

TRIPLE-S MANAGEMENT CORP
Form 10-Q
August 06, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2015

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

Puerto Rico 66-0555678
(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

1441 F.D. Roosevelt Avenue
San Juan, Puerto Rico 00920
(Address of principal executive offices) (Zip code)

(787) 749-4949
(Registrant's telephone number, including area code)

Not applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

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

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

<u>Title of each class</u>	<u>Outstanding at June 30, 2015</u>
Common Stock Class A, \$1.00 par value	2,377,689
Common Stock Class B, \$1.00 par value	23,650,247

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended June 30, 2015

Table of Contents

<u>Part I – Financial Information</u>	3
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	35
<u>Cautionary Statement Regarding Forward-Looking Information</u>	35
<u>Overview</u>	35
<u>Recent Developments</u>	37
<u>Recent Accounting Standards</u>	38
<u>Managed Care Membership</u>	38
<u>Consolidated Operating Results</u>	39
<u>Managed Care Operating Results</u>	42
<u>Life Insurance Operating Results</u>	45
<u>Property and Casualty Operating Results</u>	46
<u>Liquidity and Capital Resources</u>	48
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	50
Item 4. <u>Controls and Procedures</u>	50
<u>Part II – Other Information</u>	50
Item 1. <u>Legal Proceedings</u>	50
Item 1A. <u>Risk Factors</u>	50
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	51
Item 3. <u>Defaults Upon Senior Securities</u>	51
Item 4. <u>Mine Safety Disclosures</u>	51
Item 5. <u>Other Information</u>	51
Item 6. <u>Exhibits</u>	51
<u>SIGNATURES</u>	52

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation
Condensed Consolidated Balance Sheets (Unaudited)
(Dollar amounts in thousands, except per share data)

	June 30, 2015	December 31, 2014
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	\$1,079,651	\$1,115,899
Equity securities	155,657	197,756
Securities held to maturity, at amortized cost:		
Fixed maturities	2,947	2,944
Policy loans	7,334	7,260
Cash and cash equivalents	212,504	110,037
Total investments and cash	1,458,093	1,433,896
Premiums and other receivables, net	354,090	315,622
Deferred policy acquisition costs and value of business acquired	186,143	184,100
Property and equipment, net	74,530	78,343
Deferred tax asset	77,819	68,695
Goodwill	25,397	25,397
Other assets	57,261	39,683
Total assets	\$2,233,333	\$2,145,736
Liabilities and Stockholders' Equity		
Claim liabilities	\$462,186	\$390,086
Liability for future policy benefits	339,707	328,293
Unearned premiums	80,192	82,656
Policyholder deposits	118,921	118,912
Liability to Federal Employees' Health Benefits Program (FEHBP)	16,489	15,666
Accounts payable and accrued liabilities	206,483	162,458
Deferred tax liability	22,052	28,456
Long-term borrowings	62,647	74,467
Liability for pension benefits	81,200	86,716
Total liabilities	1,389,877	1,287,710
Stockholders' equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 at June 30, 2015 and December 31, 2014, respectively	2,378	2,378
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 23,650,247 and 24,654,497 shares at June 30, 2015 and December 31, 2014, respectively	23,650	24,654
Additional paid-in capital	99,617	121,405
Retained earnings	695,107	661,345
Accumulated other comprehensive income	23,291	48,776

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

Total Triple-S Management Corporation stockholders' equity	844,043	858,558
Non-controlling interest in consolidated subsidiary	(587)	(532)
Total stockholders' equity	843,456	858,026
Total liabilities and stockholders' equity	\$2,233,333	\$2,145,736

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Earnings (Unaudited)

