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27,500

-

$9.99

March 19, 2018

-

-

-

10,000

$19.95

December 1, 2021

(1)

-

-

Gary J. Balzofiore

44,000

-

$9.09

January 4, 2019

-

-

8,800

-

$7.11

March 16, 2018

-

-

-

10,000

$19.95

December 1, 2021

(1)

-

-

Michael Kemp

-

-

-

-

-

-

(1)

Stock options granted on December 1, 2016 vest in three equal installments beginning on December 1, 2017.

The following table sets forth information about the number and value of plan-based awards granted during the year 2016.

Grants of Plan-Based Awards

Name	Grant Date	Number of Stock Awards Granted (#)	Number of Option Awards Granted (#)	Exercise Price ($)	Grant Date Fair Value ($)
Roy T.K. Thung	December 1, 2016	-	-	-	-
Teresa A. Herbert	December 1, 2016	-	12,000	19.95	31,800
David T. Kettig	December 1, 2016	-	15,000	19.95	39,750
Larry R. Graber	December 1, 2016	-	10,000	19.95	26,500
Gary J. Balzofiore	December 1, 2016	-	10,000	19.95	26,500
Michael Kemp	December 1, 2016	-	-	-	-

The following table sets forth information about the number and value of option exercises and vested stock awards for each named executive officer during the year 2016.

Option Exercises and Stock Vested

	Option Awards		Stock Awards	
Name	Number of shares acquired on exercise (#)	Value realized on exercise ($)	Number of shares acquired on vesting (#)	Value realized on vesting ($)
Roy T.K. Thung	-	-	-	-
Teresa A. Herbert	-	-	-	-
David T. Kettig	6,500	45,184	-	-
Larry R. Graber	-	-	-	-
Gary J. Balzofiore	-	-	-	-
Michael Kemp	-	382,564(1)	-	-

(1)

Mr. Kemp exercised 45,000 SARs that were payable in cash.

Potential Payments to Named Executive Officers

With Mr. Thung

IHC is party to a Retirement Benefits Agreement with Mr. Roy T.K. Thung, dated as of September 30, 1991, and amended by amendments dated as of December 20, 2002, June 17, 2005 and December 31, 2008, respectively, pursuant to which Mr. Thung is entitled to a lump-sum cash payment upon a separation from service from IHC of $1,659,557, increasing on a cumulative, compounding basis of 6% per annum from December 31, 2008. Separation from service is as defined under U.S. Treasury Regulations 1.409A-1(h)(1), and would generally include Mr. Thung s death, retirement or any other termination of employment, including permanent disability. For example, had this provision been triggered on December 31, 2016, Mr. Thung would have been entitled to receive a payment of $2,645,082.

IHC is party to the Officer Employment Agreement by and between IHC and Mr. Roy T.K. Thung, IHC s Chief Executive Officer, President and Chairman of the Board of Directors, dated as of May 11, 2011. Under this employment agreement, if Mr. Thung s employment by IHC or its affiliate were to cease under certain circumstances, Mr. Thung would be entitled to receive a lump-sum severance amount equal to the average annual aggregate total compensation received by Mr. Thung during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Thung to IHC and its affiliates. The circumstances under which such severance would be paid are: (i) Mr. Thung s employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Thung s material failure to follow IHC s lawful directions, materia failure to follow IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage IHC or its reputation); (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC s material breach of its obligations under the employment agreement, IHC s non-renewal of the employment agreement or change in control of IHC or its ultimate parent); or; (iii) upon Mr. Thung s death or permanent disability. In addition, under the agreement, Mr. Thung is also entitled to strategic and long-term incentive payments which are included in the Summary Compensation Table above. The initial term of Mr. Thung s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provisions of Mr. Thung s agreement been triggered on December 31, 2016, Mr. Thung would have been entitled to receive approximately $66,146 per month for forty months ($2,645,840 in the aggregate).

With Ms. Herbert

IHC is party to the Officer Employment Agreement, by and between IHC and Ms. Teresa A. Herbert, IHC s Chief Financial Officer and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Ms. Herbert s employment by IHC or its affiliate were to cease under certain circumstances, Ms. Herbert would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Ms. Herbert during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Ms. Herbert to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Ms. Herbert s employment by IHC being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Ms. Herbert s material failure to follow IHC s lawful directions, material failure to follow IHC s corporate policies, breach of the non-compete covenants in the employment agreement or her engaging in unlawful behavior that would damage IHC or its reputation), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with IHC s (or its successor s) material breach of its obligations under the employment agreement or upon IHC s non-renewal of the employment agreement). The initial term of Ms. Herbert s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by IHC. For example, had the severance provision in Ms. Herbert s agreement been triggered on December 31, 2016, Ms. Herbert would have been entitled to receive approximately $45,068 per month for twenty-four months ($1,081,632 in the aggregate).

With Mr. Kettig

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life (which subsequently assigned the agreement to its affiliate AMIC Holdings, Inc.), and Mr. David T. Kettig, IHC s Chief Operating Officer, Executive Vice President and Acting General Counsel, dated as of April 18, 2011. Under this employment agreement, if Mr. Kettig s employment by Standard Security Life or its affiliate were to cease under certain circumstances, Mr.

Kettig would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Kettig during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Kettig to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Kettig s employment by Standard Security Life being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Kettig s material failure to follow Standard Security Life s or IHC s lawf directions, material failure to follow Standard Security Life s or IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Standard Security Life, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Standard Security Life s (or its successor s) material breach of its obligations under the employment agreement or upon Standard Security Life s non-renewal of the employment agreement). The initial term of Mr. Kettig s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by Standard Security Life. For example, had the severance provision in Mr. Kettig s agreement been triggered on December 31, 2016, Mr. Kettig would have been entitled to receive approximately $59,330 per month for twenty-four months ($1,423,920 in the aggregate).

With Mr. Graber

IHC is party to the Officer Employment Agreement, by and among IHC, Madison National Life, and Mr. Larry R. Graber, IHC s Chief Life and Annuity Actuary and Senior Vice President, dated as of April 18, 2011. Under this employment agreement, if Mr. Graber s employment by Madison National Life or its affiliate were to cease under certain circumstances, Mr. Graber would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Graber during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Graber to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Graber s employment by Madison National Life being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Graber s material failure to follow Madison National Life s or IHC s lawf directions, material failure to follow Madison National Life s or IHC s corporate policies, breach of the non-compete covenants in the employment agreement or his engaging in unlawful behavior that would damage Madison National Life, IHC or their respective reputations), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Madison National Life s (or its successor s) material breach of its obligations under the employment agreement or upon Madison National Life s non-renewal of the employment agreement). The initial term of Mr. Graber s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by Madison National Life. For example, had the severance provision in Mr. Graber s agreement been triggered on December 31, 2016, Mr. Graber would have been entitled to receive approximately $39,088 per month for twenty months ($781,760 in the aggregate).

With Mr. Balzofiore

IHC is party to the Officer Employment Agreement, by and among IHC, Standard Security Life, and Mr. Gary J. Balzofiore, IHC s Corporate Vice President Accounting and Finance, dated as of May 25, 2011. Under this employment agreement, if Mr. Balzofiore s employment by Standard Security Life or its affiliate were to cease under certain circumstances, Mr. Balzofiore would be entitled to receive a severance amount equal to the average annual aggregate total compensation received by Mr. Balzofiore during the preceding five years, adjusted *pro rata* for the applicable severance period. The applicable severance period would be the longer of: (i) twelve months; and (ii) a number of months equal to the aggregate number of years of service of Mr. Balzofiore to IHC and its affiliates, not to exceed twenty-four months. The circumstances under which such severance would be paid are (i) Mr. Balzofiore s employment by Standard Security Life being involuntarily terminated under circumstances that would not constitute cause (examples of cause being Mr. Balzofiore s refusal to perform his duties, material failure to follow Standard Security Life s corporate policies, breach of the non-compete covenants in the employment agreement or his committing a crime involving financial or accounting fraud), or (ii) such employment being voluntarily terminated under circumstances that would constitute good reason (examples of good reason being in connection with Standard Security Life s or IHC s material breach of its obligations under the employment agreement or upon Standard Security Life s non-renewal of the employment agreement). The initial term of Mr. Balzofiore s employment agreement is two years from the date it was entered into, but, by its terms, it will be automatically extended for successive two-year periods unless one hundred twenty days prior notice of non-renewal is given by Standard Security Life. For example, had the severance provision in Mr. Balzofiore s agreement been triggered on December 31, 2016, Mr. Balzofiore would have been entitled to receive approximately $41,722 per month for twenty-four months ($1,001,328 in the aggregate).

Stock Incentive Plans

Under the terms of IHC s stock incentive plans, the Compensation Committee may make appropriate provision for the holders of awards thereunder in the event of a change in control of IHC or similar event. The specifics of such an occurrence cannot be anticipated, and thus the prospective effect upon IHC cannot reliably be quantified.

Equity Compensation Plan Information

The following table sets forth certain information as of the end of the most recently completed fiscal year with respect to compensation plans under which shares of IHC common stock may be issued.

Equity Compensation Plan Information

Plan Category	Number of Shares to be Issued Upon Exercise of Outstanding Options	Weighted-Average Exercise Price of Outstanding Options	Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in the First Column)
Equity compensation plans approved by stockholders	697,180	$11.75	1,133,100

DIRECTORS COMPENSATION

The general policy of the Board is that compensation for independent directors should be a mix of cash and equity. IHC does not pay management directors for board service in addition to their regular employee compensation. The Compensation Committee has the primary responsibility for reviewing and considering any revisions to director compensation.

During 2017, each non-employee (outside) director will be paid:

an annual retainer of $36,000;

$1,500 for each board or committee meeting attended;

$9,000 for service as chairman of a board committee; and

2,475 restricted shares of IHC common stock, vesting ratably over the three annual anniversaries of the award, and contingent upon continuing service as a director.

The following table summarizes compensation paid to IHC s directors during 2016 except for Mr. Roy T.K. Thung, IHC s Chief Executive Officer and President, Mr. David T. Kettig, Chief Operating Officer, Executive Vice President and Acting General Counsel, Mr. Larry R. Graber, Chief Life and Annuity Actuary and Senior Vice President, and Teresa A. Herbert, Chief Financial Officer and Senior Vice President, for whom compensation was previously discussed.

Director Summary Compensation

Name	Fees Earned or Paid in Cash ($)	Stock Awards ($)	Total ($)
Mr. Allan C. Kirkman	78,000	47,396	125,396
Mr. John L. Lahey.	69,000	47,396	116,396
Mr. Steven B. Lapin (1)	-	-	-
Mr. Ronald I. Simon	11,300(2)	47,396	58,696
Mr. James G. Tatum.	76,500	47,396	123,896

(1)

Mr. Lapin received no compensation in connection with his service as an IHC director during 2016.

(2)

Mr. Simon was newly-elected at the 2016 Annual Meeting of Stockholders and thus was only paid fees for the fourth quarter of 2016.

ITEM 12.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND

MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Directors and Executive Officers

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by each of our directors and each of our named executive officers based on 16,377,756 issued and outstanding shares of common stock as of April 30, 2017.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outstanding and beneficially owned by such person for purposes of computing his or her percentage ownership, but not for purposes of computing the percentage ownership of any other person.

The address of each individual named below is c/o IHC at 96 Cummings Point Road, Stamford, Connecticut 06902.

Name of Beneficial Owner	Number of Shares		Percent of Class
Mr. Gary J. Balzofiore	69,473	(1)	*
Mr. Larry R. Graber	100,285	(2)	*
Ms. Teresa A. Herbert	131,987	(3)	*
Mr. David T. Kettig	158,185	(4)	*
Mr. Allan C. Kirkman	26,301	(5)	*
Mr. John L. Lahey	22,275	(5)	*
Mr. Steven B. Lapin	122,162	(6)	*
Mr. Ronald I. Simon	40,000	(7)	*
Mr. James G. Tatum	38,301	(5)	*
Mr. Roy T. K. Thung	535,670	(8)	3.2%
All directors, nominees for director and executive officers as a group (10 persons)	1,244,639		7.4%

*

Represents less than 1% of the outstanding common stock.

(1)

Includes 44,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date above.

(2)

Includes 55,000 shares of common stock underlying stock options exercisable within sixty (60) days from the date above.

(3)

Includes 74,800 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Includes 410 shares of common stock held by Ms. Herbert s children of which shares Ms. Herbert disclaims beneficial ownership. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(4)

Includes 66,300 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Includes 110 shares of common stock held by Mr. Kettig s children of which shares Mr. Kettig disclaims beneficial ownership.

(5)

Includes 1,650 shares of common stock underlying restricted share units vesting within sixty (60) days from the date above.

(6)

Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

(7)

Includes 30,000 shares of common stock held by the Simon Family Trust and 2,000 shares of common stock held in Mr. Simon s wife s IRA account, of which shares Mr. Simon disclaims beneficial ownership.

(8)

Includes 258,500 shares of common stock underlying stock options exercisable within sixty (60) days from the date above. Excludes the 9,145,226 shares of common stock held by Geneve Holdings, Inc., of which the named individual is an officer.

Significant Stockholders

The following table sets forth certain information concerning the number of shares of our common stock that is beneficially owned by certain persons known by IHC to beneficially own more than five percent of the outstanding shares of IHC common stock, based on 16,377,756 issued and outstanding shares of common stock as of April 30, 2017.

Beneficial ownership is determined in accordance with SEC rules and generally includes voting or investment power with respect to securities. Other than as described in the notes to the table, we believe that all persons named in the table have sole voting and investment power with respect to shares beneficially owned by them. All share ownership figures include shares issuable upon exercise of options or warrants exercisable within 60 days of the date above, which are deemed outstanding and beneficially owned by such person for purposes of computing its percentage ownership, but not for purposes of computing the percentage ownership of any other person.

Name	Number of Shares	Percent of Class
Geneve Holdings, Inc. (1)	9,145,226	55.84%
Dimensional Fund Advisors LP. (2)	970,639	5.93%

(1)

According to (i) information disclosed in Amendment No. 35 to Schedule 13D dated May 9, 2001 of Geneve Holdings, Inc. (GHI), a private diversified financial holding company. GHI is a member of a group consisting of itself and certain of its affiliates that together hold the shares of common stock of IHC. The address of GHI is 96 Cummings Point Road, Stamford, Connecticut 06902.

(2)

According to information disclosed in Schedule 13G, reporting as of December 31, 2016 (the Schedule 13G), Dimensional Fund Advisors LP, an investment adviser registered under Section 203 of the Investment Advisors Act of 1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts (such investment companies, trusts and accounts, collectively referred to as the Funds). In certain cases, subsidiaries of Dimensional Fund Advisors LP may act as an adviser or sub-adviser to certain Funds. In its role as investment advisor, sub-adviser and/or manager, Dimensional Fund Advisors LP or its subsidiaries (collectively, Dimensional) possess voting and/or investment power over the securities of IHC that are owned by the Funds, and may be deemed to be the beneficial owner of the shares of IHC held by the Funds. However, all shares of IHC s common stock reported in the Schedule 13G are owned by the Funds. Dimensional disclaims beneficial ownership of such securities. In addition, its filing of the Schedule 13G shall not be construed as an admission that it or any of its affiliates is the beneficial owner of any securities covered by the Schedule 13G for any other purposes than Section 13(g) of the Securities Exchange Act of 1934, as amended. The address of Dimensional Fund Advisors LP is Palisades West, Building 1, 6300 Bee Cave Road, Austin, Texas 78746.

ITEM 13.

CERTAIN RELATIONSHIPS, RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

Director Independence

As a company listed on the New York Stock Exchange (NYSE), IHC uses the definition of independence prescribed in the NYSE Listed Company Manual (the Manual). Each of Messrs. Kirkman, Tatum, Lahey and Simon met such independence requirements. The Board has affirmatively determined that none of them had any material relationship described in Item 407(a) of Regulation S-K promulgated by the SEC with IHC at all applicable times during 2016.

IHC qualifies as a controlled company, as defined in Section 303A.00 of the Manual, because more than 50% of IHC s voting power is held by GHI. Therefore, IHC is not subject to certain NYSE requirements that would otherwise require IHC to have: (i) a majority of independent directors on the Board (Manual Section 303A.01); (ii) compensation of IHC s executive officers determined by a compensation committee composed solely of independent directors (Manual Section 303A.04); or (iii) director nominees selected, or recommended for the Board s selection, by a nominating committee composed solely of independent directors (Manual Section 303A.05).

Of IHC s directors, none of Ms. Herbert or Messrs. Graber, Kettig, Lapin or Thung is independent under the NYSE s standards.

For each independent director, after reasonable investigations and in reliance on representations by such independent director to IHC, IHC believes there is no material transaction, relationship or arrangement described in Item 407(a) of Regulation S-K promulgated by the SEC between each such director not disclosed in this annual report under the caption Certain Relationships and Related Transactions.

Compensation Committee Interlocks and Insider Participation

Messrs. Kirkman, Lahey and Tatum served on the Compensation Committee of the Board during fiscal year 2016.

Transactions with Management and Other Relationships

With Geneve Holdings, Inc.

IHC and Geneve Holdings, Inc. (GHI), IHC s controlling stockholder, operate under cost-sharing arrangements pursuant to which certain items are allocated between the two companies. During 2016, IHC paid GHI (or accrued for payment thereto) approximately $439,000 under such arrangements, and paid or accrued an additional $113,000 for the first quarter of 2017. Such cost-sharing arrangements include GHI s providing IHC with the use of office space as IHC s corporate headquarters for annual consideration of $160,000 in 2016. The foregoing arrangement is subject to the annual review and approval of the Audit Committee, and IHC s management believes that the terms thereof are no less favorable than could be obtained by IHC from unrelated parties on an arm s-length basis.

Review, Approval, or Ratification of Transactions with Related Persons

Section 5.7 of IHC s by-laws provide that no contract or transaction between IHC and one or more of its directors or officers (or their affiliates) is *per se* void (or voidable) if, among other things, the material facts as to the relevant relationships and interests were disclosed to the Board (or the relevant committee thereof) and the transaction in question was approved by a majority of the disinterested directors voting on the matter. The Audit Committee s charter requires the Audit Committee to review and approve all interested-party transactions, and IHC s other governance documents specifically prohibit various conflicts of interest and impose disclosure requirements in connection with any potential conflict of interest.

The Audit Committee has reviewed and approved each of the related-party transactions set forth above. IHC is not aware of any transaction reportable under paragraph (a) of Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, in respect of 2016, that was not so reviewed and approved.

ITEM 14.

PRINCIPAL ACCOUNTING FEES AND SERVICES

The following table sets forth fees for services that RSM US LLP (RSM) and KPMG LLP (KPMG) provided to IHC during 2016 and 2015:

	2016	**2015**
Audit fees (1)	$ 1,545,900(2)	$ 2,725,000
Audit-related fees	-	177,000
Tax fees	-	-
All other fees	20,150(3)	-
Total	$ 1,566,050	$ 2,902,000

(1)

Audit Fees. Represents fees for professional services provided for the audit of IHC s annual financial statements, the review of IHC s quarterly financial statements and audit services provided in connection with other statutory or regulatory filings.

(2)

The audit fees for 2016 are based on initial engagement plus estimates for completion and are pending final billing. As disclosed in the Company s Form 8-K filed on September 16, 2016, IHC dismissed KPMG as its independent registered accounting firm and engaged RSM as its independent registered accounting firm. Audit fees listed above include $204,000 related to audit services provided by KPMG and $1,341,900, estimated thus far, related to audit services provided by RSM.

