearing Checking Deposits | -                          | 643,811                              | -  | 643,811    | 643,811        |
| Time Deposits                                  | -                          | -                                    | 242,066                                      | 242,066    | 244,204        |
| Other Borrowings                               | -                          | 159,057                              | -  | 159,057    | 167,989        |
| Federal Home Loan Bank Debt                    | -                          | 62,988                               | -  | 62,988     | 63,650         |
| Accrued Interest Payable                       | -                          | 2,550                                | -  | 2,550      | 2,550          |

Security National Corporation and Subsidiaries

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

(Columnar amounts in thousands)

### Note 11 - Fair Value of Financial Instruments

Continued

|  | Estimated Fair Value       |  |  | Total      | Carrying Value |
|--|----------------------------|--|--|------------|----------------|
|  | Quoted Prices<br>(Level 1) | Significant Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) |            |                |
| <b>December 31, 2022</b>                       |                            |  |  |            |                |
| <b>Financial Assets</b>                        |                            |  |  |            |                |
| Cash and Due From Banks                        | \$ 163,697                 | \$ -   | \$ -   | \$ 163,697 | \$ 163,697     |
| Federal Funds Sold                             | 6,050                      | -  | -  | 6,050      | 6,050          |
| Interest-Bearing Time Deposits Due From Banks  | -                          | 741  | -  | 741        | 747            |
| Securities Available-for-Sale                  | 69,208                     | 379,612  | 1,500  | 450,320    | 450,320        |
| Securities Held-to-Maturity                    | -                          | 64,015   | -  | 64,015     | 66,111         |
| Non-Marketable Equity Securities               | -                          | 3,894  | -  | 3,894      | 3,894          |
| Net Loans                                      | -                          | -  | 977,457  | 977,457    | 1,026,648      |
| Accrued Interest Receivable                    | -                          | 10,589   | -  | 10,589     | 10,589         |
| <b>Financial Liabilities</b>                   |                            |  |  |            |                |
| Demand Deposits                                | -                          | 483,791  | -  | 483,791    | 483,791        |
| Savings and Interest-Bearing Checking Deposits | -                          | 784,229  | -  | 784,229    | 784,229        |
| Time Deposits                                  | -                          | -  | 141,607  | 141,607    | 147,128        |
| Other Borrowings                               | -                          | 146,592  | -  | 146,592    | 174,720        |
| Federal Home Loan Bank Debt                    | -                          | 21,385   | -  | 21,385     | 22,750         |
| Accrued Interest Payable                       | -                          | 467  | -  | 467        | 467            |

**Short-Term Instruments** - The estimated fair value of cash on hand, due from banks, money market funds and federal funds sold approximates carrying value because of the short-term nature of these instruments.

**Interest-Bearing Time Deposits Due From Banks** - The estimated fair value of interest-bearing time deposits due from banks is based on the discounted value of projected cash flows based on market rates for similar remaining maturities.

**Securities** - The fair value of securities, except for certain state, municipal and trust preferred securities, is estimated based on bid prices received from security dealers. The fair values of certain state and municipal securities, which are not readily available through market sources, are estimated using quoted market prices for similar instruments.

Security National Corporation and Subsidiaries

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Years Ended December 31, 2023 and 2022

## Note 11 - Fair Value of Financial Instruments

Continued

**Non-Marketable Equity Securities** - Fair value is estimated at book value due to restrictions that limit the sale or transfer of such securities.

**Loans Held-for-Sale** - The estimated fair value of these loans approximates carrying value based on the contractual values upon which the loans may be sold to a third party.

**Loans** - The estimated fair value of the Company's short-term loans is book value. The estimated fair value of all other loans is based on the discounted value of contractual cash flows. When using the discounting method, loans are discounted based on current rates that banks would impose for similar loans. These rates reflect a market participation assumption about risks associated with non-performance, illiquidity, structure and term of the loan including local economic and market conditions. In addition, when computing the estimated fair value for all loans, the allowance for credit losses is subtracted from the calculated fair value for consideration of credit issues.

**Accrued Interest Receivable and Payable** - The carrying amount approximates fair value. The carrying amount is determined using the interest rate, balance and last payment date.