(Dollar amounts in thousands, except per share data)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2015	2014	2015	2014
Revenues:				
Premiums earned, net	\$754,107	\$543,735	\$1,286,665	\$1,085,587
Administrative service fees	4,549	29,506	33,672	59,256
Net investment income	10,998	12,147	21,916	23,498
Other operating revenues	641	850	1,794	2,344
Total operating revenues	770,295	586,238	1,344,047	1,170,685
Net realized investment gains (losses):				
Total other-than-temporary impairment losses on securities	(1,660)	(462)	(2,862)	(462)
Net realized gains, excluding other-than-temporary impairment losses on securities	12,267	4,390	19,682	4,516
Total net realized investment gains	10,607	3,928	16,820	4,054
Other income, net	1,083	575	2,842	821
Total revenues	781,985	590,741	1,363,709	1,175,560
Benefits and expenses:				
Claims incurred	637,898	428,641	1,070,328	877,748
Operating expenses	126,824	123,589	254,199	248,956
Total operating costs	764,722	552,230	1,324,527	1,126,704
Interest expense	2,074	2,396	4,256	4,701
Total benefits and expenses	766,796	554,626	1,328,783	1,131,405
Income before taxes	15,189	36,115	34,926	44,155
Income tax expense (benefit)	(3,712)	8,662	1,219	9,773
Net income	18,901	27,453	33,707	34,382
Less: Net loss attributable to non-controlling interest	25	23	55	49
Net income attributable to Triple-S Management Corporation	\$18,926	\$27,476	\$33,762	\$34,431
Earnings per share attributable to Triple-S Management Corporation				
Basic net income per share	\$0.73	\$1.01	\$1.29	\$1.27
Diluted net income per share	\$0.73	\$1.01	\$1.28	\$1.26

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(Dollar amounts in thousands)

	Three months ended		Six months ended	
	June 30, 2015	2014	June 30, 2015	2014
Net income	\$18,901	\$27,453	\$33,707	\$34,382
Other comprehensive income (loss), net of tax:				
Net unrealized change in fair value of available for sale securities, net of taxes	(29,044)	19,080	(27,250)	41,382
Defined benefit pension plan:				
Actuarial loss, net	1,016	649	1,903	1,354
Prior service credit, net	(77)	(70)	(138)	(144)
Total other comprehensive income (loss), net of tax	(28,105)	19,659	(25,485)	42,592
Comprehensive income (loss)	(9,204)	47,112	8,222	76,974
Comprehensive loss attributable to non-controlling interest	25	23	55	49
Comprehensive income (loss) attributable to Triple-S Management Corporation	\$(9,179)	\$47,135	\$8,277	\$77,023

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollar amounts in thousands)

	2015	2014
Balance at January 1	\$858,558	\$785,381
Share-based compensation	3,199	1,221
Stock issued upon the exercise of stock options	179	2,885
Repurchase and retirement of common stock	(26,170)	(9,044)
Comprehensive income	8,277	77,023
Total Triple-S Management Corporation stockholders' equity	844,043	857,466
Non-controlling interest in consolidated subsidiary	(587)	(227)
Balance at June 30	\$843,456	\$857,239

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

(Dollar amounts in thousands)

	Six months ended June 30, 2015		2014
Cash flows from operating activities:			
Net income	\$ 33,707		\$ 34,382
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	8,138		10,578
Net amortization of investments	3,187		3,031
Additions to the allowance for doubtful receivables	11,626		6,388
Deferred tax benefit	(6,423)		(2,119)
Net realized investment gain on sale of securities	(16,820)		(4,054)
Share-based compensation	3,199		1,221
(Increase) decrease in assets:			
Premium and other receivables, net	(56,003)		(70,556)
Deferred policy acquisition costs and value of business acquired	(2,043)		(2,826)
Deferred taxes	(4,876)		259
Other assets	(16,596)		(1,888)
Increase (decrease) in liabilities:			
Claim liabilities	72,100		(5,713)
Liability for future policy benefits	11,414		11,693
Unearned premiums	(2,464)		(3,841)
Policyholder deposits	1,742		1,685
Liability to FEHBP	823		(3,523)
Accounts payable and accrued liabilities	36,017		28,292
	76,728		3,009

Net cash provided by
operating activities

(Continued)

7

Table of Contents

Triple-S Management Corporation
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollar amounts in thousands)