(3)

All other fees for 2016 represent anticipated amounts payable to RSM for the audit of the Company s 401(k) plan based on initial engagement.

The Audit Committee has determined that the provision of non-audit services by KPMG is compatible with maintaining KPMG s independence. Any such engagement of KPMG to provide non-audit services to IHC must be pre-approved by the Audit Committee.

We have agreed to indemnify and hold KPMG LLP harmless against and from any and all legal costs and expenses incurred by KPMG in successful defense of any legal action or proceeding that arises as a result of KPMG s consent to the inclusion (or incorporation by reference) of its audit report on the Company s past financial statements incorporated by reference into our registration statement on Form S-8.

PART IV

ITEM 15.

EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) (1) and (2)

See Index to Consolidated Financial Statements and Schedules on page 80.

(a) (3) EXHIBITS

See Exhibit Index on page 145.

SIGNATURES

Pursuant to the requirements of Section 13 or Section 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 22, 2017.

INDEPENDENCE HOLDING COMPANY

REGISTRANT

By:

/s/ Roy T. K. Thung

Roy T.K. Thung

President and Chief Executive Officer

(Principal Executive Officer)

By:

/s/ Teresa A. Herbert

Teresa A. Herbert

Senior Vice President and Chief Financial Officer

(Principal Financial and Accounting Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated as of the 19th day of May, 2017.

/s/ Larry R. Graber
Larry R. Graber
Director and Senior Vice President

/s/ Steven B. Lapin
Steven B. Lapin
Director and Vice Chairman

/s/ Allan C. Kirkman
Allan C. Kirkman
Director

/s/ James G. Tatum
James G. Tatum
Director

/s/ John L. Lahey
John L. Lahey
Director

/s/ Ronald I. Simon
Ronald I. Simon
Director

/s/ Roy T.K. Thung
Roy T.K. Thung
Chairman, President and Chief Executive Officer
(Principal Executive Officer)

/s/ David T. Kettig
David T. Kettig
Director, Senior Vice President and
Chief Operating Officer

/s/ Teresa A. Herbert
Teresa A. Herbert
Director, Senior Vice President and
Chief Financial Officer
(Principal Financial and Accounting Officer)

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SCHEDULES

*All other schedules have been omitted as they are not applicable or not required, or the information is included in the Consolidated Financial Statements or Notes thereto.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited Independence Holding Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Independence Holding Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management s Report of Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (a) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (b) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (c) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. Material weaknesses related to the internal controls over financial reporting for income taxes have been identified and included in management s assessment in Item 9a. These material weaknesses were considered in determining the nature, timing, and extent of audit tests applied in our audit of the 2016 financial statements, and this report does not affect our report dated May 22, 2017 on those financial statements.

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, Independence Holding Company has not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in Internal

Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended, and the financial statement schedules of Independence Holding Company listed in Item 15(a) and our report dated May 22, 2017 expressed an unqualified opinion.

/s/ RSM

Jacksonville, Florida
May 22, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited the accompanying consolidated balance sheet of Independence Holding Company and subsidiaries as of December 31, 2016, and the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the year then ended. Our audit also included the financial statement schedules of Independence Holding Company listed in Item 15(a). These financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements and schedules and an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 2016, and the results of their operations and their cash flows for the year then ended, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Independence Holding Company and subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013. Our report dated May 22, 2017 expressed an opinion that Independence Holding Company had not maintained effective internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013.

As discussed in Note 3 to the financial statements, the Company sold Risk Solutions, LLC and accounted for the sale as discontinued operations. We audited the adjustments described in Note 3 that were applied to restate the 2015 and

2014 financial statements. In our opinion, such adjustments are appropriate and have been properly applied.

/s/ RSM US LLP

Jacksonville, Florida
May 22, 2017

Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders
Independence Holding Company:

We have audited, before the effects of the adjustments to retrospectively reflect discontinued operations discussed in Note 3 to the consolidated financial statements, the accompanying consolidated balance sheets of Independence Holding Company and subsidiaries (the Company) as of December 31, 2015, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders equity, and cash flows for years ended December 31, 2015 and 2014. In connection with our audits of the consolidated financial statements, we also have audited, before the effects of the adjustments to retrospectively reflect discontinued operations discussed in Note 3 to the consolidated financial statements, the consolidated financial statement schedules II to IV, as of December 31, 2015 and for the years ended December 31, 2015 and 2014. The 2015 and 2014 financial statements and schedules before the effects of these adjustments discussed in Note 3 are not presented herein. The 2015 and 2014 consolidated financial statements and financial statement schedules are the responsibility of the Company s management. Our responsibility is to express an opinion on these consolidated financial statements and financial statement schedules based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above, before the effects of the adjustments to retrospectively reflect discontinued operations discussed in Note 3 to the consolidated financial statements, present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 2015, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2015, in conformity with U.S. generally accepted accounting principles. Also in our opinion, the related financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We were not engaged to audit, review, or apply any procedures to the adjustments to retrospectively reflect discontinued operations discussed in Note 3 to the consolidated financial statements, we do not express an opinion or any other form of assurance about whether such adjustments are appropriate and have been properly applied. Those adjustments were audited by a successor auditor.

/s/ KPMG LLP

New York, New York
May 22, 2017

INDEPENDENCE HOLDING COMPANY
CONSOLIDATED BALANCE SHEETS (In thousands, except share data)
DECEMBER 31,

	2016	2015
ASSETS:		
Investments:		
Short-term investments	$ 6,912	$ 50
Securities purchased under agreements to resell	28,962	28,285
Trading Securities	592	1,259
Fixed maturities, available-for-sale	449,487	428,601
Equity securities, available-for-sale	5,333	8,426
Other investments	23,534	21,538
Total investments	514,820	488,159
Cash and cash equivalents	22,010	17,500
Due and unpaid premiums	42,896	69,075
Due from reinsurers	440,285	483,073
Premium and claim funds	17,952	22,015
Goodwill	41,573	47,276
Other assets	54,928	57,934
Assets attributable to discontinued operations (Note 3)	-	12,931
TOTAL ASSETS	$ 1,134,464	$ 1,197,963
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Policy benefits and claims	$ 219,113	$ 245,443
Future policy benefits	219,450	270,624
Funds on deposit	145,749	173,350
Unearned premiums	9,786	10,236
Other policyholders' funds	9,769	11,822
Due to reinsurers	35,796	46,355
Accounts payable, accruals and other liabilities	55,477	64,109
Liabilities attributable to discontinued operations (Note 3)	68	(15)
Debt	-	5,189
Junior subordinated debt securities	-	38,146
TOTAL LIABILITIES	695,208	865,259

Commitments and contingencies (Note 15)

STOCKHOLDERS' EQUITY:

Preferred stock $1.00 par value, 100,000 shares authorized; none issued or outstanding	-	-
Common stock $1.00 par value: 23,000,000 shares authorized; 18,620,508 and 18,569,183 shares issued, 17,102,525 and 17,265,758 shares outstanding	18,620	18,569
Paid-in capital	126,468	127,733
Accumulated other comprehensive loss	(6,964)	(3,440)
Treasury stock, at cost: 1,517,983 and 1,303,425 shares	(17,483)	(13,961)
Retained earnings	315,918	194,450
TOTAL IHC STOCKHOLDERS EQUITY	436,559	323,351
NONCONTROLLING INTERESTS IN SUBSIDIARIES	2,697	9,353
TOTAL EQUITY	439,256	332,704
TOTAL LIABILITIES AND EQUITY	$ 1,134,464	$ 1,197,963

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME (In thousands, except per share data)
YEARS ENDED DECEMBER 31,

	2016	2015	2014
REVENUES:			
Premiums earned	$ 262,704	$ 479,534	$ 479,048
Net investment income	16,570	17,237	21,614
Fee income	16,446	10,651	17,147
Other income	12,257	10,267	4,851
Gain on sale of subsidiary to joint venture	-	9,940	-
Net realized investment gains	4,502	3,094	7,688
Other-than-temporary impairment losses:			
Total other-than-temporary impairment losses	(1,475)	(228)	-
Portion of losses recognized in other comprehensive income (loss)	-	-	-
Net impairment losses recognized in earnings	(1,475)	(228)	-
	311,004	530,495	530,348
EXPENSES:			
Insurance benefits, claims and reserves	145,231	307,178	326,035
Selling, general and administrative expenses	132,174	177,641	181,387
Interest expense on debt	1,534	1,798	1,797
	278,939	486,617	509,219
Income from continuing operations before income taxes	32,065	43,878	21,129
Income taxes	9,555	15,904	6,108
Income from continuing operations, net of tax	22,510	27,974	15,021
Discontinued operations (Note 3):			
Income from discontinued operations, before income taxes	117,617	4,310	2,183
Income taxes on discontinued operations	6,813	1,762	283
Income from discontinued operations, net of tax	110,804	2,548	1,900
Net income	133,314	30,522	16,921
Less: Income from noncontrolling interests in subsidiaries	(10,016)	(578)	(628)
NET INCOME ATTRIBUTABLE TO IHC	$ 123,298	$ 29,944	$ 16,293
Basic income per common share (Note 2)			
Income from continuing operations	$ 1.28	$ 1.59	$ .83
Income from discontinued operations	5.90	.14	.10

Basic income per common share	$ 7.18	$ 1.73	$ .93
WEIGHTED AVERAGE SHARES OUTSTANDING	17,162	17,314	17,471
Diluted income per common share (Note 2)			
Income from continuing operations	$ 1.27	$ 1.58	$ .82
Income from discontinued operations	5.82	.13	.10
Diluted income per common share	$ 7.09	$ 1.71	$ .92
WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING	17,379	17,484	17,636

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (In thousands)
YEARS ENDED DECEMBER 31,

	2016	**2015**	**2014**
Net income	$ 133,314	$ 30,522	$ 16,921
Other comprehensive income (loss):			
Available-for-sale securities:			
Unrealized gains (losses) on available-for-sale securities, pre-tax	(5,424)	(5,475)	15,509
Tax expense (benefit) on unrealized gains (losses) on available-for-sale securities	(1,916)	(2,013)	4,816
Unrealized gains (losses) on available-for-sale securities, net of taxes	(3,508)	(3,462)	10,693
Other comprehensive income (loss), net of tax	(3,508)	(3,462)	10,693
COMPREHENSIVE INCOME, NET OF TAX	129,806	27,060	27,614
Comprehensive income, net of tax, attributable to noncontrolling interests:			
Income from noncontrolling interests in subsidiaries	(10,016)	(578)	(628)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests:			
Unrealized (gains) losses on available-for-sale securities, net of tax	(118)	(5)	(199)
Other comprehensive (income) loss, net of tax, attributable to noncontrolling interests	(118)	(5)	(199)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(10,134)	(583)	(827)
COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC	$ 119,672	$ 26,477	$ 26,787

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (In thousands, except share data)

	COMMON STOCK SHARES	COMMON STOCK AMOUNT	PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	TREASURY STOCK, AT COST SHARES	TREASURY STOCK, AT COST AMOUNT	RETAINED EARNINGS	TO STOC F
BALANCE AT DECEMBER 31, 2013	18,523,733	$ 18,524	$ 126,239	$ (10,472)	(863,343)	$ (8,169)	$ 151,179	$
Net income							16,293	
Other comprehensive loss, net of tax				10,494				
Repurchases of common stock					(296,775)	(3,972)		
Common stock dividends ($.07 per share)							(1,223)	
Share-based compensation expense and related tax benefits	7,425	7	756					
Distributions to noncontrolling interests								
Other capital transactions			103				(72)	
BALANCE AT DECEMBER 31, 2014	18,531,158	$ 18,531	$ 127,098	$ 22	(1,160,118)	$ (12,141)	$ 166,177	$
Net income							29,944	
Other comprehensive income, net of tax				(3,467)				

Repurchases of common stock					(143,307)	(1,820)	
Acquisition of subsidiary							
Purchases of noncontrolling interests			112	5			
Common stock dividends ($.09 per share)							(1,562)
Share-based compensation expense and related tax benefits	38,025	38	408				
Other capital transactions			115				(109)
BALANCE AT DECEMBER 31, 2015	18,569,183 $	18,569 $	127,733 $	(3,440)	(1,303,425) $	(13,961) $	194,450 $
Net income							123,298
Other comprehensive income, net of tax				(3,626)			
Repurchases of common stock					(214,558)	(3,522)	
Purchases of noncontrolling interests			(2,302)	102			
Common stock dividends ($.105 per share)							(1,800)
Share-based compensation expense and related tax benefits	51,325	51	727				
Distributions to noncontrolling interests							
Other capital transactions			310				(30)
BALANCE AT DECEMBER 31, 2016	18,620,508 $	18,620 $	126,468 $	(6,964)	(1,517,983) $	(17,483) $	315,918 $

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (In thousands)
YEARS ENDED DECEMBER 31,

	2016	2015	2014
Cash Flows Provided By (Used By) Operating Activities:			
Net income	$ 133,314	$ 30,522	$ 16,921
Adjustments to reconcile net income to net change in cash from			
operating activities:			
Gain on disposal of discontinued operations, net of tax	(110,337)	-	-
Gain on sale of subsidiary to joint venture	-	(9,940)	-
Gain on disposition of assets	-	(5,053)	-
Amortization of deferred acquisition costs	319	3,524	4,941
Net realized investment gains	(4,502)	(3,094)	(7,688)
Other-than-temporary impairment losses	1,475	228	-
Equity income from equity method investments	(62)	(405)	(1,106)
Depreciation and amortization	1,831	2,313	3,000
Deferred tax expense	4,445	614	5,423
Other	7,809	6,724	10,586
Changes in assets and liabilities:			
Net purchases (sales) of trading securities	3,727	5,356	(4,719)
Change in insurance liabilities	(120,064)	(18,907)	(94,876)
Change in deferred acquisition costs	(296)	26,774	(6,223)
Change in amounts due from reinsurers	42,787	(202,617)	101,987
Change in premium and claim funds	3,094	(1,891)	4,800
Change in current income tax liability	(9,146)	3,386	2,241
Change in due and unpaid premiums	26,179	(6,447)	(3,193)
Other operating activities	(11,571)	4,189	(4,763)
Net change in cash from operating activities	(30,998)	(164,724)	27,331
Cash Flows Provided By (Used By) Investing Activities:			
Net purchases of short-term investments	(6,870)	-	-
Net (purchases) sales of securities under resale agreements	(677)	(11,495)	5,804
Sales of equity securities	3,577	11,986	288
Purchases of equity securities	-	(6,601)	(1,228)
Sales of fixed maturities	410,983	629,376	353,143
Maturities and other repayments of fixed maturities	47,285	42,630	45,091
Purchases of fixed maturities	(486,398)	(521,417)	(421,285)
Acquisition of subsidiary, net of cash acquired	-	511	-
Proceeds from sales/deconsolidation of subsidiaries, net of cash divested	135,736	4,518	-
Proceeds from sale of assets	-	8,000	-
Change in policy loans	1	10,629	660
Proceeds on sales of other investments	4,210	1,000	-

Purchases of other investments	(4,371)	-	(900)
Other investing activities	(4,601)	(809)	2,574
Net change in cash from investing activities	98,875	168,328	(15,853)
Cash Flows Provided By (Used By) Financing Activities:			
Repurchases of common stock	(3,522)	(1,820)	(3,972)
Cash paid in acquisitions of noncontrolling interests	(18,111)	(1,734)	-
Withdrawals of investment-type insurance contracts	1,898	(2,306)	(2,988)
Repayments of debt	(42,935)	(2,617)	(2,000)
Dividends paid	(1,553)	(1,392)	(1,233)
Other financing activities	(815)	353	(431)
Net change in cash from financing activities	(65,038)	(9,516)	(10,624)
Net change in cash and cash equivalents, including discontinued operations	2,839	(5,912)	854
Cash and cash equivalents, beginning of year, including discontinued operations	19,171	25,083	24,229
Cash and cash equivalents, end of year, including discontinued operations	$ 22,010	$ 19,171	$ 25,083

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1.

Organization, Consolidation, Basis of Presentation and Accounting Policies

(A)

Business and Organization

Independence Holding Company, a Delaware corporation (IHC), is a holding company principally engaged in the life and health insurance business through: (i) its insurance companies, Standard Security Life Insurance Company of New York ("Standard Security Life"), Madison National Life Insurance Company, Inc. ("Madison National Life"), and Independence American Insurance Company (Independence American); and (ii) its marketing and administrative companies, including IHC Specialty Benefits Inc. and IHC Carrier Solutions, Inc. IHC also owns a significant equity interest in: (i) Ebix Health Exchange Holdings, LLC (Ebix Health Exchange), an administration exchange for health insurance; and (ii) an equity interest in a managing general underwriter (MGU) that writes medical stop-loss. On March 31, 2016, the Company sold IHC Risk Solutions, LLC (Risk Solutions), an MGU that was its principal source of medical stop-loss business. In addition, all of the in-force medical stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was 100% co-insured as of January 1, 2016 and IHC s block of medical stop-loss business is in run-off. Standard Security Life, Madison National Life and Independence American are sometimes collectively referred to as the Insurance Group . IHC and its subsidiaries (including the Insurance Group) are sometimes collectively referred to as the "Company", or IHC , or are implicit in the terms we , us and our

Geneve Corporation, a diversified financial holding company, and its affiliated entities, held approximately 53% of IHC's outstanding common stock at December 31, 2016.

(B)

Consolidation

AMIC Holdings, Inc.

AMIC Holdings, Inc., formerly known as American Independence Corp., (AMIC) is an insurance holding company engaged in the insurance and reinsurance business. At December 31, 2015, the Company owned approximately 92% of its outstanding common stock. On August 31, 2016, IHC took AMIC private by way of a statutory short-form" merger. The Company paid $18,111,000 for the remaining shares of AMIC common stock owned by noncontrolling interests and as a result, the Company now owns all of the outstanding common stock of AMIC. In connection with the transaction, $2,200,000 was charged to paid-in capital representing: (i) the difference between the fair value of the consideration paid for the shares and the carrying amount of noncontrolling interests; plus (ii) specific, direct costs of the transaction.

In 2015, IHC purchased shares of AMIC common stock increasing its ownership interest in AMIC from 90% to approximately 92%.

Effects of Ownership Changes in Subsidiaries

The following table summarizes the effects of any changes in the Company s ownership interests in its less than wholly owned subsidiaries on IHC s equity for the years indicated (in thousands).

		2016		2015		2014
Changes in IHC s paid-in capital:						
Purchases of AMIC shares	$	(2,200)	$	(199)	$	-
Purchase remaining IPA Family, LLC interests		-		311		-
Net transfers from (to) noncontrolling interests	$	(2,200)	$	112	$	-

(C)

Basis of Presentation

The Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) and include the accounts of IHC and its consolidated subsidiaries. All significant intercompany transactions have been eliminated in consolidation. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements; and (ii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

On March 31, 2016, the Company sold Risk Solutions, its managing general underwriter of excess or stop-loss insurance for self-insured employer groups that desire to manage the risk of large medical claims (Medical Stop-Loss). In addition, under the purchase and sale agreement, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was 100% co-insured as of January 1, 2016. IHC s block of medical stop-loss business is in run-off. The sale of Risk Solutions and exit from the medical stop-loss business represents a strategic shift that will have a major effect on the Company s operations and financial results. The disposal transaction qualified for reporting as discontinued operations in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. The assets, liabilities, and related income and expenses associated with the disposal group are presented as discontinued operations in the accompanying consolidated financial statements and Notes thereto for all periods presented. The results of discontinued operations reflect the operations of the disposed MGUs (see Note 3). The run-off of IHC s remaining block of medical stop-loss business is in continuing operations.

