FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

Filing Date: **1999-03-26** | Period of Report: **1998-12-31**
SEC Accession No. 0000701869-99-000003

(HTML Version on secdatabase.com)

FILER

INDEPENDENCE HOLDING CO
CIK:**701869**| IRS No.: **581407235** | State of Incorp.:**DE** | Fiscal Year End: **1231**
Type: **10-K405** | Act: **34** | File No.: **000-10306** | Film No.: **99574973**
SIC: **6311** Life insurance

Mailing Address
96 CUMMINGS POINT ROAD
STAMFORD CT 06902

Business Address
96 CUMMINGS POINT RD
STAMFORD CT 06902
2033588000

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

COMMISSION FILE NUMBER 0-10306

INDEPENDENCE HOLDING COMPANY

(Exact name of Registrant as specified in its charter)

DELAWARE	58-1407235
(State of Incorporation)	(I.R.S.Employer Identification No.)

96 CUMMINGS POINT ROAD, STAMFORD, CONNECTICUT	06902
(Address of Principal Executive Offices)	(Zip Code)

(203) 358-8000

(Telephone Number)

Securities registered pursuant to Section 12(b) of the Act:
NONE

Securities registered pursuant to Section 12(g) of the Act:
COMMON STOCK, $1.00 PAR VALUE
SHARE PURCHASE WARRANTS

(Title of Class)

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 X No _

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

7,355,800 shares of common stock were outstanding as of March 23, 1999.

The aggregate market value of the common stock held by non-affiliates of the Registrant computed by reference to the average bid and asked prices of such stock, as of March 23, 1999 was $40,549,565.

The Exhibit Index is located on page 82 of this filing.

Documents Incorporated by Reference
Portions of the Proxy Statement for the Annual Meeting of Stockholders scheduled for June 22, 1999 are incorporated by reference into Part III of this filing.

PART I

ITEM 1. BUSINESS

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company engaged principally in the life and health insurance business through its wholly-owned subsidiaries, Standard Security Life Insurance Company of New York ("Standard Life"), Madison National Life Insurance Company, Inc. ("Madison Life") and First Standard Security Insurance Company ("First Standard") and their subsidiaries (collectively, the "Insurance Group"). IHC and its subsidiaries (including the Insurance Group) are collectively referred to as the "Company."

Standard Life, which has an A (Excellent) rating from A.M. Best & Company, Inc. ("Best"), is domiciled in New York and licensed as an insurance company in all 50 states, the District of Columbia, the Virgin Islands and Puerto Rico. Madison Life, which is domiciled in Wisconsin and licensed to sell insurance products in 46 states, the District of Columbia and the Virgin Islands, has a B++ (Very Good) rating from Best. First Standard is domiciled in Delaware and licensed to write and reinsure property and casualty insurance in Delaware and New York. Based on information provided by Best, a Best's rating is assigned after an extensive quantitative and qualitative evaluation of a company's financial condition and operating performance. Best ratings are based upon factors relevant to policyholders, agents, and intermediaries, and are not directed toward protection of investors. Best ratings are not recommendations to buy, sell or hold securities of IHC.

On December 31, 1996, IHC consummated the distribution of the common stock of its majority-owned sign manufacturing subsidiary, Zimmerman Sign Company ("Zimmerman"), on a pro rata basis to the holders of record of IHC common stock as of December 20, 1996. Since December 1995, the Consolidated Financial Statements of the Company have presented Zimmerman as discontinued operations (see Notes 2 and 10 of Notes to Consolidated Financial Statements).

For information pertaining to the Company's business segments, reference is made to Note 18 of Notes to Consolidated Financial Statements.

PRINCIPAL PRODUCTS AND SERVICES

Medical Stop-Loss

Standard Life markets, throughout the United States, stop-loss insurance for self-insured group medical plans. Medical stop-loss insurance allows self-insured employers to manage the risk of excessive health insurance exposures by limiting aggregate and specific losses to a predetermined amount. Self-insured plans permit employers flexibility in designing employee

health coverages at a cost that may be lower than that available through other health care plans.

Medical stop-loss coverage is available on either a specific or a specific and aggregate basis, although the majority of the policies issued by Standard Life cover both specific and aggregate claims. Standard Life designs plans to fit the identified needs of the self-insured employer by offering a variety of attachment points with respect to aggregate coverage (i.e., the level of claims after which the medical stop-loss benefits become payable) and, with respect to specific coverage, various deductible options.

Standard Life markets its medical stop-loss products through a network of managing general underwriters ("MGUs") who are non-salaried independent contractors that receive administrative fees. During 1998, Standard Life marketed through ten different MGUs. The MGUs are responsible for underwriting accounts in accordance with guidelines formulated and approved by Standard Life, billing and collecting premiums from the employers, paying commissions to third party administrators ("TPAs") and/or brokers, and adjudicating claims. Standard Life is responsible for selecting MGUs, establishing underwriting guidelines and reviewing employers' claims for reimbursement, as well as establishing appropriate accounting procedures and reserves. Standard Life has also begun marketing this product through its Health Maintenance Organization ("HMO") relationships, as further described below under "Managed Health Care."

Individuals who obtain health coverage through such self-insured plans cannot currently sue their employer in state court for punitive or compensatory damages, but can seek legal recourse in federal court where an employer can be ordered to cover and deliver a wrongfully-denied benefit. In the continuing debate over health care reform, certain federal and state legislation has been proposed which could permit plan sponsors, administrators, or certain other parties to be liable for punitive damages in state court. Currently, such federal legislation initiatives include: the "Patients' Bill of Rights Act of 1999" (S. 300 H.R. 358), the "Access to Quality Care Act of 1999" (H.R. 216), the "Managed Care Reform Act of 1999" (H.R. 719), and the "Promoting Responsible Managed Care Act of 1999" (S. 374). While the Company cannot predict whether any of these proposals will be adopted or what, if any, impact enactment of any of these (or any similar state legislation) would have on its medical stop-loss business, the number of employers offering health benefits or choosing self-insured plans could be reduced, plans could increase the portion paid by employees (thereby reducing participation), the Company's pricing could be affected, and the Company could be faced with greater liability exposures. As with past initiatives which were not enacted, the Company believes that any such initiatives that could ultimately be implemented should continue to recognize employer's self-

insurance of health care benefits as a viable and cost-effective method of financing health care for employees and their families.

New York Short-Term Disability

Standard Life markets a short-term statutory disability benefit product in New York State ("DBL"). All companies with more than one employee in New York State are required to provide DBL insurance for their employees. DBL coverage provides temporary cash payments to replace wages lost as a result of disability due to non-occupational injury or illness. The DBL policy provides for (i) payment of 50% of salary to a maximum of $170 per week; (ii) a maximum of 26 weeks in a consecutive 52 week period; and (iii) benefit commencement on the eighth consecutive day of disability. Policies covering fewer than 50 employees have fixed rates approved by the New York State Insurance Department. Policies covering 50 or more employees are individually underwritten. The DBL business is marketed primarily through independent general agents who are paid commissions based upon the amount of premiums produced. Standard Life has completed a significant enhancement to its DBL administrative systems, and anticipates continuing to expand its DBL business through the addition of general agents and the acquisition of blocks of business.

Group Term Disability and Term Life

Group Long-Term and Short-Term Disability

Madison Life sells group long-term and short-term disability products to employers that wish to provide this benefit to their employees. Depending on an employer's requirements, long-term disability policies (i) cover between 50% and 70% of insurable salary; (ii) have elimination periods (i.e., the period between the commencement of the disability and the start of benefit payments) of between 30 and 730 days; and (iii) terminate after two, five or ten years or extend to age 65. Optional benefits are available to employees, including coverage for partial or residual disabilities, survivor benefits and cost of living adjustments. Short-term disability policies provide a weekly benefit to disabled employees until they are eligible for long-term disability benefits or they are no longer disabled.

Madison Life's disability products are sold primarily in the Midwest to school districts, municipalities and hospital employer groups through a managing general agent ("MGA") that specializes in these target markets. This MGA assists in the billing and administration of the business, and is paid commissions based upon the amount of premiums produced. Madison Life has expanded its marketing to non-governmental businesses through non-salaried independent general agents and agents who are paid commissions based upon the amount of premiums produced. Madison Life has also entered into an agreement with another insurer to sell group long-term disability in markets in which Madison Life is not currently

established. Under the agreement, the other insurer issues policies as to which the underwriting, claims processing and related services are performed by Madison Life for a fee; Madison Life has retained 25% of the risk on this business.

Madison Life intends to increase sales by targeting non-governmental business and maximizing its traditionally strong sales to school districts, municipalities and hospital employer groups.

Group Term Life

Madison Life sells group term life products which are marketed primarily to the same customers that purchase its group short-term and long-term disability products. These products include group term life, accidental death and dismemberment ("AD&D"), supplemental life and AD&D and dependent life. In order to enhance its marketing and retention of this line of business, Madison Life also offers a paid-up life benefit for eligible employees of schools and municipalities beginning at age 65, subject to a vesting schedule. Madison Life's group term life products are distributed by the same MGA and independent general agents and agents that distribute its group disability products, with compensation based upon the amount of premiums produced. As with its group disability business, Madison Life intends to expand its sales of group term life products to non-governmental entities.

Standard Life also markets group term life insurance products primarily through its existing distribution channels, including its medical stop-loss and managed care MGUs, to employers who self-insure or who enroll in HMOs, as well as to the employees of such employers and HMO's. In 1998, Standard Life purchased and installed a group life system and appointed additional MGUs, independent general agents and brokers to enhance the marketing of its group term life business. The independent general agents and agents or brokers who market these products are paid commissions, and MGUs who market these products receive administrative fees.

Credit Life and Disability

Madison Life sells credit life and disability products offered by entities that extend credit (e.g. banks, thrifts, credit unions and finance companies) or arrange for the extension of credit (e.g., automobile, marine and furniture dealerships) insuring the debtor for a value and duration not to exceed the amount and repayment term of the indebtedness. Credit insurance is composed of two basic types of coverage: (i) credit life insurance provides for a lump sum benefit paid to the creditor upon the death of the insured debtor to extinguish or reduce the balance of indebtedness; and (ii) credit disability insurance provides a monthly benefit/indemnity (usually a sum equal to the scheduled monthly loan payment) paid to the creditor in the event

of the insured debtor's total disability until the debtor recovers, or is able to return to gainful employment or until the scheduled expiration of the insurance coverage, whichever first occurs.

Generally, Madison Life's coverage is limited as follows: (i) at inception of coverage, insureds must be under age 70 for life and under age 65 for disability; (ii) coverage terminates at age 71 for life and age 66 for disability; (iii) maximum life insurance or aggregate disability benefits are $110,000, and the maximum monthly disability benefit is $1,000; and (iv) the maximum term of coverage is 120 months.

Approximately 80% of Madison Life's credit insurance premiums are written through credit unions. This business is marketed by non-salaried independent general agents and agents who are paid commissions based upon the amount of premiums produced.

In 1998, Madison Life purchased a credit insurance agency with $4,000,000 of credit life and disability premiums, as well as an affiliated reinsurance company. This acquisition is expected to increase Madison Life's direct credit insurance premium volume by approximately 29% in 1999.

In addition to expanding its credit life and disability business through its credit insurance agency, Madison Life intends to expand through greater geographical diversification, agreements to administer blocks of business for other insurers, joint marketing alliances with other insurers and acquisitions.

Managed Health Care

HMO Reinsurance

Standard Life markets, throughout the United States, reinsurance for HMOs that desire to reduce their risk assumption and/or are required to purchase coverage by regulation. A majority of state regulatory authorities responsible for HMO oversight require such coverage. This coverage allows HMOs to manage the risk of excessive exposures by limiting specific losses to a pre-determined amount. Standard Life markets HMO reinsurance through independent reinsurance managers (with experienced management and staff knowledgeable in reinsurance issues specifically facing HMOs) which are responsible for collecting premiums and adjudicating reinsurance claims. Final authority for all financial decisions remains with Standard Life, although financial reviews of each HMO are performed on behalf of Standard Life by an independent firm whose primary business is managed care.

HMO Point-of-Service ("POS")

Standard Life has capitalized on the competitive pressures in the HMO market by marketing POS coverage throughout the United States through its HMO relationships. A POS product allows a member greater freedom of choice of providers and/or the ability to access care without a gatekeeper or primary care physician referral; both mature and start-up HMOs are experiencing difficulty in attracting and retaining members unless they are able to offer such options. Most states require that HMOs desiring to offer a POS product do so by partnering with an indemnity carrier (such as Standard Life). While the marketing of the POS product began in 1995 with its behavioral health carve-out product, Standard Life has accelerated its sales efforts and committed more of its resources to this sector. With respect to the POS product, Standard Life retains final responsibility for underwriting, issuing policies, billing and collecting of premiums, paying commissions and servicing claims.

HMO Employer Medical Stop-Loss

Standard Life markets its employer medical stop-loss products (and certain other products including group term life) through its HMO distribution network. Like Standard Life's other medical stop-loss product, these plans allow self-insured employers to manage the risk of excessive health insurance exposures by limiting aggregate and specific losses to a predetermined amount, as well as utilizing the managed care expertise of the HMOs to manage losses. With respect to the HMO employer medical stop-loss product, Standard Life retains final responsibility for underwriting, issuing policies, billing and collecting of premiums, paying commissions and servicing claims.

Provider-Excess

Standard Life markets provider-excess products to providers, provider health care organizations ("PHOs"), hospital groups, physician groups and individual practice associations ("IPAs") that have assumed risk (through capitation by an HMO or otherwise) and desire to reduce their risk assumption and/or are required to purchase coverage by contract or regulation. Standard Life writes these products through specialized MGUs with management and staff experienced in provider-excess insurance. These MGUs are responsible for marketing, underwriting and administering and adjudicating claims.

Standard Life maintains a low risk profile on each of these managed health care products by reducing its exposure through quota share reinsurance arrangements.

Managed Health Care Investments

Madison Life and Standard Life, through investment subsidiaries, participate on an equity basis in two development-

stage ventures which market provider-excess, HMO reinsurance and HMO employer medical stop-loss products through their proprietary market databases and alliances with various partners. In addition, the Company acquired in 1997 a significant interest in an MGU that markets Standard Life products; the Company believes that this acquisition will enable it to control a substantial portion of Standard Life's distribution network for its core products, as well as other products which this MGU may develop and/or market in the future.

Leveraging on Standard Life's position in the areas of HMO reinsurance, POS, HMO employer medical stop-loss and provider-excess, the Company has formed a new entity, IndependenceCare LLC ("IndependenceCare"). Through its operating companies, IndependenceCare will market consulting services and various insurance products (of Standard Life and of one of the largest domestic professional property/casualty reinsurers) on a nationwide basis to a broad range of managed care organizations. The Company believes that these new entities will further enhance its ability to compete in the managed care market.

The Company is actively increasing its presence in managed health care through Standard Life's HMO reinsurance, POS, HMO employer medical stop-loss, provider-excess and related products, and its managed care investments. In addition, the Company actively seeks opportunities to enter into cooperative underwriting and reinsurance arrangements with other life and health insurers, reinsurers, HMOs, and managed care companies that it believes would augment its existing businesses.

Special Disability

During the last half of 1996, Standard Life commenced providing disability income, accident medical, accidental death, and AD&D insurance to athletes, executives and entertainers. The coverage is written for a limited term (5 years or less) and is optionally renewable by Standard Life. The principal benefits offered are permanent total disability ("PTD") and temporary total disability ("TTD"). PTD is paid as a lump sum if caused by either an injury or sickness which is career ending. TTD covers the same risks as PTD, but is paid in installments until the maximum limit of insurance is exhausted or the insured no longer has a total disability. For these special risks, Standard Life has delegated marketing and underwriting authority to a specialized MGU which has concentrated its efforts in these markets for more than 15 years. Currently, Standard Life insures no more than half of the value of the individual's contract, thereby sharing the risk with another party (e.g., a team or a corporate sponsor). In addition, Standard Life has minimized its risk on such business by obtaining reinsurance on a quota share or facultative basis.

Acquired Blocks/Other Business

This category includes: (i) insurance products which are in runoff as a result of the Insurance Group's decision to discontinue writing such products; (ii) blocks of business which were acquired from other insurance companies but which are not of the type currently being written by the Insurance Group (acquired blocks of business of the type currently being written are included within the specified product group); and (iii) certain miscellaneous insurance products.

The following lines of Standard Life's in-force business are in runoff: individual accident and health, individual life, single premium immediate annuities, and miscellaneous insurance business. Madison Life's runoff in this category consists of existing blocks of individual life (including pre-need (i.e., funeral expense coverage) and interest-sensitive life blocks which were acquired in 1996, 1997 and 1998), individual accident and health products, annual and single premium deferred annuity contracts and individual annuity contracts.

