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INDEPENDENCE HOLDING CO

Form 10-Q

November 08, 2018

0000701869 --12-31 ihc Accelerated Filer Yes true false false 2018 Q3 0000701869 2018-01-01 2018-09-30  
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

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**FORM 10-Q**

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended **September 30, 2018**.

Transition Report under Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from: \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: **001-32244**

**INDEPENDENCE HOLDING COMPANY**



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(Exact name of registrant as specified in its charter)

**Delaware**

**581407235**

(State or other jurisdiction of incorporation or organization)

(I.R.S.  
Employer  
Identification  
No.)

**96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT**

**06902**

(Address of principal executive offices)

(Zip Code)

Registrant's telephone number, including area code: **(203) 358-8000**

**NOT APPLICABLE**

Former name, former address and former fiscal year, if changed since last report.

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

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

Large Accelerated Filer  Accelerated Filer   
Non-Accelerated Filer  Smaller Reporting Company   
Emerging Growth Company

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If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

Yes  No

| <b>Class</b>                           | <b>Outstanding at November 2, 2018</b> |
|----------------------------------------|----------------------------------------|
| <b>Common stock, \$ 1.00 par value</b> | <b>14,795,106 Shares</b>               |

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**INDEPENDENCE HOLDING COMPANY**

**INDEX**

| <b>PART I – FINANCIAL INFORMATION</b>                                                            | <b>PAGE<br/>NO.</b> |
|--------------------------------------------------------------------------------------------------|---------------------|
| Item 1. Financial Statements                                                                     |                     |
| Condensed Consolidated Balance Sheets                                                            | 4                   |
| Condensed Consolidated Statements of Income                                                      | 5                   |
| Condensed Consolidated Statements of Comprehensive Income (Loss)                                 | 6                   |
| Condensed Consolidated Statement of Changes in Equity                                            | 7                   |
| Condensed Consolidated Statements of Cash Flows                                                  | 8                   |
| Notes to Condensed Consolidated Financial Statements                                             | 9                   |
| Item 2. Management's Discussion and Analysis of Financial Condition<br>and Results of Operations | 28                  |
| Item 3. Quantitative and Qualitative Disclosures about Market Risk                               | 42                  |
| Item 4. Controls and Procedures                                                                  | 42                  |
| <b>PART II - OTHER INFORMATION</b>                                                               |                     |
| Item 1. Legal Proceedings                                                                        | 42                  |
| Item 1A. Risk Factors                                                                            | 43                  |
| Item 2. Unregistered Sales of Equity Securities and Use of Proceeds                              | 43                  |
| Item 3. Defaults Upon Senior Securities                                                          | 43                  |

|                                 |    |
|---------------------------------|----|
| Item 4. Mine Safety Disclosures | 44 |
| Item 5. Other Information       | 44 |
| Item 6. Exhibits                | 44 |
| Signatures                      | 46 |

Copies of the Company's SEC filings can be found on its website at [www.ihcgroup.com](http://www.ihcgroup.com).

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## Forward-Looking Statements

*This report on Form 10-Q contains certain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by those laws. We have based our forward-looking statements on our current expectations and projections about future events. Our forward-looking statements include information about possible or assumed future results of our operations. All statements, other than statements of historical facts, included or incorporated by reference in this report that address activities, events or developments that we expect or anticipate may occur in the future, including such things as the growth of our business and operations, our business strategy, competitive strengths, goals, plans, future capital expenditures and references to future successes may be considered forward-looking statements. Also, when we use words such as “anticipate,” “believe,” “estimate,” “expect,” “intend,” “plan,” “probably” or similar expressions, we are making forward-looking statements.*

*Numerous risks and uncertainties may impact the matters addressed by our forward-looking statements, any of which could negatively and materially affect our future financial results and performance. We describe some of these risks and uncertainties in greater detail in Item 1A, Risk Factors, of IHC’s Annual Report on Form 10-K as filed with Securities and Exchange Commission.*

*Although we believe that the assumptions underlying our forward-looking statements are reasonable, any of these assumptions, and, therefore, also the forward-looking statements based on these assumptions, could themselves prove to be inaccurate. In light of the significant uncertainties inherent in the forward-looking statements that are included in this report, our inclusion of this information is not a representation by us or any other person that our objectives and plans will be achieved. Our forward-looking statements speak only as of the date made, and we will not update these forward-looking statements unless the securities laws require us to do so. In light of these risks, uncertainties and assumptions, any forward-looking event discussed in this report may not occur.*

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements****INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES****CONDENSED CONSOLIDATED BALANCE SHEETS** (In thousands, except share data)

|                                                  | September 30, 2018<br>(Unaudited) | December 31, 2017   |
|--------------------------------------------------|-----------------------------------|---------------------|
| <b>ASSETS:</b>                                   |                                   |                     |
| Investments:                                     |                                   |                     |
| Short-term investments                           | \$ 1,047                          | \$ 50               |
| Securities purchased under agreements to resell  | 18,025                            | 10,269              |
| Fixed maturities, available-for-sale             | 432,950                           | 441,912             |
| Equity securities                                | 5,528                             | 6,120               |
| Other investments                                | 17,511                            | 18,547              |
| Total investments                                | 475,061                           | 476,898             |
| Cash and cash equivalents                        | 25,620                            | 26,465              |
| Due and unpaid premiums                          | 29,100                            | 21,950              |
| Due from reinsurers                              | 371,540                           | 380,593             |
| Goodwill                                         | 50,697                            | 50,697              |
| Other assets                                     | 83,928                            | 84,020              |
| <b>TOTAL ASSETS</b>                              | <b>\$ 1,035,946</b>               | <b>\$ 1,040,623</b> |
| <b>LIABILITIES AND EQUITY:</b>                   |                                   |                     |
| <b>LIABILITIES:</b>                              |                                   |                     |
| Policy benefits and claims                       | \$ 158,168                        | \$ 168,683          |
| Future policy benefits                           | 209,588                           | 214,766             |
| Funds on deposit                                 | 141,685                           | 143,537             |
| Unearned premiums                                | 9,452                             | 6,666               |
| Other policyholders' funds                       | 10,900                            | 10,402              |
| Due to reinsurers                                | 4,855                             | 3,808               |
| Accounts payable, accruals and other liabilities | 53,752                            | 56,453              |
| <b>TOTAL LIABILITIES</b>                         | <b>588,400</b>                    | <b>604,315</b>      |