	Six months ended	
	June 30,	
	2015	2014
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$241,476	\$95,759
Fixed maturities matured/called	34,906	17,066
Equity securities sold	65,621	40,745
Securities held to maturity - fixed maturities matured/called	100	2,418
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(259,984)	(137,783)
Equity securities	(12,165)	(20,650)
Securities held to maturity - fixed maturities	(103)	(350)
Other investments	(2,522)	(424)
Net outflows from policy loans	(74)	(172)
Net capital expenditures	(3,003)	(2,791)
Net cash used in (provided by) investing activities	64,252	(6,182)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	1,028	(3,593)
Repayments of long-term borrowings	(11,820)	(992)
Repurchase and retirement of common stock	(25,988)	(5,995)
Proceeds from policyholder deposits	4,538	3,305
Surrenders of policyholder deposits	(6,271)	(4,559)
Net cash used in financing activities	(38,513)	(11,834)
Net increase (decrease) in cash and cash equivalents	102,467	(15,007)
Cash and cash equivalents:		
Beginning of period	110,037	74,356
End of period	\$212,504	\$59,349

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

(1) Basis of Presentation

The accompanying condensed consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The condensed consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2014.

In the opinion of management, all adjustments, consisting of a normal recurring nature necessary for a fair presentation of such condensed consolidated interim financial statements, have been included. The results of operations for the three months and six months ended June 30, 2015 are not necessarily indicative of the results for the full year ending December 31, 2015.

(2) Recent Accounting Standards

On April 7, 2015, the Financial Accounting Standards Board (FASB) issued guidance addressing the different balance sheet presentation requirements for debt issuance costs and debt discount and premiums. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not significantly affected. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

On May 1, 2015, the FASB issued guidance addressing the current diversity in practice regarding the manner in which certain investments measured at net asset value with redemption dates in the future, including periodic redemption dates, are categorized within the fair value hierarchy. This guidance eliminates the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient. Additionally, it eliminates the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

On May 21, 2015, the FASB issued guidance to make targeted improvements to short-duration insurance contracts requiring insurance entities to disclose for annual reporting periods, among other information about the liability for unpaid claims and claim adjustment expenses, (1) incurred and paid claims development information by accident year, on a net basis after risk mitigation through reinsurance, for the number of years for which claims incurred typically remain outstanding (that need not exceed 10 years, including the most recent reporting period presented in the statement of financial position). Each period presented in the disclosure about claims development that precedes the current reporting period is considered to be supplementary information; and (2) for each accident year presented of incurred claims development information, quantitative information about claim frequency (unless it is impracticable to do so) accompanied by a qualitative description of methodologies used for determining claim frequency information

(as well as any changes to these methodologies). This guidance is effective for public companies for fiscal years beginning after December 31, 2015, and interim periods within such fiscal years beginning after December 15, 2016. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

Table of Contents

Triple-S Management Corporation
 Notes to Condensed Consolidated Financial Statements
 (Dollar amounts in thousands, except per share data)
 (Unaudited)

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and six months ended June 30, 2015 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2015 and December 31, 2014, were as follows:

	June 30, 2015			Estimated fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	\$ 107,362	\$ 1,047	\$ (6)	\$ 108,403
U.S. Treasury securities and obligations of U.S. government instrumentalities	155,385	954	-	156,339
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	26,650	-	(23)	26,627
Municipal securities	588,989	36,023	(316)	624,696
Corporate bonds	119,190	12,003	-	131,193
Residential mortgage-backed securities	1,023	67	-	1,090
Collateralized mortgage obligations	30,195	1,108	-	31,303
Total fixed maturities	1,028,794	51,202	(345)	1,079,651
Equity securities - mutual funds	121,573	34,141	(57)	155,657
Total	\$ 1,150,367	\$ 85,343	\$ (402)	\$ 1,235,308

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	\$622	\$ 198	\$ -	\$ 820
Residential mortgage-backed securities	217	21	-	238
Certificates of deposit	2,105	-	-	2,105
Total	\$2,944	\$ 219	\$ -	\$ 3,163