The following table sets forth gross direct and assumed earned premiums and net premium income of the Insurance Group by principal product for the years indicated (in thousands):

GROSS DIRECT AND ASSUMED EARNED PREMIUMS

	1998	1997	1996
Medical Stop-Loss	$ 92,549	$ 89,565	$ 84,228
DBL	20,912	21,937	16,673
Group Term Disability and Term Life	26,252	21,618	19,325
Credit Life and Disability	22,696	20,115	13,931
Managed Health Care	41,978	26,357	13,764
Special Disability	24,922	15,332	1,604
Acquired Blocks/Other Business	13,590	15,673	12,935
TOTAL	$ 242,899	$ 210,597	$ 162,460

PREMIUMS EARNED

	1998	1997	1996
Medical Stop-Loss	$ 19,614	$ 19,706	$ 20,272
DBL	20,912	21,937	16,673
Group Term Disability and Term Life	9,394	7,560	6,896
Credit Life and Disability	20,288	17,946	11,549
Managed Health Care	1,034	5,255	4,473
Special Disability	196	71	10
Acquired Blocks/Other Business	9,220	9,726	9,712
TOTAL	$ 80,658	$ 82,201	$ 69,585

The following table summarizes the aggregate life insurance in-force of the Insurance Group (in thousands):

	1998	1997	1996
LIFE INSURANCE IN-FORCE:			
Group	$5,078,640	$4,322,371	$3,759,716
Individual term	347,253	302,583	343,674
Individual permanent	482,210	446,015	454,386

Credit	832,486	1,081,515	494,506
TOTAL LIFE INSURANCE IN-FORCE (1), (2)	$6,740,589	$6,152,484	$5,052,282
NEW LIFE INSURANCE:			
Group	$ 942,001	$ 682,296	$ 953,327
Individual term	-	11	91
Individual permanent	-	1,023	339
Credit	302,426	268,682	233,066
TOTAL NEW LIFE INSURANCE	$1,244,427	$ 952,012	$1,186,823

NOTES:

(1) Includes participating insurance	$ 91,998	$ 59,897	$ 31,928
(2) Includes ceded reinsurance of:			
Group	$2,526,261	$2,118,806	$1,828,969
Individual	246,102	283,405	342,689
Credit	51,320	40,794	43,875
Total ceded reinsurance	$2,823,683	$2,443,005	$2,215,533

ACQUISITIONS

The Company has assembled a team of senior executives which is responsible for identifying, analyzing, negotiating, acquiring and administering acquisitions of blocks of insurance business. The team members, who have been involved with numerous acquisitions, focus primarily on transactions involving the purchase of blocks of policies, but also evaluate acquisitions of entire companies. The Company's Management Information Systems ("MIS") and policyholder services departments are experienced in converting the acquired policies and assuming the daily servicing requirements related to the acquisition of substantial blocks of policies. Significant progress was made by the Company in upgrading its administrative systems, and efforts are continually focused toward maintaining systems that can efficiently handle sophisticated policies and contracts.

The Company believes that current trends in the life and health insurance industry provide excellent opportunities for more acquisitions and consolidations. Some companies are reducing administrative costs by divesting of divisions, insurance subsidiaries and blocks of business which do not fit their overall strategies, or are disposing of non-core businesses in order to focus capital on their primary lines. Other companies are experiencing increased difficulty in remaining competitive due to more stringent regulatory requirements, downgrades by rating agencies, the increased cost of sophisticated information processing systems and the inaccessibility to capital markets. With its upgraded administrative systems, the Company is well-positioned to assume blocks of business from insurers who do not wish to bear the cost of becoming Year 2000 compliant with respect to such blocks. Mutual companies and non-profit entities, in particular, may have difficulty accessing sources of capital. Additionally, there are many small to medium sized closely held insurance companies which are exploring divestiture options; the Company believes that it is well positioned to compete for these opportunities.

Historical

Madison Life acquired four individual life insurance blocks during 1998 with total reserves of $41,500,000. One of the blocks, with reserves of $250,000, was purchased from the receiver of a liquidated company. A second block, with reserves of $250,000, was purchased from a state insurance guaranty fund. A third block, with reserves of $30,000,000, was purchased from another state insurance guarantee fund. The fourth life block, with reserves of $11,000,000 was purchased from an active company exiting the individual life market. In connection with the purchase of the credit insurance agency, Madison Life acquired a block of credit life and disability policies with reserves of $2,000,000.

Madison Life acquired two single premium credit insurance blocks and two individual life insurance blocks during 1997 with aggregate reserves of $58,300,000. The two credit insurance blocks had aggregate reserves of $31,600,000. One of the individual life blocks was purchased from a company under court-ordered liquidation and contained $23,000,000 of life/annuity reserves and $300,000 of annual premiums. The other life block was a single premium book of business with $3,400,000 of reserves and was acquired from a company being merged into its parent company. Finally, a very small block of life policies was acquired from a state guaranty fund as part of Madison Life's ongoing effort to maintain a positive relationship with regulatory authorities in the event that significant blocks from insolvent companies (such as the $23,000,000 block in 1997 and the $30,000,000 block in 1998) become available in the future.

Madison Life acquired three blocks of business in 1996, with aggregate reserves of $41,000,000, including a block of pre-need individual ordinary life insurance and annuity policies with reserves of $33,000,000 from a large insurer, and a block of interest-sensitive whole life insurance with reserves of $7,500,000 from the National Organization of Life and Health Insurance Guaranty Associations ("NOLHGA").

Standard Life actively seeks acquisition opportunities with other insurance companies (i) whose DBL business no longer fits their marketing strategy or (ii) that cannot administer their in-force DBL block profitably. As a result, Standard Life has reduced its administration costs on a per policy basis and gained access to new general agents and brokers. During 1997, Standard Life acquired a DBL block of business with total annualized premiums of $3,500,000. In 1996, Standard Life acquired two DBL blocks from two insurers with total annualized premiums of $3,500,000.

In January 1999, Standard Life acquired the life insurance policies of a non-profit entity with reserves of $4,100,000. This business will be administered through Madison Life's systems, and may be partially reinsured to Madison Life.

Outlook

The Company positioned itself to increase its acquisition activity by contributing $5,000,000 to Madison Life in 1996 (following a contribution of $15,000,000 in 1993). These contributions served to further enhance the Insurance Group's already superior capital ratios, broad licensing and excellent asset quality. The Company currently has no indebtedness, and anticipates that it can use its current liquidity (including a new $30,000,000 credit facility further described in Note 22 of the Notes to Consolidated Financial Statements) and/or raise additional capital in the public or private markets to the extent determined necessary or desirable in order to pursue acquisitions.

The Company is particularly interested in acquiring the following types of policies: traditional and group life, interest-sensitive life, credit life and health, limited benefit health (e.g., cancer or hospital indemnity), medical stop-loss, DBL, certain other disability and certain annuities. The Company believes that it enjoys an excellent reputation with state guaranty funds and associated receivers in insolvency situations, as evidenced by the number of such transactions Madison Life has completed in the last several years. In addition, the Company expects that additional opportunities may develop with non-profit entities that are having difficulty administering their insurance policies in an economically efficient manner, such as the block acquired by Standard Life in 1999.

REINSURANCE AND POLICY RETENTION LIMITS

Although the Company has more than sufficient capital to retain greater risk, it has emphasized, in recent years, maintaining a low risk profile on its insurance products, while increasing fee income and reinsurance allowances generated by underwriting, auditing, marketing, regulatory, administrative and related services. During the past three years, such income and allowances have grown as a result of an increase in the Company's premium volume. The Company's low risk profile dictates purchasing reinsurance and excess reinsurance. The Company monitors its retention amounts by products, and can and does adjust its retention as appropriate.

Reinsurance is used to reduce the potentially adverse financial impact of large individual or group risks, and to reduce the strain on statutory income and surplus related to new business. By using reinsurance, the Insurance Group is able to write policies in amounts larger than it could otherwise accept. The amount reinsured is the portion of each policy in excess of the retention limit on a particular policy. Retention limits for Standard Life at December 31, 1998 were: (i) $210,000 per life on individual life and corresponding disability waiver of premium; (ii) no retention on accidental death benefits provided by rider to individual life policies; (iii) $250,000 on any one medical stop-loss claim; (iv) $2,500 of monthly benefits on disability income policies; and (v) $25,000 on its special disability business. Standard Life has purchased excess reinsurance for its medical stop-loss business on the portion of risks which it retains in order to further limit its exposure. Standard Life also maintains stop-loss and catastrophe reinsurance in order to protect against particularly adverse mortality which might occur with respect to its overall life business.

At December 31, 1998, retention limits for Madison Life were: (i) $2,500 per month on group long-term and short-term disability insurance; (ii) $60,000 on group term life, substandard ordinary life, group credit single premium life, group family life and individual ordinary life; (iii) $1,000 per month on individual substandard long-term disability insurance;

(iv) $1,000 per month on credit single premium disability insurance; and (v) $1,000 monthly benefit on individual accident and health insurance. There is no retention on accidental death benefits provided by rider to group life policies. In addition, Madison Life has purchased additional reinsurance on the portion of risks which it retains, limiting its exposure on a catastrophic (aggregate) loss.

The following reinsurers represent 60.5% of the total ceded premium for the year ended December 31, 1998:

Phoenix Home Life Insurance Company	11.6%
Continental Assurance Company	10.9%
ReliaStar Life Insurance Co., Inc.	10.2%
Cologne Life Reinsurance Company	7.6%
Vasa North Atlantic Insurance Company	7.2%
Swiss Reinsurance Life and Health	6.5%
General Reinsurance Corp.	6.5%
	60.5%

The Insurance Group remains liable with respect to the insurance in-force which has been reinsured in the unlikely event that the assuming reinsurers are unable to satisfy their obligations. The Insurance Group cedes business (i) to individual reinsurance companies and reinsurance pools comprised of companies that are primarily rated A or better by Best or (ii) upon provision of adequate security. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. Since the risks under the Insurance Group's business are primarily short-term, there would be limited exposure as a result of a change in a reinsurer's creditworthiness during the term of the reinsurance. At December 31, 1998 and 1997, the Insurance Group's ceded reinsurance in-force was $2.8 billion and $2.4 billion, respectively.

For further information pertaining to reinsurance, reference is made to Note 17 of Notes to Consolidated Financial Statements.

RESERVES AND INVESTMENTS

More than 88% of IHC's securities portfolio is managed by employees of IHC and its affiliates, and ultimate investment authority rests with IHC's in-house investment group. As a result of the nature of IHC's insurance liabilities, IHC endeavors to maintain a significant percentage of its assets in investment grade securities, cash and cash equivalents. At December 31, 1998, approximately 98% of the fixed maturities were investment grade and only a negligible amount were in real estate, non-performing fixed maturities and mortgage loans. The internal investment group provides a summary of the investment portfolio and the results thereof at the meetings of the Board of Directors.

As required by insurance laws and regulations, the Insurance Group establishes reserves to meet obligations on policies in-force. These reserves are amounts which, with additions from premiums expected to be received and with interest on such reserves at certain assumed rates, are calculated to be sufficient to meet anticipated future policy obligations. Premiums and reserves are based upon certain assumptions with respect to mortality, morbidity on health insurance, lapses and interest rates effective at the time the polices are issued. The Insurance Group also establishes appropriate reserves for substandard business, annuities and additional policy benefits, such as waiver of premium and accidental death. Standard Life and Madison Life are also required by law to periodically have a cash flow adequacy analysis, which projects the amount and timing of cash flows to the estimated maturity date of liabilities, prepared by the certifying actuary for each insurance company. Standard Life, Madison Life and First Standard invest their respective assets, which support the reserves and other funds in accordance with applicable insurance law, under the supervision of their respective Boards of Directors. The Company manages interest rate risk seeking to maintain a portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities. The Company utilizes options to modify the duration and average life of the assets. Such investment strategies are further described in Note 1(G)(iv) of the Notes to Consolidated Financial Statements.

Under Wisconsin insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. With respect to the portion of an insurer's assets equal to its liabilities plus a statutorily-determined security surplus amount, a Wisconsin insurer cannot, for example, invest more than a certain percentage of its assets in non-amortizable evidences of indebtedness, securities of any one person (other than its subsidiary and the United States government), or common stock of any corporation and its affiliates (other than its subsidiary).

Under New York insurance law, there are restrictions relating to the amount of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. For example, a New York insurer cannot invest more than a certain percentage of its admitted assets in common or preferred shares of any one institution, obligations secured by any one property (other than those issued, guaranteed or insured by the United States or any state government or agency thereof), or medium and lower grade obligations. In addition, there are certain qualitative investment restrictions.

Under Delaware insurance law, there are restrictions relating to the percentage of an insurer's admitted assets that may be invested in a specific issuer or in the aggregate in a particular type of investment. In addition, there are qualitative investment restrictions.

The following table reflects the asset value in dollars (in thousands) and as a percentage of total investments of the Company as at December 31, 1998:

INVESTMENTS BY TYPE

	ASSET VALUE	% OF TOTAL INVESTMENTS
Fixed maturities:		
Bonds:		
United States Government and authorities	$174,529	53.5%
States, municipalities and political subdivisions	2,294	0.7%
Public utilities	31,511	9.7%
All other corporate securities	11,696	3.6%
Total fixed income securities	220,030	67.5%
Equity securities:		
Common stocks:		
Industrial, miscellaneous and other	12,660	3.9%
Non-redeemable preferred stock	4,344	1.3%
Total equity securities	17,004	5.2%
Financial investments sold, but not yet purchased:		
Common stocks:		
Industrial, miscellaneous and other	(458)	(0.1)%
Securities purchased under agreements to resell	11,681	3.6%
Partnership interests	37,310	11.5%
Mortgage loans	245	0.1%
Policy loans	12,390	3.8%
Other	2,246	0.7%
Short-term investments, net	25,250	7.7%
Total investments, net	$325,698	100.0%

At December 31, 1998, 97.6% of the Company's fixed maturities were investment grade. The composition of the Company's fixed maturities at December 31, 1998, utilizing Standard and Poor's rating categories, was as follows:

GRADE	% INVESTED
AAA	79.7%
AA	12.9%
A	2.2%
BBB	2.8%
BB or lower	2.4%
	100.0%

The Company's total pre-tax investment results for each of the last three years were as follows:

	1998	1997	1996
Consolidated Statement of Operations			
Net investment income	$21,624,000	$21,534,000	$16,917,000
Net realized and unrealized gains	2,013,000	539,000	190,000
Consolidated Balance Sheet			
Net unrealized gains (losses)	1,761,000	4,894,000	(2,774,000)
Total pretax investment results	$25,398,000	$26,967,000	$14,333,000

COMPETITION AND REGULATION

The Company competes with many larger insurance companies, HMOs and other managed care organizations. Although most life insurance companies are stock companies, mutual companies also write life insurance in the United States. Mutual companies may have certain competitive advantages since profits inure directly to the benefit of the policyholders. HMOs may also have certain competitive advantages since they are subject to different regulations than insurance companies. As more companies enter the acquisition field, the Company faces increased competition for future acquisitions.

IHC is an insurance holding company; as such, IHC and the Insurance Group are subject to regulation and supervision by the insurance supervisory agencies of New York in the case of Standard Life, Wisconsin in the case of Madison Life, and Delaware in the case of First Standard. Each of Standard Life, Madison Life and First Standard is also subject to regulation and supervision in all jurisdictions in which it is licensed to transact business. These supervisory agencies have broad administrative powers with respect to the granting and revocation of licenses to transact business, the licensing of agents, the approval of policy forms, the approval of commission rates, the form and content of mandatory financial statements, reserve requirements and the types and maximum amounts of investments which may be made. Such regulation is designed primarily for the

benefit of policyholders rather than the stockholders of an insurance company or holding company.

Certain transactions within the holding company system are also subject to regulation and supervision by such regulatory agencies. All such transactions must be fair and equitable. Notice to or prior approval by the insurance department is required with respect to transactions affecting the ownership or control of an insurer and of certain material transactions, including dividend declarations, between an insurer and any person in its holding company system. Under Delaware, New York and Wisconsin insurance laws, "control" is defined as the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of a person. Under Delaware and New York laws, control is presumed to exist if any person, directly or indirectly, owns, controls or holds with the power to vote ten percent or more of the voting securities of any other person; in Wisconsin, the presumption relates to more than ten percent of the voting securities of another person. Under Delaware and New York laws, an agreement to acquire control of an insurer domiciled in one of those states must be approved by the Commissioner of Insurance of that state. Under Wisconsin law, the Commissioner of Insurance has the right to disapprove an agreement to acquire control of a Wisconsin-domiciled insurer. In addition, periodic disclosure is required concerning the operations, management and financial condition of the insurer within the holding company system. An insurer is also required to file detailed annual statements with each supervisory agency, and its affairs and financial conditions are subject to periodic examination. See Note 19 of Notes to Consolidated Financial Statements for information as to restrictions on the ability of IHC's insurance subsidiaries to pay dividends.

Risk-based capital requirements are imposed on life and property and casualty insurance companies. The risk-based capital ratio is determined by dividing an insurance company's total adjusted capital, as defined, by its authorized control level risk-based capital. Companies that do not meet certain minimum standards require specified corrective action. The risk-based capital ratios for each of Standard Life, Madison Life and First Standard significantly exceed such minimum ratios.

EMPLOYEES

At December 31, 1998, the Company had 144 employees.

ITEM 2. PROPERTIES

IHC

IHC has entered into a renewable short-term arrangement with Geneve Corporation for the use of 6,750 square feet of office space as its corporate headquarters in Stamford, Connecticut.

Standard Life

Standard Life leases 13,500 square feet of office space in New York, New York as its corporate headquarters, and 3,000 square feet of office space in Farmington, New York for its DBL claims processing center.

Madison Life

Madison Life leases 12,000 square feet of office space in Middleton, Wisconsin as its corporate headquarters.

IndependenceCare

IndependenceCare leases 1,500 square feet of office space in Minneapolis, Minnesota as its corporate headquarters.