Effective September 1, 2015 (Deconsolidation Date), pursuant to the terms of a contribution agreement, IHC contributed all of its shares in its subsidiary, IHC Health Solutions, Inc. (IHC Health Solutions) to Ebix Health Exchange, a newly formed joint venture with Ebix, Inc. (Ebix), and, as a result, IHC deconsolidated IHC Health Solutions (see Note 7). In accordance with U.S. GAAP, the accompanying Consolidated Financial Statements include the operating results of IHC Health Solutions prior to the Deconsolidation Date. Subsequent to the Deconsolidation Date, the Company s equity interest in the joint venture is accounted for under the equity method of accounting.

(D)

Reclassifications

Certain amounts in prior year s Consolidated Financial Statements and Notes thereto have been reclassified to conform to the 2016 presentation, primarily for the effects of discontinued operations.

(E)

Cash, Cash Equivalents and Short-Term Investments

Cash equivalents are carried at cost which approximates fair value, and include principally interest-bearing deposits at brokers, money market instruments and U.S. Treasury securities with original maturities of less than 91 days. Investments with original maturities of 91 days to one year are considered short-term investments and are carried at cost, which approximates fair value.

The following is a reconciliation of cash and cash equivalents as reported in the Consolidated Balance Sheets to the ending cash and cash equivalents, including discontinued operations, as reported in the Consolidated Statements of Cash Flows as of December 31 of each year indicated (in thousands):

			December 31,	
		2016	**2015**	**2014**
Cash and cash equivalents	$	22,010$	17,500$	23,408
Cash and cash equivalents attributable to discontinued operations		-	1,671	1,675
Cash and cash equivalents, including discontinued operations	$	22,010$	19,171$	25,083

(F)

Securities Purchased Under Agreements to Resell

Securities purchased under agreements to resell ("resale agreements") are carried at the amounts at which the securities will be subsequently resold as specified in the agreements. Resale agreements are utilized to invest excess funds on a short-term basis. At December 31, 2016, the Company had $28,962,000 invested in resale agreements, all of which settled on January 3, 2017 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements, values the collateral on a daily basis and obtains additional collateral, if necessary, to protect the Company in the event of default by the counterparties.

(G)

Investment Securities

(i) Investments in fixed maturities, redeemable preferred securities and equity securities are accounted for as follows:

(a) Securities that are held for trading purposes are carried at estimated fair value ("fair value"). Changes in fair value are credited or charged, as appropriate, to net realized investment gains (losses) in the Consolidated Statements of Income.

(b) Securities not held for trading purposes that may or may not be held to maturity ("available-for-sale securities") are carried at fair value. Unrealized gains and losses deemed temporary, net of deferred income taxes, are credited or charged, as appropriate, to other comprehensive income or loss. Premiums and discounts on debt securities purchased at other than par value are amortized and accreted, respectively, to interest income in the Consolidated Statements of Income, using the constant yield method over the period to maturity.

(ii) Gains or losses on sales of securities are determined on the basis of specific identification and are recorded in net realized investment gains (losses) in the Consolidated Statements of Income on the trade date.

(iii) Fair value is determined using quoted market prices when available. In some cases, we use quoted market prices for similar instruments in active markets and/or model-derived valuations where inputs are observable in active markets. When there are limited or inactive trading markets, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management assumptions and available current market information. Further, we retain independent pricing vendors to assist in valuing certain instruments. Most of the securities in our portfolio are classified in either Level 1 or Level 2 of the Fair Value Hierarchy.

The Company periodically reviews and assesses the vendor s qualifications and the design and appropriateness of its pricing methodologies. Management will on occasion challenge pricing information on certain individual securities and, through communications with the vendor, obtain information about the assumptions, inputs and methodologies used in pricing those securities, and corroborate it against documented pricing methodologies. Validation procedures are in place to determine completeness and accuracy of pricing information, including, but not limited to: (i) review of exception reports that (a) identify any zero or un-priced securities; (b) identify securities with no price change; and (c) identify securities with significant price changes; (ii) performance of trend analyses; (iii) periodic comparison of pricing to alternative pricing sources; and (iv) comparison of pricing changes to expectations based on rating changes, benchmarks or control groups. In certain circumstances, pricing is unavailable from the vendor and broker-pricing information is used to determine fair value. In these instances, management will assess the quality of the data sources, the underlying assumptions and the reasonableness of the broker quotes based on the current market information available. To determine if an exception represents an error, management will often have to exercise judgment. Procedures to resolve an exception vary depending on the significance of the security and its related class, the frequency of the exception, the risk of material misstatement, and the availability of information for the security. These procedures include, but are not limited to; (i) a price challenge process with the vendor; (ii) pricing from a different vendor; (iii) a reasonableness review; and (iv) a change in price based on better information, such as an actual market trade, among other things. Management considers all facts and relevant information obtained during the above procedures to determine the proper classification of each security in the Fair Value Hierarchy.

(iv) The Company reviews its investment securities regularly and determines whether other-than-temporary impairments have occurred. The factors considered by management in its regular review to identify and recognize other-than-temporary impairment losses on fixed maturities include, but are not limited to: the length of time and extent to which the fair value has been less than cost; the Company's intent to sell, or be required to sell, the debt security before the anticipated recovery of its remaining amortized cost basis; the financial condition and near-term prospects of the issuer; adverse changes in ratings announced by one or more rating agencies; subordinated credit support; whether the issuer of a debt security has remained current on principal and interest payments; current expected cash flows; whether the decline in fair value appears to be issuer specific or, alternatively, a reflection of general market or industry conditions including the effect of changes in market interest rates. If the Company intends to sell a debt security, or it is more likely than not that it would be required to sell a debt security before the recovery of its amortized cost basis, the entire difference between the security's amortized cost basis and its fair value at the balance sheet date would be recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. If a decline in fair value of a debt security is judged by management to be other-than-temporary and; (i) the Company does not intend to sell the security; and (ii) it is not more likely than not that it will be required to sell the security prior to recovery of the security s amortized cost, the Company assesses whether the present value of the cash flows to be collected from the security is less than its amortized cost basis. To the extent that the present value of the cash flows generated by a debt security is less than the amortized cost basis, a credit loss exists. For any such security, the impairment is bifurcated into (a) the amount of the total impairment related to the credit loss, and (b) the amount of the total impairment related to all other factors. The amount of the other-than-temporary impairment related to the credit loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income, establishing a new cost basis for the security. The amount of the other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss). It is reasonably possible that further declines in estimated fair values of such investments, or changes in assumptions or estimates of anticipated recoveries and/or cash flows, may cause further other-than-temporary impairments in the near term, which could be significant.

In assessing corporate debt securities for other-than-temporary impairment, the Company evaluates the ability of the issuer to meet its debt obligations and the value of the company or specific

collateral securing the debt position. For mortgage-backed securities where loan level data is not available, the Company uses a cash flow model based on the collateral characteristics. Assumptions about loss severity and defaults used in the model are primarily based on actual losses experienced and defaults in the collateral pool. Prepayment speeds, both actual and estimated, are also considered. The cash flows generated by the collateral securing these securities are then determined with these default, loss severity and prepayment assumptions. These collateral cash flows are then utilized, along with consideration for the issue s position in the overall structure, to determine the cash flows associated with the mortgage-backed security held by the Company. In addition, the Company evaluates other asset-backed securities for other-than-temporary impairment by examining similar characteristics referenced above for mortgage-backed securities. The Company evaluates U.S. Treasury securities and obligations of U.S. Government corporations, U.S. Government agencies, and obligations of states and political subdivisions for other-than-temporary impairment by examining the terms and collateral of the security.

Equity securities may experience other-than-temporary impairment in the future based on the prospects for full recovery in value in a reasonable period of time and the Company s ability and intent to hold the security to recovery. If a decline in fair value is judged by management to be other-than-temporary or management does not have the intent or ability to hold a security, a loss is recognized by a charge to total other-than-temporary impairment losses in the Consolidated Statement of Income. For the purpose of other-than-temporary impairment evaluations, redeemable preferred stocks are evaluated in a manner similar to debt securities. Declines in the creditworthiness of the issuer of debt securities with both debt and equity-like features are evaluated using the equity model in consideration of other-than-temporary impairment.

Subsequent increases and decreases, if not an other-than-temporary impairment, in the fair value of available-for-sale securities that were previously impaired, are recorded in other comprehensive income (loss).

(H)

Other Investments

Other investments primarily consist of limited partnership interests carried on the equity method, which approximates the Company's equity in the underlying net assets of the partnership. Equity income or loss on partnership interests is credited or charged, as appropriate, to the Consolidated Statements of Income. For cost method investments, dividends received are recognized in earnings to the extent that they were distributed from the net accumulated earnings of the investee. Dividends received in excess of the investee s net accumulated earnings are considered a return of investment and are recorded as reductions of cost of the investment.

(I)

Property and Equipment

Property and equipment of $2,029,000 and $1,523,000 are included in other assets at December 31, 2016 and 2015, respectively, net of accumulated depreciation and amortization of $3,348,000 and $6,255,000, respectively.

Improvements are capitalized while repair and maintenance costs are charged to operations as incurred. Depreciation of property and equipment has been provided on the straight-line method over the estimated useful lives of the respective assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter of the lease term or the estimated useful life of the asset.

(J)

Goodwill and Other Intangible Assets

Goodwill carrying amounts are evaluated for impairment, at least annually, at the reporting unit level that is equivalent to an operating segment. If the fair value of a reporting unit is less than its carrying amount, further evaluation is required to determine if a write-down of goodwill is required. In determining the fair value of each reporting unit, we used an income approach, applying a discounted cash flow method that included a residual value. Based on historical experience, we make assumptions as to: (i) expected future performance and future economic conditions, (ii) projected operating earnings, (iii) projected new and renewal business as well as profit margins on such business, and (iv) a discount rate that incorporated an appropriate risk level for the reporting unit. Any impairment of goodwill would be charged to expense.

Other intangible assets are amortized to expense over their estimated useful lives and are subject to impairment testing. Any impairment of other intangible assets would be charged to expense.

(K)

Insurance Liabilities

<u>Policy Benefits and Claims</u>

The Company maintains loss reserves to cover its estimated liability for unpaid losses and loss adjustment expenses, where material, including legal, other fees, and costs not associated with specific claims but related to the claims payment function), for reported and unreported claims incurred as of the end of each accounting period. These loss reserves are based on actuarial assumptions and are maintained at levels that are in accordance with U.S. GAAP. Many factors could affect these reserves, including economic and social conditions, frequency and severity of claims, medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, and changes in doctrines of legal liability and damage awards in litigation. Therefore, the Company s reserves are necessarily based on estimates, assumptions and analysis of historical experience. The Company s results depend upon the variation between actual claims experience and the assumptions used in determining reserves and pricing products. Reserve assumptions and estimates require significant judgment and, therefore, are inherently uncertain. The Company cannot determine with precision the ultimate amounts that will be paid for actual claims or the timing of those payments. The Company's estimate of loss represents management's best estimate of the Company's liability at the balance sheet date.

Loss reserves differ for short-duration and long-duration insurance policies, including annuities. Reserves are based on approved actuarial methods, but necessarily include assumptions about expenses, mortality, morbidity, lapse rates and future yield on related investments.

All of the Company s short-duration contracts are generated from its accident, health, disability and pet insurance business, and are accounted for based on actuarial estimates of the amount of loss inherent in that period s claims, including losses incurred for which claims have not been reported. Short-duration contract loss estimates rely on actuarial observations of ultimate loss experience for similar historical events.

Specialty Health

For the Specialty Health business, incurred but not reported (IBNR) claims liabilities plus expected development on reported claims are calculated using standard actuarial methods and practices. The primary assumption in the determination of Specialty Health reserves is that historical Claim Development Patterns are representative of future Claim Development Patterns. Factors that may affect this assumption include changes in claim payment processing times and procedures, changes in time delay in submission of claims, and the incidence of unusually large claims. Liabilities for policy benefits and claims for specialty health medical and disability coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. The reserving analysis includes a review of claim processing statistical measures and large claim early notifications; the potential impacts of any changes in these factors are not material. The Company has business that is serviced by third-party administrators. From time to time, there are changes in the timing of claims processing due to any number of factors including, but not limited to, system conversions and staffing changes during the year. These changes are monitored by the Company and the effects of these changes are taken into consideration during the claim reserving process. Other than these considerations, there have been no significant changes to methodologies and assumptions from the prior year.

While these calculations are based on standard methodologies, they are estimates based on historical patterns. To the extent that actual claim payment patterns differ from historical patterns, such estimated reserves may be redundant or inadequate. The effects of such deviations are evaluated by considering claim backlog statistics and reviewing the reasonableness of projected claim ratios. Other factors which may affect the accuracy of policy benefits and claim estimates include the proportion of large claims which may take longer to adjudicate, changes in billing patterns by providers and changes in claim management practices such as hospital bill audits.

Disability

The Company s disability business is primarily comprised of New York short-term disability (DBL) and group disability.

With respect to DBL, the liability for policy benefits and claims for the most recent quarter of earned premium is established using a Net Loss Ratio methodology. The Net Loss Ratio is determined by applying the completed prior four quarters of historical Net Loss Ratios to the last quarter of earned premium. Policy benefits and claims associated with the premium earned prior to the last quarter are established using a completion factor methodology. The completion factors are developed using the historical payment patterns for DBL. There have been no significant changes to methodologies and assumptions from the prior year.

Policy benefits and claims for the Company s group disability products are developed using actuarial principles and assumptions that consider, among other things, future offsets and recoveries, elimination periods, interest rates, probability of rehabilitation or mortality, incidence and termination rates based on the Company s experience. The liability for policy benefits and claims is made up of case reserves, IBNR and reopen reserves and Loss Adjustment Expenses (LAE). IBNR and reopen reserves are calculated by a hind-sight study, which takes historical experience and develops the reserve as a percentage of premiums from prior years.

The two primary assumptions on which group disability reserves are based are: (i) morbidity levels; and (ii) recovery rates. If morbidity levels increase, for example due to an epidemic or a recessionary environment, the Company would increase reserves because there would be more new claims than expected. In regard to the assumed recovery rate, if disabled lives recover more quickly than anticipated then the existing claims reserves would be reduced; if less quickly, the existing claims reserves would be increased.

Due to the long-term nature of LTD, in establishing the liability for policy benefits and claims, the Company must make estimates for case reserves, IBNR, and reserves for LAE. Case reserves generally equal the actuarial present value of the liability for future benefits to be paid on claims incurred as of the balance sheet date. The IBNR reserve is established based upon historical trends of existing incurred claims that were reported after the balance sheet date. The LAE reserve is calculated based on an actuarial expense study. There have been no significant changes to methodologies and assumptions from the prior year.

Medical Stop-Loss

Liabilities for policy benefits and claims on medical stop-loss coverage are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data. Policy benefits and claims for medical stop-loss insurance are more volatile in nature than those for specialty health medical insurance. This is primarily due to the excess nature of medical stop-loss, with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Furthermore, these excess claims are highly sensitive to changes in factors such as medical trend, provider contracts and medical treatment protocols, adding to the difficulty in predicting claim values and estimating reserves. Also, because medical stop-loss is in excess of an underlying benefit plan, there is an additional layer of claim reporting and processing that can affect claim payment patterns. Finally, changes in the distribution of business by effective month can affect reserve estimates due to the timing of claim occurrences and the time required to accumulate claims against the stop-loss deductible.

The two primary or key assumptions underlying the calculation of policy benefits and claims for Medical Stop-Loss business are (i) projected Net Loss Ratio, and (ii) claim development patterns. The projected Net Loss Ratio is set at expected levels consistent with the underlying assumptions (Projected Net Loss Ratio). Claim development patterns are set quarterly as reserve estimates are developed and are based on recent claim development history (Claim Development Patterns). The Company uses the Projected Net Loss Ratio to establish reserves until developing losses provide a better indication of ultimate results and it is feasible to set reserves based on Claim Development Patterns. The Company has concluded that a reasonably likely change in the Projected Net Loss Ratio assumption could have a material effect on the Company s financial condition, results of operations, or liquidity (Material Effect) but a reasonably likely change in the Claim Development Pattern would not have a Material Effect.

Projected Net Loss Ratio

Generally, during the first twelve months of an underwriting year, policy benefits and claims for Medical Stop-Loss are first set at the Projected Net Loss Ratio, which is set using assumptions developed using completed prior experience trended forward. The Projected Net Loss Ratio is the Company s best estimate of future performance until such time as developing losses provide a better indication of ultimate results.

Major factors that affect the Projected Net Loss Ratio assumption in reserving for Medical Stop-Loss relate to: (i) frequency and severity of claims; (ii) changes in medical trend resulting from the influences of underlying cost inflation, changes in utilization and demand for medical services, the impact of new medical technology and changes in medical treatment protocols; and (iii) the adherence to the Company s underwriting guidelines.

Claim Development Patterns

Subsequent to the first twelve months of an underwriting year, the Company s developing losses provide a better indication of ultimate losses. At this point, claims have developed to a level where Claim Development Patterns can be applied to generate reasonably reliable estimates of ultimate claim levels. Development factors based on historical patterns are applied to paid and reported claims to estimate fully developed claims. Claim Development Patterns are reviewed quarterly as reserve estimates are developed and are based on recent claim development history. The Company must determine whether changes in development represent true indications of emerging experience or are simply due to random claim fluctuations.

The Company also establishes its best estimates of claim development factors to be applied to more developed treaty year experience. While these factors are based on historical Claim Development Patterns, actual claim development may vary from these estimates.

Predicting ultimate claims and estimating reserves in Medical Stop-Loss is more complex than specialty health medical and disability business due to the excess of loss nature of these products with very high deductibles applying to specific claims on any individual claimant and in the aggregate for a given group. The level of these deductibles makes it more difficult to predict the amount and payment pattern of such claims. Fluctuations in results for specific coverage are primarily due to the severity and frequency of individual claims, whereas fluctuations in aggregate coverage are largely attributable to frequency of underlying claims rather than severity. Liabilities for first dollar medical reserves and disability coverages are computed using completion factors and expected Net Loss Ratios derived from actual historical premium and claim data.

Due to the short-term nature of Medical Stop-Loss, redundancies or deficiencies will typically emerge during the course of the following year rather than over a number of years. For Medical Stop-Loss, as noted above, the Company maintains its reserves based on underlying assumptions until it determines that an adjustment is appropriate based on emerging experience from all of its prior underwriting years.

Management believes that the Company's methods of estimating the liabilities for policy benefits and claims provided appropriate levels of reserves at December 31, 2016. Changes in the Company's policy benefits and claims estimates are generally recorded through a charge or credit to its earnings. There have been no significant changes to methodologies and assumptions from the prior year.

Future Policy Benefits

The liability for future policy benefits consists of the liabilities related to insured events for the Company s long-duration contracts, primarily its life and annuity products. For traditional life insurance products, the Company computes the liability for future policy benefits primarily using the net premium method based on anticipated investment yield, mortality, and withdrawals. These methods are widely used in the life insurance industry to estimate the liabilities for future policy benefits. Inherent in these calculations are management and actuarial judgments and estimates that could significantly impact the ending reserve liabilities and, consequently, operating results. Actual results may differ, and these estimates are subject to interpretation and change.