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securities available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	\$6,393	\$ (6)	1	\$-	\$ -	-	\$6,393	\$ (6)	1
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	16,507	(23)	6	-	-	-	16,507	(23)	6
Municipal securities	31,228	(316)	9	-	-	-	31,228	(316)	9
Total fixed maturities	54,128	(345)	16	-	-	-	54,128	(345)	16
Equity securities - mutual funds	3,599	(57)	1	-	-	-	3,599	(57)	1
Total for securities available for sale	\$57,727	\$ (402)	17	\$-	\$ -	-	\$57,727	\$ (402)	17

	December 31, 2014								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securities available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	\$43,105	\$ (19)	2	\$-	\$ -	-	\$43,105	\$ (19)	2
U.S. Treasury securities and obligations of U.S.	39,966	(28)	2	-	-	-	39,966	(28)	2

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

governmental instrumentalities									
Municipal securities	6,749	(24)	3	6,693	(26)	3	13,442	(50)	6
Corporate bonds	17,053	(50)	4	20,405	(84)	4	37,458	(134)	8
Total fixed maturities	106,873	(121)	11	27,098	(110)	7	133,971	(231)	18
Equity securities - mutual funds	7,773	(92)	2	-	-	-	7,773	(92)	2
Total for securities available for sale	\$114,646	\$ (213)	13	\$27,098	\$ (110)	7	\$141,744	\$ (323)	20

The Corporation regularly monitors and evaluates the difference between the amortized cost and estimated fair value of investments. For investments with a fair value below amortized cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Company's intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. This process is not exact and requires further consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate.

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

Due to the subjective nature of the Corporation's analysis, along with the judgment that must be applied in the analysis, it is possible that the Corporation could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods.

If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other-than-temporary, the carrying amount of the security is reduced to its fair value in accordance with current accounting guidance. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

The Corporation's process for identifying and reviewing invested assets for other-than temporary impairments during any quarter includes the following:

Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than \$100.

Review and evaluation of any other security based on the investee's current financial condition, liquidity, near-term recovery prospects, implications of rating agency actions, the outlook for the business sectors in which the investee operates and other factors. This evaluation is in addition to the evaluation of those securities with a gross unrealized investment loss representing 20% or more of their cost.

Consideration of evidential matter, including an evaluation of factors or triggers that may or may not cause individual investments to qualify as having other-than-temporary impairments.

Determination of the status of each analyzed security as other-than-temporary or not, with documentation of the rationale for the decision; and

Equity securities are considered to be impaired when a position is in an unrealized loss for a period longer than 6 months.

The Corporation reviews the investment portfolios under the Corporation's impairment review policy. Given market conditions and the significant judgments involved, there is a continuing risk that declines in fair value may occur and material other-than-temporary impairments may be recorded in future periods. The Corporation from time to time may sell investments as part of its asset/liability management process or to reposition its investment portfolio based on current and expected market conditions.

Obligations of Government-Sponsored Enterprises and Municipal Securities: One position in this category met the requirements for detailed evaluation, which is a bond issued by the University of Massachusetts Building Authority

with a maturity date of May 1, 2039. This bond is rated Aa2/AA- and the revenue stream is College and University revenues. The unrealized loss of this position is \$118, which represents 2.1% of its book value. The position was acquired in April 2015 and the unrealized loss is due to general market movements, as interest rates have increased between April and June. We do not consider this position other-than-temporarily impaired as of June 30, 2015, because: (a) the unrealized loss percentage is small, (b) the unrealized loss is due to general market movements, (c) we do not have the intent to sell this investment, and (d) it is not more likely than not that we will be required to sell this investment before recovery of its amortized cost basis (which may be maturity).

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of \$16,507 and a gross unrealized loss of \$23, and (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of \$10,120 and no unrealized gain or loss after the other-than-temporary impairment.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

Besides holdings in escrowed bonds, which are backed by US Government securities and therefore have an implicit AA+/Aaa rating, our exposure is in senior lien bonds issued by Cofina. Below we will discuss the Cofina structure and security, recent events and our impairment conclusion.

Cofina bonds are backed by a sales tax levied on the island, which was increased to 11.5% from an original rate of 7%, effective July 1, 2015. The revenue of the incremental rate of 4.5% flows directly into the General Fund of the Commonwealth. The revenue of the original rate of 7% follows the flow of funds as described below.