ITEM 3. LEGAL PROCEEDINGS

The Company knows of no material pending legal proceedings to which it is a party or of which any of its property is the subject.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

IHC's common stock and share purchase warrants expiring June 30, 2001 ("Warrants") are traded over-the-counter. The common stock trades on the Nasdaq National Market tier of the Nasdaq Stock Market under the symbol INHO. Warrant prices are quoted on the OTC Bulletin Board. The following tabulation shows the high and low sales prices for IHC's common stock and the high and low bid prices for the Warrants. The Warrant information was obtained from the National Quotation Bureau.

	COMMON STOCK HIGH	COMMON STOCK LOW	WARRANTS HIGH	WARRANTS LOW
QUARTER ENDED:				
December 31, 1998.......	14	12	1 1/4	1 1/4
September 30, 1998......	14 3/4	11 1/2	1 5/8	1 1/4
June 30, 1998..........	18 1/8	12 7/8	2	1 1/64
March 31, 1998.........	15 3/4	11 7/8	1 1/64	1/4
QUARTER ENDED:				
December 31, 1997.......	14	11	1/4	1/32
September 30, 1997......	13 1/2	9 1/4	1/32	1/32
June 30, 1997..........	10 1/4	6 3/8	1/32	1/32
March 31, 1997.........	8 1/8	7	1/32	1/32

The foregoing prices for the Warrants do not necessarily represent actual transactions, but rather the quoted prices between dealers, excluding retail markup, markdown or commission.

At February 22, 1999, the number of record holders of IHC's (i) common stock was 2,780 and (ii) Warrants was 1,236.

IHC declared a cash dividend of $.05 per share on its common stock on each of November 16, 1998 and December 30, 1997.

ITEM 6. SELECTED FINANCIAL DATA

The following is a summary of selected consolidated financial data of the Company for each of the last five years.

	YEAR ENDED DECEMBER 31, 1998	1997	1996	1995	1994
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME DATA:					
Total revenues............	$110,614	$106,757	$ 89,344	$ 71,427	$ 61,504
Net realized and unrealized gains (losses).	2,013	539	190	-	(1,921)
Income applicable to common shares from continuing operations.....	11,057	11,187	6,710	6,172	2,396
Operating income excluding net realized and unrealized gains..........	12,397	11,703(1)	6,630	4,772	3,594
BALANCE SHEET DATA:					
Total investments..........	326,156	309,013	249,008	185,867	179,856
Total assets...............	500,312	454,738	336,401	286,207	266,368
Future insurance policy benefits, claims and other policy liabilities........	328,491	278,092	202,278	158,233	150,988
Long-term debt.............	-	-	-	12,111	14,111
Common stockholders' equity	109,527	91,005	76,856	71,607	55,694
PER SHARE DATA:					
Cash dividends declared per common share..........	.05	.05	.05	.04	.04
Basic income per common share from continuing operations................	1.49	1.51	.90	.81	.31
Diluted income per common share from continuing operations.....	1.47	1.49	.90	.81	.31
Book value per common share	14.87	12.25	10.34	9.63	7.17

(1) Also excludes the $1,046,000 gain from the sale of real estate in 1997.

The above table has been restated to reflect (i) the adoption of Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per

Share," (ii) Zimmerman as discontinued operations as described in Note 2 of Notes to Consolidated Financial Statements and (iii) the one-for-two reverse stock split of IHC's common stock effective June 28, 1996.

The Selected Financial Data should be read in conjunction with the accompanying Consolidated Financial Statements and Notes thereto.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Independence Holding Company, a Delaware corporation ("IHC"), is a holding company engaged principally in the life and health insurance business through its wholly-owned subsidiaries, Standard Security Life Insurance Company of New York ("Standard Life"), Madison National Life Insurance Company, Inc. ("Madison Life") and First Standard Security Insurance Company ("First Standard") and their subsidiaries (collectively, the "Insurance Group"). IHC and its subsidiaries (including the Insurance Group) are collectively referred to as the "Company." All remaining income, principally income from parent company liquidity (cash, cash equivalents, resale agreements, fixed maturities and equity securities and partnership interests) and expense items associated with parent company activities, the Company's remaining real estate holdings and certain other investments of the Company, are included in Corporate (see Item 1 for a discussion of the business).

On December 31, 1996, IHC consummated the distribution of the common stock of its majority-owned sign manufacturing subsidiary, Zimmerman Sign Company ("Zimmerman"), on a pro rata basis to the holders of record of IHC's common stock as of December 20, 1996. Since December 1995, the Consolidated Financial Statements of the Company have presented Zimmerman as discontinued operations (see Notes 2 and 10 of Notes to Consolidated Financial Statements).

Additional information pertaining to the Company's business segments is provided in Note 18 of Notes to Consolidated Financial Statements.

RESULTS OF OPERATIONS

1998 COMPARED TO 1997

The Company's operating income increased $1.1 million to $14.4 million for the year ended December 31, 1998 from $13.3 million for the same period in 1997. Net income was $11.1 million, or $1.47 per share, diluted, for the year ended December 31, 1998 compared to $11.2 million, or $1.49 per share, diluted, for the year ended December 31, 1997. The Company had net realized and unrealized gains of $2.0 million in 1998 and $.5 million in 1997. Decisions to sell securities are based on cash flow needs, investment opportunities and economic and market conditions, thus creating fluctuations in gains from year to year. Additionally, the 1997 results includes a gain of $1.0 million or $.14 per share, diluted, from the sale of real estate carried by IHC at nominal value (there was no tax attributable to such gain). Excluding net realized and unrealized gains and the real estate gain, the Company had operating income of $12.4 million in 1998 as compared to $11.8 million in 1997, an increase of $.6 million, which approximately consists of: an increase in

acquisitions at Madison Life of $.9 million and an increase due to all other lines of business of $1.9 million, offset by a decrease in yields on investable assets of $2.2 million. Income tax expense increased $1.3 million to $3.4 million in 1998 from $2.1 million in 1997 reflecting a higher effective income tax rate in 1998, principally due to reduced benefits associated with the utilization of the Company's remaining tax loss carryforwards (see Capital Resources).

Insurance Group

The Insurance Group's operating income increased $2.2 million to $15.0 million in 1998 from $12.8 million in 1997. Operating income includes net realized and unrealized gains of $2.1 million in 1998 compared to $.5 million in 1997. Operating income (excluding net realized and unrealized gains) was $12.9 million in 1998 compared to $12.3 million in 1997, an increase of 5.5%.

Premiums earned decreased $1.5 million to $80.7 million in 1998 from $82.2 million in 1997; premiums earned increased $4.5 million at Madison Life and decreased $6.0 million at Standard Life. The increase at Madison Life is comprised of: a $2.3 million increase in the credit lines of business primarily due to the acquisition of two single premium blocks of business effective April 1 and October 1, 1997, the full impact of which is reflected in the 1998 results; a $.7 million increase in long-term disability premiums due to higher sales volume; a $1.6 million increase in the ordinary life and individual accident and health lines of business due to acquisitions effective December 31, 1997 and June 1, 1998; a $.3 million increase in group term life; and a $.2 million increase in other group life and accident and health premiums; the foregoing is offset by a $.6 million decrease in dental premiums due to the runoff of this line of business. The change at Standard Life is comprised of: a $1.0 million decrease in its DBL line due to a higher lapse rate in 1998; a $2.8 million decrease in HMO premiums due to a reinsurance adjustment on an assumed block of business; a $1.9 million decrease in POS premiums due to the loss of one large policy contract in 1998; and a $.9 million decrease in its closed blocks of life, annuity and individual group accident and health lines of business that are in runoff; offset by a $.6 million increase in group life as a result of increased production in this line of business.

Total net investment income increased $.3 million primarily due to the increase in assets at Madison Life related to acquisitions, offset by lower returns on certain hedged equity and distressed situation investments in 1998. The annualized return on investments of the Insurance Group in 1998 was 6.4% compared to 7.6% in 1997.

Other income increased $4.8 million. Madison Life had an increase of $2.8 million due to fee income earned by the managing general underwriter ("MGU") in which Madison Life acquired a controlling interest effective December 31, 1997; such fee income was offset by expenses described below in general and administrative expenses. Other income at Standard Life increased $2.0 million due to an increase in coinsurance reserves of $2.1 million from the surrender by a large group of policyholders in a coinsurance treaty in the second quarter of 1997, for which there was no similar surrender in 1998, and an increase of $.8 million in POS fee income; the foregoing was offset by a $.9 million decrease in fee income from the third party administrator ("TPA") in which Standard Life sold its interest in December 1997. Equity income from insurance related partnerships decreased $.2 million.

Insurance benefits, claims and reserves increased $1.1 million reflecting an increase of $5.1 million at Madison Life and a decrease of $4.0 million at Standard Life. Madison Life's increase results from: a $1.9 million increase in the credit lines of business due to the 1997 acquisitions described above; a $2.8 million expected increase in surrenders on its new blocks of business; a $.4 million increase in ordinary life and individual accident and health claims and reserves due to acquisitions; and a $.4 million increase in group term life claims; the foregoing was offset by a $.4 million decrease in dental claims due to a decrease in premiums from this line of business. The change at Standard Life is comprised of: a $2.7 million decrease in HMO reserves due to a reinsurance adjustment on an assumed block of business; a $4.0 million decrease in additional DBL claims and reserves due to improved experience ($3.4 million) and lower premiums ($.6 million); a $1.0 million decrease in POS claims and reserves due to a retroactive adjustment and the loss of one large policy contract in 1998; a $.6 million decrease in reserves on the runoff pool of accident and health business. The foregoing were partially offset by: a $1.9 million increase in reserves in the closed blocks of life, annuity and individual and group accident and health lines of business; a $2.0 million increase in stop-loss reserves due to higher claims experience; a $.1 million increase in dividends to policyholders; and a $.3 million increase in group life claims and reserves.

Amortization of deferred policy acquisition costs and general and administrative expenses for the Insurance Group increased $1.7 million. Madison Life's expenses increased $4.5 million and Standard Life's expenses decreased $2.8 million. The increase at Madison Life is primarily due to an increase in other general expenses of $3.4 million related to the MGU; an increase in commissions of $.6 million related to the acquisition of new blocks of business in 1997 and 1998; a $.2 million increase in premium taxes; and $.3 million increase in other expenses related to the increase in business. The decrease at Standard Life is primarily due to a reduction in net commission expense of $1.7 million attributable to the increase in expense allowances received from reinsurers on its HMO and special disability lines

of business as a result of the increase in gross premiums and a $1.1 million decrease in general expenses from the TPA.

Corporate

Operating income for the year ended December 31, 1998 decreased $1.1 million to a loss of $.6 million as compared to income of $.5 million for the year ended December 31, 1997. Operating income includes realized and unrealized losses of $.1 million in 1998. Included in the 1997 results of Corporate is the $1.0 million gain from the real estate sale. Excluding realized and unrealized gains and the real estate gain, Corporate had a loss of $.5 million in both 1998 and 1997. Investment income decreased $.2 million from 1997 due to lower returns on certain hedged equity investments in 1998. Other income increased $.2 million as a result of fee income earned from the termination of the guarantee of certain subordinated indebtedness of Zimmerman. Selling, general and administrative expenses remained constant.

RESULTS OF OPERATIONS

1997 COMPARED TO 1996

The Company's operating income from continuing operations increased $6.5 million, or 95%, to $13.3 million in 1997 from $6.8 million in 1996. The Company had net realized and unrealized gains of $.5 million in 1997 and $.2 million in 1996. Additionally, the 1997 results include the gain on sale of real estate of $1.0 million. Excluding net realized and unrealized gains and the real estate gain, the Company had operating income from continuing operations of $11.8 million in 1997 compared to $6.6 million for 1996. The overall increase in operating income approximately consists of: acquisitions made at Madison Life of $1.5 million, the increase in yields on investable assets of $1.8 million, and the continued growth of the Insurance Group and all other of $1.9 million. Net income was $11.2 million or $1.49 per share, diluted, for the year ended December 31, 1997 compared to $7.8 million or $1.04 per share, diluted, for the year ended December 31, 1996. Income tax expense increased to $2.1 million from $.1 million in 1996; reference is made to Note 15 of Notes to Consolidated Financial Statements for a reconciliation of the effective tax rate.

Insurance Group

The Insurance Group's operating income increased $12.8

million in 1997 from $10.0 million in 1996. Operating income includes net realized and unrealized gains of $.5 million in 1997 compared to $.2 million in 1996. Operating income excluding net realized and unrealized gains was $12.3 million in 1997 compared to $9.8 million in 1996.

Premium revenues increased $12.6 million to $82.2 million in 1997 from $69.6 million in 1996; premium revenues at Madison Life increased $7.8 million while Standard Life showed a $4.8 million increase in premiums. The increase at Madison Life is comprised of: a $6.4 million increase in the credit lines of business primarily due to the acquisitions of two single premium blocks of business effective April 1 and October 1, 1997; a $.5 million increase in long-term disability premiums; a $.7 million increase in dental premiums; and a $.2 million increase in group term life premiums. The increase at Standard Life is comprised of: a $5.3 million increase in its DBL line of business primarily due to an acquisition and the continued growth in this line; a $.8 million increase in HMO reinsurance business; and a $.4 million combined increase in the provider-excess and special disability businesses. These increases were offset by a $1.1 million decrease in the closed blocks of life, annuity and individual and group accident and health lines of business and a $.6 million decrease in the medical stop-loss line of business.

Total net investment income increased $3.7 million due to an increase in assets at Madison Life related to acquisitions and higher returns on certain hedged equity investments. The annualized return on investments in 1997 was 7.6% compared to 7.2% in 1996. Equity income increased $.4 million due to the increased profitability of certain insurance related partnerships.

Other income decreased $1.6 million from 1996 to 1997 resulting from: a decrease of $.1 million in reinsurance recoveries at Madison Life; and a decrease at Standard Life of $1.5 million. The decrease at Standard Life is the result of a $2.1 million decrease related to the surrender by a large group of policyholders offset by a credit to reserves relating to the closed blocks of life, annuity and individual and group accident and health lines of business; a $.3 million increase related to administrative fees; and a $.2 million increase related to an increase in POS activity.

Insurance benefits, claims and reserves increased $8.8 million reflecting an increase of $5.4 million at Madison Life and $3.4 million at Standard Life. Madison Life's increase resulted from: a $.5 million increase in long-term disability claims; a $.9 million increase in dental claims due to the increase in premium volume; a $.9 million increase in interest credited to universal life and annuity products; a $3.0 million increase in the credit line of business due to acquisitions and the addition of new accounts throughout the current year; and a $.4 million increase in other life and health lines of business, all of the foregoing offset by a $.3 million decrease in ordinary life and individual accident and health claims and reserves. The change at Standard Life is comprised of: a $3.6 million increase in DBL claims and reserves due to increased volume; a $2.0 million increase in medical stop-loss reserves due to reserve strengthening; and a net $.8 million increase in claims and

reserves in the HMO reinsurance line of business. Such change was offset by a $2.9 million decrease in claims and reserves of the closed blocks of life, annuity and individual and group accident and health lines of business due to the surrender by a large group of policyholders in a coinsurance treaty and a $.1 million decrease in POS claims and reserves.

Amortization of deferred acquisition costs and general and administrative expenses increased $3.7 million at Madison Life and $.1 million at Standard Life primarily due to increases in net commission expense of $2.3 million, salary and related expenses of $.7 million and other general expenses of $.8 million related to the increase in premium volume at both insurance companies, and the acquisition of new blocks of business at Madison Life.

Corporate

Operating income for the year ended December 31, 1997 increased by $3.7 million to $.5 million in 1997 from a loss of $3.2 million in 1996. Included in the 1997 results is the real estate gain of $1.0 million. Excluding the real estate gain in 1997, Corporate had an increase in operating income of $2.7 million. Investment income increased $1.0 million due to higher corporate liquidity in 1997. Interest expense decreased $.7 million due to the repayment of all long-term debt during 1996. Selling, general and administrative expenses decreased $1.0 million due to a reduction in expenses related to salaries, legal fees and the Florida real estate.

LIQUIDITY

Insurance Group

The Insurance Group normally provides cash flow from: (i) operations; (ii) the receipt of scheduled principal payments on its portfolio of fixed income securities; and (iii) earnings on investments. Such cash flow is used partially to finance liabilities for insurance policy benefits. These liabilities represent long-term and short-term obligations which are calculated using certain assumed interest rates.

Asset Quality

The nature and quality of insurance company investments must comply with all applicable statutes and regulations which have been promulgated primarily for the protection of policyholders. Of the aggregate carrying value of the Insurance Group's investment assets, approximately 84.2% was invested in investment grade fixed income securities, resale agreements, policy loans and cash and cash equivalents at December 31, 1998. Also at such date, approximately 97.6% of the Company's fixed maturities were investment grade. These investments carry less risk and, therefore, lower interest rates than other types of fixed

maturity investments. At December 31, 1998, approximately 2.4% of the carrying value of fixed maturities was invested in diversified non-investment grade fixed income securities (investments in such securities have different risks than investment grade securities, including greater risk of loss upon default, and thinner trading markets). Less than .1% of the Company's total investments were in real estate and mortgage loans. The Company has no non-performing fixed maturities.

Risk Management

The Company manages interest rate risk by seeking to maintain a portfolio with a duration and average life that falls within the band of the duration and average life of the applicable liabilities, and may utilize options to modify the duration and average life of such assets; see Note 1(G)(iv) of Notes to Consolidated Financial Statements.