Management believes that the Company's methods of estimating the liabilities for future policy benefits provided appropriate levels of reserves at December 31, 2016. Changes in the Company's future policy benefits estimates are recorded through a charge or credit to its earnings.

Funds on Deposit

Funds received (net of mortality and expense charges) for certain long-duration contracts (principally deferred annuities and universal life policies) are credited directly to a policyholder liability account, funds on deposit. Withdrawals are recorded directly as a reduction of respective policyholders' funds on deposit. Amounts on deposit were credited at annual rates ranging from 3.0% to 6.0% in 2016, 3.0% to 7.0% in 2015, and 3.0% to 8.0% in 2014.

Other Policyholders Funds

Other policyholders funds represent interest-bearing liabilities arising from the sale of products, such as universal life, interest-sensitive life and annuities. Policyholder funds are primarily comprised of deposits received and interest credited to the benefit of the policyholder less surrenders and withdrawals, mortality charges and administrative expenses.

Interest credited to policyholder funds represents interest accrued or paid on interest-sensitive life policies and investment policies. These amounts are reported in insurance benefits, claims and reserves on the Consolidated Statements of Income. Credit rates for certain annuities and interest-sensitive life policies are adjusted periodically by the Company to reflect current market conditions, subject to contractually guaranteed minimum rates.

(L)

Deferred Income Taxes

The provision for deferred income taxes is based on the asset and liability method of accounting for income taxes. Under this method, deferred income taxes are recognized by applying enacted statutory tax rates to temporary differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities in the years in which those temporary differences are expected to be recovered or settled. A valuation allowance is recognized for the portion of deferred tax assets that, in management's judgment, is not likely to be realized. A liability for uncertain tax positions is recorded when it is more likely than not that a tax position will not be sustained upon examination by taxing authorities. The effect on deferred income taxes of a change in tax rates or laws is recognized in income tax expense in the period that includes the enactment date.

Interest and penalties are classified as other interest expense and are included in selling, general and administrative expenses in the Consolidated Statements of Income.

(M)

Reinsurance

Amounts paid for or recoverable under reinsurance contracts are included in total assets or total liabilities as due from reinsurers or due to reinsurers. The cost of reinsurance related to long-duration contracts is accounted for over the life of the underlying reinsured policies using assumptions consistent with those used to account for the underlying policies.

(N)

Insurance Premium Revenue Recognition and Policy Charges

Premiums from short-duration medical insurance contracts are intended to cover expected claim costs resulting from insured events that occur during a fixed period of short duration. The Company has the ability to not renew the contract or to revise the premium rates at the end of each annual contract period to cover future insured events. Insurance premiums from annual health contracts are collected monthly and are recognized as revenue evenly as insurance protection is provided.

Premiums related to long-term and short-term disability contracts are recognized on a pro rata basis over the applicable contract term.

Traditional life insurance products consist principally of products with fixed and guaranteed premiums and benefits, primarily term and whole life insurance products. Revenue from these products are recognized as premium when due.

Annuities and interest-sensitive life contracts, such as universal life and interest sensitive whole life, are contracts whose terms are not fixed and guaranteed. Premiums from these policies are reported as funds on deposit. Policy charges consist of fees assessed against the policyholder for cost of insurance (mortality risk), policy administration and early surrender. These revenues are recognized when assessed against the policyholder account balance.

Policies that do not subject the Company to significant risk arising from mortality or morbidity are considered investment contracts. Deposits received for such contracts are reported as other policyholder funds. Policy charges for investment contracts consist of fees assessed against the policyholder account for maintenance, administration and surrender of the policy prior to contractually specified dates, and are recognized when assessed against the policyholder account balance.

(O)

Income Per Common Share

Income per common share is computed using the treasury stock method.

(P)

Share-Based Compensation

Compensation costs for equity awards, such as stock options and non-vested restricted stock, are measured based on grant-date fair value and are recognized in the Consolidated Statements of Income over the requisite service period (which is usually the vesting period). For such awards with only service conditions, the Company recognizes the compensation cost on a straight-line basis over the requisite service period for the entire award.

Compensation costs for liability-classified awards, such as share appreciation rights (SARs), are measured and accrued each reporting period in the Consolidated Statements of Income as the requisite service or performance conditions are met.

(Q)

Recent Accounting Pronouncements

Recently Adopted Accounting Standards

In September 2015, the Financial Accounting Standards Board (FASB) issued guidance to simplify the accounting for adjustments made to provisional amounts recognized in a business combination and eliminated the requirement to retrospectively account for those adjustments. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In February 2015, the FASB issued guidance that modifies the evaluation of whether limited partnerships and similar legal entities are variable interest entities or voting interest entities for the purpose of consolidation. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In May 2015, the FASB issued guidance requiring additional disclosures for short-duration contracts regarding the liability for unpaid claims and claim adjustment expenses. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

In June 2014, the FASB issued explicit guidance for entities that grant their employees share-based payments in which the terms of the award include a performance target that affects vesting and could be achieved after the requisite service period. The adoption of this guidance did not have a material effect on the Company s consolidated financial statements.

Recently Issued Accounting Standards Not Yet Adopted

In January 2017, the FASB issued guidance to simplify the test for goodwill impairment by eliminating Step 2 in the goodwill impairment test. Instead, under the amendments in this Update, an entity should perform its annual or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit s fair value. Additionally, an entity should consider income tax effects from any tax-deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. The amendments in this guidance are effective for public business entities for annual, or any interim, goodwill impairment tests in fiscal years beginning after December 15, 2019. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In January 2017, the FASB issued guidance that changes the definition of a business to assist entities with evaluating when a set of transferred assets and activities is a business. The amendments in this guidance should be applied prospectively in annual periods beginning after December 15, 2017, including interim periods within those periods, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In November 2016, the FASB issued guidance requiring entities to show the changes in the total cash, cash equivalents, restricted cash and restricted cash equivalent in the statement of cash flows. The amendments in this guidance should be applied retrospectively and is effective for public business entities for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years, with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In October 2016, the FASB issued guidance that amends the consolidation analysis for a reporting entity that is the single decision maker of a variable interest entity. The amendments in this guidance require the decision maker s evaluation of its interests held through related parties that are under common control on a proportionate basis rather than in their entirety when determining whether it is the primary beneficiary of that variable interest entity. The amendments in this Update are effective for public business entities for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years with early adoption permitted. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In October 2016, the FASB issued guidance requiring an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. The amendments in this guidance should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption and are effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In August 2016, the FASB issued guidance that changes how certain cash receipts and cash payments are presented and classified in the cash flows statement. The amendments in this Update are effective for annual periods beginning after December 15, 2017, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In June 2016, the FASB issued guidance requiring financial assets measured at amortized cost basis to be presented at the net amount expected to be collected. An allowance for credit losses will be deducted from the amortized cost basis to present the net carrying value at the amount expected to be collected with changes in the allowance recorded in earnings. Credit losses relating to available-for-sale debt securities will also be recorded through an allowance for credit losses rather than the currently applied U.S. GAAP method of taking a permanent impairment of the security, which would be limited to the amount by which fair value is below the amortized cost. Certain existing requirements used to evaluate credit losses have been removed. For public entities that are SEC filers, the amendments in this Update are effective for fiscal years beginning after December 15, 2019, including interim periods within those years. Early adoption is permitted for fiscal years beginning after December 15, 2018. The amendments in this guidance should be applied through a cumulative effect adjustment to retained earnings upon adoption as of the beginning of the first reporting period in which the guidance is effective. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company s consolidated financial statements.

In March 2016, the FASB issued guidance that simplify several aspects of accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification in the statement of cash flows. The amendments in this guidance are effective for annual periods beginning after December 15, 2016, and interim periods within those annual periods. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In March 2016, the FASB issued guidance that eliminates the requirement for retroactive adjustments on the date that a previously held investment qualifies for the equity method of accounting as a result of an increase in ownership interest or degree of influence. The amendments in this guidance are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016 and should be applied prospectively upon their effective date. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In February 2016, the FASB issued guidance that requires lessees to recognize the assets and liabilities that arise from leases, including operating leases, on the statement of financial position. The amendments in this guidance are effective for fiscal years beginning after December 31, 2018, including interim periods within those fiscal years, using a modified retrospective approach. The adoption of this guidance is not expected to have a material effect on the Company s consolidated financial statements.

In January 2016, the FASB issued guidance that eliminates the requirement to classify equity securities with readily determinable fair values as trading or available-for-sale. The guidance requires equity securities, other than those that result in consolidation or are accounted for under the equity method, (including other ownership interests, such as partnerships, unincorporated joint ventures, and limited liability companies) to be measured at fair value with changes in the fair value recognized through net income, simplifies the impairment assessment of equity securities without readily determinable fair values and requires changes in disclosure requirements. For public entities, the amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Early adoption is permitted in certain circumstances. The amendments in this Update should be applied by means of a cumulative-effect adjustment to the balance sheet as of the beginning of the fiscal year of adoption. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) should be applied prospectively to equity investments that exist as of the date of adoption of the guidance. The adoption of this guidance is not expected to have a material effect on the Company s Consolidated Balance Sheet or IHC s stockholders equity.

In May 2014, the FASB issued revenue recognition guidance for entities that either enter into contracts with customers to transfer goods or services or enter into contracts for the transfer of nonfinancial assets unless those contracts are within the scope of other standards such as insurance contracts or lease contracts. The amendment provides specific steps that an entity should apply in order to achieve its main objective which is recognizing revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In 2016, additional guidance and technical corrections were issued to clarify certain aspects of the implementation guidance and to clarify the identification of performance obligations. In August 2015, the effective date of this guidance has been deferred. For public entities, this guidance is effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period, and requires one of two specified retrospective methods of application. Earlier application is permitted only as of annual reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. The Company anticipates that any impact will only relate to contracts with customers outside the scope of Accounting Standards Codification Topic 944, *Financial Services - Insurance*. Our administrative and other service contracts that will be subject to the amendments in this Update are recorded in the Fee Income line item of the Consolidated Statement of Income and represents approximately 5% of our consolidated revenues for the year ended December 31, 2016. Management is still in the process of evaluating the impact that the adoption of this guidance will have on the Company s consolidated financial statements and the method of adoption that we will ultimately choose.

Note 2.

Income Per Common Share

Included in the diluted earnings per share calculation for 2016, 2015 and 2014 are 217,000, 170,000 and 165,000 of incremental common shares, respectively, primarily from the dilutive effect of share-based payment awards.

The following is a reconciliation of income available to common shareholders used to calculate income per share for the periods indicated (in thousands):

	2016	2015	2014
Income from continuing operations, net of tax	$ 22,510	$ 27,974	$ 15,021
Less: Income from continuing operations attributable to noncontrolling interests	(458)	(405)	(451)
Income from continuing operations attributable to IHC common shareholders	$ 22,052	$ 27,569	$ 14,570
Income from discontinued operations, net of tax	$ 110,804	$ 2,548	$ 1,900
Less: Income from discontinued operations attributable to noncontrolling interests	(9,558)	(173)	(177)
Income from discontinued operations attributable to IHC common shareholders	$ 101,246	$ 2,375	$ 1,723
Net income attributable to IHC	$ 123,298	$ 29,944	$ 16,293

Note 3.

Discontinued Operations

On March 31, 2016, IHC and a subsidiary of AMIC sold the stock of Risk Solutions to Swiss Re Corporate Solutions, a division of Swiss Re (Swiss Re). In addition, under the purchase and sale agreement, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions is co-insured by Westport Insurance Corporation (Westport), Swiss Re s largest US carrier, as of January 1, 2016. The aggregate purchase price was $152,500,000 in cash, subject to adjustments and settlements. Approximately 89% of the purchase price was allocated to AMIC and its subsidiaries, with the balance being paid to Standard Security Life and other IHC subsidiaries. The Company recorded a gain of $100,819,000, net of taxes and amounts attributable to noncontrolling interests, as a result of the transaction. The aforementioned transaction, which includes the sale of Risk Solutions and the corresponding coinsurance agreement, is collectively referred to as the Risk Solutions Sale and Coinsurance

Transaction . IHC s block of Medical Stop-Loss business is in run-off. The sale of Risk Solutions and exit from the medical stop-loss business represents a strategic shift that will have a major effect on the Company s operations and financial results. The disposal transaction qualified for reporting as discontinued operations in the first quarter of 2016 as a result of the Board of Directors commitment to a plan for its disposal in January 2016. Aside from reinsurance and marketing of Westport small group stop-loss, there will be no further involvement with the discontinued operation.

The following is a reconciliation of the major line items constituting the pretax profit of discontinued operations, including adjustments for amounts previously eliminated in consolidation, for the periods indicated (in thousands):

		2016	2015	2014
Revenue	$	6,406$	2,373 $	3,585
Selling, general and administrative expenses		5,689	(1,937)	1,402
Pretax profit of discontinued operations		717	4,310	2,183
Gain on disposal of discontinued operations, pretax		116,900	-	-
Income from discontinued operations, before income taxes		117,617	4,310	2,183
Income taxes on discontinued operations		6,813	1,762	283
Income from discontinued operations, net of tax	$	110,804$	2,548 $	1,900

The following is a reconciliation of the carrying amounts of major classes of assets and liabilities for discontinued operations, including adjustments for amounts previously eliminated in consolidation, for the periods indicated (in thousands):

		December 31, 2016	2015
Major classes of assets included in discontinued operations:			
Cash	$	-$	1,671
Goodwill		-	5,664
Intangible assets		-	919
Other assets		-	4,677
Assets attributable to discontinued operations	$	-$	12,931
Major classes of liabilities included in discontinued operations:			
Accounts payable and accrued liabilities	$	68$	(15)
Liabilities attributable to discontinued operations	$	68$	(15)

Total operating cash flows from discontinued operations for 2016, 2015 and 2014 were $0, $128,000 and $1,479,000, respectively. Total investing cash flows from discontinued operations for 2016, 2015 and 2014 were $0, $(132,000) and $(154,000), respectively. In 2016, the Company elected to classify the proceeds received from the sale of discontinued operations in the investing activities section of the Consolidated Statement of Cash Flows.

In connection with the Risk Solutions Sale and Coinsurance Transaction in March 2016, AMIC utilized a significant amount of its Federal NOL carryforwards and made a corresponding adjustment to its valuation allowance (see Note 12). On a consolidated basis, the Company recorded income taxes on discontinued operations of $6,813,000 for the year ended December 31, 2016, consisting of $3,819,000 of state income taxes and $2,994,000 of Federal taxes. Federal income taxes differ from applying the Federal statutory income tax rate of 35% to pretax income from discontinued operations principally as the result of tax benefits from state income taxes and AMIC s $38,169,000 decrease in its valuation allowance, net of a tax provision from limits on compensation deductions.

Note 4.

Investment Securities

The cost (amortized cost with respect to certain fixed maturities), gross unrealized gains, gross unrealized losses and fair value of investment securities are as follows for the periods indicated (in thousands):

	December 31, 2016			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 192,976	$ 209	$ (5,490)	$ 187,695
CMOs - residential (1)	6,021	8	(116)	5,913
U.S. Government obligations	43,417	133	(441)	43,109
Agency MBS - residential (2)	22	1	-	23
GSEs (3)	10,301	1	(422)	9,880
States and political subdivisions	191,146	780	(5,115)	186,811
Foreign government obligations	5,098	13	(157)	4,954
Redeemable preferred stocks	11,454	96	(448)	11,102
Total fixed maturities	$ 460,435	$ 1,241	$ (12,189)	$ 449,487
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Common stocks	$ 1,612	$ 178	$ -	$ 1,790

Nonredeemable preferred stocks	3,588	30	(75)	3,543
Total equity securities	$ 5,200	$ 208	$ (75)	$ 5,333

	December 31, 2015			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
FIXED MATURITIES AVAILABLE-FOR-SALE:				
Corporate securities	$ 172,621	$ 93	$ (5,868)	$ 166,846
CMOs - residential [1]	3,068	2	(14)	3,056
CMOs - commercial	899	296	-	1,195
U.S. Government obligations	44,738	120	(64)	44,794
Agency MBS - residential [2]	34	1	-	35
GSEs [3]	11,814	2	(254)	11,562
States and political subdivisions	194,364	2,159	(1,857)	194,666
Foreign government obligations	2,318	12	(6)	2,324
Redeemable preferred stocks	4,036	101	(14)	4,123
Total fixed maturities	$ 433,892	$ 2,786	$ (8,077)	$ 428,601
EQUITY SECURITIES AVAILABLE-FOR-SALE:				
Common stocks	$ 4,926	$ -	$ (142)	$ 4,784
Nonredeemable preferred stocks	3,588	56	(2)	3,642
Total equity securities	$ 8,514	$ 56	$ (144)	$ 8,426

(1)

Collateralized mortgage obligations (CMOs).

(2)

Mortgage-backed securities (MBS).

(3)

Government-sponsored enterprises (GSEs) are private enterprises established and chartered by the Federal Government or its various insurance and lease programs which carry the full faith and credit obligation of the U.S. Government.

The amortized cost and fair value of fixed maturities available-for-sale at December 31, 2016, by contractual maturity, are shown below (in thousands). Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. CMOs and MBSs are shown separately, as they are not due at a single maturity.

	AMORTIZED COST	FAIR VALUE
Due in one year or less	$ 4,634	$ 4,639
Due after one year through five years	120,448	118,913
Due after five years through ten years	157,908	154,373
Due after ten years	161,122	155,747
CMOs and MBSs	16,323	15,815
	$ 460,435	$ 449,487

The following tables summarize, for all available-for-sale securities in an unrealized loss position, the aggregate fair value and gross unrealized loss by length of time those securities that have continuously been in an unrealized loss position for the periods indicated (in thousands):

	December 31,, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate securities	$ 145,205	$ 3,818	$ 19,841	$ 1,672	$ 165,046	$ 5,490
CMOs - residential	5,038	116	-	-	5,038	116
U.S. Government obligations	28,406	441	-	-	28,406	441
GSEs	3,640	166	6,220	256	9,860	422
States and political subdivisions	144,357	4,561	18,132	554	162,489	5,115
Foreign government obligations	3,738	157	-	-	3,738	157
Redeemable preferred stocks	-	-	3,315	448	3,315	448
Total fixed maturities	330,384	9,259	47,508	2,930	377,892	12,189
Nonredeemable preferred stocks	826	25	1,277	50	2,103	75
Total equity securities	826	25	1,277	50	2,103	75
Total temporarily impaired securities	$ 331,210	$ 9,284	$ 48,785	$ 2,980	$ 379,995	$ 12,264
Number of securities in an unrealized loss position	156		23		179	

	December 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses

Corporate securities	$ 101,903	$ 2,559	$ 55,217	$ 3,309	$ 157,120	$ 5,868
CMO s - residential	2,867	14	-	-	2,867	14
U.S. Government obligations	19,809	64	-	-	19,809	64
GSEs	6,539	128	4,997	126	11,536	254
States and political subdivisions	68,898	780	31,351	1,077	100,249	1,857
Foreign government obligations	484	6	-	-	484	6
Redeemable preferred stocks	3,749	14	-	-	3,749	14
Total fixed maturities	204,249	3,565	91,565	4,512	295,814	8,077
Common stocks	4,784	142	-	-	4,784	142
Nonredeemable preferred stocks	1,324	2	-	-	1,324	2
Total equity securities	6,108	144	-	-	6,108	144
Total temporarily impaired securities	$ 210,357	$ 3,709	$ 91,565	$ 4,512	$ 301,922	$ 8,221
Number of securities in an unrealized loss position	99		31		130	

Substantially all of the unrealized losses on fixed maturities available-for-sale at December 31, 2016 and December 31, 2015 relate to investment grade securities and are attributable to changes in market interest rates. Because the Company does not intend to sell, nor is it more likely than not that the Company will have to sell such investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider these investments to be other-than-temporarily impaired at December 31, 2016.