Of the original 7% tax rate, 1.5% is a separated revenue stream for municipalities. Of the remaining 5.5%, the larger of 2.75% or a base amount is pledged to the sales tax bonds. In terms of flow of funds, the 5.5% remaining revenue is first used for debt service on senior lien bonds, then for debt service on subordinate bonds and the excess flows into the General Fund. Effective government fiscal year 2015/16, the flow of funds has been somewhat revised to benefit Cofina. The municipality portion of 0.5% is first directed to Cofina in order to satisfy the above mentioned base amount. Once this base amount is reached, the municipality portion catches up by receiving the amounts which were previously diverted towards Cofina.

Sales tax revenues are dependent on the Puerto Rico economic situation and the sales tax base amount mentioned above would need to grow over time to cover debt service, especially to cover the longer maturities. However, the Company mostly owns shorter Cofina senior bonds, for which debt service coverage based on current revenues is ample.

According to the Government Development Bank, legal opinions from the Puerto Rico's Secretary of Justice, Bond Counsel and Underwriters' Counsel, pledged sales tax revenues do not constitute available resources of the Commonwealth. In other words, these revenues are not subject to the so called Puerto Rico general obligations (GO) debt "clawback" under the Commonwealth's constitution, which provides that certain revenues used to support various bond issues are available to be applied first to the payment of GO debt if needed. This suggests that Cofina bonds could be somewhat isolated from the other Puerto Rico credits.

General Obligation bonds and Cofina are generally considered to have the strongest legal protections. However, it seems that the Puerto Rico government is moving towards a consolidated debt restructuring across all issuers (see below). Cofina could either directly be included in this restructuring or the GO bond holders could challenge the separation of the sales tax revenue stream.

During the last year, the Puerto Rico Government has tried to find several solutions to improve its fiscal situation. Among other initiatives, the Government has (1) sought to provide a legal framework for restructuring its public corporation debt, (2) has planned a bond sale backed by a new fuel tax and (3) has increased sales tax revenue.

Intended to provide a legal framework for restructuring public corporation debt, the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (the Recovery Act) was passed by the Legislature in June 2014. The Central Government, municipalities and related agencies (including bonds issued by Cofina) would explicitly not be eligible, i.e. these could be restructured under this new act. However, the U.S. District Court of Puerto Rico ruled the Recovery Act unconstitutional in February 2015. On July 6, 2015, the First Circuit Court of Appeals confirmed the decision of the District Court. The Government of Puerto Rico has announced it is considering taking the controversy to the U.S. Supreme Court. As a response to the District Court decision (later confirmed by the First Circuit), the

Resident Commissioner of Puerto Rico, a non-voting member of the U.S. House of Representatives, filed a bill seeking to allow the public corporations to restructure their debt under Chapter 9 of the federal bankruptcy code, if needed. Currently, this bill is still being debated in the U.S. Congress.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

In December 2014, the Puerto Rico legislature approved a new fuel tax of 15%. This new tax was supposed to back a \$2,900,000 bond sale by the Highway Authority, which would be used to pay off a \$2,200,000 debt of that agency with the Government Development Bank. However, this bond deal was not brought to market. Effective March 15, 2015, the tax on petroleum products increased approximately 7%.

In an attempt to raise additional revenue, the Puerto Rico Government proposed a 16 percent value-added tax on goods and services in February 2015. This new tax would replace the 7 percent sales and use tax and would be combined with lower income tax rates. However, on April 29, 2015 the House of Representatives rejected the proposal. In a second attempt to raise revenue, in May 2015, the legislature passed a bill to increase the sales tax from 7% to 11.5%, effective July 1, 2015, and to introduce a 4% sales tax on services provided between businesses and on professional services, effective October 1, 2015.

Despite the initiatives above, more recently the Puerto Rico Government has changed its historical position and indicated that it is unable to support its debt burden. A study of the financial situation by former officials at the International Monetary Fund and the World Bank, published in June 2015, concluded that the debt load is unsustainable and that a debt restructuring can no longer be avoided. Subsequently, Puerto Rico's Governor said that the debt was "not payable" and that the Puerto Rico Government would probably seek significant concessions from all of the island's creditors, which could include deferring some debt payments for a number of years. The Governor also appointed a working group, which is asked to devise fiscal reforms and work on a debt restructuring.