Commitments and contingencies (Note 13)

|                                                                                                                                                              |                     |                     |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|---------------------|
| Redeemable noncontrolling interest                                                                                                                           | 2,146               | 2,065               |
| <b>STOCKHOLDERS' EQUITY:</b>                                                                                                                                 |                     |                     |
| Preferred stock \$1.00 par value, 100,000 shares authorized;<br>none issued or outstanding                                                                   | -                   | -                   |
| Common stock \$1.00 par value, 23,000,000 shares authorized;<br>18,625,458 and 18,625,458 shares issued; and 14,799,672 and<br>14,890,285 shares outstanding | 18,625              | 18,625              |
| Paid-in capital                                                                                                                                              | 125,279             | 124,538             |
| Accumulated other comprehensive loss                                                                                                                         | (11,963)            | (4,598)             |
| Treasury stock, at cost; 3,825,786 and 3,735,173 shares                                                                                                      | (66,918)            | (63,404)            |
| Retained earnings                                                                                                                                            | 377,848             | 356,383             |
| <b>TOTAL IHC STOCKHOLDERS' EQUITY</b>                                                                                                                        | <b>442,871</b>      | <b>431,544</b>      |
| <b>NONREDEEMABLE NONCONTROLLING INTERESTS</b>                                                                                                                | <b>2,529</b>        | <b>2,699</b>        |
| <b>TOTAL EQUITY</b>                                                                                                                                          | <b>445,400</b>      | <b>434,243</b>      |
| <b>TOTAL LIABILITIES AND EQUITY</b>                                                                                                                          | <b>\$ 1,035,946</b> | <b>\$ 1,040,623</b> |

See the accompanying Notes to Condensed Consolidated Financial Statements.

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**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)**  
(In thousands, except per share data)

|                                                           | Three Months Ended<br>September 30, |                 | Nine Months Ended<br>September 30, |                  |
|-----------------------------------------------------------|-------------------------------------|-----------------|------------------------------------|------------------|
|                                                           | 2018                                | 2017            | 2018                               | 2017             |
| <b>REVENUES:</b>                                          |                                     |                 |                                    |                  |
| Premiums earned                                           | \$ 81,757                           | \$ 75,639       | \$ 238,583                         | \$ 210,507       |
| Net investment income                                     | 3,611                               | 4,403           | 10,214                             | 12,414           |
| Fee income                                                | 4,397                               | 2,634           | 14,193                             | 11,556           |
| Other income                                              | 153                                 | 361             | 472                                | 2,365            |
| Net investment gains (losses)                             | 17                                  | 715             | (335)                              | 987              |
|                                                           | 89,935                              | 83,752          | 263,127                            | 237,829          |
| <b>EXPENSES:</b>                                          |                                     |                 |                                    |                  |
| Insurance benefits, claims and reserves                   | 36,011                              | 33,536          | 105,619                            | 103,071          |
| Selling, general and administrative expenses              | 41,021                              | 42,337          | 126,057                            | 115,404          |
|                                                           | 77,032                              | 75,873          | 231,676                            | 218,475          |
| Income before income taxes                                | 12,903                              | 7,879           | 31,451                             | 19,354           |
| Income taxes (benefits)                                   | 2,860                               | 2,666           | 7,518                              | (5,175)          |
| <b>Net income</b>                                         | <b>10,043</b>                       | <b>5,213</b>    | <b>23,933</b>                      | <b>24,529</b>    |
| (Income) loss from nonredeemable noncontrolling interests | (59)                                | 32              | (99)                               | (4)              |
| (Income) from redeemable noncontrolling interests         | (49)                                | (16)            | (181)                              | (29)             |
| <b>NET INCOME ATTRIBUTABLE TO IHC</b>                     | <b>\$ 9,935</b>                     | <b>\$ 5,229</b> | <b>\$ 23,653</b>                   | <b>\$ 24,496</b> |
| <b>Basic income per common share</b>                      | <b>\$ 0.67</b>                      | <b>\$ 0.35</b>  | <b>\$ 1.60</b>                     | <b>\$ 1.53</b>   |
| <b>WEIGHTED AVERAGE SHARES OUTSTANDING</b>                | <b>14,795</b>                       | <b>14,965</b>   | <b>14,808</b>                      | <b>15,999</b>    |
| <b>Diluted income per common share</b>                    | <b>\$ 0.66</b>                      | <b>\$ 0.34</b>  | <b>\$ 1.57</b>                     | <b>\$ 1.50</b>   |



|                                             |        |        |        |        |
|---------------------------------------------|--------|--------|--------|--------|
| WEIGHTED AVERAGE DILUTED SHARES OUTSTANDING | 15,109 | 15,274 | 15,104 | 16,287 |
|---------------------------------------------|--------|--------|--------|--------|