The following table summarizes the Company s net investment income for the years indicated (in thousands):

	2016	2015	2014
Fixed maturities	$ 14,960	$ 15,364	$ 18,504
Equity securities	676	845	943
Cash, cash equivalents and other short-term investments	1,088	66	74
Equity method investments	62	405	1,101
Other	(135)	661	1,071
Investment income, gross	16,651	17,341	21,693
Investment expenses	(81)	(104)	(79)
Net investment income	$ 16,570	$ 17,237	$ 21,614

The following table summarizes the Company s net realized investment gains (losses) for the years indicated (in thousands):

	2016	2015	2014
Available-for-sale securities:			
Fixed maturities	$ 4,275	$ 3,533	$ 7,642
Common stocks	263	1,519	(5)
Preferred stocks	-	151	-
Total available-for-sale securities	4,538	5,203	7,637
Trading securities	(409)	(1,653)	506
Total realized gains	4,129	3,550	8,143
Unrealized gains (losses) on trading securities:			
Change in unrealized gains (losses) on trading securities	289	(452)	(451)
Total unrealized gains (losses) on trading securities	289	(452)	(451)
Gains (losses) on other investments	84	(4)	(4)
Net realized investment gains	$ 4,502	$ 3,094	$ 7,688

For the years ended December 31, 2016, 2015 and 2014, proceeds from sales of available-for-sale securities were $414,997,000, $640,902,000 and $355,740,000, respectively, and the company realized gross gains of $5,356,000, $6,412,000 and $9,289,000, respectively, and gross losses of $480,000, $805,000 and $741,000, respectively, on those sales.

We recognize other-than-temporary impairment losses in earnings in the period that we determine: 1) we intend to sell the security; 2) it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis; or 3) the security has a credit loss. Any non-credit portion of the other-than-temporary impairment loss is recognized in other comprehensive income (loss).

During the year ended December 31, 2016, the Company recognized an other-than-temporary impairment loss of $1,475,000 on certain fixed maturities available-for-sale. The Company determined that it is more likely than not that we will sell the securities before the recovery of their amortized cost basis. The Company recognized $228,000 of other-than-temporary impairment losses in earnings on equity securities available-for-sale during the year ended December 31, 2015 due to the length of time and extent an equity security was below cost. The Company did not recognize any other-than-temporary impairments on available-for-sale securities in 2014.

Credit losses were recognized on certain fixed maturities for which each security also had an impairment loss recognized in other comprehensive income (loss). The rollforward of these credit losses were as follows for the years indicated (in thousands):

	2016	2015	2014
Balance at beginning of year	$ 473	$ 473	$ 473
Securities sold	(473)	-	-
Balance at end of period	$ -	$ 473	$ 473

The after-tax portion of other-than-temporary impairments included in accumulated other comprehensive income (loss) at December 31, 2016 and 2015 consists of $0 and $276,000, respectively, related to CMO securities.

Note 5.

Fair Value Disclosures

For all financial and non-financial assets and liabilities accounted for at fair value on a recurring basis, the Company utilizes valuation techniques based upon observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect our market expectations. These two types of inputs create the following fair value hierarchy:

Level 1 - Quoted prices for identical instruments in active markets.

Level 2 - 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 - Instruments where significant value drivers are unobservable.

The following section describes the valuation methodologies we use to measure different assets and liabilities at fair value.

Investments in fixed maturities and equity securities:

Available-for-sale securities included in Level 1 are equities with quoted market prices. Level 2 is primarily comprised of our portfolio of government securities, agency mortgage-backed securities, corporate fixed income securities, foreign government obligations, collateralized mortgage obligations, municipals and GSEs that were priced with observable market inputs. Level 3 securities consist primarily of municipal tax credit strips and, in 2015, also include CMO securities backed by commercial mortgages. For these securities, we use industry-standard pricing methodologies, including discounted cash flow models, whose inputs are based on management s assumptions and available market information. Significant unobservable inputs used in the fair value measurement of CMO s are prepayment rates, probability of default, and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation would result in a significantly lower (higher) fair value measurement. Generally, a change in the assumption used for the probability of default is accompanied by a directionally similar change in the assumption used for loss severity and a directionally opposite change in the assumption used for prepayment rates. Further we retain independent pricing vendors to assist in valuing certain instruments.

Trading securities:

Trading securities included in Level 1 are equity securities with quoted market prices.

Contingent liabilities:

At December 31, 2015, contingent liabilities classified in Level 3 include; (i) a contingent liability assumed in connection with an acquisition (see Note 7) related to an earn-out agreement whereby significant unobservable inputs were based on projected income; and (ii) a contingent liability recognized in connection with the deconsolidation of a former subsidiary and joint venture transaction (see Note 7) whereby significant unobservable inputs were based on projected cash flows.

The following tables present our financial assets and liabilities measured at fair value on a recurring basis for the periods indicated (in thousands):

	December 31, 2016			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 187,695	$ -	$ 187,695
CMOs - residential	-	5,913	-	5,913
US Government obligations	-	43,109	-	43,109
Agency MBS - residential	-	23	-	23
GSEs	-	9,880	-	9,880
States and political subdivisions	-	184,778	2,033	186,811
Foreign government obligations	-	4,954	-	4,954
Redeemable preferred stocks	11,102	-	-	11,102
Total fixed maturities	11,102	436,352	2,033	449,487
Equity securities available-for-sale:				
Common stocks	1,790	-	-	1,790
Nonredeemable preferred stocks	3,543	-	-	3,543
Total equity securities	5,333	-	-	5,333
Trading securities - equities	592	-	-	592
Total trading securities	592	-	-	592
Total Financial Assets	$ 17,027	$ 436,352	$ 2,033	$ 455,412

	December 31, 2015			
	Level 1	**Level 2**	**Level 3**	**Total**
FINANCIAL ASSETS:				
Fixed maturities available-for-sale:				
Corporate securities	$ -	$ 166,846	$ -	$ 166,846
CMOs - residential	-	3,056	-	3,056
CMOs - commercial	-	-	1,195	1,195
US Government obligations	-	44,794	-	44,794
Agency MBS - residential	-	35	-	35
GSEs	-	11,562	-	11,562
States and political subdivisions	-	192,487	2,179	194,666
Foreign government obligations	-	2,324	-	2,324
Redeemable preferred stocks	4,123	-	-	4,123
Total fixed maturities	4,123	421,104	3,374	428,601
Equity securities available-for-sale:				
Common stocks	4,784	-	-	4,784
Nonredeemable preferred stocks	3,642	-	-	3,642
Total equity securities	8,426	-	-	8,426
Trading securities - equities	1,259	-	-	1,259
Total trading securities	1,259	-	-	1,259
Total Financial Assets	$ 13,808	$ 421,104	$ 3,374	$ 438,286
FINANCIAL LIABILITIES:				
Interest rate swap	$ -	$ 11	$ -	$ 11
Contingent liabilities	-	-	1,650	1,650
Total Financial Liabilities	$ -	$ 11	$ 1,650	$ 1,661

It is the Company s policy to recognize transfers of assets and liabilities between levels of the fair value hierarchy at the end of a reporting period. The Company does not transfer out of Level 3 and into Level 2 until such time as observable inputs become available and reliable or the range of available independent prices narrow.

The Company did not transfer any securities between Level 1, Level 2 or Level 3 in 2016 or 2015. The following table presents the changes in fair value of our Level 3 financial instruments for the periods indicated (in thousands):

	Financial Assets:			Financial Liabilities	
	CMOs Commercial	States and Political Subdivisions	Total Level 3 Assets	Contingent Liabilities	Total Level 3 Liabilities
Balance at December 31, 2014	$ 953	$ 2,314	$ 3,267	$ -	$ -
Assumed in acquisition	-	-	-	1,000	1,000
Increases (decreases) recognized in earnings:					
Gain on sale of subsidiary to joint venture	-	-	-	1,501	1,501
Net investment income	-	-	-	(736)	(736)
Other income	-	-	-	(115)	(115)
Gains (losses) included in other comprehensive income (loss):					
Net unrealized gains (losses)	318	(47)	271	-	-
Repayments and amortization of fixed maturities	(76)	(88)	(164)	-	-
Balance at December 31, 2015	1,195	2,179	3,374	1,650	1,650
Increases (decreases) recognized in earnings:					
Net investment income	-	-	-	(1,038)	(1,038)
Net realized investment gains	141	-	141	-	-
Other income	-	-	-	88	88
Gains (losses) included in other comprehensive income (loss):					
Net unrealized gains (losses)	(296)	(40)	(336)	-	-

Payment of contingent liability	-	-	-	(700)	(700)
Repayments and amortization of					
fixed maturities	(74)	(106)	(180)	-	-
Sales	(966)	-	(966)	-	-
Balance at December 31, 2016	$ -	$ 2,033	$ 2,033	$ -	$ -

The following table provides information about the carrying values, estimated fair values and classification in the fair value hierarchy for the Company s financial instruments that are not carried at fair value but are subject to fair value disclosure requirements, for the periods indicated (in thousands):

	December 31, 2016			**December 31, 2015**		
	Level 1 Fair Value	**Level 2 Fair Value**	**Carrying Value**	**Level 1 Fair Value**	**Level 2 Fair Value**	**Carrying Value**
FINANCIAL ASSETS:						
Short-term investments	$ 6,912	$ -	$ 6,912	$ 50	$ -	$ 50
FINANCIAL LIABILITIES:						
Funds on deposit	$ -	$ 146,098	$ 145,749	$ -	$ 173,625	$ 173,350
Debt and junior subordinated debt securities	$ -	$ -	$ -	$ -	$ 43,283	$ 43,335

The following methods and assumptions were used to estimate the fair value of the financial instruments that are not carried at fair value in the Consolidated Financial Statements:

(A)

Funds on Deposit

The Company has two types of funds on deposit. The first type is credited with a current market interest rate, resulting in a fair value which approximates the carrying amount. The second type carries fixed interest rates which are higher than current market interest rates. The fair value of these deposits was estimated by discounting the payments using current market interest rates. The Company's universal life policies are also credited with current market interest rates, resulting in a fair value which approximates the carrying amount. Both types of funds on deposit are included in Level 2 of the fair value hierarchy.

(B)

Debt

The fair value of debt with fixed and variable interest rates approximates its carrying amount and is included in Level 2 of the fair value hierarchy.

Note 6.

Other Investments, Including Variable Interest Entities

Other investments consist of the following for the periods indicated (in thousands):

	December 31,	
	2016	**2015**
Equity method investments	$ 19,747	$ 18,944
Cost method investments	3,750	500
Other investments and securities, at cost	37	2,094
	$ 23,534	$ 21,538

Included in equity method investments above is our investment in Ebix Health Exchange. Ebix Health Exchange administers various lines of health insurance for IHC s insurance subsidiaries. Effective July 1, 2016, Ebix exercised its right to increase its ownership in Ebix Health Exchange by purchasing an additional 11% of Ebix Health Exchange for $2,000,000. As a result of the transaction, the Company s ownership interest in Ebix Health Exchange decreased to 49%. In accordance with the terms of the original sale and joint venture agreement, IHC was obligated to fund any negative cash flow through December 31, 2016 in the form of a loan to the joint venture. The remaining balance of the loan at December 31, 2016 was converted to capital. The carrying value of the Company s equity investment in Ebix Health Exchange amounted to $8,770,000 and $9,838,000 at December 31, 2016 and 2015, respectively. Ebix Health Exchange reported a net loss of $1,781,000 and $1,007,000 for the year ended December 31, 2016 and the period ended December 31, 2015, respectively. The Company recorded $743,000 and $271,000 of the losses for 2016 and 2015 in earnings and reduced the contingent liability, previously recognized on the acquisition date (see Note 7), by $1,038,000 and $736,000 in 2016 and 2015 for cash operating losses for the period.

At December 31, 2016 and 2015, the Company s Consolidated Balance Sheets includes $570,000 and $1,397,000, respectively, of notes and other amounts receivable from Ebix Health Exchange, and include $938,000 and $405,000, respectively, of administrative fees and other expenses payable to Ebix Health Exchange, which are included in other assets and accounts payable, accruals and other liabilities, respectively. For the years ended December 31, 2016 and 2015, the Company s Consolidated Statements of Income include $366,000 and $80,000, respectively, in fee income from Ebix Health Exchange, and include $5,937,000 and $1,477,000, respectively, of administrative fee expenses to Ebix Health Exchange, which are included in fee income and selling, general and administrative expenses, respectively.

During 2016, the Company acquired several other investments, including an equity method investment and certain cost method investments, for an aggregate $5,250,000.

Other investments in unconsolidated trust subsidiaries were liquidated in connection with the Company s redemption of its junior subordinated debt in 2016 (see Note 11).

Variable Interest Entities

Other investments at December 31, 2016 and 2015 include $8,961,000 and $9,106,000, respectively, of noncontrolling interests in certain limited partnerships that we have determined to be Variable Interest Entities (VIEs). The aforementioned VIEs are not required to be consolidated in the Company s consolidated financial statements as we are not the primary beneficiary since we do not have the power to direct the activities that most significantly impact the VIEs economic performance.

The Company will periodically reassess whether we are the primary beneficiary in any of these investments. The reassessment process will consider whether we have acquired the power to direct the most significant activities of the VIEs through changes in governing documents or other circumstances. Our maximum loss exposure is limited to our combined $8,961,000 carrying value in these equity investments and we have no future funding obligations to them.

Note 7.

Acquisition and Deconsolidations of Subsidiaries

Acquisition

On April 30, 2015 (the "Acquisition Date"), through a settlement with a former owner, AMIC increased its ownership in Global Accident Facilities, LLC (GAF) from 40% to 80%, in order to obtain control of the business it produced for Independence American. GAF and its subsidiaries are principally engaged in the marketing, underwriting and administration of specialty risk insurance, referred to as Occupational Accident and Injury on Duty for Independence American, which are offered exclusively in Texas and Massachusetts, respectively. The consideration transferred in exchange for the additional 40% voting interest consisted of: (i) $325,000 in cash; and (ii) non-monetary consideration, primarily consisting of the settlement of a pre-existing relationship with a former owner, with a fair value of $1,195,000 at the Acquisition Date. The fair value of the settlement of the pre-exiting relationship was based on projected future underwriting results discounted for collectability. The acquisition resulted in AMIC obtaining control of GAF. Immediately preceding the transaction, AMIC s carrying value of its investment in GAF was

$1,908,000.

As a result of AMIC obtaining control, the Company has included GAF s consolidated assets and liabilities and results of operations, subsequent to the Acquisition Date, in its consolidated financial results as of and for the periods ended December 31, 2015. Accordingly, the individual line items on the Consolidated Statements of Income for 2015 reflect approximately eight months of the operations of GAF with no corresponding amounts for 2014.

On the Acquisition Date, the Company recognized a net pre-tax gain of $503,000 as follows: (i) a loss of $692,000 was recognized by AMIC as a result of re-measuring its equity interest in GAF to its fair value of $1,216,000 immediately before the acquisition; and (ii) a gain of $1,195,000 was recognized by AMIC as a result of settling the pre-existing relationship with the former owner. The net pre-tax gain of $503,000 is included in the Other income line in the Consolidated Statements of Income.

Upon the acquisition of a controlling interest, the Company consolidated the assets and liabilities of GAF. Accordingly, the Company determined the fair value of the identifiable assets acquired and liabilities assumed from GAF on the Acquisition Date. The following table presents the identifiable assets acquired and liabilities assumed in the acquisition of GAF on the Acquisition Date based on their respective fair values (in thousands):

Cash	$	836
Intangible assets		5,500
Other assets		1,405
Total identifiable assets		7,741
Other liabilities		4,369
Deferred tax liability		1,925
Debt		3,806
Total liabilities		10,100
Net identifiable liabilities assumed	$	2,359

Other liabilities assumed include a $1,000,000 contingent liability recorded in connection with an earn-out agreement with a former owner of a subsidiary of GAF. The fair value of the contingent liability was estimated based on projected income. See Note 5 for further information regarding fair value measurements.

In connection with the acquisition, the Company recorded $5,703,000 of goodwill and $5,500,000 of intangible assets (see Note 8). None of the goodwill is deductible for income tax purposes. Goodwill reflects the synergies between GAF and Independence American as GAF was the primary writer of Occupational Accident and Injury on Duty business for Independence American. Goodwill was calculated as the excess of the sum of: (i) the acquisition date fair value of total consideration transferred of $1,520,000; (ii) the acquisition date fair value of the equity interest in GAF immediately preceding the acquisition of $1,216,000; and (iii) the fair value of the noncontrolling interest in GAF of $608,000 on the acquisition date; over (iv) the net liabilities of $2,359,000 that were assumed. The enterprise value of GAF was determined by an independent appraisal using a discounted cash flow model based upon the projected future earnings of GAF including a control premium. The fair value of the non-controlling interest was determined based upon their percentage of the GAF enterprise value discounted for a lack of control.

For the period from the Acquisition Date to December 31, 2015, the Company s Consolidated Statement of Income includes revenues and net income of $6,954,000 and $607,000, respectively, from GAF.

In 2016, the Company paid off the remaining outstanding balance of the aforementioned contingent liability, amounting to $700,000, in connection with the sale of Accident Insurance Services, Inc. (AIS) discussed below.

Deconsolidations

A)

Accident Insurance Services

On September 30, 2016, the Company sold the assets and the stock of its wholly owned subsidiary, AIS, to unrelated parties for an aggregate $9,000,000 of cash. Upon the sale, AIS was deconsolidated from the Company s financial statements. The Company recognized a loss of $558,000 on the transaction, pre-tax, which is included in Other Income on the Consolidated Statement of Income in 2016. The loss was measured as the difference between the fair value of the consideration received and: (i) the carrying amount of the former subsidiary s assets and liabilities, including certain intangible assets (see Note 8); (ii) the divestiture of associated goodwill (see Note 8), and (iii) other expenses directly attributable to the transaction. There will be no further involvement with AIS other than with respect to the run-out of the business it produced for our insurance companies.

B)

Ebix Health Administration Exchange, Inc.

Effective September 1, 2015, IHC and Ebix, a non-related party and international supplier of On-Demand software and E-commerce services to the insurance, financial and healthcare industries, entered into a joint venture in which IHC sold its wholly owned administrative subsidiary, IHC Health Solutions (now known as Ebix Health Administration Exchange, Inc.), in exchange for a 60% ownership interest in Ebix Health Exchange and $6,000,000 in cash proceeds. Ebix contributed $6,000,000 of cash and a pet insurance software license, valued by Ebix Health Exchange at $2,000,000, for its 40%. IHC and Ebix have equal voting interest on the Board of Managers of Ebix Health Exchange. The transaction resulted in a loss of control over the subsidiary (due to a lack of the majority of the voting interest on the Board of Managers) and therefore the subsidiary was deconsolidated from the Company s financial statements.