At the end of June 2015, the legislature passed a \$9,800,000 budget for the next fiscal year. However, legislation was also passed that would allow suspending monthly General Obligation debt service deposits. These deposits would be suspended until next fiscal year unless the Government can raise funds through the issuance of tax revenue anticipation notes (TRANS) or other borrowings.

As a first step towards debt restructuring, the Government held a meeting with creditors on July 14, 2015, but offered no specifics with regards to which obligations might be restructured. Officials acknowledged the need for capital market access, indicated that liquidity would be very tight in the beginning of the new fiscal year and mentioned that certain measures had been taken, including the issuance of \$400,000 TRANS to certain Government entities and advances from Puerto Rico's retirement system. Despite these measures, on August 1, 2015, the Puerto Rico Public Finance Corporation failed to remit enough cash to its paying agent to satisfy its entire debt service obligation. This is the first time that Puerto Rico has defaulted on any of its bonded debt obligations, showing its constrained liquidity position.

This quarter, S&P and Moody's have continued to downgrade Puerto Rico credits. On June 29, 2015, S&P downgraded General Obligation bonds and Cofina senior to CCC-, maintaining a negative outlook. S&P states that the potential for a restructuring of some or all of the Commonwealth's debt is a significant possibility over the next six months. On July 1, 2015, Moody's downgraded General Obligation bonds and Cofina senior to Caa3, maintaining a negative outlook. Moody's notes that even those Puerto Rico securities with strong legal protections face a significant loss.

We considered our unrealized loss position in Cofina to be other-than-temporarily impaired as of June 30, 2015, because: (a) the financial position of the Commonwealth has deteriorated further, evidenced by a lack of liquidity and market access, and (b) the Puerto Rico government is moving towards a consolidated debt restructuring, which could

include Cofina or could jeopardize the separation of the sales tax revenue stream. As a result, during the three months and six months ended June 30, 2015, we recorded an other-than-temporary impairment for the Cofina positions amounting to \$1,660 and \$2,862, respectively.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

Maturities of investment securities classified as available for sale and held to maturity at June 30, 2015 were as follows:

	June 30, 2015	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	\$48,258	\$48,990
Due after one year through five years	330,556	336,761
Due after five years through ten years	111,151	117,524
Due after ten years	507,611	543,983
Residential mortgage-backed securities	1,023	1,090
Collateralized mortgage obligations	30,195	31,303
	\$1,028,794	\$1,079,651
Securities held to maturity:		
Due in one year or less	\$2,109	\$2,109
Due after ten years	621	798
Residential mortgage-backed securities	217	239
	\$2,947	\$3,146

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

Information regarding realized and unrealized gains and losses from investments for the three months and six months ended June 30, 2015 and 2014 is as follows:

	Three months ended		Six months ended	
	June 30, 2015	2014	June 30, 2015	2014
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	\$2,328	\$380	\$6,337	\$1,703
Gross losses from sales	(129)	(112)	(404)	(1,957)
Gross losses from other-than-temporary impairments	(1,660)	(462)	(2,862)	(462)
Total debt securities	539	(194)	3,071	(716)
Equity securities:				
Securities available for sale:				
Gross gains from sales	10,138	2,697	13,874	4,616
Gross losses from sales	(70)	-	(125)	(1,271)
Total equity securities	10,068	2,697	13,749	3,345
Net realized gains on securities available for sale	10,607	2,503	16,820	2,629
Gross gain from other investment	-	1,425	-	1,425

Net realized investment gains	\$10,607	\$3,928	\$16,820	\$4,054
-------------------------------	----------	---------	----------	---------

The other-than-temporary impairments on fixed maturity securities are attributable to credit losses.