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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5

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**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)**  
(In thousands)

|                                                                                          | <b>Three Months Ended</b> |                 | <b>Nine Months Ended</b> |                  |
|------------------------------------------------------------------------------------------|---------------------------|-----------------|--------------------------|------------------|
|                                                                                          | <b>September 30,</b>      |                 | <b>September 30,</b>     |                  |
|                                                                                          | <b>2018</b>               | <b>2017</b>     | <b>2018</b>              | <b>2017</b>      |
| Net income                                                                               | \$ 10,043                 | \$ 5,213        | \$ 23,933                | \$ 24,529        |
| Other comprehensive income (loss):                                                       |                           |                 |                          |                  |
| <b>Available-for-sale securities:</b>                                                    |                           |                 |                          |                  |
| Unrealized gains (losses) on available-for-sale securities, pre-tax                      | (925)                     | 250             | (8,908)                  | 7,219            |
| Tax expense (benefit) on unrealized gains on available-for-sale securities               | (199)                     | 90              | (1,893)                  | 2,599            |
| Unrealized gains (losses) on available-for-sale securities, net of taxes                 | (726)                     | 160             | (7,015)                  | 4,620            |
| Other comprehensive income (loss), net of tax                                            | (726)                     | 160             | (7,015)                  | 4,620            |
| <b>COMPREHENSIVE INCOME, NET OF TAX</b>                                                  | <b>9,317</b>              | <b>5,373</b>    | <b>16,918</b>            | <b>29,149</b>    |
| Comprehensive (income) loss, net of tax, attributable to noncontrolling interests:       |                           |                 |                          |                  |
| (Income) loss from noncontrolling interests in subsidiaries                              | (108)                     | 16              | (280)                    | (33)             |
| Other comprehensive income, net of tax, attributable to noncontrolling interests         | -                         | -               | -                        | -                |
| <b>COMPREHENSIVE (INCOME) LOSS, NET OF TAX, ATTRIBUTABLE TO NONCONTROLLING INTERESTS</b> | <b>(108)</b>              | <b>16</b>       | <b>(280)</b>             | <b>(33)</b>      |
| <b>COMPREHENSIVE INCOME, NET OF TAX, ATTRIBUTABLE TO IHC</b>                             | <b>\$ 9,209</b>           | <b>\$ 5,389</b> | <b>\$ 16,638</b>         | <b>\$ 29,116</b> |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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6

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## INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (Unaudited) (In thousands)

|                                                  | COMMON<br>STOCK  | PAID-IN<br>CAPITAL | ACCUMULATED<br>OTHER<br>COMPREHENSIVE<br>LOSS | TREASURY<br>STOCK,<br>AT COST | RETAINED<br>EARNINGS | TOTAL IHC<br>STOCKHOLDER<br>EQUITY |
|--------------------------------------------------|------------------|--------------------|-----------------------------------------------|-------------------------------|----------------------|------------------------------------|
| <b>BALANCE<br/>AT<br/>DECEMBER<br/>31, 2017</b>  | <b>\$ 18,625</b> | <b>\$ 124,538</b>  | <b>\$ (4,598)</b>                             | <b>\$ (63,404)</b>            | <b>\$ 356,383</b>    | <b>\$ 431,544</b>                  |
| Cumulative effects of new accounting principles  |                  |                    | (350)                                         |                               | 34                   | (316)                              |
| Net income                                       |                  |                    |                                               |                               | 23,653               | 23,653                             |
| Other comprehensive income (loss), net of tax    |                  |                    | (7,015)                                       |                               |                      | (7,015)                            |
| Repurchases of common stock                      |                  |                    |                                               | (3,817)                       |                      | (3,817)                            |
| Common stock dividend (\$0.15 per share)         |                  |                    |                                               |                               | (2,222)              | (2,222)                            |
| Distributions to noncontrolling interests        |                  |                    |                                               |                               |                      | -                                  |
| Share-based compensation                         |                  | 741                |                                               | 303                           |                      | 1,044                              |
| <b>BALANCE<br/>AT<br/>September 30,<br/>2018</b> | <b>\$ 18,625</b> | <b>\$ 125,279</b>  | <b>\$ (11,963)</b>                            | <b>\$ (66,918)</b>            | <b>\$ 377,848</b>    | <b>\$ 442,871</b>                  |

**See the accompanying Notes to Condensed Consolidated Financial Statements.**

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7

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**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)**  
(In thousands)