In 2015, the Company recognized a gain of $9,940,000, pre-tax, on the transaction consisting of: (i) a pre-tax gain on the deconsolidation of $11,441,000, measured as the fair value of the consideration received and the fair value of the retained investment in Ebix Health Exchange less the carrying amount of the former subsidiary s net assets; partially offset by (ii) a contingent liability of $1,501,000 representing the Company s estimated obligation to fund future cash operating losses through December 31, 2016 per the terms of the joint venture agreement. The fair value of the contingent liability was estimated based on expected future operating cash shortfalls. Approximately $5,441,000 of the pre-tax gain is attributable to the re-measurement of the retained investment in the former subsidiary to its current value. The fair value of the retained investment was determined by an independent appraisal using a discounted cash flow model based upon the projected future earnings.

See Note 6 for more information about our investment in Ebix Health Exchange subsequent to its deconsolidation in 2015.

C)

Innovative Medical Risk Management, Inc.

On December 31, 2015, the Company sold all of the stock of its wholly owned subsidiary, Innovative Medical Risk Management, Inc. (IMRM), to an unrelated party for $1,084,000 cash consideration. Upon the sale, IMRM was deconsolidated from the Company s financial statements. The Company recognized a gain of $679,000 on the transaction, pre-tax, which is included in Other Income on the Consolidated Statement of Income in 2015. The gain was measured as the difference between the fair value of the consideration received and the carrying amount of the former subsidiary s assets and liabilities. The sale transaction also included an earn-out agreement with the new owners of IMRM. In accordance with this agreement, the Company could receive additional consideration in the future based on certain earnings thresholds in 2016 and 2017. Other than the settlement of the aforementioned earn-out agreement, there will be no further involvement with IMRM.

Note 8.

Goodwill and Other Intangible Assets

Changes in goodwill and goodwill balances by reportable segment are as follows for the periods indicated (in thousands):

	Specialty Health	Total
Balance at December 31, 2014	$ 44,654	$ 44,654
Acquisition (see Note 7)	5,703	5,703
Sale of subsidiary/business (see Note 7)	(3,081)	(3,081)
Balance at December 31, 2015	47,276	47,276
Sale of subsidiary/business (see Note 7)	(5,703)	(5,703)
Balance at December 31, 2016	$ 41,573	$ 41,573

The Company has net other intangible assets of $10,122,000 and $14,598,000 at December 31, 2016 and 2015, respectively, which are included in other assets in the Consolidated Balance Sheets. These intangible assets consist of: (i) finite-lived intangible assets, principally the fair value of acquired agent and broker relationships, which are subject to amortization; and (ii) indefinite-lived intangible assets which consist of the estimated fair value of insurance licenses that are not subject to amortization.

The gross carrying amounts of these other intangible assets are as follows for the periods indicated (in thousands):

	December 31, 2016		December 31, 2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Finite-lived Intangible Assets:				
Agent and broker relationships	$ 13,052	$ 11,882	$ 18,201	$ 12,497
Trademarks	-	-	1,000	83
Domain	1,000	25	-	-
Total finite-lived	$ 14,052	$ 11,907	$ 19,201	$ 12,580

	December 31,	
	2016	2015

Indefinite-lived Intangible Assets:				
Insurance licenses	$	7,977	$	7,977
Total indefinite-lived	$	7,977	$	7,977

Changes in net other intangible assets are as follows for the periods indicated (in thousands):

	2016	2015	2014
Balance at beginning of year	$ 14,598	$ 10,620	$ 12,446
Intangible assets acquired	1,000	5,500	-
Sale of subsidiaries/businesses	(4,233)	(122)	-
Amortization expense	(1,243)	(1,400)	(1,826)
Balance at end of year	$ 10,122	$ 14,598	$ 10,620

Estimated amortization expense for each of the next five years is as follows (in thousands):

Year	Amortization Expense
2017	$ 617
2018	487
2019	251
2020	143
2021	126

Note 9.

Reinsurance

The Insurance Group reinsures portions of certain business in order to limit the assumption of disproportionate risks. Amounts not retained are ceded to other companies on an automatic or facultative basis. In addition, the Insurance Group participates in various coinsurance treaties on a quota share or excess basis. The Company is contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured.

The effects of reinsurance on premiums earned and insurance benefits, claims and reserves are shown below for the periods indicated (in thousands).

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT
Premiums Earned:				
December 31, 2016				
Accident and health	$ 461,467	$ 19,744	$ 276,392	$ 204,819
Life and annuity	57,938	1,595	42,078	17,455
Property and liability	40,697	-	267	40,430
	$ 560,102	$ 21,339	$ 318,737	$ 262,704
December 31, 2015				
Accident and health	$ 513,814	$ 28,822	$ 126,613	$ 416,023
Life and annuity	46,699	4,330	23,078	27,951
Property and liability	35,812	-	252	35,560
	$ 596,325	$ 33,152	$ 149,943	$ 479,534
December 31, 2014				
Accident and health	$ 482,511	$ 52,063	$ 116,163	$ 418,411
Life and annuity	44,407	6,128	20,214	30,321
Property and liability	30,477	-	161	30,316
	$ 557,395	$ 58,191	$ 136,538	$ 479,048
Insurance benefits, claims and reserves:				
December 31, 2016	$ 335,968	$ (5,512)	$ 185,225	$ 145,231
December 31, 2015	$ 365,634	$ 24,956	$ 83,412	$ 307,178
December 31, 2014	$ 276,634	$ 50,441	$ 1,040	$ 326,035

Effective January 1, 2016, all of the in-force stop-loss business of Standard Security Life and Independence American produced by Risk Solutions was co-insured in connection with the Risk Solutions Sale and Coinsurance Transaction (see Note 3).

On July 31, 2015, Madison National Life and Standard Security Life together entered into a coinsurance and sale agreement with an unaffiliated reinsurer, National Guardian Life Insurance Company, to: (i) cede substantially all of their individual life and annuity policy blocks currently in run-off; and (ii) sell the related infrastructure associated with the administration of such policies. In 2016, a large block of assumed policies were novated, thereby relieving the Company of its liability with regards to those policies.

Note 10.

Policy Benefits and Claims

Policy benefits and claims is the liability for unpaid loss and loss adjustment expenses. It is comprised of unpaid claims and estimated IBNR reserves. Summarized below are the changes in the total liability for policy benefits and claims for the periods indicated (in thousands).

	2016	2015	2014
Balance at beginning of year	$ 245,443	$ 236,803	$ 237,754
Less: reinsurance recoverable	65,362	78,531	72,772
Net balance at beginning of year	180,081	158,272	164,982
Amount assumed	-	10,343	-
Amount incurred, related to:			
Current year	155,044	294,390	303,973
Prior years	(5,496)	(8,488)	(4,552)
Total incurred	149,548	285,902	299,421
Amount paid, related to:			
Current year	78,159	169,488	192,001
Prior years	121,210	104,948	114,130
Total paid	199,369	274,436	306,131
Net balance at end of year	130,260	180,081	158,272
Plus: reinsurance recoverable	88,853	65,362	78,531
Balance at end of year	$ 219,113	$ 245,443	$ 236,803

Since unpaid loss and loss adjustment expenses are estimates, actual losses incurred may be more or less than the Company s previously developed estimates and is referred to as either unfavorable or favorable development, respectively. The overall net favorable development of $5,496,000 in 2016 related to prior years consists of favorable developments of $1,392,000 in the Specialty Health reserves, $2,728,000 in the group disability reserves and $1,728,000 in the other individual life, annuities and other reserves, partially offset by an unfavorable development of $352,000 in Medical Stop-Loss reserves. The overall net favorable development of $8,488,000 in 2015 related to prior years consists of favorable developments of $7,977,000 in the Specialty Health reserves and $4,464,000 in the group disability reserves, partially offset by an unfavorable development of $3,628,000 in Medical Stop-Loss reserves and $325,000 in other individual accident and health reserves. The overall net favorable development of $4,552,000 in 2014 related to prior years consists of favorable developments of $3,830,000 in the group disability reserves, $448,000 in other individual accident and health reserves and $378,000 in the Specialty Health reserves partially offset by an unfavorable development of $104,000 in Medical Stop-Loss reserves.

Specialty Health Segment

The following tables provide undiscounted information about net incurred and paid claims development by accident year for significant short-duration contract liabilities for policy benefits and claims in our Specialty Health segment. All amounts are shown net of reinsurance. In addition, the tables present the total IBNR plus expected development on reported claims by accident year and the cumulative number of reported claims (in thousands, except number of reported claims). Refer to Note 1 for information on the methods we use to estimate IBNR plus expected development, as well as changes to those methodologies and assumptions. Five years of claims development data is presented for lines that are included in our Specialty Health segment since a majority of the claims are fully developed in that time. Certain information about incurred and paid claims is presented as supplementary information and unaudited where indicated.

Specialty Health Segment Claims Development

	Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance					December 31, 2016	
	For the years ended December 31,					Incurred But Not Reported Plus Expected Development	Cumulative Number of Reported Claims
Accident Year	**2012 (unaudited)**	**2013 (unaudited)**	**2014 (unaudited)**	**2015 (unaudited)**	**2016**		*(Actual)*
2012	$ 96,634	97,949	98,250	98,379	$ 98,376	$ 58	337,650
2013		180,649	181,454	180,595	181,114	594	447,761
2014			146,060	140,139	141,869	2,707	397,097
2015				104,497	100,988	6,231	434,050
2016					85,426	39,972	226,608
				Total	$ 607,773		

Specialty Health Segment Claims Development

	Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance				
	For the years ended December 31,				
Accident Year	**2012 (unaudited)**	**2013 (unaudited)**	**2014 (unaudited)**	**2015 (unaudited)**	**2016**
2012	$ 70,746	97,138	98,008	98,180	$ 98,318
2013		131,801	179,023	179,750	180,520
2014			103,064	134,557	139,162
2015				70,090	94,757
2016					45,454
				Total	$ 558,211

Outstanding policy benefits and claims payable before 2012, net of reinsurance	-
Total policy benefits and claims, net of reinsurance$	49,562

The claim frequency information consists of the count of claims submitted. Each claim was counted as one claim whether or not multiple claim lines were submitted with that claim, and each claim was counted whether or not it resulted in a liability. For those portions of business that did not have claim records readily available, a reasonable count assumption was made based on a comparison to the known records of a similar business type. Cumulative claim count information is not a precise tool for calculating claim severity. Factors, such as changes in provider billing practices, the mix of services, benefit designs or processing systems could impact this type of analysis. The Company does not necessarily use the cumulative number of reported claims disclosed above in its claims analysis but has provided this information to comply with new accounting standards.

The following is required supplementary information about the average historical policy claims duration for the Specialty Health segment as of December 31, 2016:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Specialty Health Segment	68.0%	24.9%	1.5%	0.3%	0.1%

The liability for policy benefits and claims associated with the Company s health insurance lines are embedded within the Specialty Health segment. The table below summarizes the components of the change in the liability for policy benefits and claims that are specific to the health insurance claims that are included in our Specialty Health segment for the periods indicated (in thousands).

	Specialty Health Segment Health Insurance Claims		
	2016	**2015** (unaudited)	**2014** (unaudited)
Balance at beginning of year	$ 23,425	$ 35,620	$ 48,687
Less: reinsurance recoverable	1,362	3,584	4,856
Net balance at beginning of year	22,063	32,036	43,831
Amount incurred, related to:			
Current year	44,243	63,122	107,460
Prior years	(4,702)	(8,410)	(600)
Total incurred	39,541	54,712	106,860
Amount paid, related to:			
Current year	19,371	42,419	76,678
Prior years	16,229	22,266	41,977
Total paid	35,600	64,685	118,655
Net balance at end of year	26,004	22,063	32,036
Plus: reinsurance recoverable	1,179	1,362	3,584
Balance at end of year	$ 27,183	$ 23,425	$ 35,620

The liability for the IBNR plus expected development on reported claims associated with the Company s health insurance claims was $26,004,000 at December 31, 2016.

Group Disability; Life and DBL Segment

The following tables provide undiscounted information about net incurred and paid claims development by accident year for significant short-duration contract liabilities for policy benefits and claims related to our DBL and group disability policy claims (in thousands). All amounts are shown net of reinsurance. Refer to Note 1 for information on the methods we use to estimate IBNR plus expected development, as well as changes to those methodologies.

One year of claims development data is presented for our DBL claim liabilities since claims are developed in less than six months. The liability for IBNR plus expected development related to our DBL business was $6,243,000 at December 31, 2016. The cumulative number of reported claims was approximately 11,000 at December 31, 2016 and consists of the number of claims either paid or accrued.

Group disability; life and DBL Segment DBL Claims Development
Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance
For the year ended December 31,

Accident Year			**2016**
2016	Total	$	19,812

Group disability; life and DBL Segment DBL Claims Development
Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance
For the year ended December 31,

Accident Year			**2016**
2016	Total	$	13,569
	Total policy benefits and claims, net of reinsurance	$	6,243

Seven years of undiscounted claims development data is presented for our group disability contract liabilities (in thousands) and we will add one year going forward for each subsequent year until we reach ten years of disclosure. In addition, total IBNR plus expected development on reported claims by accident year is presented with the cumulative number of reported claims (in thousands, except number of reported claims). Certain information about incurred and paid claims is presented as supplementary information and unaudited where indicated.

Group disability; life and DBL Segment Group Disability Claims Development

Accident Year		Incurred Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31, 2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016	December 31, 2016 Incurred But Not Reported Plus Expected Development	Cumulative Number of Reported Claims
										(Actual)
2010	$	12,329	11,218	7,142	5,222	5,049	4,220	$ 7,925	$ 46	2,311
2011			18,669	17,301	16,569	15,699	16,179	17,157	137	2,337
2012				15,510	13,999	12,522	12,535	12,965	201	2,263
2013					33,143	31,323	30,546	32,888	249	2,628
2014						16,469	13,678	15,228	434	2,776
2015							25,621	19,929	3,032	3,211
2016								28,907	7,273	2,664
							Total	$ 134,999		

Group disability; life and DBL Segment Group Disability Claims Development

Accident Year	Cumulative Paid Claims and Claim Adjustment Expenses, Net of Reinsurance For the years ended December 31, 2010 (unaudited)	2011 (unaudited)	2012 (unaudited)	2013 (unaudited)	2014 (unaudited)	2015 (unaudited)	2016
2010	$ 3,288	8,456	10,135	10,700	11,135	11,678	$ 12,219
2011		3,463	8,544	10,025	10,613	11,186	11,847
2012			3,222	7,294	8,367	8,949	9,377
2013				5,645	13,032	17,077	20,246
2014					3,818	8,823	10,355
2015						7,111	14,715
2016							8,790
						Total	$ 87,549
	Outstanding policy benefits and claims payable before 2010, net of reinsurance						24,219
	Total policy benefits and claims, net of reinsurance						$ 71,669

The incurred claims and claim adjustment expenses, net, for the 2013 accident year include the acquisition of $15,384,000 of disability policy benefits and claims liabilities from a Receivership.

Claim frequency information consists of the count of unique claims where a benefit has been paid, whether that benefit was paid for one month or multiple months. Any claims where a benefit has not been paid are not in the count. Cumulative claim count information is not a precise tool for calculating claim severity. Changes in reinsurance and other factors, such as those described in Note 1, could impact this type of analysis with regards to our group disability business. The Company does not necessarily use the cumulative number of reported claims disclosed above in its claims analysis but has provided this information to comply with new accounting standards.

Unpaid claim liabilities related to our group disability policies is presented at present value. The following is additional information on unpaid claims liabilities presented at present value (in thousands):

	Carrying Value of Unpaid Claim Liabilities December 31,		Aggregate Amount of Discount December 31	
	2016	2015 (unaudited)	2016	2015 (unaudited)
Group disability	$ 60,194	$ 47,604	$ 11,475	$ 13,277

Discount rates for each of the years ended December 31, 2016 and 2015 ranged from 3% to 6%. Insurance benefits, claims and reserves on the Consolidated Statements of Income for the years ended December 31, 2016, 2015 and 2014, include the accretion of interest amounting to $1,571,000, $1,451,000 and $1,556,000, respectively.

The following is required supplementary information about the average historical claims duration for our group disability business as of December 31, 2016:

Average Annual Percentage Payout of Incurred Claims by Age, Net of Reinsurance (unaudited)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Group disability	20.2%	23.5%	7.9%	4.2%	2.5%	3.1%	3.4%

The following table reconciles the above disclosures of undiscounted net incurred and paid claims development for significant short-duration contract liabilities to the liability for policy benefits and claims on the consolidated balance sheet (in thousands).

		December 31, 2016
Net outstanding balances:		
Specialty Health Segment	$	49,562
DBL		6,243
Group disability		71,669
Other short-duration insurance lines		13,417
Policy benefits and claims, net of reinsurance		140,891
Reinsurance recoverable on unpaid claims:		
Specialty Health Segment		1,358
DBL		932
Group disability		27,414
Other short-duration insurance lines		52,971
Reinsurance recoverable on unpaid claims		82,675
Insurance lines other than short-duration		7,022
Aggregate discount		(11,475)
Total policy benefit and claims	$	219,113

Note 11.

Debt and Junior Subordinated Debt Securities

(A)

Debt

Outstanding debt, for the periods indicated, consists of the following (in thousands):

	December 31, 2016		December 31, 2015	
Term loan payable to bank	$	-	$	2,000
Other term loans		-		2,964
Line of credit		-		225
	$	-	$	5,189

The Company made aggregate cash payments of $4,789,000 and $2,617,000 for the repayment of debt during the years ended December 31, 2016 and 2015, respectively. The remaining $400,000 of debt is included in other liabilities on the Consolidated Balance Sheet at December 31, 2016.

(B)

Junior Subordinated Debt Issued to Trust Preferred Subsidiaries

At December 31, 2015, the Company had three statutory business trusts that were formed for the purpose of issuing trust preferred securities, totaling $37,000,000, to institutional investors in pooled issuances. Although the Company owned all of the trusts' common securities, it was not the primary beneficiary and, therefore, the trusts were unconsolidated subsidiaries for financial reporting purposes. As a result, the Company recorded liabilities of $38,146,000 for junior subordinated debt and assets of $1,146,000 for the investments in trust subsidiaries (included in other investments on the accompanying Consolidated Balance Sheet) at December 31, 2015. The Company's subordinated debt securities, which were the sole assets of the subsidiary trusts, were unsecured obligations of the Company and were subordinate and junior in right of payment to all senior indebtedness of the Company. The Company provided a full and unconditional guarantee of amounts due on the trust preferred securities. The terms of the junior subordinated debt securities, including interest rates and maturities, were the same as the related trust preferred securities.

In the fourth quarter of 2016, the Company made aggregate cash payments of $38,146,000 to redeem all of the outstanding junior subordinated debt securities at the redemption price of 100%.

Aggregate cash payments for interest on debt and junior subordinated debt securities totaled $1,865,000, $1,738,000 and $1,804,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

Note 12.