16

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended June 30, 2015		Six months ended June 30, 2014	
Changes in net unrealized gains (losses):				
Recognized in accumulated other comprehensive income:				
Fixed maturities – available for sale	\$(23,848)	\$16,162	\$(19,757)	\$39,917
Equity securities – available for sale	(11,595)	6,292	(12,873)	8,947
	\$(35,443)	\$22,454	\$(32,630)	\$48,864
Not recognized in the consolidated financial statements:				
Fixed maturities – held to maturity	\$(37)	\$11	\$(20)	\$13

The deferred tax asset (liability) on unrealized gains change recognized in accumulated other comprehensive income during the six months ended June 30, 2015 and 2014 was \$5,380 and (\$7,842), respectively.

As of June 30, and December 31, 2014, no individual investment in securities exceeded 10% of stockholders' equity.

The components of net investment income were as follows:

	Three months ended June 30, 2015		Six months ended June 30, 2014	
Fixed maturities	\$8,592	\$9,569	\$17,941	\$19,239
Equity securities	1,777	2,270	3,124	3,616
Policy loans	135	133	266	258
Cash equivalents and interest-bearing deposits	33	14	63	26
Other	461	161	522	359
Total	\$10,998	\$12,147	\$21,916	\$23,498

Table of Contents

Triple-S Management Corporation
 Notes to Condensed Consolidated Financial Statements
 (Dollar amounts in thousands, except per share data)
 (Unaudited)

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net as of June 30, 2015 and December 31, 2014 were as follows:

	June 30, 2015	December 31, 2014
Premiums	\$ 159,874	\$ 131,496
Self-insured group receivables	76,467	62,189
FEHBP	13,811	12,384
Agent balances	30,779	25,300
Accrued interest	12,276	11,737
Reinsurance recoverable	48,358	50,686
Unsettled sales	4,547	10,456
Other	47,706	47,742
	393,818	351,990
Less allowance for doubtful receivables:		
Premiums	31,272	28,983
Other	8,456	7,385
	39,728	36,368
Total premiums and other receivables, net	\$ 354,090	\$ 315,622

As of June 30, 2015 and December 31, 2014, the Company had premiums and other receivables of \$94,604 and \$89,904, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of June 30, 2015 and December 31, 2014 were \$19,447 and \$11,614, respectively.

(5) Fair Value Measurements

Assets recorded at fair value in the condensed consolidated balance sheets are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Level inputs, as defined by current accounting guidance for fair value measurements and disclosures, are as follows:

Level	Input Definition:
Level 1	Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.
Level 2	Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.
Level 3	Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

The Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security's fair

value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 3.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

The following tables summarize fair value measurements by level at June 30, 2015 and December 31, 2014 for assets measured at fair value on a recurring basis:

	June 30, 2015			Total
	Level 1	Level 2	Level 3	
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	\$-	\$108,403	\$-	\$108,403
U.S. Treasury securities and obligations of U.S government instrumentalities	156,339	-	-	156,339
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	26,627	-	26,627
Municipal securities	-	624,696	-	624,696
Corporate bonds	-	131,193	-	131,193
Residential agency mortgage-backed securities	-	1,090	-	1,090
Collateralized mortgage obligations	-	31,303	-	31,303
Total fixed maturities	156,339	923,312	-	1,079,651
Equity securities - mutual funds	128,305	18,269	9,083	155,657
Total	\$284,644	\$941,581	\$9,083	\$1,235,308
	December 31, 2014			Total
	Level 1	Level 2	Level 3	
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	\$-	\$130,644	\$-	\$130,644
U.S. Treasury securities and obligations of U.S government instrumentalities	95,100	-	-	95,100
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	35,253	-	35,253
Municipal securities	-	634,219	-	634,219
Corporate bonds	-	164,834	-	164,834
Residential agency mortgage-backed securities	-	7,119	-	7,119
Collateralized mortgage obligations	-	48,730	-	48,730
Total fixed maturities	95,100	1,020,799	-	1,115,899
Equity securities - mutual funds	160,461	23,946	13,349	197,756
Total	\$255,561	\$1,044,745	\$13,349	\$1,313,655

The fair value of fixed maturity and equity securities included in the Level 2 category were based on market values obtained from independent pricing services, which utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Because many fixed income securities do not trade on a daily basis, the models used

by independent pricing service providers to prepare evaluations apply available information, such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. The independent pricing service providers monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants. The fair value of the investments in partnerships included in the Level 3 category was based on the net asset value (NAV) which is affected by the changes in the fair market value of the investments held in these partnerships.