|                                                                                             | <b>Nine Months Ended<br/>September 30,</b> |             |
|---------------------------------------------------------------------------------------------|--------------------------------------------|-------------|
|                                                                                             | <b>2018</b>                                | <b>2017</b> |
| <b>CASH FLOWS PROVIDED BY (USED BY) OPERATING ACTIVITIES:</b>                               |                                            |             |
| Net income                                                                                  | \$ 23,933                                  | \$ 24,529   |
| <b>Adjustments to reconcile net income to net change in cash from operating activities:</b> |                                            |             |
| Amortization of deferred acquisition costs                                                  | 681                                        | 269         |
| Net investment (gains) losses                                                               | 335                                        | (987)       |
| Equity (income) loss from equity method investments                                         | 976                                        | (1,412)     |
| Depreciation and amortization                                                               | 1,953                                      | 1,379       |
| Deferred tax expense                                                                        | 3,535                                      | 1,853       |
| Other                                                                                       | 4,808                                      | 4,852       |
| Changes in assets and liabilities:                                                          |                                            |             |
| Change in insurance liabilities                                                             | (12,181)                                   | (83,750)    |
| Change in amounts due from reinsurers                                                       | 9,053                                      | 57,094      |
| Change in claim fund balances                                                               | 294                                        | 8,463       |
| Change in current income tax liability                                                      | 1,031                                      | (8,604)     |
| Change in due and unpaid premiums                                                           | (7,150)                                    | 10,218      |
| Other operating activities                                                                  | (6,630)                                    | 6,302       |
| Net change in cash from operating activities                                                | 20,638                                     | 20,206      |
| <b>CASH FLOWS PROVIDED BY (USED BY) INVESTING ACTIVITIES:</b>                               |                                            |             |
| Net (purchases) sales and maturities of short-term investments                              | (999)                                      | 6,849       |
| Net (purchases) sales of securities under resale agreements                                 | (7,756)                                    | 8,365       |
| Sales of equity securities                                                                  | 698                                        | -           |
| Sales of fixed maturities                                                                   | 55,338                                     | 158,062     |
| Maturities and other repayments of fixed maturities                                         | 21,992                                     | 16,841      |
| Purchases of fixed maturities                                                               | (79,374)                                   | (145,444)   |
| Payments to acquire business, net of cash acquired                                          | -                                          | (12,323)    |
| Distributions from other investments                                                        | -                                          | 5,246       |
| Purchases of other investments                                                              | -                                          | (602)       |
| Other investing activities                                                                  | (3,709)                                    | (565)       |

|                                                               |           |           |
|---------------------------------------------------------------|-----------|-----------|
| Net change in cash from investing activities                  | (13,810)  | 36,429    |
| <b>CASH FLOWS PROVIDED BY (USED BY) FINANCING ACTIVITIES:</b> |           |           |
| Repurchases of common stock                                   | (3,943)   | (44,290)  |
| Withdrawals of investment-type insurance contracts            | (1,033)   | (1,359)   |
| Dividends paid                                                | (3,710)   | (1,927)   |
| Other financing activities                                    | 72        | (328)     |
| Net change in cash from financing activities                  | (8,614)   | (47,904)  |
| Net change in cash, cash equivalents and restricted cash      | (1,786)   | 8,731     |
| Cash, cash equivalents and restricted cash, beginning of year | 32,197    | 23,718    |
| Cash, cash equivalents and restricted cash, end of period     | \$ 30,411 | \$ 32,449 |

See the accompanying Notes to Condensed Consolidated Financial Statements.

**INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES**

**Notes to Condensed Consolidated Financial Statements**

**(Unaudited)**

**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., IHC Carrier Solutions, Inc. and a majority interest in PetPartners, Inc. IHC also owns a significant equity interest in Ebix Health Exchange Holdings, LLC ("Ebix Health Exchange"), an administration exchange for health insurance. 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 62% of IHC's outstanding common stock at September 30, 2018.

**(B) Basis of Presentation**

The unaudited Condensed Consolidated Financial Statements have been prepared in conformity with U.S. generally accepted accounting principles ("GAAP") for interim financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X and, therefore, do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. The unaudited Condensed Consolidated Financial Statements 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. IHC's Annual Report on Form 10-K as filed with the Securities and Exchange Commission should be read in conjunction with the accompanying unaudited Condensed Consolidated Financial Statements.



In the opinion of management, all adjustments (consisting only of normal recurring accruals) that are necessary for a fair presentation of the consolidated financial position and results of operations for the interim periods have been included. The condensed consolidated results of operations for the three months and nine months ended September 30, 2018 are not necessarily indicative of the results to be anticipated for the entire year.

**(C) Reclassifications**

Certain amounts in prior year's consolidated financial statements and Notes thereto have been reclassified to conform to the 2018 presentation primarily as a result of new accounting principles adopted in the current year.

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9

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**(D) Revenue Recognition**

Insurance premiums are recognized as revenue over the period insurance protection is provided. For additional information about our policies regarding the recognition of premium revenues, see Note 1 of the Notes to Consolidated Financial Statements included in our 2017 Annual Report on Form 10-K as filed with the Securities and Exchange Commission.

Fee income includes fees and commissions for various sales, marketing and administrative services provided by our marketing and administrative companies. Revenue is recognized as these services are performed. For these administrative service and other contracts, we have no material contract assets or contract liabilities on our consolidated balance sheet at September 30, 2018. Revenue recognized from performance obligations related to prior periods, and revenue expected to be recognized in future periods related to unfulfilled contractual performance obligations and contracts with variable consideration, is not material.

**(E) Recent Accounting Pronouncements**

*Recently Adopted Accounting Standards*

In May 2017, the Financial Accounting Standards Board (the “FASB”) issued guidance to provide clarity and reduce both (i) diversity in practice; and (ii) cost and complexity when accounting for a change in the terms or conditions of a share-based payment award. The amendments in this guidance will be applied prospectively. The adoption of this guidance did not have a material effect on the Company’s consolidated financial statements.

In January 2017, the FASB issued guidance that clarifies 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 will be applied prospectively. The adoption of this guidance did not 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 equivalents in the statement of cash flows. The amendments in this guidance were applied retrospectively. The adoption of this guidance did not have a material effect on the Company’s Statements of Cash Flows and had no effect on the Company’s consolidated financial position or results of operations.