The following summarizes the estimated pre-tax change in fair value (based upon hypothetical parallel shifts in the U.S. Treasury yield curve) of the fixed income portfolio assuming immediate changes in interest rates at specified levels at December 31, 1998:

Change in Interest Rates	Estimated Fair Value	Estimated Change in Fair Value
	(in millions)	

100 basis point rise	$209	($11)
Base scenario	220	-
100 basis point decline	228	8

The Company monitors its investment portfolio on a continuous basis and believes that the liquidity of the Insurance Group will not be adversely affected by its current investments. This monitoring includes the maintenance of an asset-liability model that matches current insurance liability cash flows with current investment cash flows. This is accomplished by first creating an insurance model of the Company's in-force policies using current assumptions on mortality, lapses and expenses. Then, current investments are assigned to specific insurance blocks in the model using appropriate prepayment schedules and future reinvestment patterns. The results of the model specify whether the investments and their related cash flows can support the related current insurance cash flows. Additionally, various scenarios are developed changing interest rates and other related assumptions. These scenarios help evaluate the market risk due to changing interest rates in relation to the business of the Insurance Group.

In the Company's analysis of the asset-liability model, a 100 basis point change in interest rates on the Insurance Group's liabilities would not be expected to have a material adverse effect on the Company. With respect to its liabilities, if

interest rates were to increase, the risk to the Company is that policies would be surrendered and assets would need to be sold. This is not a material exposure to the Company since a large portion of the Insurance Group's interest sensitive policies are burial policies that are not subject to the typical surrender patterns of other interest sensitive policies, and many of the Insurance Group's universal life and annuity policies come from liquidated companies which tend to exhibit lower surrender rates than such policies of continuing companies. Additionally, there are charges to help offset the benefits being surrendered. If interest rates were to decrease substantially, the risk to the Company is that some of its investment assets would be subject to early redemption. This is not a material exposure because the Company would have additional gains in its portfolio to help offset the future reduction of investment income. With respect to its investments, the Company employs (from time to time as warranted) investment strategies to mitigate interest rate and other market exposures.

Balance Sheet

The decrease in cash and cash equivalents and securities purchased under agreements to resell from December 31, 1997 was offset by a decrease in due to brokers attributable to the settlement of a securities trade that was placed at the end of December 1997, and settled in January 1998. The increase in due from and to reinsurers is attributable to the increase in Standard Life's special disability business of which a large portion is reinsured. The increase in future policy liabilities and fixed maturities is due to the acquisition of two blocks of business by Madison Life. The first block was both universal life and traditional ordinary life policies, involved the transfer of $11.2 million in reserves and was effective June 1, 1998. The second block of business consisted entirely of traditional ordinary life policies and had an effective date of January 1, 1998. Assets were transferred on July 15, 1998 on this block and consisted of $30.1 million of reserves. The decrease in liability for business transferred and corresponding credit to paid-in-capital resulted from the termination of the guarantee of certain subordinated indebtedness of Zimmerman on September 30, 1998 (see Note 10 of Notes to Consolidated Financial Statements).

The Company had net receivables from reinsurers of $114.1 million at December 31, 1998. Substantially all of the business ceded to such reinsurers is of short duration. All of such receivables are current and are either due from highly rated companies or are adequately secured. Accordingly, no allowance for doubtful accounts was necessary at December 31, 1998.

Corporate

Corporate derives its funds principally from: (i) dividends and interest income from the Insurance Group; (ii) management fees from its subsidiaries; and (iii) investment income from

Corporate liquidity. Regulatory constraints historically have not affected the Company's consolidated liquidity, although state insurance laws have provisions relating to the ability of the parent company to use cash generated by the Insurance Group.

Total Corporate liquidity (cash, cash equivalents, resale agreements, fixed maturities, equity securities and partnership interests) amounted to $17.6 million at December 31, 1998. During 1998, IHC repurchased 68,669 shares of common stock for $.9 million under a repurchase program initiated in 1991.

OUTLOOK

Business

The Company anticipates increasing its premium volume through: (i) acquisitions; (ii) greater geographical diversity; (iii) expansion of its network of MGUs, MGAs, HMOs, general agents and agents; and (iv) investments in affiliated marketing subsidiaries. The Company is particularly interested in acquiring the following types of policies: traditional and group life, interest sensitive life, credit life and health, limited benefit health (e.g., cancer or hospital indemnity), medical stop-loss, DBL blocks, and certain other disability. In anticipation of increased acquisition opportunities, the Company significantly improved its administration systems commencing in the latter part of 1996, which has enabled it to more efficiently convert and manage acquired blocks. It is anticipated that future acquisitions will be funded internally from existing capital and surplus and parent company liquidity, including a new $30.0 million credit facility (see Note 22 of Notes to Consolidated Financial Statements).

Although federal and state legislative and regulatory bodies have proposed various health care and insurance reform initiatives in recent years (see Item 1. Business), the Company anticipates that its insurance products will continue to be viable in any such changed environment.

Year 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four digits to define the applicable year. If not corrected, computer applications could fail or create erroneous results by or at the Year 2000. The Company, together with outside vendors engaged by the Company, has made assessments of the Company's potential Year 2000 exposure, and has begun testing all of the Company's systems. Since the Company has spent in excess of $1.3 million to update and enhance many of its primary systems in the past several years, the Company does not believe that the Year 2000 issue will pose internal operational difficulties. Many of the Company's internal software and hardware have already been tested and are compliant, and the Company expects that all internal systems will

be Year 2000 compliant prior to June 30, 1999. The cost of updating the Company's remaining systems is not expected to exceed $100,000.

The Company believes that its greatest Year 2000 exposure arises from the possibility of non-compliance by, among others, its MGUs, MGAs, HMOs, agents, TPAs, producers, reinsurers, securities brokers and bankers. The Company has requested information from these third parties and is continuing to monitor their responses and evaluate any possible impact on the Company. All of Standard Life's medical stop-loss and group life MGU's have represented that they are or will be Year 2000 compliant by December 31, 1999 and Madison Life's largest MGA for group life and long-term disability has indicated that it will be compliant by June 30, 1999. Standard Life has required that its MGUs obtain Year 2000 compliance certifications from, and has supplied the MGUs with questionnaires to be completed by, TPAs and producers with whom they place business. In addition, the U.S. Senate Special Committee on the Year 2000 Technology Problem determined that the healthcare industry lags in its progress towards Year 2000 preparedness. In particular, the Committee cited concerns over the preparedness of large, rural and inner-city hospitals, and doctor's offices, the availability of pharmaceuticals and the preparedness of health claim billing systems.

The Company is in the development stages of formulating a contingency plan with respect to this exposure. With respect to functions performed internally by the Company, if one of the Company's systems is not compliant, the Company could resort to manual collection of premiums and processing of claims, or could temporarily transfer these functions to affiliated or unaffiliated entities. With respect to functions currently performed externally, the Company could consider temporarily performing these functions internally, or transferring the functions to another of the Company's vendors that is Year 2000 compliant.

The dates of expected completion and the costs of the Company's Year 2000 remediation efforts are based on management's estimates, which were derived utilizing assumptions of future events, including the availability of certain resources, third party remediation plans and other factors. There can be no guarantee that these expectations will be achieved; if the actual timing and costs for the Company's Year 2000 compliance program differ materially from those anticipated, the Company's financial results and financial condition could be significantly affected. Additionally, despite testing by the Company, the Company's systems may contain undetected errors or defects associated with Year 2000 date functions. The inability of the Company to correctly identify significant Year 2000 issues for remediation or to complete its Year 2000 remediation and testing efforts prior to respective critical dates, as well as the failure of third parties (with whom the Company has an important relationship) to identify, remediate and test their own Year 2000

issues and the resulting disruption which could occur in the Company's systems, could have material adverse effects on the Company's business, results of operations, cash flows and financial condition.

New Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 133 is effective for fiscal years beginning after June 15, 1999. SFAS No. 133 establishes standards for accounting and reporting for derivative instruments and for hedging activities. It requires that an entity recognize all derivatives as either assets or liabilities in the balance sheet and measures those instruments at fair value. The Company is evaluating the statement but does not expect it to have a material impact on the Company.

This report and other reports and statements filed by the Company with the Securities and Exchange Commission contain or may contain certain forward looking statements (as that term is defined in the Private Securities Litigation Reform Act of 1995) which are subject to certain risks and uncertainties. Among those factors which could cause the actual results to differ materially from those suggested by such statements are the following: catastrophic losses in the Company's insurance lines or a material aggregation of losses; changes in federal or state law affecting the Company's insurance products; Year 2000 non-compliance by material vendors; availability of adequate retrocessional insurance coverage at appropriate prices; stock and bond market volatility; the effect of changes required by generally accepted accounting practices or statutory accounting practices; and other risks which are described from time to time in the Company's filings with the Securities and Exchange Commission.

CAPITAL RESOURCES

Due to its superior capital ratios, broad licensing and excellent asset quality and credit-worthiness, the Insurance Group remains well positioned to increase or diversify its current activities, and to raise additional capital in the public or private markets to the extent determined to be necessary or desirable, in order to pursue acquisitions or otherwise expand its operations.

It is anticipated that future acquisitions will be funded internally from existing capital and surplus and parent company liquidity. In the event additional funds are required, it is expected that they would be borrowed.

In accordance with SFAS No. 115, the Company may carry its portfolio of fixed income securities either as held to maturity (carried at amortized cost), as trading securities (carried at

fair market value) or as available-for-sale (carried at fair market value); the Company has chosen to carry all of its debt securities as available-for-sale. The Company experienced a change in unrealized gains of $.8 million, net of deferred taxes of $.4 million and net of deferred policy acquisition costs of $.6 million in total stockholders' equity, reflecting unrealized gains of $2.6 million at December 31, 1998 versus unrealized gains of $1.9 million at December 31, 1997. From time to time, as warranted, the Company employs investment strategies to mitigate interest rate and other market exposures.

The results of 1998 reflect a higher effective tax rate than in 1997 due to reduced benefits associated with the utilization of net operating loss carryforwards. As previously reported, the Company expects that its future results will reflect a higher effective tax rate.

DISTRIBUTION OF ZIMMERMAN

On December 31, 1996, IHC consummated the distribution of the common stock of Zimmerman on a pro rata basis to holders of record of IHC's common stock as of December 20, 1996.

The terms of the distribution provided for IHC shareholders to receive one share of Zimmerman Common Stock for each five shares of IHC Common Stock, and cash in lieu of fractional shares. IHC received a ruling from the Internal Revenue Service that the distribution would be tax-free to IHC shareholders, and that IHC would not recognize income, gain or loss as a result of the transaction.

In connection with the distribution, Zimmerman entered into banking arrangements in October 1996 to borrow up to an aggregate of $33.0 million, of which $10.0 million consisted of subordinated debt guaranteed by a subsidiary of IHC. The proceeds of borrowings by Zimmerman under such arrangements were used, among other things, to repay all of its prior outstanding indebtedness and to pay a $19.7 million special cash dividend to its shareholders. From its $18.5 million portion of the special dividend, the Company repaid all of its $10.0 million of indebtedness, contributed $5.0 million to Madison Life in exchange for a surplus note and used the balance for working capital. Expenses of $1.1 million in connection with the distribution transaction are recorded in discontinued operations, net, on the Consolidated Statement of Operations.

On September 30, 1998, the guarantee of $10.0 million of Zimmerman debt was terminated; accordingly, the deferred credit (which was incurred in connection with the spin-off of Zimmerman) of $7.9 million, or $1.06 per share, was credited to stockholders' equity as of September 30, 1998.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See Item 7.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

See Index to Consolidated Financial Statements and Schedules on page 38.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Information required by this Item is incorporated by reference to "Election of Directors" and "Executive Officers" in the Company's Proxy Statement for its 1999 Annual Meeting of Stockholders.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item is incorporated by reference to "Executive Compensation" in the Company's Proxy Statement for its 1999 Annual Meeting of Stockholders, except that the information required by paragraphs (i), (k) and (l) of Item 402 Regulation S-K (229.402) and set forth in such Proxy Statement is specifically not incorporated by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Information required by this Item is incorporated by reference to "Principal Stockholders" in the Company's Proxy Statement for its 1999 Annual Meeting of Stockholders.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Information required by this Item is incorporated by reference to "Principal Stockholders" in the Company's Proxy Statement for its 1999 Annual Meeting of Stockholders.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) (1) and (2) See Index to Consolidated Financial Statements and Schedules on page 38.

(b) (3) EXHIBITS See Index to Exhibits on page 82.

A report on Form 8-K was filed on January 10, 1998.

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 March 25, 1999.

INDEPENDENCE HOLDING COMPANY
(REGISTRANT)

By/s/ Edward Netter
Edward Netter
Chairman and
Chief Executive Officer
Director
(Principal Executive 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 25th day of March, 1999.

/s/ Harold E. Johnson
Harold E. Johnson
Director

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

/s/ Steven B. Lapin
Steven B. Lapin
Director, President and
Chief Operating Officer

/s/ Donald T. Netter
Donald T. Netter
Director

/s/ Edward Netter
Edward Netter
Director, Chairman
and Chief Executive Officer

(Principal Executive Officer)

/s/ Edward J. Scheider

Edward J. Scheider
Director

/s/ Roy T.K. Thung

Roy T.K. Thung
Director, Executive
Vice President,
Chief Financial Officer
and Treasurer
(Principal Financial Officer)

/s/ Teresa A. Herbert

Teresa A. Herbert
Vice President
and Controller
(Principal 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 given in the consolidated financial statements, notes thereto or in other schedules.

INDEPENDENT AUDITORS' REPORT

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INDEPENDENCE HOLDING COMPANY:

We have audited the consolidated financial statements of Independence Holding Company and subsidiaries as listed in the accompanying index. In connection with our audits of the consolidated financial statements, we also have audited the financial statement schedules as listed in the accompanying index. These 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 generally accepted auditing standards. 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 present fairly, in all material respects, the financial position of Independence Holding Company and subsidiaries as of December 31, 1998 and 1997, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 1998 in conformity with 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.

KPMG LLP

New York, New York
March 11, 1999

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1998	1997
ASSETS:		
Cash and cash equivalents	$ 7,889,000	$ 23,028,000
Investments:		
Short-term investments	25,250,000	18,265,000
Securities purchased under agreements to resell (Note 3)	11,681,000	25,469,000
Fixed maturities (Note 4)	220,030,000	201,324,000
Equity securities (Note 4)	17,004,000	13,496,000
Other investments (Note 8)	52,191,000	50,459,000
Total investments	326,156,000	309,013,000
Deferred acquisition costs (Note 1)	14,247,000	13,611,000
Due and unpaid premiums	10,313,000	6,448,000
Due from reinsurers	128,425,000	92,990,000
Notes and other receivables	3,844,000	3,292,000
Other assets (Note 1)	9,438,000	6,356,000
TOTAL ASSETS	$500,312,000	$454,738,000
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Future policy liabilities (Note 1)	$236,214,000	$169,082,000
Unearned premiums	21,029,000	27,893,000

Funds on deposit	62,498,000	72,187,000
Insurance policy claims (Note 9)	5,380,000	6,279,000
Other policyholders' funds	3,370,000	2,651,000
Financial instruments sold, but not yet purchased (Note 4)	458,000	-
Due to brokers	18,933,000	43,356,000
Due to reinsurers	14,320,000	4,349,000
Accounts payable, accruals and other liabilities	21,235,000	23,516,000
Liability for business transferred (Note 10)	-	7,905,000
Income taxes (Note 15)	7,348,000	6,515,000
TOTAL LIABILITIES	390,785,000	363,733,000
STOCKHOLDERS' EQUITY: (Notes 12, 13 and 14)		
Preferred stock (none issued)	-	-
Common stock, 7,367,000 and 7,430,169 shares issued and outstanding, respectively, net of 2,249,019 and 2,188,950 shares in treasury, respectively	7,367,000	7,430,000
Paid-in capital	83,191,000	76,046,000
Accumulated other comprehensive income:		
Unrealized gains on investments, net	2,643,000	1,892,000
Retained earnings	16,326,000	5,637,000
TOTAL STOCKHOLDERS' EQUITY	109,527,000	91,005,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$500,312,000	$454,738,000

See accompanying notes to consolidated financial statements.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

YEAR ENDED DECEMBER 31,	1998	1997	1996
REVENUES:			
Premiums earned (Note 17)	$ 80,658,000	$ 82,201,000	$ 69,585,000
Net investment income (Note 6)	21,624,000	21,534,000	16,917,000
Net realized and unrealized gains (Note 7)	2,013,000	539,000	190,000
Equity income (loss)	158,000	371,000	(33,000)
Other income	6,161,000	2,112,000	2,685,000
	110,614,000	106,757,000	89,344,000
EXPENSES:			
Insurance benefits, claims and reserves	59,631,000	58,561,000	49,788,000
Amortization of deferred acquisition costs (Note 1)	5,306,000	3,581,000	3,819,000
Interest expense on long-term debt	-	-	733,000
Selling, general and administrative expenses	31,267,000	31,327,000	28,184,000
	96,204,000	93,469,000	82,524,000
Operating income before income taxes	14,410,000	13,288,000	6,820,000
Income tax expense (Note 15)	3,353,000	2,101,000	110,000
Income from continuing operations	11,057,000	11,187,000	6,710,000
Income from discontinued operations, net (Note 2)	-	-	1,048,000
NET INCOME	$ 11,057,000	$ 11,187,000	$ 7,758,000

BASIC INCOME PER COMMON SHARE:			
Income from continuing operations.	$ 1.49	$ 1.51	$ .90
Income from discontinued operations, net.................	-	-	.14
Net income........................	$ 1.49	$ 1.51	$ 1.04
WEIGHTED AVERAGE COMMON SHARES OUTSTANDING.......................	7,415,000	7,431,000	7,432,000
DILUTED INCOME PER COMMON SHARE:			
Income from continuing operations......................	$ 1.47	$ 1.49	$ .90
Income from discontinued operations, net................	-	-	.14
Net income........................	$ 1.47	$ 1.49	$ 1.04
WEIGHTED AVERAGE DILUTIVE SHARES OUTSTANDING.......................	7,538,000	7,509,000	7,486,000

See accompanying notes to consolidated financial statements.

