

## **To Our Stockholders:**

We are pleased with the 19% increase in the earnings of Independence Holding Company (“IHC” or the “Company”) in 2014 despite recording significant underwriting losses on major medical as a result of the Affordable Care Act (ACA), which will not reoccur in 2015, and significant amortization of deferred loss, which will be substantially less in 2015. We are even more positive about our prospects for 2015 and beyond as a result of (1) the exceptional growth in medical stop-loss, our largest line of business, (2) the substantial growth in ancillary or supplemental health lines, the demand for which is growing as a result of the ACA, and (3) the continuing very positive results from a large, profitable block of group disability income in two specialized niches. We have diversified our products by building blocks of pet insurance and occupational accident business in Texas, and we continue to maintain our life and annuity insurance business. Moreover, any income derived from the business inuring to the benefit of our 92% owned subsidiary, American Independence Corp. (“AMIC”) or its subsidiaries, will be sheltered by AMIC’s \$264 million of net operating loss carry-forwards.

As a result of exiting individual and small group major-medical, beginning in 2015, our underwriting results will no longer be negatively impacted by these lines which have been very unprofitable under the ACA. Our stop-loss is experiencing significant growth as the market for this product expands, and sales of our ancillary health products (short-term medical, dental, vision, and gap plans) are accelerating as individuals (and, increasingly, groups) seek alternatives to the major-medical offerings on the public exchanges. The diversification strategy we’ve pursued since the passage of the ACA in 2010 is bearing fruit and we are well positioned to take advantage of the changing distribution landscape, including through our direct-to-consumer tools, sales agencies, private exchange ([www.healthdeals.com](http://www.healthdeals.com)) and expanding call center channel. Our disability income will grow organically (and as a result of a larger risk retention), and we expect continued growth in our New York disability benefits law (DBL) line, which has the lowest rates in the industry.

## ***SPECIALTY HEALTH***

### **Stop-Loss**

Our total stop-loss block, which is approximately \$280 million on a gross basis, makes us one of the top ten writers of this line of business in the nation. Approximately 86% of this business is produced through our direct writing platform over which we exert complete underwriting control. Of the remaining 14%, the vast majority of this is written through a managing general underwriter (MGU) in which we own 42% and the rest through one remaining independent MGU.

During 2014, we continued to solidify our position as a top-tier direct writer of stop-loss. Through a combination of strong new business sales and growth in new initiatives such as group captives, our direct written stop-loss achieved growth of more than 35% for the year, and this momentum continued through the January 2015 business cycle.

Throughout this period of accelerating growth, IHC Risk Solutions (IHCRS) has not lost sight of its primary goal of achieving consistent profitability through disciplined underwriting and pricing. Following on excellent results on business written in 2011 and 2012, our direct written business is projected to produce a similar result on 2013 written business. In 2014, our pricing metrics indicate rate levels consistent with prior years and renewal increases at levels consistent with the positive selection bias in our renewal process.

We continued to strengthen our stop-loss operational capabilities by adding staff to support the growth in the business and restructuring key areas such as claims and contracts to improve customer service levels while creating efficiency gains in those functions. We have seen significant growth in our group captive business as a result of the ACA, and in our CIGNA business as a result of the strength of that relationship.

## **Fully Insured**

Our fully insured segment, excluding the major medical lines of business that we have now exited, accounted for approximately \$170 million in 2014. Of this amount, approximately \$95 million was made up of ancillary or supplemental products with the balance coming from pet, occupational accident and other lines.

Our fully insured segment made tremendous strides during 2014 towards accomplishing our long-term goal of converting from primarily a major medical company reliant largely on independent agents to a specialty health company with significant captive distribution. Our most notable accomplishments include: (1) increasing sales of products not impacted by health care reform by 34% over 2013, and generating a 8.6% underwriting profit on these products before agent incentive programs, (2) developing major national insurance companies (including the “BUCAs”) as significant distributors of our short-term medical (STM) and ancillary products, including our MetalGap product, which supplements ObamaCare plans, (3) establishing HealtheDeals at Work as a private exchange for small employers, (4) expanding our owned call center to 35 seats, and (5) moving all new dental business to our enhanced enterprise platform and contracting to assist a very large payor system in the rollout of its new individual major medical products.

For 2015, we are particularly focused on expanding the distribution of all ancillary products through our owned distribution. We are delighted to have one of the very few private exchanges (HealtheDeals.com) that caters to individuals and small employers and is transactional. Other sites are lead producers, but you cannot purchase anything on their sites. On HealtheDeals.com, you can purchase a major medical plan from a major national carrier while easily purchasing IHC’s ancillary products. Our call center, which we started in 2013 and doubled our capacity in 2014, was our largest agency during Open Enrollment. The non-subscriber occupational accident business associated with our affiliate has grown from \$6 million of in-force premium at the end of 2013 to approximately \$16 million at the end of 2014. The Company reported a retrospective reserve charge in the fourth quarter of 2014 resulting from large claims and underpricing on certain cases. The Company has taken action on pricing and, while still early in its development, we continue to expect to achieve our long term profit target on this business. We expect our pet insurance to grow modestly.

## **Group Disability and Life**

Our current total group disability and life gross premiums are approximately \$107 million. This business was highly profitable in 2014 and is primarily derived from two sources: (1) our thirty-year relationship with an MGA serving school districts and municipalities in the Midwest; and (2) DBL. The persistency on our existing group block is very high and we’ve enjoyed considerable success in writing new business during the last two years. During 2013, we increased the size of our DBL block of business by 56% largely due to our success in capturing a significant portion of the block of a large competitor that exited the market.

## **Individual Life and Annuity Insurance**

We produced total gross individual life and annuity premiums of approximately \$26 million primarily derived from two sources: (1) closed blocks of life acquired by IHC and (2) individual policies selectively marketed to government workers, senior citizens and members of the military. We expect some growth in individual life sales, but the other lines of business should be relatively constant.

## CONCLUSION

IHC has transitioned into a specialty health insurance company with growing blocks of stop-loss, ancillary health and disability. We emphasize controlled distribution that writes of higher-margin lines of business that are exempt from many of the requirements of the ACA. We are a leader in the markets in which we operate because we have:

- an experienced management team with long-term relationships in the industry;
- three innovative, well-capitalized insurance carriers with a stable rating of A- (Excellent) from A.M. Best Company;
- a significant, profitable stop-loss line written on a direct basis that grew 35% during 2014, and which we expect will continue growing rapidly in 2015; and
- a broad and balanced array of products and expertise that are increasingly in demand as a result of health care reform.

Accordingly, we are optimistic as to our operating results for 2015 and beyond; however, we would not be able to have this optimism without the extraordinary efforts of our dedicated team of employees, officers and directors, and without the continuing support of our stockholders.

Very truly yours,



Roy T.K. Thung  
*Chief Executive Officer, President  
and Chairman*

Dated: April 2, 2015

[www.ihcgroup.com](http://www.ihcgroup.com)

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