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 were applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the January 1, 2018. The adoption of this guidance did not 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 Company has elected to classify distributions received from equity method investees using the cumulative earnings approach. The adoption of this guidance did not 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. The amendments in this guidance were applied by means of a cumulative-effect adjustment of \$340,000 credit to retained earnings as of January 1, 2018. The amendments related to equity securities without readily determinable fair values (including disclosure requirements) will be applied prospectively to equity investments that existed as of January 1, 2018. The adoption of this guidance did not 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. Substantially all of the Company's revenue sources are excluded from the scope of the standard. For those revenue sources within the scope of the standard (included in the Fee income line of the Condensed Consolidated Statement of Income), there were no material changes in the timing or measurement of revenues. The amendments in this guidance were applied retrospectively with a cumulative effect adjustment on January 1, 2018, and as such, the Company recorded \$552,000 of contract assets and \$1,094,000 of deferred revenues, which are included on the Condensed Consolidated Balance Sheet in other assets and accounts payable, accruals and other liabilities. The overall net impact on retained earnings was a charge of \$306,000, after the effects of taxes and noncontrolling interests.

#### ***Recently Issued Accounting Standards Not Yet Adopted***

In August 2018, the FASB issued guidance to improve existing measurements, presentation and disclosure requirements for long-duration contracts issued by insurance entities. The amendments in this guidance requires an entity to (1) review and update assumptions used to measure cash flows at least annually as well as update the discount rate assumption at each reporting date; (2) measure market risk benefits associated with deposit contracts at fair value; (3) disclose liability rollforwards and information about significant inputs, judgements assumptions, and methods used in measurement. Additionally, it simplifies the amortization of deferred acquisition costs and other balances on a constant level basis over the expected term of the related contracts. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2020, including interim periods within that fiscal year. Upon adoption, the amendments in this guidance should be applied to contracts in-force as of the beginning of the earliest period presented with a cumulative adjustment to beginning retained earnings. Management is evaluating the requirements and potential impact that the adoption of this guidance will have on the Company's consolidated financial statements.

In August 2018, the FASB issued guidance to improve the effectiveness of disclosures in the notes to financial statements regarding fair value measurements. The amendments in this guidance are effective for all entities for fiscal years beginning after December 15, 2019, including interim periods within that fiscal year. Certain amendments should be applied prospectively for the most recent interim or annual period presented in the initial fiscal year of adoption while other amendments should be applied retrospectively to all periods presented upon the effective date. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In July 2018, the FASB issued guidance to simplify several aspects of accounting for nonemployee share-based compensation. The amendments in this guidance are effective for public business entities for fiscal years beginning after December 15, 2018, including interim periods within that fiscal year. The adoption of this guidance is not expected to have a material effect on the Company's consolidated financial statements.

In March 2017, the FASB issued guidance requiring premium amortization on callable debt securities to be amortized to the earliest call date to more closely align the amortization period with expectations incorporated in market pricing of the underlying securities. The amendments in this guidance should be applied using a modified retrospective approach for annual periods beginning after December 15, 2018, including interim periods within those periods. Additional disclosures are required in the period of adoption. Early adoption is permitted. 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 to simplify the test for goodwill impairment by eliminating Step 2 in the goodwill impairment test. Instead, under the amendments in this guidance, 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 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 guidance 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 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. In July 2018, the FASB issued additional guidance that allows entities the option to either recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption or to use a modified retrospective approach. The Company is in the process of analyzing its lease portfolio. This process includes the evaluation of policies, processes and internal controls that will be required to comply with this new guidance. The Company plans to elect the practical expedients permitted within the new standard, which among other things, allows us to carryforward the historical lease classification. In addition, the Company plans to select the new transition method and apply the new lease requirements in the period of adoption without adjustment to the financial statements for periods prior to adoption. The Company expects the adoption of this new standard to result in an increase on its consolidated balance sheet for right-of-use assets and corresponding lease liabilities. The adoption of this guidance is not expected to have a material effect on the Company's consolidated results of operations or cash flows.



**Note 2. Income Per Common Share**

Diluted income per share was computed using the treasury stock method and includes incremental common shares, primarily from the dilutive effect of share-based payment awards, amounting to 314,000 and 296,000 shares for the three and nine months ended September 30, 2018, respectively, and 309,000 and 288,000 shares for the three months and nine months ended September 30, 2017.

**Note 3. Cash, Cash Equivalents and Restricted Cash**

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Condensed Consolidated Balance Sheets to the amounts shown in the Condensed Consolidated Statements of Cash Flows for the periods indicated (in thousands):

|                                                  | <b>September 30,</b> |             |
|--------------------------------------------------|----------------------|-------------|
|                                                  | <b>2018</b>          | <b>2017</b> |
| Cash and cash equivalents                        | \$ 25,620            | \$ 26,565   |
| Restricted cash included in other assets         | 4,791                | 5,884       |
| Total cash, cash equivalents and restricted cash | \$ 30,411            | \$ 32,449   |

Restricted cash includes insurance premiums collected from insureds that are pending remittance to insurance carriers and/or payment of insurance claims and commissions to third party administrators. These amounts are required to be set aside by contractual agreements with the insurance carriers and are included in other assets on the Condensed Consolidated Balance Sheets.