<TABLE>

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

<S>	<C> COMMON SHARES	<C> STOCK AMOUNT	<C> PAID-IN CAPITAL	<C> ACCUMULATED OTHER COMPREHENSIVE INCOME, NET	<C> RETAINED EARNINGS (ACCUMULATED DEFICIT)	<C> TOTAL STOCKHOLDERS' EQUITY
BALANCE AT DECEMBER 31, 1995........	7,432,274	$7,432,000	$76,245,000	$ 495,000	$(12,565,000)	$71,607,000
COMPREHENSIVE INCOME:						
Net income........................					7,758,000	7,758,000
Net change in unrealized losses...........................				(1,961,000)		(1,961,000)
TOTAL COMPREHENSIVE INCOME						5,797,000
Purchase of common stock and warrants....................	(505)		(5,000)			(5,000)
Capital transactions of subsidiary......................			(172,000)			(172,000)
Common stock dividend.............					(371,000)	(371,000)
BALANCE AT DECEMBER 31, 1996.......	7,431,769	7,432,000	76,068,000	(1,466,000)	(5,178,000)	76,856,000
COMPREHENSIVE INCOME:						
Net income........................					11,187,000	11,187,000
Net change in unrealized gains....				3,358,000		3,358,000
TOTAL COMPREHENSIVE INCOME						14,545,000
Purchase of common stock and warrants....................	(1,600)	(2,000)	(22,000)			(24,000)
Common stock dividend............					(372,000)	(372,000)
BALANCE AT DECEMBER 31, 1997........	7,430,169	7,430,000	76,046,000	1,892,000	5,637,000	91,005,000
COMPREHENSIVE INCOME:						
Net income........................					11,057,000	11,057,000
Net change in unrealized gains....				751,000		751,000
TOTAL COMPREHENSIVE INCOME						11,808,000
Purchase of common stock and warrants....................	(68,669)	(69,000)	(809,000)			(878,000)
Exercise of common stock options..	5,500	6,000	49,000			55,000
Credit for liability of business transferred............			7,905,000			7,905,000
Common stock dividend............					(368,000)	(368,000)
BALANCE AT DECEMBER 31, 1998........	7,367,000	$7,367,000	$83,191,000	$2,643,000	$ 16,326,000	$109,527,000

See accompanying notes to consolidated financial statements.

</TABLE>

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31,	1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 11,057,000	$ 11,187,000	$ 7,758,000
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization of deferred acquisition costs	5,306,000	3,581,000	3,819,000
Realized (gains) losses on sales of investment securities	(2,111,000)	(730,000)	30,000
Unrealized losses (gains) on trading securities	98,000	191,000	(220,000)
Equity (income)loss	(158,000)	(371,000)	33,000
Depreciation and amortization	542,000	440,000	335,000
Deferred tax (benefits) expense	(512,000)	206,000	(260,000)
Income from discontinued operations, net	-	-	(1,048,000)
Other	(274,000)	(867,000)	6,000
Change in assets and liabilities:			
Net sales (purchases) of trading securities	483,000	(1,692,000)	905,000
Increase in future insurance policy benefits, claims and other policy liabilities	52,011,000	80,003,000	48,236,000
Additions to deferred acquisition costs	(4,682,000)	(5,971,000)	(5,884,000)
Change in net amounts due from and to reinsurers	(25,051,000)	(44,528,000)	(3,471,000)
Change in income tax liability	667,000	1,107,000	(176,000)
Change in due and unpaid premiums	(3,865,000)	(1,326,000)	(1,657,000)
Other	(5,237,000)	3,913,000	2,250,000
Net cash provided by operating activities	28,274,000	45,143,000	50,656,000

(CONTINUED)

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)

YEAR ENDED DECEMBER 31,	1998	1997	1996
CASH FLOWS FROM INVESTING ACTIVITIES:			
Change in net amount due from and to brokers	(24,635,000)	23,569,000	(691,000)
Sales and maturities of short-term investments	73,251,000	56,881,000	31,542,000
Purchases of short-term investments	(78,418,000)	(64,793,000)	(34,479,000)
Net sales (purchases) of resale and repurchase agreements	13,788,000	11,073,000	(31,348,000)
Sales of equity securities	53,390,000	31,299,000	23,313,000
Purchases of equity securities	(56,246,000)	(37,524,000)	(20,723,000)
Sales and maturities of fixed maturities	174,459,000	190,372,000	187,206,000
Purchases of fixed maturities	(188,907,000)	(222,672,000)	(215,254,000)
Proceeds on sales of other investments	11,105,000	3,970,000	8,488,000
Additional investments in other investments, net of distributions	(12,677,000)	(20,327,000)	(15,786,000)

Discontinued operations, net.....	-	-	18,470,000
Acquisition of company..........	(2,188,000)	-	-
Other..........................	(1,044,000)	262,000	(1,339,000)
Net cash used by investing activities........	(38,122,000)	(27,890,000)	(50,601,000)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common stock and warrants.......................	(878,000)	(24,000)	(5,000)
Exercise of common stock options.	55,000	-	-
Payments of investment-type insurance contracts............	(4,096,000)	(4,190,000)	(4,190,000)
Repayment of long-term debt......	-	-	(12,061,000)
Dividends paid..................	(372,000)	(372,000)	(298,000)
Net cash used by financing activities........	(5,291,000)	(4,586,000)	(16,554,000)
(Decrease) increase in cash and cash equivalents............	(15,139,000)	12,667,000	(16,499,000)
Cash and cash equivalents, beginning of year...............	23,028,000	10,361,000	26,860,000
Cash and cash equivalents, end of year.....................$	7,889,000	$ 23,028,000	$ 10,361,000

See accompanying notes to consolidated financial statements.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES

(A) BUSINESS AND ORGANIZATION

Independence Holding Company ("IHC") is a holding company engaged principally in the life and health insurance business through its wholly-owned subsidiaries, Standard Security Life Insurance Company of New York ("Standard Life"), Madison National Life Insurance Company, Inc. ("Madison Life") and First Standard Security Insurance Company ("First Standard") and their subsidiaries (collectively, the "Insurance Group"). IHC and its subsidiaries (including the Insurance Group) are collectively referred to as the "Company."

On December 31, 1996, IHC consummated the distribution of the common stock of its majority-owned sign manufacturing subsidiary, Zimmerman Sign Company ("Zimmerman"), on a pro rata basis to the holders of record of IHC's common stock as of December 20, 1996. The Consolidated Financial Statements of the Company present Zimmerman as discontinued operations (see Notes 2 and 10).

Geneve Corporation, a diversified financial holding company, and its affiliated entities (collectively, "Geneve") held approximately 55% of IHC's outstanding common stock at December 31, 1998.

(B) PRINCIPLES OF CONSOLIDATION AND PREPARATION OF FINANCIAL STATEMENTS

The consolidated financial statements have been prepared in accordance with generally accepted accounting principles and include the accounts of IHC and its subsidiaries. All significant intercompany transactions have been eliminated in consolidation. Investments in partnerships which are not consolidated are carried on the equity method, which approximates the Company's equity in their underlying net book value.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect: (i) the reported amounts of assets and liabilities; (ii) the disclosure of contingent assets and liabilities at the date of the financial statements; and (iii) the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(C) ONE-FOR-TWO REVERSE STOCK SPLIT

A one-for-two reverse stock split (the "reverse stock split") of IHC's common stock became effective on June 28, 1996; accordingly, common shares outstanding and per share calculations reflect the reverse stock split.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(D) RECLASSIFICATION

Certain amounts in prior years' consolidated financial statements and notes thereto have been reclassified to conform to the 1998 presentation.

(E) 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-day maturity. Investments with original maturities of 91-days to 1 year are considered short-term investments and are carried at cost which approximates fair value.

(F) SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL AND SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE

Securities purchased under agreements to resell ("resale agreements") and securities sold under agreements to repurchase ("repurchase agreements") are treated as financing transactions and are carried at the amounts at which the securities will be subsequently resold or repurchased as specified in the agreements.

(G) INVESTMENTS IN SECURITIES

(i) Investments in fixed income securities (bonds (including Government National Mortgage Association ("GNMA") bonds)), notes and redeemable preferred stock), equity securities, and derivatives (options and options on future contracts) are valued as prescribed by Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities." Investments in fixed income and equity securities are carried as follows:

(a) Fixed income securities which are being held to maturity ("held to maturity") are carried at amortized cost.

(b) Securities which are held for trading purposes are carried at estimated fair value ("fair value"). Unrealized gains or losses are credited or charged, as appropriate, to the Consolidated Statements of Operations.

(c) Securities which may or may not be held to maturity ("available-for-sale") are carried at fair value. Unrealized gains or losses, net of deferred income taxes and adjustments to deferred policy acquisition costs, are credited or charged, as appropriate, directly to stockholders' equity. Realized gains and

losses on sales of available-for-sale securities, and unrealized losses considered to be other than temporary, are credited or charged to the Consolidated Statements of Operations.

(ii) Financial instruments sold, but not yet purchased, represent obligations to replace borrowed securities that have been sold. Such transactions occur in anticipation of declines in the fair value of the securities. The Company's risk is an increase in the fair value of the securities sold in excess of the consideration received, but that risk is mitigated as a result of relationships to certain securities owned. Unrealized gains or losses on open transactions are credited or charged, as appropriate, to the Consolidated Statement of Operations. While the transaction is open, the Company will also incur an expense for any accrued dividends or interest payable to the lender of the securities. When the transaction is closed, the Company realizes a gain or loss in an amount equal to the difference between the price at which the securities were sold and the cost of replacing the borrowed securities.

(iii) Gains or losses on sales of securities are determined on the basis of specific identification.

(iv) The Company enters into derivative financial instruments, such as put and call option contracts on interest rate futures contracts, to minimize losses on portions of the Company's fixed income portfolio in a rapidly changing interest rate environment and equity index options to offset fluctuations in the equity markets. The derivative financial instruments are all readily marketable and are carried on the Consolidated Balance Sheets at their current fair value with changes in unrealized gains or losses, net of deferred income taxes, credited or charged, as appropriate, directly to stockholders' equity for investments carried as available-for-sale or to the Consolidated Statement of Operations for investments carried as trading. All realized gains and losses are reflected currently in the Consolidated Statement of Operations. The Company did not enter into a material amount of derivative financial instruments in 1998.

(v) Fair value is determined by quoted market prices, where available, or by independent pricing services.

(H) PARTNERSHIP INTERESTS

Partnership interests primarily consist of investments in partnerships that have relatively "market neutral" arbitrage strategies, and all securities held by these partnerships are carried at fair value. All partnership investments are carried

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

on the equity method, which approximates the Company's equity in their underlying net book value.

(I) MORTGAGE LOANS AND POLICY LOANS

Mortgage loans and policy loans are stated at their aggregate unpaid balances.

(J) DEFERRED ACQUISITION COSTS

The costs of acquiring new insurance business, principally commissions and certain variable underwriting, agency and policy issuance expenses, have been deferred and are being amortized, with interest, over the premium paying period of the related insurance policies in proportion to the ratio of the annual premium revenue to the total anticipated premium revenue. Anticipated premium revenue was estimated using assumptions as to mortality (morbidity on health insurance) and withdrawals consistent with those used in calculating future insurance policy benefits. Credit life and credit accident and health deferred insurance acquisition costs are amortized proportionally over the period during which the premium is earned. Deferred acquisition costs are periodically reviewed to determine recoverability from future income, including investment income, and, if not recoverable, are charged to expense. Deferred acquisition costs have been decreased by $588,000 representing the portion of unrealized gains in stockholders' equity that would be allocated to deferred acquisition costs had such securities been sold and gains realized.

(K) PROPERTY AND EQUIPMENT

Property and equipment included in other assets are stated at cost of $1,894,000 and $1,723,000 which is net of accumulated depreciation and amortization of $2,069,000 and $1,734,000 in 1998 and 1997, 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(L) FUTURE INSURANCE POLICY LIABILITIES

Liabilities for future insurance policy benefits, including future dividends on participating policies, have been computed primarily using the net level premium method based on anticipated investment yield, mortality (morbidity on health insurance) and withdrawals. Life reserve interest rates are generally graded and range from 2% to 9% per annum. Withdrawals are based on experience.

Future policy benefits consist of the following at December 31, 1998 and 1997:

	1998	1997
	(IN THOUSANDS)	
Life	$ 99,156	$ 67,028
Accident and health	137,058	102,054
	$236,214	$169,082

(M) FUNDS ON DEPOSIT

Funds received for certain long-duration contracts (principally, 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 an annual rate of 4.5% to 13.9% in 1998 and 1997.

(N) INSURANCE PREMIUM REVENUE RECOGNITION

Premiums from short-duration contracts ordinarily will be recognized as revenue over the period of the contracts in proportion to the amount of insurance protection provided. Premiums from long-duration contracts are recognized as revenue when due from policyholders.

(O) PARTICIPATING POLICIES

Participating policies represent 15.8%, 12.9%, and 7.0% of the individual life insurance in-force and 1.4%, 0.8%, and 1.7% of the net premiums earned, as of and for the years ended December 31, 1998, 1997 and 1996, respectively, and provide for the payment of dividends. Dividends to policyholders are determined annually and are payable only upon declaration by the Board of Directors of the insurance companies. With respect to Standard Life, New York State Insurance Department requirements limit the amount of profit on participating policies which can inure to stockholders to 10% of such profits or $.50 per year per

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

$1,000 of such insurance in-force, whichever is greater. A significant portion of the participating business is comprised of non-dividend paying policies. With regard to the remaining policies, dividends are either paid or earned on participating policies based on guaranteed contract dividend amounts, by a flat percentage of premiums, or by the same dollar amount paid in prior years as long as the policy is premium paying. Because of the methods described above, no allocation method of earnings is required. At December 31, 1998, the stockholder's equity of the insurance companies was not restricted because of participating policyholders' surplus.

(P) 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 applicable to future years to temporary differences related to amounts included in the Consolidated Statement of Operations arising from differences between amounts reported in the Consolidated Financial Statements and the tax bases of existing assets and liabilities. The effect on deferred income taxes of a change in tax rates is recognized in income in the period that includes the enactment date.

(Q) INCOME PER COMMON SHARE

In December 1997, the Company adopted SFAS No. 128, "Earnings per Share." SFAS No. 128 establishes standards for computing and presenting earnings per share. Accordingly, all prior earnings per share calculations have been restated to reflect the new standard. Included in the diluted earnings per share calculation for 1998, 1997 and 1996, respectively, are 123,000, 78,000 and 54,000 incremental shares from the assumed exercise of options using the treasury stock method. Net income does not change as a result of the assumed dilution of options. Warrants to purchase 1,939,739 shares of common stock at $16.37 per share were not included in the computation of diluted earnings per share because the warrants' strike price was greater than the average market price of the common shares during 1998, 1997 and 1996.

(R) REINSURANCE

Amounts paid for or recoverable under reinsurance contracts are included in total assets as reinsurance balances, or reinsurance prepaid. 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES AND PRACTICES (CONTINUED)

(S) STOCK BASED COMPENSATION

The Company applies Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations in accounting for its stock-based compensation plan. Since stock options under the plan are issued at fair value on date of grant, no compensation cost has been recognized in the Consolidated Statement of Operations. Accordingly, the Company follows the disclosure provisions of SFAS No. 123, "Accounting for Stock-Based Compensation."

(T) NEW ACCOUNTING PRONOUNCEMENTS

In June 1998, the Financial Accounting Standards Board ("FASB") issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The requirements for SFAS No. 133 are effective for fiscal years beginning after June 15, 1999. The Company is evaluating the statement but does not expect it to have a material impact on the Company.

During 1998, the Company adopted the provisions of SFAS No. 130, "Reporting Comprehensive Income," and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components in a full set of general purpose financial statements. SFAS No. 131 establishes standards for the disclosure of information about the Company's operating segments. The adoption of SFAS No. 130

and 131 did not have an impact on the Company's results of operations, financial condition or liquidity.

In January 1998, the Company adopted the remaining provisions of SFAS No. 125, "Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities," as deferred by SFAS No. 127 "Deferral of the Effective Date of Certain Provisions of FASB Statement No. 125." The adoption of the remaining provisions of SFAS No. 125 had no impact on the Company.

NOTE 2. DISCONTINUED OPERATIONS

On December 31, 1996, IHC consummated the distribution of the common stock of Zimmerman on a pro rata basis to holders of record of IHC's common stock as of December 20, 1996.

The terms of the distribution provided for IHC shareholders to receive one share of Zimmerman common stock for each five shares of IHC common stock, and cash in lieu of fractional shares. IHC received a ruling from the Internal Revenue Service that the distribution would be tax-free to IHC shareholders, and that IHC would not recognize income, gain or loss as a result of the transaction.