**Deposits** - The estimated fair value of deposits with no stated maturity, such as non-interest bearing checking, savings, interest checking deposits and money market accounts, is book value since rates are regularly adjusted to market rates and amounts are payable on demand. The estimated fair value of certificates of deposit is based on the discounted value of projected cash flows based on market rates currently offered for deposits of similar remaining maturities.

**Other Borrowings and Federal Home Loan Bank Debt** - The estimated fair values of other borrowings and Federal Home Loan Bank debt are based on discounting cash flows using current market rates for similar types of borrowing arrangements.

**Nonrecurring Fair Value Measurements** - Certain financial assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

Other Real Estate Owned (OREO) was measured at fair value on a nonrecurring basis in 2023 and 2022. Inputs used include appraisals and in-house evaluations. The fair value of a foreclosed asset upon initial recognition is estimated using Level 3 inputs based on an appraisal of the underlying collateral less estimated costs to sell using unobservable data. As of December 31, 2023 and 2022 there were no OREO assets. The Company recognized no losses during the years ended December 31, 2023 and 2022 related to changes in fair value.

Certain collateral-dependent loans are recorded at the lower of the loan carrying value or fair value less estimated costs to sell, if repayment is expected solely from collateral. The fair value of the collateral is based on appraisals or discounted cash flows. Fair values may be adjusted by management to reflect current economic and market conditions; therefore, these loans are classified within Level 3 of the fair value hierarchy. As of December 31, 2023 certain collateral-dependent loans were remeasured and reported at the fair value of the underlying collateral utilizing Level 3 valuation inputs. There were no collateral-dependent loans with a collateral deficiency as of December 31, 2023. As of December 31, 2022 impaired loans with a par value of \$38,000 were carried at a fair value of \$20,000.

Security National Corporation and Subsidiaries  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2023 and 2022  
(Columnar amounts in thousands)

**Note 12 - Accumulated Other Comprehensive (Loss)**

Components of accumulated other comprehensive (loss), included in shareholders' equity, at December 31 are as follows:

|  | <u>2023</u>        | <u>2022</u>        |
|--|--------------------|--------------------|
| Net Unrealized Loss on Securities Available-for-Sale | \$ (34,792)        | \$ (43,944)        |
| Income Tax Effect                                    | <u>8,331</u>       | <u>10,986</u>      |
| Accumulated Other Comprehensive Loss                 | <u>\$ (26,461)</u> | <u>\$ (32,958)</u> |

**Note 13 - Subsequent Events**

Subsequent events have been evaluated through February 9, 2024, the date these consolidated financial statements were available to be issued. There are no material events that require adjustment to or disclosure in the financial statements.

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## CORPORATE PROFILE

Security National Corporation is a multi-bank holding company with banks located in Iowa and South Dakota, which had total assets of \$1,809,335,000 as of December 31, 2023.

Security National Corporation is made up of the following: Security National Bank, Sioux City, Akron, Lawton, Mapleton, Merville, Orange City and Sheldon; Security National Bank of South Dakota, Dakota Dunes and Sioux Falls.

## ANNUAL MEETING

The annual meeting of shareholders will take place at 2:30 p.m., on Tuesday, April 23, 2024, in the third floor meeting room of Security National Bank, Sixth and Pierce Streets, Sioux City, Iowa.

# SECURITY NATIONAL CORPORATION OFFICERS

D. Douglas Rice  
Chairman, President & CEO

Jeremy M. Craighead  
Executive Vice President

Jeremy D. Uhl  
Treasurer

Lisa Talbert  
Secretary

## DIRECTORS

Raquel L. Blount  
Vice President of Commercial Real Estate, Lloyd Companies

Raymond H. Cole  
President & COO (Ret.), Citadel Communications LLC

Jeremy M. Craighead  
President, Security National Bank of Sioux City, Iowa

John W. Gleeson  
President, Klinger Companies, Inc.

Darwin Hamann  
Owner, Hamann Farms

Douglas E. Palmer  
Chairman, Tegra Corporation

D. Douglas Rice  
Chairman & CEO, Security National Bank of Sioux City, Iowa

Stephanie S. Samenus  
Owner, Samenus Consulting LLC

Garrett K. Smith  
President, American Pop Corn Company

The Security National Bank of Sioux City, Iowa  
Security National Bank of South Dakota

Security National Corporation  
325 Dakota Dunes Blvd.  
Dakota Dunes, South Dakota 57049