**Note 4. Investment Securities**

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



September 30, 2018

|                                         | <b>AMORTIZED<br/>COST</b> | <b>GROSS<br/>UNREALIZED<br/>GAINS</b> | <b>GROSS<br/>UNREALIZED<br/>LOSSES</b> | <b>FAIR<br/>VALUE</b> |
|-----------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-----------------------|
| <b>FIXED MATURITIES</b>                 |                           |                                       |                                        |                       |
| <b>AVAILABLE-FOR-SALE:</b>              |                           |                                       |                                        |                       |
| Corporate securities                    | \$ 200,252                | \$ 537                                | \$ (6,882)                             | \$ 193,907            |
| CMOs – residential <sup>(1)</sup>       | 6,266                     | 2                                     | (388)                                  | 5,880                 |
| U.S. Government obligations             | 48,857                    | –                                     | (730)                                  | 48,127                |
| Agency MBS – residential <sup>(2)</sup> | 6                         | –                                     | –                                      | 6                     |
| GSEs <sup>(3)</sup>                     | 9,566                     | –                                     | (347)                                  | 9,219                 |
| States and political subdivisions       | 173,109                   | 129                                   | (7,186)                                | 166,052               |
| Foreign government obligations          | 4,081                     | –                                     | (119)                                  | 3,962                 |
| Redeemable preferred stocks             | 5,970                     | –                                     | (173)                                  | 5,797                 |
| <br>                                    |                           |                                       |                                        |                       |
| Total fixed maturities                  | \$ 448,107                | \$ 668                                | \$ (15,825)                            | \$ 432,950            |

|                                                 | <b>December 31, 2017</b>  |                                       |                                        |                       |
|-------------------------------------------------|---------------------------|---------------------------------------|----------------------------------------|-----------------------|
|                                                 | <b>AMORTIZED<br/>COST</b> | <b>GROSS<br/>UNREALIZED<br/>GAINS</b> | <b>GROSS<br/>UNREALIZED<br/>LOSSES</b> | <b>FAIR<br/>VALUE</b> |
| <b>FIXED MATURITIES<br/>AVAILABLE-FOR-SALE:</b> |                           |                                       |                                        |                       |
| Corporate securities                            | \$ 148,996                | \$ 298                                | \$ (2,847)                             | \$ 146,447            |
| CMOs - residential (1)                          | 6,857                     | —                                     | (180)                                  | 6,677                 |
| U.S. Government obligations                     | 85,510                    | —                                     | (396)                                  | 85,114                |
| Agency MBS - residential (2)                    | 14                        | —                                     | —                                      | 14                    |
| GSEs (3)                                        | 9,887                     | —                                     | (205)                                  | 9,682                 |
| States and political subdivisions               | 182,664                   | 598                                   | (3,619)                                | 179,643               |
| Foreign government obligations                  | 4,227                     | 13                                    | (90)                                   | 4,150                 |
| Redeemable preferred stocks                     | 10,006                    | 179                                   | —                                      | 10,185                |
| Total fixed maturities                          | \$ 448,161                | \$ 1,088                              | \$ (7,337)                             | \$ 441,912            |

(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 September 30, 2018, 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.

| <b>AMORTIZED<br/>COST</b> | <b>FAIR<br/>VALUE</b> |
|---------------------------|-----------------------|
|---------------------------|-----------------------|

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|                                               |            |            |
|-----------------------------------------------|------------|------------|
| Due in one year or less                       | \$ 27,898  | \$ 27,734  |
| Due after one year through five years         | 174,430    | 170,503    |
| Due after five years through ten years        | 138,042    | 132,762    |
| Due after ten years                           | 91,899     | 86,846     |
| Fixed maturities with no single maturity date | 15,838     | 15,105     |
|                                               | \$ 448,107 | \$ 432,950 |

The following tables summarize, for all fixed maturities available-for-sale 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):

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14

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**September 30, 2018**

|                                                        | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|--------------------------------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                                        | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| Corporate securities                                   | \$ 98,623                  | \$ 2,949                 | \$ 88,261                  | \$ 3,933                 | \$ 186,884        | \$ 6,882                 |
| CMOs - residential                                     | 859                        | 57                       | 5,106                      | 331                      | 5,965             | 388                      |
| U.S. Government obligations                            | 39,740                     | 328                      | 8,388                      | 402                      | 48,128            | 730                      |
| GSEs                                                   | -                          | -                        | 9,318                      | 347                      | 9,318             | 347                      |
| States and political subdivisions                      | 59,619                     | 1,753                    | 99,307                     | 5,433                    | 158,926           | 7,186                    |
| Foreign government obligations                         | 1,145                      | 12                       | 2,816                      | 107                      | 3,961             | 119                      |
| Redeemable preferred stocks                            | 5,797                      | 173                      | -                          | -                        | 5,797             | 173                      |
| <b>Fixed maturities in an unrealized loss position</b> | <b>\$ 205,783</b>          | <b>\$ 5,272</b>          | <b>\$ 213,196</b>          | <b>\$ 10,553</b>         | <b>\$ 418,979</b> | <b>\$ 15,825</b>         |

**Number of fixed maturities in an unrealized loss position**

|    |    |     |
|----|----|-----|
| 99 | 96 | 195 |
|----|----|-----|

**December 31, 2017**

|                                   | <b>Less than 12 Months</b> |                          | <b>12 Months or Longer</b> |                          | <b>Total</b>      |                          |
|-----------------------------------|----------------------------|--------------------------|----------------------------|--------------------------|-------------------|--------------------------|
|                                   | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b>          | <b>Unrealized Losses</b> | <b>Fair Value</b> | <b>Unrealized Losses</b> |
| Corporate securities              | \$ 85,642                  | \$ 1,250                 | \$ 44,640                  | \$ 1,597                 | \$ 130,282        | \$ 2,847                 |
| CMOs - residential                | 1,381                      | 45                       | 5,237                      | 135                      | 6,618             | 180                      |
| U.S. Government obligations       | 75,811                     | 198                      | 9,302                      | 198                      | 85,113            | 396                      |
| GSEs                              | -                          | -                        | 9,669                      | 205                      | 9,669             | 205                      |
| States and political subdivisions | 83,682                     | 1,348                    | 66,617                     | 2,271                    | 150,299           | 3,619                    |
| Foreign government obligations    | 2,959                      | 90                       | -                          | -                        | 2,959             | 90                       |