Income Taxes

IHC and its subsidiaries file a consolidated Federal income tax return on a June 30 fiscal year. Prior to January 15, 2013, AMIC and its subsidiaries filed a separate consolidated Federal income tax return on a September 30 fiscal year. The provision for income tax expense (benefit) attributable to income from continuing operations, as shown in the Consolidated Statements of Income, is as follows for the years indicated (in thousands):

		2016		2015		2014
CURRENT:						
U.S. Federal	$	4,637	$	14,278	$	(58)
State and Local		473		1,012		743
		5,110		15,290		685
DEFERRED:						
U.S. Federal		4,390		673		5,205
State and Local		55		(59)		218
		4,445		614		5,423
	$	9,555	$	15,904	$	6,108

Taxes computed at the Federal statutory rate of 35% in 2016, 2015 and 2014, attributable to pretax income, are reconciled to the Company's actual income tax expense as follows for the years indicated (in thousands):

		2016		2015		2014
Tax computed at the statutory rate	$	11,223	$	15,357	$	7,395
Dividends received deduction and tax exempt interest		(641)		(796)		(1,384)
State and local income taxes, net of Federal effect		331		619		625
Subsidiary stock basis write-off		(3,903)		-		-
Health insurance excise tax		146		526		696
Health insurer compensation limit		594		379		583
AMIC valuation allowance adjustment		-		-		(1,881)
Other, net		1,805		(181)		74
Income tax expense	$	9,555	$	15,904	$	6,108

As a result of the dissolution of Health Plan Administrators, Inc. (HPA), a subsidiary of IHC, tax benefits of approximately $3,903,000 were recognized for IHC s unrecovered investment in HPA in 2016.

Temporary differences between the Consolidated Financial Statement carrying amounts and tax bases of assets and liabilities that give rise to the deferred tax assets and liabilities at December 31, 2016 and 2015 are summarized below (in thousands). The net deferred tax asset or liability is included in Other Assets or Other Liabilities, as appropriate, in the Consolidated Balance Sheets. IHC and its subsidiaries, excluding AMIC and its subsidiaries, have certain tax-planning strategies that were used in determining that a valuation allowance was not necessary on their deferred tax assets at December 31, 2016 or 2015. The net deferred tax asset relative to AMIC and its subsidiaries included in other assets on IHC s Consolidated Balance Sheets at December 31, 2016 and 2015 was $15,427,000 and $13,944,000, respectively.

	2016	2015
DEFERRED TAX ASSETS:		
Unrealized losses on investment securities	$ 3,851	$ 1,935
Investment write-downs	596	205
Loss carryforwards	50,735	91,558
Insurance reserves	-	461
Other	4,322	3,287
Total gross deferred tax assets	59,504	97,446
Less AMIC valuation allowance	(35,918)	(74,087)
Net deferred tax assets	23,586	23,359
DEFERRED TAX LIABILITIES:		
Deferred insurance policy acquisition costs	(114)	(111)
Insurance reserves	(4,947)	(4,180)
Goodwill and intangible assets	(5,274)	(6,119)
Other	(4,097)	(3,213)
Total gross deferred tax liabilities	(14,432)	(13,623)
Net deferred tax asset	$ 9,154	$ 9,736

As of December 31, 2016, IHC and its non-life subsidiaries, excluding AMIC and its subsidiaries, had NOL carryforwards arising from limitations on offsetting non-life insurance company losses against life insurance company income. The non-life insurance company Federal NOL carryforwards amount to approximately $432,000 at December 31, 2016, which expire in 2033.

At December 31, 2016, AMIC had Federal NOL carryforwards of approximately $144,525,000, which expire in varying amounts through the year 2028, with a significant portion expiring in 2020.

As a result of the Risk Solutions Sale and Coinsurance Transaction (see Note 3), AMIC utilized approximately $109,055,000 of its operating loss carryforwards. AMIC s valuation allowance at December 31, 2016 and 2015 was primarily related to net operating loss carryforwards that, in the judgment of management, were not considered realizable.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the period in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies in making this assessment. Management believes that it is more likely than not that IHC and its subsidiaries, including AMIC and its subsidiaries, will realize the benefits of these net deferred tax assets recorded at December 31, 2016. As of December 31, 2016, IHC and its subsidiaries, and AMIC and its subsidiaries, believe there were no material uncertain tax positions that would require disclosure under U.S. GAAP.

Interest expense and penalties for the years ended December 31, 2016, 2015 and 2014 are insignificant. Tax years ending June 30, 2013 and forward are subject to examination by the Internal Revenue Service.

Net cash payments (receipts) for income taxes were $12,585,000, $10,974,000 and $(2,448,000) in 2016, 2015 and 2014, respectively.

Note 13.

Stockholders Equity

Treasury Stock

In 1991, IHC initiated a program of repurchasing shares of its common stock. In August 2016, the Board of Directors increased the number of shares that can be repurchased to 3,000,000 share of IHC common stock. At December 31, 2016, there were 2,895,442 shares still authorized to be repurchased under the plan authorized by the Board of Directors.

In the first quarter of 2017, the Company has repurchased 703,000 shares of its common stock in private transactions for an aggregate cost of $13,975,000.

Accumulated Other Comprehensive Income (Loss)

The components of other comprehensive income (loss) include the after-tax net unrealized gains and losses on investment securities available-for-sale, including the subsequent increases and decreases in fair value of available-for-sale securities previously impaired and the non-credit related component of other-than-temporary impairments of fixed maturities.

Changes in the balances for each component of accumulated other comprehensive income (loss), shown net of taxes, for the years indicated were as follows (in thousands):

	2016	2015	2014

Beginning balance	$ (3,440)	$ 22	$ (10,472)
Other comprehensive income (loss) before reclassifications	(1,582)	(256)	15,944
Amounts reclassified from accumulated OCI	(1,926)	(3,206)	(5,251)
Net other comprehensive income (loss)	(3,508)	(3,462)	10,693
Less: Other comprehensive loss attributable to noncontrolling interests	(118)	(5)	(199)
Acquired from noncontrolling interests	102	5	-
Ending balance	$ (6,964)	$ (3,440)	$ 22

Presented below are the amounts reclassified out of accumulated other comprehensive income (loss) and recognized in earnings for each of the years indicated (in thousands):

	2016	2015	2014
Unrealized gains (losses) on available-for-sale securities reclassified during the period to the following income statement line items:			
Net realized investment gains	$ 4,538	$ 5,202	$ 7,637
Net impairment losses recognized in earnings	(1,475)	(228)	-
Income before income tax	3,063	4,974	7,637
Tax effect	1,137	1,768	2,386
Net income	$ 1,926	$ 3,206	$ 5,251

Note 14.

Share-Based Compensation

IHC and AMIC each have a share-based compensation plan. The following is a summary of the activity pertaining to each of these plans.

(A)

IHC Share-Based Compensation Plan

In November 2016, the stockholders approved the Independence Holding Company 2016 Stock Incentive Plan (the 2016 Plan"). The 2016 Plan permits grants of options, SARs, restricted shares, restricted share units, unrestricted shares, deferred share units and performance awards. Under the terms of the 2016 Plan: (i) the exercise price of an option may not be less than the fair market value of an IHC share on the grant date and the terms of an option may not exceed 10 years from the grant date; and (ii) the exercise price of a SAR may not be less than the fair market value of an IHC share on the grant date and SAR terms may not exceed 10 years from the date of grant.

The fair value of an option award is estimated on the date of grant using the Black-Scholes option valuation model. In general, the vesting period for an option grant is three years. Restricted share units are valued at the quoted market price of the shares at the date of grant and generally vest over three years. Compensation costs for options and restricted share units are recognized over the stated vesting periods on a straight-line basis. The fair value of a SAR is calculated using the Black-Scholes valuation model at the grant date and each subsequent reporting period until settlement. Compensation cost is based on the proportionate amount of the requisite service that has been rendered to date. Once fully vested, changes in the fair value of a SAR continue to be recognized as compensation expense in the period of the change until settlement.

At December 31, 2016, there were 1,133,100 shares available for future stock-based compensation grants under the 2016 Plan. The following table summarizes share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, applicable to the IHC plans (by award type) for each of the years indicated (in thousands):

	2016	2015	2014
IHC s Share-based Compensation Plan:			
Stock options	$ 181	$ 55	$ 669
Restricted stock units	83	89	85
SARs	435	13	14
Share-based compensation expense, pre-tax	699	157	768
Tax benefits	279	63	306
Share-based compensation expense, net	$ 420	$ 94	$ 462

Stock Options

The Company s stock option activity during 2016 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2015	584,080	$ 9.35
Granted	157,000	19.95
Exercised	(43,900)	9.09
December 31, 2016	697,180	$ 11.75

The weighted average grant-date fair-value of options granted during the year ended December 31, 2016 was $2.65. No options were granted in 2015 or 2014. The assumptions set forth in the table below were used to value the stock options granted during the period indicated:

	2016
Weighted-average risk-free interest rate	1.87%
Expected annual dividend rate per share	0.60%
Expected volatility factor of the Company's common stock	12.95%
Weighted-average expected term of options	4.5 years

In 2016, option agreements affecting 13 employees were modified to extend the expirations of their terms from 2017 to 2019 and as a result, the Company recorded incremental compensation costs of $170,000. In 2016, IHC received $399,000 in cash from the exercise of stock options with an aggregate intrinsic value of $416,000 and realized $104,000 of tax benefits. In 2015, IHC received $278,000 in cash from the exercise of stock options with an aggregate intrinsic value of $132,000 and realized $22,000 of tax benefits. In May 2014, option agreements affecting 15 employees were modified to extend the expirations of their terms from 2015 to 2017 and as a result, the Company recorded incremental compensation costs of $405,000.

The following table summarizes information regarding options outstanding and exercisable:

	December 31, 2016	
	Outstanding	Exercisable
Number of options	697,180	540,180
Weighted average exercise price per share	$ 11.75	$ 9.37
Aggregate intrinsic value for all options (in thousands)	$ 5,501	$ 5,501
Weighted average contractual term remaining	2.5 years	1.8 years

At December 31, 2016, the total unrecognized compensation cost related to IHC s non-vested stock options was $404,000 and it is expected to be recognized as compensation expense over a weighted average period of 2.9 years.

Restricted Stock

The following table summarizes IHC s restricted stock activity for the year ended December 31, 2016:

	No. of Non-vested Shares	Weighted-Average Grant-Date Fair Value
December 31, 2015	14,850	$ 12.26
Granted	9,900	19.15
Vested	(7,425)	12.24
December 31, 2016	17,325	$ 16.20

IHC granted 9,900, 7,425 and 7,425 of restricted stock units during each of the years ended December 31, 2016, 2015 and 2014, respectively, with weighted-average grant-date fair values of $19.15, $11.78 and $13.27 per share, respectively. The total fair value of restricted stock units that vested in 2016, 2015 and 2014 was $120,000, $89,000 and $103,000, respectively.

At December 31, 2016, the total unrecognized compensation cost related to non-vested restricted stock unit awards was $235,000 which is expected to be recognized as compensation expense over a weighted average period of 2.1 years.

SARs and Share-Based Performance Awards

IHC had 71,500 and 125,850 SAR awards outstanding at December 31, 2016 and 2015, respectively. In 2016, 54,350 SARs were exercised with an aggregate intrinsic value of $449,000. In 2015, 11,000 SARs were exercised with an aggregate intrinsic value of $61,000. In 2014, 112,200 SARs were exercised with an aggregate intrinsic value of $529,000; and 2,750 SARs were forfeited. Included in Other Liabilities in the Company s Consolidated Balance Sheets at December 31, 2016 and December 31, 2015 are liabilities of $876,000 and $743,000, respectively, pertaining to SARs.

(B)

AMIC Share-Based Compensation Plans

As a result of a short-form merger discussed in Note 1 (B), AMIC s 2009 Stock Incentive Plan (AMIC 2009 Plan) was terminated. Under the terms of the AMIC 2009 Plan, prior to its termination, option exercise prices were equal to the quoted market price of the shares at the date of grant; option terms were a maximum of ten years; and vesting periods generally ranged from three to four years. The fair value of an option award was estimated on the date of grant using the Black-Scholes option valuation model.

The following table summarizes AMIC s share-based compensation expense, which is included in selling, general and administrative expenses on the Consolidated Statements of Income, by award type for each of the years indicated (in thousands):

	2016	2015	2014
AMIC s Share-based Compensation Plans:			
Stock options	$ 21	$ 43	$ 52
Share-based compensation expense, pre-tax	21	43	52
Tax benefits	7	15	18
Share-based compensation expense, net	$ 14	$ 28	$ 34

Stock Options

AMIC s stock option activity during 2016 was as follows:

	Shares Under Option	Weighted- Average Exercise Price
December 31, 2015	71,558	$ 8.88
Exercised	(30,446)	8.62
Cancelled	(41,112)	9.07
December 31, 2016	-	$ -

No options were granted in 2016 or 2015. The weighted average grant-date fair-value of options granted during the year ended December 31, 2014 was $5.70. The assumptions set forth in the table below were used to value the stock options granted during the period indicated:

	2014
Weighted-average risk-free interest rate	2.72%
Annual dividend rate per share	-
Weighted-average volatility factor of the Company's common stock	38.27%
Weighted-average expected term of options	5 years

In 2016, AMIC received $262,000 in cash from the exercise of stock options with an aggregate intrinsic value of $212,000. In connection with the short-form merger transaction discussed in Note 1 (B), option agreements affecting 7 employees and directors were cancelled and as a result, the Company recorded incremental compensation costs of $646,000. These costs were accounted for as part of the equity transaction to take AMIC private. During 2015 and 2014, AMIC received $52,000 and $33,000 in cash from the exercise of stock options with aggregate intrinsic values of $37,000 and $38,000.

Note 15.

Commitments and Contingencies

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 2016, 2015 and 2014 for operating leases was $2,316,000, $3,088,000 and $3,214,000, respectively.

The approximate minimum annual rental payments under operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 2016 are as follows (in thousands):

2017	$	2,168
2018		1,939
2019		957
2020		739
2021		372
2022 and thereafter		63
Total	$	6,238

We are involved in legal proceedings and claims that arise in the ordinary course of our businesses. We have established reserves that we believe are sufficient given information presently available relating to our outstanding legal proceedings and claims. We do not anticipate that the result of any pending legal proceeding or claim will have a material adverse effect on our financial condition or cash flows, although there could be such an effect on our results of operations for any particular period.

A third party administrator with whom we formerly did business (Plaintiff) filed a Complaint dated May 17, 2017 in the United States District Court, Northern District of Texas, Dallas Division, naming IHC, Madison National Life, Standard Security Life, and IHC Carrier Solutions, Inc. (collectively referred to as Defendants). The Complaint concerns agreements entered into by Standard Security Life and Madison National Life with Plaintiff, as well as other allegations made by Plaintiff against the Defendants. The Complaint seeks injunctive relief and damages in an amount exceeding $50,000,000, profit share payments allegedly owed to Plaintiff under the agreements totaling at least $3,082,000 through 2014, plus additional amounts for 2015 and 2016, and exemplary and punitive damages as allowed by law and fees and costs. The Defendants have not yet been served, but if they are served they intend to vigorously contest the claims, which we believe to be without merit. The Defendants will file significant counterclaims against Plaintiff demanding reimbursement from the Plaintiff for damages and expenses.

Note 16.

Concentration of Credit Risk

At December 31, 2016, the Company had no investment securities of any one issuer or in any one industry which exceeded 10% of stockholders' equity, except for investments in obligations of the U.S. Government and its agencies and mortgage-backed securities issued by GSEs, as summarized in Note 4.

Fixed maturities with a carrying value of $12,577,000 and $12,552,000 were on deposit with various state insurance departments at December 31, 2016 and 2015, respectively.

At December 31, 2016, the Company had reinsurance recoverable from the following reinsurers that individually exceed 10% of stockholders equity (in thousands):

Reinsurer	AM Best Rating		Due from Reinsurer
National Guardian Life Insurance Company	A-	$	219,897
Guggenheim Life and Annuity Company	B++		102,217
Westport Insurance Corporation	A+		49,991

The Company believes that these receivables are fully collectible.

Note 17.

Dividend Payment Restrictions and Statutory Information

Our insurance subsidiaries are restricted by state laws and regulations as to the amount of dividends they may pay to their parent without regulatory approval in any year. Any dividends in excess of limits are deemed extraordinary and require approval. Based on statutory results as of December 31, 2016, in accordance with applicable dividend restrictions, our insurance subsidiaries could pay dividends of approximately $24,801,000 in 2017 without obtaining regulatory approval. There are no regulatory restrictions on the ability of our holding company, IHC, to pay dividends. Under Delaware law, IHC is permitted to pay dividends from surplus or net profits for the fiscal year in which the dividend is declared and/or the preceding fiscal year. Dividends to shareholders are paid from funds available at the corporate holding company level.

In December 2016, regulatory approvals were received for the following extraordinary dividend payments: (i) Madison National Life declared and paid an extraordinary dividend in the amount of $10,546,000 to its parent; and (ii) Standard Security Life declared and paid an extraordinary dividend in the amount of $60,000,000 to its parent.

Non- extraordinary dividend payments were as follows: (i) Madison National Life declared and paid cash dividends of $5,290,000, $4,600,000 and $4,000,000 to its parent in 2016, 2015 and 2014, respectively; (ii) Standard Security Life declared and paid dividends of $12,500,000, $6,000,000 and $6,000,000 to its parent in 2016, 2015 and 2014, respectively; and (iii) Independence American did not declare or pay dividends to its parent in 2016, 2015 or 2014. IHC declared cash dividends of $1,800,000 in 2016, $1,562,000 in 2015 and $1,223,000 in 2014.

The Company s insurance subsidiaries are required to prepare statutory financial statements in accordance with statutory accounting practices prescribed or permitted by the insurance department of their state of domicile. Statutory accounting practices differ from U.S. GAAP in several respects causing differences in reported net income and stockholder s equity. The Company s insurance subsidiaries have no permitted accounting practices, which encompass all accounting practices not so prescribed that have been specifically allowed by the state insurance authorities.

The statutory net income and statutory capital and surplus for each of the Company s insurance subsidiaries are as follows for the periods indicated (in thousands):

Years Ended December 31,

	2016	2015	2014
Statutory net income:			
Madison National Life	$ (1,615)	$ 20,326	$ 9,876
Standard Security Life	(10,480)	13,198	12,074
Independence American	4,048	2,960	3,127

	December 31, 2016	December 31, 2015
Statutory capital and surplus:		
Madison National Life	$ 178,978	$ 116,652
Standard Security Life	70,620	125,070
Independence American	66,812	63,412

The insurance subsidiaries are also required to maintain certain minimum amounts of statutory surplus to satisfy their various state insurance departments of domicile. Risk-based capital (RBC) requirements are designed to assess capital adequacy and to raise the level of protection that statutory surplus provides for policyholders. At December 31, 2016 and 2015, the statutory capital of our insurance subsidiaries is significantly in excess of their regulatory RBC requirements.

Note 18.

Segment Reporting

The Insurance Group principally engages in the life and health insurance business. Interest expense, taxes, and general expenses associated with parent company activities are included in Corporate. Identifiable assets by segment are those assets that are utilized in each segment and are allocated based upon the mean reserves and liabilities of each such segment. Corporate assets are composed principally of cash equivalents, resale agreements, fixed maturities, equity securities, partnership interests and certain other investments.

Information by business segment is presented below for the years indicated (in thousands).