NOTE 2. DISCONTINUED OPERATIONS (CONTINUED)

In connection with the distribution, Zimmerman entered into banking arrangements in October 1996 to borrow up to an aggregate of $33,000,000, of which $10,000,000 consisted of subordinated debt guaranteed by a subsidiary of IHC (such guarantee has subsequently been terminated - see also Note 10). The proceeds of borrowing by Zimmerman under such arrangements were used, among other things, to repay all of its prior outstanding indebtedness and to pay a $19,701,000 special cash dividend to its shareholders. From its $18,470,000 portion of the special dividend, IHC repaid all of its $10,000,000 of indebtedness, contributed $5,000,000 to Madison Life in exchange for a surplus note, and used the balance for working capital. Expenses of $1,106,000 incurred in connection with the distribution transaction are recorded in discontinued operations, net on the Consolidated Statement of Operations.

Since Zimmerman has historically comprised all of the Company's manufacturing segment, the Consolidated Financial Statements and notes thereto of the Company reflect Zimmerman as discontinued operations.

Income from discontinued operations for the year ended December 31, 1996 is summarized as follows:

	1996 (IN THOUSANDS)
Revenues	$41,227
Operating income from discontinued operations, net of minority interest	$ 1,709
Income taxes	661
Net income from discontinued operations	$ 1,048

During 1996, Zimmerman was included in the consolidated federal income tax return filed by the Company. On a separate company basis, Zimmerman had a tax sharing agreement with IHC for the periods presented; accordingly, discontinued operations are shown net of applicable taxes in accordance with such agreement.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. RESALE AGREEMENTS

Resale agreements are utilized to invest excess funds on a short-term basis. At December 31, 1998, the Company had $11,681,000 in resale agreements outstanding, all of which settled on January 4, 1999 and were subsequently reinvested. The Company maintains control of securities purchased under resale agreements and 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.

NOTE 4. INVESTMENT SECURITIES

The cost, (amortized cost with respect to certain fixed maturities) gross unrealized gains, gross unrealized losses and fair value of investments in securities are as follows:

	DECEMBER 31, 1998			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED (LOSSES)	FAIR VALUE
	(IN THOUSANDS)			
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities...	$ 42,472	$ 1,026	$ (291)	$ 43,207
U.S. Government and agencies obligations..	55,133	1,533	(201)	56,465
GNMA's.................	116,171	2,040	(147)	118,064
Obligations of states and political subdivisions..........	2,346	69	(121)	2,294
Total fixed maturities..	$216,122	$ 4,668	$ (760)	$220,030
EQUITY SECURITIES				
AVAILABLE-FOR-SALE:				
Common stock..........	$ 10,513	$ 956	$ (171)	$ 11,298
Preferred stock........	4,339	76	(71)	4,344
	14,852	1,032	(242)	15,642
TRADING:				
Common stock..........	1,448	295	(381)	1,362
Total equity securities.	$ 16,300	$ 1,327	$ (623)	$ 17,004
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED				
TRADING:				
Common stock..........	$ (386)	$ -	$ (72)	$ (458)

NOTE 4. INVESTMENT SECURITIES (CONTINUED)

DECEMBER 31, 1997			
AMORTIZED	GROSS UNREALIZED	GROSS UNREALIZED	FAIR

	COST	GAINS	(LOSSES)	VALUE
		(IN THOUSANDS)		
FIXED MATURITIES				
AVAILABLE-FOR-SALE:				
Corporate securities...	$ 29,974	$ 392	$ (247)	$ 30,119
U.S. Government and agencies obligations..	43,510	690	(54)	44,146
GNMA's.................	123,464	1,287	(7)	124,744
Obligations of states and political subdivisions..........	2,352	63	(100)	2,315
Total fixed maturities..	$199,300	$ 2,432	$ (408)	$201,324
EQUITY SECURITIES				
AVAILABLE-FOR-SALE:				
Common stock...........	$ 8,771	$ 786	$ (98)	$ 9,459
Preferred stock........	2,059	206	-	2,265
	10,830	992	(98)	11,724
TRADING:				
Common stock...........	1,832	71	(131)	1,772
Total equity securities.	$ 12,662	$ 1,063	$ (229)	$ 13,496

The amortized cost and fair value of fixed maturities at December 31, 1998, by contractual maturity, are shown below. 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. Excluding extraordinary paydowns, the average life of GNMA's is materially less than the stated maturity.

	AMORTIZED COST	FAIR VALUE	% OF FAIR VALUE
		(IN THOUSANDS)	
Due after one year through five years......................	$ 8,790	$ 9,022	4.1%
Due after five years through ten years.......................	45,081	45,913	20.9%
Due after ten years.............	46,080	47,031	21.3%
	99,951	101,966	46.3%
GNMA's - 15 year.................	34,805	35,623	16.2%
GNMA's - 30 year.................	81,366	82,441	37.5%
	$216,122	$220,030	100.0%

NOTE 4. INVESTMENT SECURITIES (CONTINUED)

The average fair value of trading options and futures contract sold, but not yet purchased was $64,000 and $85,000 for 1998 and 1997, respectively.

Gross gains of $5,589,000 and gross losses of $3,191,000 were realized on sales of available-for-sale securities for the year ended December 31, 1998.

Gross gains of $3,971,000 and gross losses of $3,423,000 were realized on sales of available-for-sale securities for the year ended December 31, 1997.

At December 31, 1998 the Company had no investments in derivative financial instruments.

NOTE 5. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS

The following methods and assumptions were used to estimate the fair value of financial instruments not disclosed elsewhere in the notes:

(A) MORTGAGE LOANS
The fair value of mortgage loans is calculated by discounting the scheduled cash flows at a current market interest rate adjusted for credit risk. Prepayments were not assumed to occur due to the low interest rates on the mortgages.

(B) POLICY LOANS
The fair value of policy loans is calculated by projecting the current policy loans in the aggregate to the end of the expected lifetime period of the life insurance business at the average policy loan rates and discounting them at a current market policy loan interest rate.

(C) 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 carrying value which approximates fair value. The second type carries fixed interest rates which are currently higher than current market interest rates. The fair value of these deposits was determined 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 carrying value which approximates fair value.

NOTE 5. FAIR VALUE DISCLOSURE OF FINANCIAL INSTRUMENTS (CONTINUED)

The estimated fair values of financial instruments are as follows:

	DECEMBER 31, 1998		DECEMBER 31, 1997	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
FINANCIAL ASSETS:				
Fixed maturities.....	$220,030	$220,030	$201,324	$201,324
Equity securities....	17,004	17,004	13,496	13,496
Mortgage loans.......	245	263	291	313
Policy loans.........	12,390	13,373	8,677	8,327
FINANCIAL LIABILITIES:				
Funds on deposit.....	62,498	63,976	72,187	74,280
Financial instruments sold but not yet purchased..........	458	458	-	-

NOTE 6. NET INVESTMENT INCOME

Major categories of net investment income for the years ended December 31, 1998, 1997 and 1996 are summarized as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Fixed maturities...............	$14,563	$12,471	$11,146
Equity securities..............	850	406	404
Short-term investments..........	1,050	1,444	1,437
Other..........................	1,161	500	521
Interest income earned from assumption reinsurance agreements.....................	1,072	1,210	1,102

Investment income from partnerships	3,086	5,831	2,644
Investment expenses	(158)	(328)	(337)
	$21,624	$21,534	$16,917

NOTE 7. NET REALIZED AND UNREALIZED GAINS (LOSSES)

Net realized and unrealized gains (losses) on investments for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Fixed maturities	$ 1,488	$ (209)	$ (411)
Equity securities	974	1,544	937
Financial instruments sold, but not yet purchased	(319)	113	(75)
Options - available for sale	(43)	(328)	(7)
Futures contracts	-	(126)	(477)
Other	11	(264)	3
Net realized gains (losses)	2,111	730	(30)
Net unrealized (losses) gains	(98)	(191)	220
	$ 2,013	$ 539	$ 190

NOTE 8. OTHER INVESTMENTS

Other investments consist of the following at December 31, 1998 and 1997:

	1998	1997
	(IN THOUSANDS)	
Partnership interests	$ 37,310	$ 40,221
Policy loans	12,390	8,677
Mortgage loans	245	291
Other	2,246	1,270
	$ 52,191	$ 50,459

Included in partnership interests are the following significant investments:

A) Dolphin Limited Partnership

The Company had invested $18,160,000 and $19,358,000 at December 31, 1998 and 1997, respectively, in Dolphin Limited Partnership A ("DLP-A"), a limited partnership which invests in relatively "market neutral" strategies, such as merger arbitrage, convertible arbitrage and distressed situations (DLP-A is the successor to Dolphin Limited Partnership).

The term "market neutral" strategies includes "merger arbitrage" and "convertible arbitrage," and means strategies which are less affected by general movements in the equity and

NOTE 8. OTHER INVESTMENTS (CONTINUED)

fixed income markets than traditional investments. "Merger arbitrage" is an investment strategy designed to profit from the successful completion of proposed mergers, takeovers, tender offers, leveraged buy-outs, recapitalizations and spin-offs. "Convertible arbitrage" is a strategy principally designed to capitalize on discrepancies in the pricing of convertible securities and their underlying common stock or stock equivalent. "Equity arbitrage" means a portfolio of equity securities hedged by utilizing various other securities (all of which are traded on national exchanges), which reduce market risk and/or industry risk. To a lesser extent, DLP-A also invests in "distressed situations" which principally means entities which are in bankruptcy proceedings or are otherwise financially distressed. While these strategies are considered relatively "market neutral," there are also risks associated with the underlying transactions.

The condensed balance sheets of DLP-A at December 31, 1998 and 1997 are as follows:

	1998	1997
	(IN THOUSANDS)	
Investments at market value	$ 43,172	$ 40,563
Due from brokers	25,569	14,535
Other assets	150	146
Total assets	$ 68,891	$ 55,244
Financial instruments sold, but not yet purchased	$ 21,109	$ 11,001
Other liabilities	96	71
Total liabilities	21,205	11,072
Partners' capital:		
IHC	18,160	19,358
Other partners	29,526	24,814
Partners' capital	47,686	44,172
Total liabilities and partners' capital	$ 68,891	$ 55,244

The condensed statements of operations for DLP-A for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Net realized and unrealized gains	$ 6,101	$ 10,459	$ 5,145
Net investment income	1,825	1,592	1,123
Total revenues	7,926	12,051	6,268
Expenses	1,629	1,387	859
Net income	$ 6,297	$ 10,664	$ 5,409
IHC's share of net income	$ 2,102	$ 4,016	$ 1,681

NOTE 8. OTHER INVESTMENTS (CONTINUED)

B) Incopoint Limited Partnership

The Company had invested $10,965,000 and $11,299,000 at December 31, 1998 and 1997, respectively, in Incopoint Limited Partnership ("Incopoint"), a limited partnership which invests in relatively "market neutral" strategies, such as equity arbitrage in the utility sector.

The condensed balance sheets of Incopoint at December 31, 1998 and 1997 are as follows:

	1998	1997
	(IN THOUSANDS)	
Cash and investments at market value	$ 27,430	$ 52,231
Other assets	133	1,854
Total assets	$ 27,563	$ 54,085
Financial instruments sold, but not yet purchased	$ 4,943	$ 27,703
Other liabilities	745	2,526
Total liabilities	5,688	30,229
Partners' capital:		
IHC	10,965	11,299
Other partners	10,910	12,557
Partners' capital	21,875	23,856
Total liabilities and partners' capital	$ 27,563	$ 54,085

The condensed statements of operations for Incopoint for the years ended December 31, 1998, 1997 and 1996 are as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Net realized and unrealized gains	$ 4,554	$ 3,002	$ 2,070
Net investment income (expense)	(1,010)	(98)	56
Total revenues	3,544	2,904	2,126
Expenses	25	135	142
Net income	$ 3,519	$ 2,769	$ 1,984
IHC's share of net income	$ 1,666	$ 1,290	$ 922

NOTE 9. INSURANCE POLICY CLAIMS

The liability for unpaid claims and claim adjustment expenses represents amounts needed to provide for the estimated cost of settling claims relating to insured events that have been incurred prior to the balance sheet date which have not yet been settled.

NOTE 9. INSURANCE POLICY CLAIMS (CONTINUED)

The change in the liability for unpaid claims and claim adjustment expenses for the Insurance Group's health and disability coverages for December 31, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Balance at beginning of year	$ 2,814	$ 2,178	$ 3,403
Less: reinsurance recoverables	274	512	531

Net balance at beginning of year.	2,540	1,666	2,872
Amount incurred:			
Current year	36,840	35,426	26,997
Prior years	6,679	6,550	7,003
Total	43,519	41,976	34,000
Amount paid, related to:			
Current year	27,570	29,973	22,077
Prior years	15,992	11,130	13,129
Total	43,562	41,103	35,206
Net balance end of year	2,497	2,539	1,666
Plus: reinsurance recoverables	186	275	512
Balance at end of year	2,683	2,814	2,178
Unpaid life claims	2,697	3,465	1,736
Total insurance policy claims	$ 5,380	$ 6,279	$ 3,914

The preceding schedule reflects the due and unpaid, in the course of settlement and estimated incurred but not reported components of the unpaid claims reserves for the Insurance Group's health and disability coverages. Unpaid claims reserves recorded in future policy liabilities, which represent the present value of amounts not yet due on claims, are not reflected in the preceding schedule which accounts for a significant portion of the incurred amounts related to prior years. There is a significant amount of loss incurred in prior years in the Insurance Policy Claims Schedule due to the reclassification from "Future Policy Liabilities" discussed above. The incurred and paid data above reflects all activity for the year.

NOTE 10. LIABILITY OF BUSINESS TRANSFERRED

In connection with the distribution of Zimmerman, a subsidiary of the Company guaranteed $10,000,000 of subordinated debt of Zimmerman (the "Guarantee"). Accordingly, the credit to stockholders' equity of $7,905,000 or $1.06 per share that would have been recorded upon consummation of the distribution of Zimmerman had been deferred until such time as the subordinated debt was repaid or the Guarantee was eliminated. On September 30, 1998 the Guarantee was terminated; accordingly, the deferred credit of $7,905,000, or $1.06 per share, was credited to stockholders' equity as of September 30, 1998.

NOTE 11. LONG-TERM DEBT

A subsidiary of IHC entered into a $10,000,000 line of credit on October 31, 1996. As to such subsidiary, the line of credit (i) contains restrictions with respect to, among other things, the creation of additional indebtedness, the consolidation or merger with or into certain corporations, the payment of dividends and the retirement of capital stock, (ii) requires the maintenance of minimum amounts of net worth, as defined, certain financial ratios, and certain investment restrictions and (iii) is secured by the stock of Madison Life and its immediate parent company and contribution notes of Madison Life aggregating $25,000,000. At December 31, 1998, there were no amounts outstanding under the line of credit.

Cash payment for interest was $764,000 for the year ended December 31, 1996. All long-term debt was repaid during 1996.

NOTE 12. PREFERRED STOCK

IHC has 100,000 authorized shares of par value $1.00 per share preferred stock.

NOTE 13. COMMON STOCK

(A) IHC has reserved 2,714,431 shares of common stock for issuance under its stock option plan and outstanding warrants at December 31, 1998.

(B) In 1991, IHC initiated a program of repurchasing shares of its common stock and warrants. During 1998, IHC repurchased 68,669 common shares at a cost of $878,000. From January 1, 1991 through December 31, 1998, 2,200,991 common shares, or 24.2% of the amount outstanding on January 1, 1991, have been repurchased at a cost of $11,834,000. All of such repurchased shares have either been retired, reissued, or become treasury shares.

NOTE 13. COMMON STOCK (CONTINUED)

(C) IHC has 15,000,000 authorized shares of par value $1.00 per share common stock.

NOTE 14. STOCK OPTIONS AND SHARE PURCHASE WARRANTS

(A) STOCK OPTIONS

On May 25, 1988, the stockholders approved the amended and restated Stock Option and Incentive Stock Option Plan (the "Plan") under which 800,000 shares of common stock were reserved for options and other common stock awards to be granted under the Plan. On March 25, 1998, the Company's Board of Directors approved certain amendments to the Plan, including eliminating the prohibition on granting options after May 25, 1998. Under the terms of the Plan, exercise prices are equal to the quoted market value of the shares at the date of grant. Further, the options will expire ten years from the date of grant; with regard to employees, options will vest ratably over a three-year period beginning on the first anniversary of the date of grant, and with regard to directors, options will vest six months from the date of grant. At December 31, 1998, options to purchase 396,192 shares were available for future grants under the Plan.

As a result of the reverse stock split in 1996, the number of shares of common stock reserved for issuance, the number of options outstanding and the exercise price per share of the outstanding options were adjusted accordingly. As a result of the spin-off of Zimmerman, the exercise price per share of all options outstanding was reduced by $0.59.