**Fixed maturities in an**

|                                 |            |          |            |          |            |          |
|---------------------------------|------------|----------|------------|----------|------------|----------|
| <b>unrealized loss position</b> | \$ 249,475 | \$ 2,931 | \$ 135,465 | \$ 4,406 | \$ 384,940 | \$ 7,337 |
|---------------------------------|------------|----------|------------|----------|------------|----------|

**Number of fixed maturities in**

**an**

|                                 |    |    |     |
|---------------------------------|----|----|-----|
| <b>unrealized loss position</b> | 60 | 76 | 136 |
|---------------------------------|----|----|-----|

Substantially all of the unrealized losses on fixed maturities available-for-sale at September 30, 2018 and December 31, 2017 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 September 30, 2018.

Net investment gains (losses) are as follows for periods indicated (in thousands):

|                                                             | <b>Three Months<br/>Ended</b> |             | <b>Nine Months Ended</b>      |             |
|-------------------------------------------------------------|-------------------------------|-------------|-------------------------------|-------------|
|                                                             | <b>September 30,<br/>2018</b> | <b>2017</b> | <b>September 30,<br/>2018</b> | <b>2017</b> |
| Realized gains (losses):                                    |                               |             |                               |             |
| Fixed maturities available-for-sale                         | \$ (247)                      | \$ 719      | \$ (442)                      | \$ 1,062    |
| Equity securities                                           | (2)                           | –           | (7)                           | –           |
| Total realized gains (losses) on debt and equity securities | (249)                         | 719         | (449)                         | 1,062       |
| Unrealized gains (losses) on equity securities              | 266                           | (4)         | 114                           | (76)        |
| Gains (losses) on debt and equity securities                | 17                            | 715         | (335)                         | 986         |
| Gains (losses) on other investments                         | –                             | –           | –                             | 1           |
| Net investment gains (losses)                               | \$ 17                         | \$ 715      | \$ (335)                      | \$ 987      |

For the three months and nine months ended September 30, 2018, the Company realized gross gains of \$130,000 and \$449,000, respectively, and gross losses of \$377,000 and \$891,000, respectively, from sales, maturities and prepayments of fixed maturities available-for-sale. For the three months and nine months ended September 30, 2017, the company realized gross gains of \$780,000 and \$2,119,000, respectively, and gross losses of \$61,000 and \$1,057,000, respectively, from sales, maturities and prepayments of fixed maturities available for sale.

#### ***Other-Than-Temporary Impairment Evaluations***

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). See Note 1F(iv) to the Consolidated Financial Statements in the 2017 Annual Report on Form 10-K for further discussion of the factors considered by management in its regular review to identify and recognize other-than-temporary impairments on fixed maturities available-for-sale. The Company did not recognize any other-than-temporary impairments on fixed maturities available-for-sale securities in

the first nine months of 2018 or 2017.

**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 at fair value.

### Fixed maturities available-for-sale:

Fixed maturities available-for-sale included in Level 2 are 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 debt securities consist of municipal tax credit strips. The valuation method used to determine the fair value of municipal tax credit strips is the present value of the remaining future tax credits (at the original issue discount rate) as presented in the redemption tables in the Municipal Prospectuses. This original issue discount is accreted into income on a constant yield basis over the term of the debt instrument. Further, we retain independent pricing vendors to assist in valuing certain instruments.

### Equity securities:

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

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

|                                      | <b>September 30, 2018</b> |                |                |              |
|--------------------------------------|---------------------------|----------------|----------------|--------------|
|                                      | <b>Level 1</b>            | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| <b>FINANCIAL ASSETS:</b>             |                           |                |                |              |
| Fixed maturities available-for-sale: |                           |                |                |              |
| Corporate securities                 | \$ -                      | \$ 193,907     | \$ -           | \$ 193,907   |
| CMOs - residential                   | -                         | 5,880          | -              | 5,880        |
| US Government obligations            | -                         | 48,127         | -              | 48,127       |
| Agency MBS - residential             | -                         | 6              | -              | 6            |
| GSEs                                 | -                         | 9,219          | -              | 9,219        |
| States and political subdivisions    | -                         | 164,300        | 1,752          | 166,052      |
| Foreign government obligations       | -                         | 3,962          | -              | 3,962        |
| Redeemable preferred stocks          | 5,797                     | -              | -              | 5,797        |



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|                                |                  |                   |                 |                   |
|--------------------------------|------------------|-------------------|-----------------|-------------------|
| Total fixed maturities         | 5,797            | 425,401           | 1,752           | 432,950           |
| Equity securities:             |                  |                   |                 |                   |
| Common stocks                  | 2,691            | -                 | -               | 2,691             |
| Nonredeemable preferred stocks | 2,837            | -                 | -               | 2,837             |
| Total equity securities        | 5,528            | -                 | -               | 5,528             |
| <b>Total Financial Assets</b>  | <b>\$ 11,325</b> | <b>\$ 425,401</b> | <b>\$ 1,752</b> | <b>\$ 438,478</b> |