	2016	2015	2014
Revenues:			
Medical Stop-Loss (A)	$ 25,614	$ 214,139	$ 181,190
Specialty Health	173,147	185,912	239,101
Group disability; life and DBL	103,535	90,314	67,641
Individual life, annuities and other	2,756	27,119	34,551
Corporate	2,925	205	177
	307,977	517,689	522,660
Gain on sale of subsidiary to joint venture	-	9,940	-
Net realized investment gains	4,502	3,094	7,688
Net impairment losses recognized in earnings	(1,475)	(228)	-
Total revenues	$ 311,004	$ 530,495	$ 530,348
Income from continuing operations before income taxes:			
Medical Stop-Loss (A)	$ 16,733	$ 18,828	$ 19,750
Specialty Health (B)	7,202	6,490	(1,987)
Group disability; life and DBL	17,904	15,811	12,168
Individual life, annuities and other(C)	(2,540)	(122)	(6,618)
Corporate	(8,727)	(8,137)	(8,075)
	30,572	32,870	15,238
Gain on sale of subsidiary to joint venture	-	9,940	-
Net realized investment gains	4,502	3,094	7,688
Net impairment losses recognized in earnings	(1,475)	(228)	-
Interest expense	(1,534)	(1,798)	(1,797)
Income from continuing operations before income taxes	$ 32,065	$ 43,878	$ 21,129

(A)

Substantially all of the business in the segment is coinsured. The current year s activity primarily reflects income or expenses related to the coinsurance and the run-off of any remaining blocks that were not coinsured.

(B)

The Specialty Health segment includes amortization of intangible assets recorded as a result of purchase accounting for previous acquisitions. Total amortization expense was $1,243,000, $1,488,000 and $1,948,000 for the years ended December 31, 2016, 2015 and 2014, respectively. There is no amortization expense attributable to the other segments.

(C)

The Individual life, annuities and other segment includes amortization of deferred charges in connection with the assumptions of certain ceded life and annuity policies amounting to $2,340,000, $1,323,000 and $3,540,000 for the years ended December 31, 2016, 2015 and 2014, respectively.

	December 31, 2016	December 31, 2015
IDENTIFIABLE ASSETS AT YEAR END		
Medical Stop-Loss	$ 200,026	$ 291,330
Specialty Health	172,275	159,826
Group disability; life and DBL	243,421	268,606
Individual life, annuities and other	363,119	436,941
Corporate	155,623	41,260
	$ 1,134,464	$ 1,197,963

The identifiable assets of the Medical Stop-loss segment include $0 and $12,931,000 of assets attributable to discontinued operations at December 31, 2016 and 2015, respectively.

Note 19.

Quarterly Data (Unaudited)

The quarterly results of operations for the years indicated are summarized below (in thousands, except per share data):

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2016				
Total revenues	$ 75,895	$ 77,696	$ 78,542	$ 78,871
Income from continuing operations, net of tax	$ 5,896	$ 4,495	$ 4,366	$ 7,753
Income from discontinued operations, net of tax	109,770	142	-	892
Net income	115,666	4,637	4,366	8,645
Less income from noncontrolling interests in subsidiaries	(9,656)	(201)	(43)	(116)
Net income attributable to IHC	$ 106,010	$ 4,436	$ 4,323	$ 8,529
Basic income per common share:				
Income from continuing operations	$ .34	$ .25	$ .25	$ .45
Income from discontinued operations	5.81	.01	.00	.05
Basic income per common share	$ 6.15	$ .26	$ .25	$ .50

Diluted income per share:								
Income from continuing operations	$	.33	$	.25	$	.25	$	.44
Income from discontinued operations		5.75		.01		.00		.05
Diluted income per common share	$	6.08	$	.26	$	.25	$	.49

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
2015				
Total revenues	$ 133,105	$ 133,015	$ 139,773	$ 124,602
Income from continuing operations, net of tax	$ 4,701	$ 5,222	$ 14,159	$ 3,892
Income from discontinued operations, net of tax	630	(66)	729	1,255
Net income	5,331	5,156	14,888	5,147
Less income from noncontrolling interests in subsidiaries	(112)	(124)	(128)	(214)
Net income attributable to IHC	$ 5,219	$ 5,032	$ 14,760	$ 4,933
Basic income per common share:				
Income from continuing operations	$ .27	$ .29	$ .81	$ .22
Income from discontinued operations	.03	(.00)	.04	.07
Basic income per common share	$ .30	$ .29	$ .85	$ .29
Diluted income per share:				
Income from continuing operations	$ .27	$ .29	$ .81	$ .21
Income from discontinued operations	.03	(.00)	.04	.07
Diluted income per common share	$ .30	$ .29	$ .85	$ .28

Note 20.

Subsequent Events

In March 2017, the Company acquired 85% of the stock of PetPartners, Inc., a pet insurance marketing and administration company, for a purchase price of $12,500,000, subject to certain closing adjustments.

SCHEDULE I

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUMMARY OF INVESTMENTS OTHER THAN INVESTMENTS IN RELATED PARTIES
DECEMBER 31, 2016
(In thousands)

TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN IN BALANCE SHEET
FIXED MATURITIES - AVAILABLE-FOR-SALE:			
Bonds:			
United States Government and Government agencies and authorities	$ 53,740	$ 53,012	$ 53,012
States, municipalities and political subdivisions	191,146	186,811	186,811
Foreign governments	5,098	4,954	4,954
Public utilities	17,903	17,657	17,657
All other corporate bonds	181,094	175,951	175,951
Redeemable preferred stock	11,454	11,102	11,102
TOTAL FIXED MATURITIES	460,435	449,487	449,487
EQUITY SECURITIES - AVAILABLE-FOR-SALE AND TRADING:			
Common stocks:			
Industrial, miscellaneous and all other	2,612	2,382	2,382
Non-redeemable preferred stocks	3,588	3,543	3,543
TOTAL EQUITY SECURITIES	6,200	5,925	5,925
Short-term investments and resale agreements	35,874	35,874	35,874
Other long-term investments	23,534	23,534	23,534
TOTAL INVESTMENTS	$ 526,043	$ 514,820	$ 514,820

SCHEDULE II

INDEPENDENCE HOLDING COMPANY
CONDENSED BALANCE SHEETS (In thousands, except share data)
(PARENT COMPANY ONLY)

	DECEMBER 31, 2016	DECEMBER 31, 2015
ASSETS:		
Cash and cash equivalents	$ 3,667	$ 512
Short-term investments	3,500	-
Trading securities	-	620
Fixed maturities, available-for-sale	48,819	24,549
Other investments, at cost	-	1,146
Investments in consolidated subsidiaries	425,677	355,799
Other assets	408	359
Assets attributable to discontinued operations (Note 3)	-	13,037
TOTAL ASSETS	$ 482,071	$ 396,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
LIABILITIES:		
Accounts payable and other liabilities	$ 8,732	$ 8,182
Amounts due to consolidated subsidiaries, net	28,697	12,417
Income taxes payable	4,236	3,674
Junior subordinated debt securities	-	38,146
Dividends payable	1,082	809
Liabilities attributable to discontinued operations (Note 3)	68	90
TOTAL LIABILITIES	42,815	63,318
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)[A]	-	-
Common stock [B]	18,620	18,569
Paid-in capital	126,468	127,733
Accumulated other comprehensive loss	(6,964)	(3,440)
Treasury stock, at cost [C]	(17,483)	(13,961)
Retained earnings	315,918	194,450
TOTAL IHC S STOCKHOLDERS' EQUITY	436,559	323,351
NONCONTROLLING INTERESTS IN SUBSIDIARIES	2,697	9,353
TOTAL EQUITY	439,256	332,704

TOTAL LIABILITIES AND EQUITY	$ 482,071	$ 396,022

(A)

Preferred stock $1.00 par value, 100,000 shares authorized; none issued or outstanding.

(B)

Common stock $1.00 par value, 23,000,000 shares authorized; 18,620,508 and 18,569,183 shares issued, respectively, 17,102,525 and 17,265,758 shares outstanding, respectively.

(C)

Treasury stock, at cost; 1,517,983 and 1,303,425 shares, respectively, outstanding.

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

SCHEDULE II
(Continued)

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME (In thousands)
(PARENT COMPANY ONLY)

	2016	2015	2014
REVENUES:			
Net investment income	$ 146	$ 112	$ 112
Net realized investment losses	(121)	(506)	(78)
Other income	1,619	1,800	2,129
	1,644	1,406	2,163
EXPENSES:			
Interest expense on debt	1,443	1,567	1,546
General and administrative expenses	8,837	5,506	5,606
	10,280	7,073	7,152
Loss from continuing operations before income tax benefits and equity in net income from continuing operations of subsidiaries	(8,636)	(5,667)	(4,989)
Equity in net income from continuing operations of subsidiaries	28,843	32,118	17,564
Income from continuing operations before income tax benefits	20,207	26,451	12,575
Income tax (benefits)	(2,303)	(1,523)	(2,446)
Income from continuing operations, net of tax	22,510	27,974	15,021
Discontinued operations (Note 3):			
Income from discontinued operations, before income taxes	117,617	4,310	2,183
Income taxes on discontinued operations	6,813	1,762	283
Income from discontinued operations, net of tax	110,804	2,548	1,900
Net income	133,314	30,522	16,921
Less income from noncontrolling interests in subsidiaries	(10,016)	(578)	(628)

Net income attributable to IHC	123,298	29,944	16,293
Comprehensive Income:			
Net income	133,314	30,522	16,921
Other comprehensive income (loss), net of tax:			
Unrealized gains (losses) on available-for-sale securities	114	(51)	16
Equity in unrealized gains (losses) on available-for-sale securities of subsidiaries	(3,622)	(3,411)	10,677
Other comprehensive income (loss), net of tax	(3,508)	(3,462)	10,693
Comprehensive income, net of tax	129,806	27,060	27,614
Less: comprehensive income attributable to noncontrolling interests	(10,134)	(583)	(827)
Comprehensive income, net of tax, attributable to IHC	$ 119,672	$ 26,477	$ 26,787

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

SCHEDULE II
(Continued)

INDEPENDENCE HOLDING COMPANY
CONDENSED STATEMENTS OF CASH FLOWS (In thousands)
(PARENT COMPANY ONLY)

	2016	2015	2014
CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:			
Net income	$ 133,314	$ 30,522	$ 16,921
Adjustments to net income:			
Gain on disposal of discontinued operations, net of tax	(110,337)	-	-
Equity in net income of subsidiaries, including discontinued operations	(28,843)	(34,698)	(19,521)
Other	3,396	9,204	3,748
Changes in other assets and liabilities	(1,939)	550	440
Net change in cash from operating activities	(4,409)	5,578	1,588
CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:			
Change in investments in and advances to subsidiaries	81,762	12,398	11,138
Net purchases of short-term investments	(3,501)	-	-
Purchases of fixed maturities	(94,850)	(20,857)	(9,953)
Sales of fixed maturities	70,745	5,915	2,751
Other investing activities	(2,995)	-	-
Net change in cash from investing activities	51,161	(2,544)	3,936
CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:			
Repurchases of common stock	(3,925)	(1,820)	(3,972)
Cash paid in acquisitions of noncontrolling interests	(486)	-	-
Repayments of debt	(38,146)		
Dividends paid	(1,553)	(1,392)	(1,233)
Other financing activities	513	301	9
Net change in cash from financing activities	(43,597)	(2,911)	(5,196)

Net change in cash and cash equivalents		3,155		123		328
Cash and cash equivalents, beginning of year		512		389		61
Cash and cash equivalents, end of year	$	3,667	$	512	$	389

The financial information of Independence Holding Company (Parent Company Only) should be read in conjunction with the Consolidated Financial Statements and Notes thereto.

INDEPENDENCE HOLDING COMPANY
SUPPLEMENTARY INSURANCE INFORMATION
(in thousands)

	DEFERRED ACQUISITION COSTS (1)	FUTURE POLICY BENEFITS, LOSSES & CLAIMS	UNEARNED PREMIUMS	NET PREMIUMS EARNED	NET INVESTMENT INCOME (2)	INSURANCE BENEFITS, CLAIMS & RESERVES	AMORTIZATION OF DEFERRED ACQUISTION COSTS (1)	AI
December 31, 2016								
Medical Stop-Loss	$ -	54,760	-	12,070	1,700	10,427	-	
Specialty Health	-	50,943	6,320	154,397	3,272	81,215	-	
Group disability; life and DBL	-	137,428	3,305	96,190	6,469	52,245	-	
Individual life, annuities and other	-	341,181	161	47	2,255	1,344	-	
Corporate	-	-	-	-	2,874	-	-	
	$ -	584,312	9,786	262,704	16,570	145,231	-	
December 31, 2015								
Medical Stop-Loss	$ -	100,088	-	209,765	4,374	153,919	-	
Specialty Health	-	42,165	7,005	171,912	1,813	93,916	-	
Group disability; life and DBL	-	141,837	3,060	85,953	3,699	47,646	-	
Individual life, annuities and other	-	405,327	171	11,904	7,146	11,697	-	
Corporate	-	-	-	-	205	-	-	
	$ -	689,417	10,236	479,534	17,237	307,178	-	

December 31, 2014								
Medical Stop-Loss	$	-	80,128	-	176,941	4,249	122,469	-
Specialty Health		-	50,767	6,568	218,949	2,202	146,431	-
Group disability; life and DBL		-	147,823	2,700	64,260	3,156	37,537	-
Individual life, annuities and other		-	421,908	187	18,898	11,830	19,598	-
Corporate		-	-	-	-	177	-	-
	$	-	700,626	9,455	479,048	21,614	326,035	-

(1)

In 2015, the Company ceded substantially all of its individual life and annuity policy blocks in run-off and as a result, the remaining balance of deferred acquisition costs is insignificant at December 31, 2015 and 2016 and is included in other assets on the accompanying Consolidated Balance Sheets. At December 31, 2014, the Company had $30,806,000 of deferred acquisition costs on its Consolidated Balance Sheet. Amortization of deferred acquisition costs was $319,000, $3,524,000 and $4,941,000 for the years ended December 31, 2016, 2015 and 2014, respectively, and is included in selling, general and administrative expenses on the Consolidated Statements of Income for those periods.

(2)

Net investment income is allocated between product lines based on the mean reserve method.

(3)

Where possible, direct operating expenses are specifically identified and charged to product lines. Indirect expenses are allocated based on time studies; however, other acceptable methods of allocation might produce different results.

SCHEDULE IV

INDEPENDENCE HOLDING COMPANY
REINSURANCE
(In thousands)

	GROSS AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	PERCENTAGE OF AMOUNT ASSUMED TO NET
Life Insurance In-Force:					
December 31, 2016	$ 12,466,127	$ 7,848	$ 6,303,742	$ 6,170,233	0.1%
December 31, 2015	$ 12,063,911	$ 129,231	$ 6,365,993	$ 5,827,149	2.2%
December 31, 2014	$ 11,054,484	$ 418,775	$ 6,128,608	$ 5,344,651	7.8%
Premiums Earned:					
December 31, 2016					
Accident and health	$ 461,467	$ 19,744	$ 276,392	$ 204,819	9.6%
Life and annuity	57,938	1,595	42,078	17,455	9.1%
Property and liability (1)	40,697	-	267	40,430	0.0%
	$ 560,102	$ 21,339	$ 318,737	$ 262,704	8.1%
December 31, 2015					
Accident and health	$ 513,814	$ 28,822	$ 126,613	$ 416,023	6.9%
Life and annuity	46,699	4,330	23,078	27,951	15.5%
Property and liability (1)	35,812	-	252	35,560	0.0%
	$ 596,325	$ 33,152	$ 149,943	$ 479,534	6.9%
December 31, 2014					
Accident and health	$ 482,511	$ 52,063	$ 116,163	$ 418,411	12.4%
	44,407	6,128	20,214	30,321	20.2%

Life and annuity								
Property and liability (1)		30,477		-		161		30,316	0.0%
	$	557,395	$	58,191	$	136,538	$	479,048	12.1%

(1)

Property and liability products consist primarily of our pet and liability portion of our occupational accident insurance lines.

EXHIBIT INDEX

Exhibit Number

3.1

Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3(i) to our Quarterly Report on Form 10-Q for the quarter ended June 30, 1996 and incorporated herein by reference).

3.2

Certificate of Amendment of Restated Certificate of Incorporation of Independence Holding Company (Filed as Exhibit 3.1 to our Current Report on Form 8-K filed with the SEC on July 29, 2004 and incorporated herein by reference).

3.3

By-Laws of Independence Holding Company (Filed as Exhibit 3.3 to our Annual Report on Form 10-K for the year ended December 31, 2006 and incorporated herein by reference), as amended by Amendment to By-Laws of Independence Holding Company (Filed as Exhibit 3.2 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2013 and incorporated herein by reference).

10.1

Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Standard Security Life Insurance Company of New York and Mr. David T. Kettig (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.2

Officer Employment Agreement, made as of April 18, 2011, by and among Independence Holding Company, Madison National Life Insurance Company, Inc. and Mr. Larry R. Graber (Filed as Exhibit 10.2 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.3

Officer Employment Agreement, made as of April 18, 2011, by and between Independence Holding Company and Ms. Teresa A. Herbert (Filed as Exhibit 10.5 to our Current Report on Form 8-K filed with the SEC on April 22, 2011 and incorporated herein by reference).

10.4

Officer Employment Agreement, made as of May 11, 2011, by and between Independence Holding Company and Mr. Roy T.K. Thung (Filed as Exhibit 10.1 to our Quarterly Report on Form 10-Q for the period ended March 31, 2011 that was filed with the SEC on May 12, 2011, and incorporated herein by reference).

10.5

Officer Employment Agreement, by and among Independence Holding Company, IHC Risk Solutions, LLC and Mr. Michael A. Kemp, dated as of May 22, 2012 (Filed as Exhibit 10.3 to our Current Report on Form 8-K filed with the SEC on May 29, 2012, and incorporated herein by reference).

10.6

Retirement Benefit Agreement, dated as of September 30, 1991, between Independence Holding Company and Mr. Roy T.K. Thung, as amended. (Filed as an Exhibit to our Annual Report on Form 10-K for the year ended December 31, 1993 and incorporated herein by reference; Amendment No. 1 filed as Exhibit 10(iii)(A)(4a) to our Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference; Amendment No. 2 filed as Exhibit 10(iii)(4)(b) to our Current Report on Form 8-K filed with the SEC on June 22, 2005 and incorporated herein by reference; Amendment No. 3 filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on January 7, 2009 and incorporated herein by reference.)

10.7

Purchase Agreement, made and entered into on June 15, 2015, by and among Madison National Life Insurance Company, Inc., Standard Security Life Insurance Company of New York and National Guardian Life Insurance Company (Filed as Exhibit 10.1 to our Current Report on Form 8-K filed with the SEC on June 16, 2015, and incorporated herein by reference).

10.8

Sale Bonus Agreement, dated November 7, 2016, by and between Independence American Holdings Corp. and David T. Kettig (Filed as Exhibit 10.8 to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2016 and incorporated herein by reference).

10.9

Officer Employment Agreement, made as of May 25, 2011, by and among Independence Holding Company, Standard Security Life and Mr. Gary J. Balzofiore. *

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Subsidiaries of Independence Holding Company, as of December 31, 2016.*

23.1

Consent of RSM US LLP, independent registered public accounting firm.*

23.2

Consent of KPMG LLP, independent registered public accounting firm.*

31.1

Certification of the Chief Executive Officer and President Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

31.2

Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. *

32.1

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

32.2

Certification Pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. *

101.INS

XBRL Instance Document. *

101.SCH

XBRL Taxonomy Extension Schema Document. *

101.CAL

XBRL Taxonomy Extension Calculation Linkbase Document. *

101.LAB

XBRL Taxonomy Extension Label Linkbase Document. *

101.PRE

XBRL Taxonomy Extension Presentation Linkbase Document. *

101.DEF

XBRL Taxonomy Extension Definition Linkbase Document. *

* Filed herewith.