NOTE 14. STOCK OPTIONS AND SHARE PURCHASE WARRANTS (CONTINUED)

The following table summarizes information with respect to stock options granted under the Plan for the years ended December 31, 1998, 1997 and 1996:

1998		1997		1996	
Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price

Outstanding, beginning of year...	385,250	$ 6.73	338,250	$ 6.52	316,250	$ 6.37
Granted.............	10,500	$14.94	62,000	$ 7.77	22,000	$ 8.58
Exercised...........	(5,500)	$10.07	-	-	-	-
Forfeited...........	(11,750)	$ 7.33	(15,000)	$ 6.10	-	-
Outstanding, end of year.........	378,500	$ 6.90	385,250	$ 6.73	338,250	$ 6.52
Exercisable at year end.........	312,833		216,167		118,750	

The following table is a summary of stock options outstanding at December 31, 1998:

Options Outstanding				Options Exercisable	
Range of Exercise Prices	Number Outstanding	Remaining Weighted Average Contractual Life	Weighted Average Exercise Price	Weighted Average Number Exercisable	Exercise Price
		(In Years)			
$ 1.91 - $ 3.28	4,500	2.8	$ 2.36	4,500	$ 2.36
$ 5.16 - $ 5.97	190,500	6.2	$ 5.96	190,500	$ 5.96
$ 7.09 - $10.25	171,500	7.4	$ 7.53	114,833	$ 7.40
$10.91 - $11.91	1,500	0.4	$10.91	1,500	$10.91
$13.81 - $15.13	10,500	3.5	$14.94	1,500	$13.81
$ 1.91 - $15.13	378,500	6.6	$ 6.90	312,833	$ 6.50

NOTE 14. STOCK OPTIONS AND SHARE PURCHASE WARRANTS (CONTINUED)

The Company applies APB Opinion No. 25 and related interpretations in accounting for the Plan. Since stock options under the Plan are issued at fair market value on date of the grant, no compensation cost has been recognized in the Consolidated Statement of Operations.

SFAS No. 123, "Accounting for Stock-Based Compensation," establishes a fair value based method of accounting for stock-based compensation plans as an alternative to APB Opinion No. 25 whereby the compensation cost is measured at the grant date based on the value of the award, and such cost is recognized over the vesting period of the options. Had the Company applied SFAS No. 123 in accounting for stock options, net income and net income per share, basic, for the years ended December 31, 1998, 1997 and 1996 would have been as follows:

	1998		1997		1996	
	In Thousands	Per Share	In Thousands	Per Share	In Thousands	Per Share
Net income, as reported	$11,057	$1.47	$11,187	$1.49	$ 7,758	$1.04
SFAS No. 123 pro forma adjustments	(217)	(.03)	(321)	(.04)	(287)	(.04)
Net income, pro forma	$10,840	$1.44	$10,866	$ 1.45	$ 7,471	$1.00

No tax credit has been provided on the calculation of SFAS No. 123 because a valuation allowance would have been provided for this temporary difference.

The pro forma adjustments relate to options granted during 1998, 1997 and 1996 for which a fair value on the date of the grant was determined using the Black-Scholes model of theoretical options pricing, and were based on the following assumptions: (i) expected volatility is based on the three year period, calculated weekly, preceding the date of grant; (ii) the risk-free rate of return is based on the 10-year U.S. Treasury Note yield to maturity as at the date of grant; (iii) dividend yield assumes that the current dividend rate paid on the Common Stock continues unchanged until the expiration date of the options; (iv) an expected life that coincides with the term of the option; and (v) a three-year phased-in vesting period that averages two years.

NOTE 14. STOCK OPTIONS AND SHARE PURCHASE WARRANTS (CONTINUED)

No effect has been given to options granted prior to 1995. The weighted average fair value of options granted during 1998, 1997 and 1996 was $2.17, $2.95 and $3.48 per share, respectively. Valuation and related assumption information are presented below:

	Weighted averages for options issued during		
	1998	1997	1996
Valuation assumptions:			
Expected life, in years...............	4.0	10.0	10.0
Expected volatility.....	16.9%	12.0%	12.8%
Risk free interest rate...................	5.6%	6.4%	6.5%
Expected annual dividends per share....	$ .05	$ .05	$ .05

(B) SHARE PURCHASE WARRANTS

At December 31, 1998, 1,270,294 share purchase warrants were outstanding. The warrants are exercisable through June 30, 2001 for a maximum of 1,939,739 shares of common stock at $25.00 for 1.527 shares of common stock (which equates to an exercise price of $16.37 per share) as adjusted for the reverse stock split and the distribution of Zimmerman.

Since the inception of IHC's repurchase plan through December 31, 1998, 421,491 warrants have been repurchased at a cost of $137,000. All of such repurchased warrants have been retired.

NOTE 15. INCOME TAXES

The Company and its subsidiaries file a consolidated Federal income tax return on a June 30 fiscal year. The provision for income tax expense (benefit) for the years ended December 31, 1998, 1997 and 1996 is as follows:

	1998	1997	1996
		(IN THOUSANDS)	
CURRENT:			
U.S. Federal..........	$ 3,448	$ 1,834	$ 132
State and Local.......	417	61	238
	3,865	1,895	370
DEFERRED:			
U.S. Federal..........	(542)	106	(204)
State and Local.......	30	100	(56)
	(512)	206	(260)
Income tax expense....	$ 3,353	$ 2,101	$ 110

NOTE 15. INCOME TAXES (CONTINUED)

The Federal statutory rate of 34% in 1998, 1997 and 1996 is reconciled to the Company's effective income tax rate as follows:

	1998	1997	1996
	(IN THOUSANDS)		
Tax computed at the statutory rate	$ 4,900	$ 4,518	$ 2,319
Dividends received deduction and tax exempt interest	(217)	(163)	(131)
Special life insurance statutory deductions	(493)	(369)	(200)
State income taxes, net of Federal effect	295	107	120
Tax loss carryforwards recognized for financial reporting purposes	(982)	(1,109)	(1,922)
Valuation allowance	(508)	(860)	(118)
Other, net	358	(23)	42
Income tax expense	$ 3,353	$ 2,101	$ 110

The income tax expense for the year ended December 31, 1998 allocated to stockholders' equity for unrealized gains on investment securities was $422,000, representing the change in the deferred tax liability of $1,466,000 at December 31, 1998 from the deferred tax liability of $1,044,000 at December 31, 1997.

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, 1998 and 1997 relate to the following:

	1998	1997
	(IN THOUSANDS)	
DEFERRED TAX ASSETS:		
Loss carryforwards	$ -	$ 1,462
Other investments	-	22
Unrealized losses on investment securities	218	62
Deferred insurance policy acquisition costs	3,485	1,636
Future insurance policy benefits	1,055	1,197
Other	3,698	3,228

NOTE 15. INCOME TAXES (CONTINUED)

	1998	1997
	(IN THOUSANDS)	
Total gross deferred tax assets	8,456	7,607
Less valuation allowance	(1,758)	(3,982)
Net deferred tax assets	6,698	3,625
DEFERRED TAX LIABILITIES:		
Other investments	(1,161)	(982)
Unrealized gains on		

investment securities..............	(1,540)	(1,015)
Deferred insurance policy acquisition costs..................	(4,402)	(4,262)
Future insurance policy benefits...........................	(2,646)	(262)
Other...............................	(896)	(890)
Total gross deferred tax liabilities...............	(10,645)	(7,411)
Net deferred tax liability......	$ (3,947)	$ (3,786)

The $2,224,000 decrease in the valuation allowance for the year ended December 31, 1998 is primarily attributable to net changes in loss carryforwards.

Under provisions of the Life Insurance Company Tax Act of 1959, certain special deductions were allowed life insurance companies for Federal income tax purposes and were accumulated in a memorandum tax account designated as "policyholders' surplus." Distributions of the untaxed amounts in this account will result in the Company incurring an additional tax. The Company has provided through its income tax provision on operations a tax expense of $1,122,000 in 1992 and prior years for this additional tax related to the policyholders' surplus account. A deferred tax liability of $936,000, related to the $2,753,000 remaining balance of the policyholders' surplus account, has not been recognized. This liability will be recognized when the Company expects that a transaction will occur which will give rise to a tax on the remaining balance of the policyholders' surplus account.

Net cash payments for income taxes were $3,405,000, $866,000 and $1,211,000 in 1998, 1997 and 1996, respectively.

NOTE 16. COMMITMENTS AND CONCENTRATION OF CREDIT RISK

Certain subsidiaries of the Company are obligated under non-cancelable operating lease agreements for office space. Total rental expense for the years 1998, 1997 and 1996 for operating leases was $804,000, $707,000 and $687,000, respectively.

NOTE 16. COMMITMENTS AND CONCENTRATION OF CREDIT RISK (CONTINUED)

The approximate minimum annual rental expense for operating leases that have remaining non-cancelable lease terms in excess of one year at December 31, 1998 are as follows (in thousands):

1999...........	$ 678
2000...........	589
2001...........	456
2002...........	243
Total	$1,966

At December 31, 1998, 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.

Fixed maturities with a carrying value of $5,684,000 and $5,041,000 were on deposit with various state insurance departments at December 31, 1998 and 1997, respectively.

The Company knows of no material pending legal proceedings to which the Company is a party or of which any of its property is the subject.

NOTE 17. REINSURANCE

Standard Life and Madison Life reinsure portions of certain business in order to limit the assumption of disproportionate risks. Standard Life and Madison Life retain varying amounts of individual life or group life insurance up to a maximum on any one life of $210,000 and $60,000, respectively. Amounts not retained are ceded to other companies on an automatic or facultative basis. Standard Life and Madison Life are contingently liable with respect to reinsurance in the unlikely event that the assuming reinsurers are unable to meet their obligations. In addition, Standard Life and Madison Life participate in various coinsurance treaties. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured.

The Company had total net receivables of $29,500,000 at December 31, 1998 from two reinsurers both of which are rated A or better by A.M. Best. These companies are the only reinsurers with receivables that individually are in excess of 10% of the equity of the Company. The Company believes that these receivables are fully collectible.

The effect of reinsurance on life insurance in-force, benefits to policyholders and premiums earned is as follows:

NOTE 17. REINSURANCE (CONTINUED)

	DIRECT AMOUNT	ASSUMED FROM OTHER COMPANIES	CEDED TO OTHER COMPANIES	NET AMOUNT	ASSUMED TO NET
	(IN THOUSANDS)				
LIFE INSURANCE IN-FORCE:					
DECEMBER 31,1998	$6,155,863	$584,726	$2,823,683	$3,916,906	14.9%
DECEMBER 31,1997	5,365,058	787,426	2,443,005	3,709,479	21.2%
DECEMBER 31,1996	4,563,520	488,762	2,215,533	2,836,749	17.2%
BENEFITS TO POLICYHOLDERS:					
DECEMBER 31,1998	$ 134,484	$ 32,104	$ 106,092	$ 60,496	53.1%
DECEMBER 31,1997	117,477	14,635	75,962	56,150	26.1%
DECEMBER 31,1996	95,567	7,867	58,193	45,241	17.4%
PREMIUMS EARNED:					
DECEMBER 31, 1998					
Life and annuity.......	$ 22,929	$ 5,347	$ 8,332	$ 19,944	26.8%
Health.........	180,593	34,041	153,920	60,714	56.1%
	$ 203,522	$ 39,388	$ 162,252	$ 80,658	48.8%
DECEMBER 31, 1997					
Life and annuity.......	$ 18,684	$ 4,792	$ 7,065	$ 16,411	29.2%
Health.........	160,699	26,422	121,331	65,790	40.2%
	$ 179,383	$ 31,214	$ 128,396	$ 82,201	38.0%
DECEMBER 31, 1996					
Life and annuity......	$ 17,948	$ 2,181	$ 6,974	$ 13,155	16.6%
Health........	132,125	10,206	85,901	56,430	18.1%
	$ 150,073	$ 12,387	$ 92,875	$ 69,585	17.8%

NOTE 18. SEGMENT REPORTING

The Insurance Group engages principally 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 of each such segment. Corporate assets are composed principally of cash equivalents, resale agreements, fixed maturities, equity securities, partnership interests, the Company's remaining real estate holdings and certain other investments. Information by business segment for the years ended December 31, 1998, 1997 and 1996 is as follows:

NOTE 18. SEGMENT REPORTING (CONTINUED)

	1998	1997	1996
	(IN THOUSANDS)		
REVENUES:			
Medical Stop-Loss..........	$ 26,855	$ 23,836	$ 24,502
DBL.......................	21,439	22,201	17,039
Group Term Disability and Term Life.................	10,212	8,239	7,315
Credit Life and Disability.	22,198	20,295	12,643
Managed Health Care........	2,082	5,475	4,467
Special Disability.........	235	78	12
Acquired Blocks /Other Business...........	22,864	22,495	21,557
Corporate..................	2,716	3,599	1,619
Net Realized and Unrealized Gains.....................	2,013	539	190
	$110,614	$106,757	$ 89,344
OPERATING INCOME FROM CONTINUING OPERATIONS:			
Medical Stop-Loss..........	$ 17	$ 2,047	$ 4,042
DBL.......................	4,200	1,269	1,035
Group Term Disability and Term Life.................	1,041	779	532
Credit Life and Disability.	1,458	2,434	1,105
Managed Health Care........	1,078	1,072	938
Special Disability.........	742	344	(12)
Acquired Blocks /Other Business...........	4,218	4,255	2,139
Corporate..................	(357)	549	(3,149)
	12,397	12,749	6,630
Net Realized and Unrealized Gains.....................	2,013	539	190
	$ 14,410	$ 13,288	$ 6,820
IDENTIFIABLE ASSETS AT YEAR-END:			
Medical Stop-Loss..........	$ 18,628	$ 8,153	$ 9,936
DBL.......................	17,016	5,692	7,474
Group Term Disability and Term Life.................	12,561	11,227	8,653
Credit Life and Disability.	39,485	59,579	21,859
Managed Health Care........	9,638	3,995	3,133
Special Disability.........	1,239	173	51
Acquired Blocks /Other Business...........	381,896	348,163	268,827
Corporate..................	19,849	17,756	16,468
	$500,312	$454,738	$336,401

NOTE 19. DIVIDEND RESTRICTIONS ON INSURANCE SUBSIDIARIES

Dividends from Madison Life are subject to the prior notification to the Wisconsin Insurance Commissioner if such dividend distribution exceeds 115% of the distribution for the corresponding period of the previous year. In addition, if such dividends, together with the fair market value of other dividends paid or credited and distributions made within the preceding twelve months, exceed the lesser of total net gain from operations for the preceding calendar year minus realized capital gains for that calendar year or 10% of surplus with regard to policyholders as of December 31 of the preceding year, such dividends may be paid so long as such dividends have not been disapproved by the Wisconsin Insurance Commissioner within 30 days of its receipt of notice thereof. No dividends were paid by Madison Life in 1998 or 1997. The payment of dividends by Standard Life to its parent, Madison Life, requires prior approval of the New York Superintendent of Insurance and is limited by net income and capital and surplus. Dividends from First Standard to its parent, a subsidiary of Standard Life, are subject to the prior notification to the Delaware Insurance Commissioner. If such dividends, together with the fair market value of other dividends or distributions made within the preceding twelve months, exceed the greater of (i) 10% of surplus as regards policyholders as of the preceding December 31 and (ii) net income, not including realized capital gains, for the twelve-month period ending the 31st day of December next preceding, such dividends may be paid so long as they have not been disapproved by the Delaware Insurance Commissioner within 30 days of its receipt of notice thereof. First Standard declared and paid dividends of $2,450,000 and $2,340,000 in 1998 and 1997, respectively. 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. IHC declared dividends of $368,000, $372,000 and $371,000 in 1998, 1997 and 1996 respectively.

Combined net income of the Insurance Group, as determined in accordance with statutory accounting practices, was $381,000, $5,706,000 and $4,378,000 for 1998, 1997 and 1996, respectively. Statutory capital and surplus for the Insurance Group was $59,699,000 and $59,438,000 at December 31, 1998 and 1997, respectively.

NOTE 20. QUARTERLY DATA (UNAUDITED)

The quarterly results of operations for the years ended December 31, 1998 and 1997 are summarized below:

	FIRST QUARTER	SECOND QUARTER	THIRD QUARTER	FOURTH QUARTER
	(IN THOUSANDS, EXCEPT PER SHARE DATA)			
1998				
Total Revenues	$ 28,278	$ 28,227	$ 26,108	$ 28,001
Net income	$ 2,491	$ 2,947	$ 2,688	$ 2,931
Net Income Per Common Share - Basic	$ .34	$ .40	$ .36	$ .40
Net Income Per Common Share - Diluted	$ .33	$ .39	$ .36	$ .39
1997				

Total Revenues	$ 24,404	$ 24,927	$ 29,206	$ 28,220
Net income	$ 2,260	$ 3,191	$ 2,825	$ 2,911
Net Income Per Common Share - Basic	$ .30	$ .43	$ .38	$ .39
Net income Per Common Share - Diluted	$ .30	$ .43	$ .37	$ .39

NOTE 21. COMPREHENSIVE INCOME

The Company adopted SFAS No. 130, "Reporting Comprehensive Income" effective January 1, 1998. SFAS No. 130 establishes standards for the reporting and display of comprehensive income and its components. The components of comprehensive income include net income and certain amounts previously reported directly in equity.

Reclassifications related to comprehensive income for the years ended December 31, 1998, 1997 and 1996 are as follows:

	Before Tax	Tax Expense (Benefit)	Net of Tax
	(in thousands)		
1998			
Unrealized holding gains, arising during the period	$ 3,774	$ 907	$ 2,867
Less:			
Gains included in net income	2,013	485	1,528
Deferred acquisition costs	588	-	588
Unrealized gains on securities, net	$ 1,173	$ 422	$ 751
1997			
Unrealized holding gains, arising during the period	$ 5,433	$ 1,672	$ 3,761
Less:			
Gains included in net income	539	136	403
Unrealized gains on securities, net	$ 4,894	$ 1,536	$ 3,358
1996			
Unrealized holding losses, arising during the period	$(2,584)	$ (835)	$(1,749)
Less:			
Gains included in net income	190	(22)	212
Unrealized losses on securities, net	$(2,774)	$ (813)	$(1,961)

NOTE 22. SUBSEQUENT EVENT

Subsequent to December 31, 1998, a subsidiary of IHC signed a commitment letter to secure a $30,000,000 line of credit to replace the existing $10,000,000 line of credit, with terms and conditions similar to the existing line of credit, for general corporate purposes including acquisitions.