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17

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|                                      | <b>December 31, 2017</b> |                   |                 |                   |
|--------------------------------------|--------------------------|-------------------|-----------------|-------------------|
|                                      | <b>Level 1</b>           | <b>Level 2</b>    | <b>Level 3</b>  | <b>Total</b>      |
| <b>FINANCIAL ASSETS:</b>             |                          |                   |                 |                   |
| Fixed maturities available-for-sale: |                          |                   |                 |                   |
| Corporate securities                 | \$ -                     | \$ 146,447        | \$ -            | \$ 146,447        |
| CMOs - residential                   | -                        | 6,677             | -               | 6,677             |
| US Government obligations            | -                        | 85,114            | -               | 85,114            |
| Agency MBS - residential             | -                        | 14                | -               | 14                |
| GSEs                                 | -                        | 9,682             | -               | 9,682             |
| States and political subdivisions    | -                        | 177,767           | 1,876           | 179,643           |
| Foreign government obligations       | -                        | 4,150             | -               | 4,150             |
| Redeemable preferred stocks          | 10,185                   | -                 | -               | 10,185            |
| Total fixed maturities               | 10,185                   | 429,851           | 1,876           | 441,912           |
| Equity securities:                   |                          |                   |                 |                   |
| Common stocks                        | 2,490                    | -                 | -               | 2,490             |
| Nonredeemable preferred stocks       | 3,630                    | -                 | -               | 3,630             |
| Total equity securities              | 6,120                    | -                 | -               | 6,120             |
| <b>Total Financial Assets</b>        | <b>\$ 16,305</b>         | <b>\$ 429,851</b> | <b>\$ 1,876</b> | <b>\$ 448,032</b> |

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 either 2018 or 2017.

The following table presents the changes in fair value of our Level 3 financial assets for the periods indicated (in thousands):

| <b>Three Months Ended September 30,</b> |                |                   |                |
|-----------------------------------------|----------------|-------------------|----------------|
| <b>2018</b>                             |                | <b>2017</b>       |                |
| <b>States and</b>                       | <b>Total</b>   | <b>States and</b> | <b>Total</b>   |
| <b>Political</b>                        | <b>Level 3</b> | <b>Political</b>  | <b>Level 3</b> |

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|                                                                  | <b>Subdivisions</b> | <b>Assets</b>   | <b>Subdivisions</b> | <b>Assets</b>   |
|------------------------------------------------------------------|---------------------|-----------------|---------------------|-----------------|
| <b>Beginning balance</b>                                         | <b>\$ 1,794</b>     | <b>\$ 1,794</b> | <b>\$ 1,956</b>     | <b>\$ 1,956</b> |
| Increases (decreases) recognized in earnings:                    |                     |                 |                     |                 |
| Net investment gains                                             | -                   | -               | -                   | -               |
| Gains (losses) included in other<br>comprehensive income (loss): |                     |                 |                     |                 |
| Net unrealized gains (losses)                                    | <b>(8)</b>          | <b>(8)</b>      | <b>(8)</b>          | <b>(8)</b>      |
| Repayments and amortization of<br>fixed maturities               | <b>(34)</b>         | <b>(34)</b>     | <b>(31)</b>         | <b>(31)</b>     |
| Sales                                                            | -                   | -               | -                   | -               |
| <b>Balance at end of period</b>                                  | <b>\$ 1,752</b>     | <b>\$ 1,752</b> | <b>\$ 1,917</b>     | <b>\$ 1,917</b> |

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18

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|                                                               | <b>Nine Months Ended September 30,</b> |                 |                     |                 |
|---------------------------------------------------------------|----------------------------------------|-----------------|---------------------|-----------------|
|                                                               | <b>2018</b>                            |                 | <b>2017</b>         |                 |
|                                                               | <b>States and</b>                      | <b>Total</b>    | <b>States and</b>   | <b>Total</b>    |
|                                                               | <b>Political</b>                       | <b>Level 3</b>  | <b>Political</b>    | <b>Level 3</b>  |
|                                                               | <b>Subdivisions</b>                    | <b>Assets</b>   | <b>Subdivisions</b> | <b>Assets</b>   |
| <b>Beginning balance</b>                                      | <b>\$ 1,876</b>                        | <b>\$ 1,876</b> | <b>\$ 2,033</b>     | <b>\$ 2,033</b> |
| Increases (decreases) recognized in earnings:                 |                                        |                 |                     |                 |
| Net investment gains                                          | -                                      | -               | -                   | -               |
| Gains (losses) included in other comprehensive income (loss): |                                        |                 |                     |                 |
| Net unrealized gains (losses)                                 | (23)                                   | (23)            | (26)                | (26)            |
| Repayments and amortization of fixed maturities               |                                        |                 |                     |                 |
| Sales                                                         | -                                      | -               | -                   | -               |
| <b>Balance at end of period</b>                               | <b>\$ 1,752</b>                        | <b>\$ 1,752</b> | <b>\$ 1,917</b>     | <b>\$ 1,917</b> |

The following table provides carrying values, fair values and classification in the fair value hierarchy of 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):

| <b>September 30, 2018</b> |                   |                       | <b>December 31, 2017</b> |                   |                       |
|---------------------------|-------------------|-----------------------|--------------------------|-------------------|-----------------------|
| <b>Level 1</b>            | <b>Level 2</b>    | <b>Carrying Value</b> | <b>Level 1</b>           | <b>Level 2</b>    | <b>Carrying Value</b> |
| <b>Fair Value</b>         | <b>Fair Value</b> |                       | <b>Fair Value</b>        | <b>Fair Value</b> |                       |

**FINANCIAL ASSETS:**

Short-term investments           \$