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUMMARY OF INVESTMENTS - OTHER THAN INVESTMENTS IN AFFILIATES
DECEMBER 31, 1998

COLUMN A	COLUMN B	COLUMN C	COLUMN D
TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN ON BALANCE SHEET
FIXED MATURITIES:			
BONDS:			
United States Government and authorities..........	$171,304,000	$174,529,000	$174,529,000
States, municipalities and political subdivisions..........	2,346,000	2,294,000	2,294,000
Public utilities.......	30,834,000	31,511,000	31,511,000
All other corporate securities...........	11,638,000	11,696,000	11,696,000
TOTAL FIXED MATURITIES..........	216,122,000	220,030,000	220,030,000
EQUITY SECURITIES:			
COMMON STOCKS:			
Industrial, miscellaneous and other.................	11,961,000	12,660,000	12,660,000
NON-REDEEMABLE PREFERRED STOCK..................	4,339,000	4,344,000	4,344,000
TOTAL EQUITY SECURITIES.	16,300,000	17,004,000	17,004,000
FINANCIAL INSTRUMENTS SOLD, BUT NOT YET PURCHASED:			
EQUITY SECURITIES:			
COMMON STOCKS:			
Industrial, miscellaneous and other.............	(386,000)	(458,000)	(458,000)

(CONTINUED)

COLUMN A	COLUMN B	COLUMN C	COLUMN D
TYPE OF INVESTMENT	COST	VALUE	AMOUNT SHOWN ON BALANCE SHEET
Securities purchased under agreements to resell...................	11,681,000	11,681,000	11,681,000
Partnership interests.....	37,310,000	37,310,000	37,310,000
Mortgage loans...........	245,000	245,000	245,000
Policy loans.............	12,390,000	12,390,000	12,390,000
Other....................	2,246,000	2,246,000	2,246,000
Short-term investments....	25,250,000	25,250,000	25,250,000
TOTAL INVESTMENTS....	$321,158,000	$325,698,000	$325,698,000

SCHEDULE III

INDEPENDENCE HOLDING COMPANY
BALANCE SHEETS
(PARENT COMPANY ONLY)

	DECEMBER 31, 1998	1997
ASSETS:		
Cash and cash equivalents	$ 1,262,000	$ 783,000
Securities purchased under agreements to resell	1,420,000	85,000
Equity securities	1,304,000	844,000
Other investments	10,310,000	10,831,000
Investments in consolidated subsidiaries	76,347,000	81,800,000
Amounts due from consolidated subsidiaries	29,127,000	5,581,000
Other assets	23,000	28,000
TOTAL ASSETS	$119,793,000	$ 99,952,000
LIABILITIES AND STOCKHOLDERS' EQUITY:		
LIABILITIES:		
Accounts payable and other liabilities	$ 4,507,000	$ 4,254,000
Income taxes payable	2,949,000	2,524,000
Amounts due to consolidated subsidiaries	2,442,000	1,797,000
Dividends payable	368,000	372,000
TOTAL LIABILITIES	10,266,000	8,947,000
STOCKHOLDERS' EQUITY:		
Preferred stock (none issued)	-	-
Common stock, 7,367,000 and 7,430,169 shares issued and outstanding, respectively, net of 2,249,019 and 2,188,950 shares in treasury, respectively	7,367,000	7,430,000
Paid-in capital	83,191,000	76,046,000
Unrealized gains on investments, net	2,643,000	1,892,000
Retained Earnings	16,326,000	5,637,000
TOTAL STOCKHOLDERS' EQUITY	109,527,000	91,005,000
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$119,793,000	$ 99,952,000

See Notes to Parent Company Only Financial Statements.

(CONTINUED)

SCHEDULE III
(CONTINUED)

INDEPENDENCE HOLDING COMPANY
STATEMENTS OF OPERATIONS
(PARENT COMPANY ONLY)

	YEAR ENDED DECEMBER 31, 1998	1997	1996
REVENUES:			
Net investment income	$ 4,245,000	$ 2,347,000	$ 400,000
Other income	782,000	683,000	497,000

	5,027,000	3,030,000	897,000
EXPENSES:			
General and administrative expenses.......	890,000	2,786,000	3,075,000
Income (loss) before income tax benefit......	4,137,000	244,000	(2,178,000)
Income tax expense (benefit)..............	176,000	(1,771,000)	(2,534,000)
Income before equity in net income of subsidiaries and discontinued operations.	3,961,000	2,015,000	356,000
Equity in net income of subsidiaries...........	7,096,000	9,172,000	6,354,000
Income from discontinued operations, net.........	-	-	1,048,000
Net income..............	$11,057,000	$11,187,000	$ 7,758,000

See Notes to Parent Company Only Financial Statements.

(CONTINUED)

SCHEDULE III
(CONTINUED)

INDEPENDENCE HOLDING COMPANY
STATEMENTS OF CASH FLOWS
(PARENT COMPANY ONLY)

	YEAR ENDED DECEMBER 31, 1998	1997	1996
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income...............	$ 11,057,000	$ 11,187,000	$ 7,758,000
Adjustments to reconcile net income to net cash used by operating activities:			
Equity in net income of subsidiaries........	(7,096,000)	(9,172,000)	(6,354,000)
Income from discontinued operations, net....................	-	-	(1,048,000)
Change in other assets and liabilities........	(31,572,000)	(3,444,000)	(3,825,000)
Net cash used by operating activities.........	(27,611,000)	(1,429,000)	(3,469,000)
CASH FLOWS FROM INVESTING ACTIVITIES...............			
Decrease in investment in and advances to consolidated subsidiaries...........	5,039,000	4,710,000	4,457,000
Purchases of equity securities.............	(433,000)	(829,000)	-
Additional investments in other investments, net of distributions....	24,679,000	(1,724,000)	(483,000)
Net cash provided by investing activities....	29,285,000	2,157,000	3,974,000
CASH FLOWS FROM FINANCING ACTIVITIES:			
Repurchase of common stock and warrants......	(878,000)	(24,000)	(5,000)

Exercise of common stock options..........	55,000	-	-
Dividends paid..........	(372,000)	(372,000)	(298,000)
Net cash used by financing activities....	(1,195,000)	(396,000)	(303,000)

(CONTINUED)

SCHEDULE III
(CONTINUED)

INDEPENDENCE HOLDING COMPANY
STATEMENTS OF CASH FLOWS
(PARENT COMPANY ONLY)

	YEAR ENDED DECEMBER 31, 1998	1997	1996
Increase in cash and cash equivalents....	479,000	332,000	202,000
Cash and cash equivalents, beginning of year................	783,000	451,000	249,000
Cash and cash equivalents, end of year....................	$ 1,262,000	$ 783,000	$ 451,000

See Notes to Parent Company Only Financial Statements.

SCHEDULE III
(CONTINUED)

INDEPENDENCE HOLDING COMPANY
NOTES TO PARENT COMPANY ONLY FINANCIAL STATEMENTS

NOTES:

(A) In connection with the distribution of Zimmerman Sign Company, two subsidiaries of IHC were merged into IHC during 1996.

(B) Cash payments for taxes were $3,007,000, $861,000 and $955,000 in 1998, 1997 and 1996, respectively.

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

<TABLE>
SCHEDULE V

INDEPENDENCE HOLDING COMPANY AND SUBSIDIARIES
SUPPLEMENTARY INSURANCE INFORMATION
(IN THOUSANDS)

<S>	<C> DEFERRED INSURANCE ACQUISITION COSTS	<C> FUTURE POLICY LIABILITIES CLAIMS & OTHER POLICY-HOLDERS' FUNDS	<C> UNEARNED PREMIUMS	<C> PREMIUMS EARNED	<C> NET INVESTMENT INCOME AND GAINS, AND OTHER INCOME (1)	<C> BENEFITS AND CLAIMS	<C> AMORTIZ-ATION OF DEFERRED INSURANCE ACQUIS-ITION COSTS	<C> OTHER OPERATING EXPENSES (2)	<C> PREMIUMS WRITTEN
DECEMBER 31, 1998:									

Life and annuity.....	$ 9,607	$167,715	$ 10,162	$ 19,944	$ 15,852	$ 18,028	$ 2,646	$ 7,066	$ 17,548
Health.......	4,640	139,747	10,867	60,714	11,583	41,603	2,660	21,131	57,264
	$ 14,247	$307,462	$ 21,029	$ 80,658	$ 27,435	$ 59,631	$ 5,306	$ 28,197	$ 74,812
DECEMBER 31, 1997:									
Life and annuity.....	$ 7,950	$145,321	$ 13,326	$ 16,411	$ 11,708	$ 12,722	$ 1,675	$ 6,966	$ 18,420
Health.......	5,661	104,878	14,567	65,790	9,322	45,839	1,906	21,322	70,205
	$ 13,611	$250,199	$ 27,893	$ 82,201	$ 21,030	$ 58,561	$ 3,581	$ 28,288	$ 88,625
DECEMBER 31, 1996:									
Life and annuity.....	$ 7,082	$126,129	$ 3,874	$ 13,155	$ 11,241	$ 13,113	$ 2,416	$ 5,793	$ 12,879
Health.......	4,139	64,495	7,780	56,430	7,525	36,675	1,403	18,939	56,035
	$ 11,221	$190,624	$ 11,654	$ 69,585	$ 18,766	$ 49,788	$ 3,819	$ 24,732	$ 68,914

(1) Net investment income is allocated between product lines based on the mean reserve method.
(2) 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.

</TABLE>

EXHIBIT INDEX

Exhibit
Number

3(i) Restated Certificate of Incorporation of Independence Holding Company.**
3(ii) By-laws of Independence Holding Company.*

4(i) Form of Warrant Certificate to purchase shares of Common Stock of Independence Holding Company, expiring June 30, 2001.*

10(iii)(A) Executive Compensation Plans and Agreements
(1) Independence Holding Company 1988 Stock Incentive Plan***
(2) Form of Independence Holding Company Stock Option Agreement****
(3) Deferred Compensation Agreement*****
(4) Retirement Benefit Agreements*****
(5) Amendment No. 1 to 1988 Stock Incentive Plan******

11 Statement re: computation of per share earnings for the years ended December 31, 1998, 1997 and 1996.

21 Principal subsidiaries of Independence Holding Company, as of March 22, 1999.

23 Consent of KPMG LLP.

27 Financial Data Schedule.

99 Financial Statements of significant 50% or less owned person.

*Such exhibit is incorporated by reference to the Report on Form 10-K for the fiscal year ended December 31, 1987, as amended, of Independence Holding Company.

**Such exhibit is incorporated by reference to the Report on Form 10-Q for the quarter ended June 30, 1996 of Independence Holding Company.

***Such exhibit is incorporated by reference to the Proxy Statement for the Annual Meeting of Stockholders held on May 25, 1989 of Independence Holding Company.

****Such exhibit is incorporated by reference to the Report on Form 10-K for the fiscal year ended December 31, 1988 of

Independence Holding Company.

*****Such exhibit is incorporated by reference to the Report on Form 10-K for the fiscal year ended December 31, 1993 of Independence Holding Company.

******Such exhibit is incorporated by reference to the Report on Form 10-K for the fiscal year ended December 31, 1997 of Independence Holding Company.

Exhibits will be furnished upon request for a reasonable fee.

EXHIBIT 11

INDEPENDENCE HOLDING COMPANY
Computation of Per Share Earnings
(In Thousands, Except Per Share Amounts)

	Year Ended December 31, 1998	1997	1996
INCOME:			
Income from continuing operations	$ 11,057	$ 11,187	$ 6,710
Income from discontinued operations, net	-	-	1,048
Net income	$ 11,057	$ 11,187	$ 7,758
SHARES:			
Weighted average common shares outstanding	7,415	7,431	7,432
BASIC INCOME PER SHARE:			
Income per share from continuing operations	$ 1.49	$ 1.51	$ .90
Income per share from discontinued operations		-	.14
Net income per share	$ 1.49	$ 1.51	$ 1.04
DILUTED EARNINGS PER SHARE (A)			
USE OF PROCEEDS:			
Assumed exercise of options	$ 2,474	$ 2,512	2,092
Tax benefit from exercise of options	852	388	-
Repurchase of treasury stock at average market price of $13.48, $9.67 and $8.29, respectively.	(3,326)	(2,900)	(2,092)
Assumed balance to be invested	$ -	$ -	$ -
SHARES:			
Weighted average shares outstanding	7,415	7,431	7,432
Shares assumed issued for options	370	378	306
Treasury stock assumed purchased	(247)	(300)	(252)
Adjusted average shares outstanding	7,538	7,509	7,486

DILUTED INCOME PER SHARE:			
Income per share from continuing operations	$ 1.47	$ 1.49	$ .90
Income per share from discontinued operations		-	.14
Net income per share	$ 1.47	$ 1.49	$ 1.04

(A) Warrants were not assumed to be exercised as the effect would have been anti-dilutive.

EXHIBIT 21

INDEPENDENCE HOLDING COMPANY

Subsidiaries as of March 22, 1999

Subsidiary	Jurisdiction
Independence Capital Corp.	Delaware
Independence Financial Services Corp.	Delaware
Madison National Life Insurance Company, Inc.	Wisconsin
Madison Investors Corporation	Delaware
Credico Corporation	North Carolina
Credico Life Insurance Company	Nevis
SAR Holdings, L.P.	Delaware
Risk Assessment Strategies, Inc.	Delaware
Standard Security Life Insurance Company of New York	New York
Standard Security Investors Corp.	New York
Standard Life Asset Management Corp.	New York
SSH Corp.	Delaware
First Standard Security Insurance Company	Delaware
Madison Standard Corp.	Wisconsin
Independence Land and Capital, Inc.	Delaware
R.H. Financial Corp.	Delaware
Incopoint Limited Partnership	Connecticut
Copoint L.P.	Delaware
IFS Corp.	Delaware
G.P. Associates Holding Corp.	Delaware

EXHIBIT 23

CONSENT OF INDEPENDENT AUDITORS

THE BOARD OF DIRECTORS AND STOCKHOLDERS
INDEPENDENCE HOLDING COMPANY:

We consent to incorporation by reference in the registration statements (No. 33-23302) on Form S-8 and (No. 2-40517-99) on Form S-3 of Independence Holding Company and subsidiaries of our report dated March 11, 1999, relating to the consolidated balance sheets of Independence Holding Company and subsidiaries as of December 31, 1998 and 1997 and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1998, and the related financial statement schedules, which report appears in the 1998 annual report on Form 10-K of Independence Holding Company and subsidiaries.

KPMG LLP

New York, New York
March 25, 1999

<TABLE> <S> <C>

<ARTICLE> 7
<LEGEND>
This schedule contains summary financial information extracted from the Independence Holding Company Form 10-K for the twelve months ended December 31, 1998 and is qualified in its entirety by reference to such financial statements.
</LEGEND>
<CIK> 0000701869
<NAME> INDEPENDENCE HOLDING COMPANY

<S> <C>
<PERIOD-TYPE> 12-MOS
<FISCAL-YEAR-END> DEC-31-1998
<PERIOD-END> DEC-31-1998
<DEBT-HELD-FOR-SALE> 220,030,000
<DEBT-CARRYING-VALUE> 0
<DEBT-MARKET-VALUE> 0
<EQUITIES> 17,004,000
<MORTGAGE> 245,000
<REAL-ESTATE> 0
<TOTAL-INVEST> 325,698,000
<CASH> 7,889,000
<RECOVER-REINSURE> 128,425,000
<DEFERRED-ACQUISITION> 14,247,000
<TOTAL-ASSETS> 500,312,000
<POLICY-LOSSES> 241,594,000
<UNEARNED-PREMIUMS> 21,029,000
<POLICY-OTHER> 62,498,000
<POLICY-HOLDER-FUNDS> 3,370,000
<NOTES-PAYABLE> 0
<PREFERRED-MANDATORY> 0
<PREFERRED> 0
<COMMON> 7,367,000
<OTHER-SE> 102,160,000
<TOTAL-LIABILITY-AND-EQUITY> 500,312,000
<PREMIUMS> 80,658,000
<INVESTMENT-INCOME> 21,624,000
<INVESTMENT-GAINS> 2,111,000
<OTHER-INCOME> 6,161,000
<BENEFITS> 59,631,000
<UNDERWRITING-AMORTIZATION> 5,306,000
<UNDERWRITING-OTHER> 0
<INCOME-PRETAX> 14,410,000
<INCOME-TAX> 3,353,000
<INCOME-CONTINUING> 11,057,000
<DISCONTINUED> 0
<EXTRAORDINARY> 0
<CHANGES> 0

<NET-INCOME>	11,057,000
<EPS-PRIMARY>	1.49
<EPS-DILUTED>	1.47
<RESERVE-OPEN>	0
<PROVISION-CURRENT>	0
<PROVISION-PRIOR>	0
<PAYMENTS-CURRENT>	0
<PAYMENTS-PRIOR>	0
<RESERVE-CLOSE>	0
<CUMULATIVE-DEFICIENCY>	0

</TABLE>