Table of Contents

Triple-S Management Corporation
Notes to Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except per share data)
(Unaudited)

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in and/or out of Level 3 and between Levels 1 and 2 during the three months and six months ended June 30, 2015 and 2014.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended June 30, 2015 and 2014 is as follows:

	Three months ended			June 30, 2014		
	June 30, 2015		Total	June 30, 2014		Total
	Fixed Maturity Securities	Equity Securities		Fixed Maturity Securities	Equity Securities	
Beginning balance	\$-	\$ 10,191	\$ 10,191	\$-	\$ 18,868	\$ 18,868
Realized gains	-	-	-	-	-	-
Unrealized loss in other accumulated comprehensive income	-	(700)	(700)	-	(353)	(353)
Capital distributions	-	(519)	(519)	-	(2,001)	(2,001)
Purchases	-	111	111	-	345	345
Transfers in and/or out of Level 3	-	-	-	-	-	-
Ending balance	\$-	\$ 9,083	\$ 9,083	\$-	\$ 16,859	\$ 16,859
	Six months ended			June 30, 2014		
	June 30, 2015		Total	June 30, 2014		Total
	Fixed Maturity Securities	Equity Securities		Fixed Maturity Securities	Equity Securities	
Beginning balance	\$-	\$ 13,349	\$ 13,349	\$-	\$ 17,910	\$ 17,910
Realized gains	-	1,412	1,412	-	-	-
Unrealized gain (loss) in other accumulated comprehensive income	-	(3,302)	(3,302)	-	605	605
Capital distributions	-	(2,565)	(2,565)	-	(2,001)	(2,001)
Purchases	-	189	189	-	345	345
Transfers in and/or out of Level 3	-	-	-	-	-	-
Ending balance	\$-	\$ 9,083	\$ 9,083	\$-	\$ 16,859	\$ 16,859

In addition to the preceding disclosures on assets recorded at fair value in the condensed consolidated balance sheets, accounting guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the condensed consolidated balance sheets.

Non-financial instruments such as property and equipment, other assets, deferred income taxes and intangible assets, and certain financial instruments such as claim liabilities are excluded from the fair value disclosures. Therefore, the fair value amounts cannot be aggregated to determine our underlying economic value.

The carrying amounts reported in the condensed consolidated balance sheets for cash and cash equivalents, receivables, accounts payable and accrued liabilities, and short-term borrowings approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

20

Table of Contents

Triple-S Management Corporation
 Notes to Condensed Consolidated Financial Statements
 (Dollar amounts in thousands, except per share data)
 (Unaudited)

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

(i) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(ii) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(iii) Long-term Borrowings

The carrying amount of the loans payable to bank – variable approximates fair value due to its floating interest-rate structure. The fair value of the senior unsecured notes payable was determined using broker quotations.

(iv) Repurchase Agreement

The value of the repurchase agreement with a long term maturity is based on the discounted value of the contractual cash flows using current estimated market discount rates for instruments with similar terms.

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our condensed consolidated balance sheets at June 30, 2015 and December 31, 2014 are as follows:

	June 30, 2015				Total
	Carrying Value	Fair Value		Level 3	
		Level 1	Level 2		
Assets:					
Policy loans	\$7,334	\$-	\$7,334	\$ -	\$7,334
Liabilities:					
Policyholder deposits	\$118,921	\$-	\$118,921	\$ -	\$118,921
Long-term borrowings:					
Loans payable to bank - variable	13,647	-	13,647	-	13,647
6.6% senior unsecured notes payable	24,000	-	25,173	-	25,173
Repurchase agreement	25,000	-	27,140	-	27,140
Total long-term borrowings	62,647	-	65,960	-	65,960
Total liabilities	\$181,568	\$-	\$184,881	\$ -	\$184,881

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

	December 31, 2014				
	Carrying Value	Fair Value Level			Total
		1	Level 2	3	
Assets:					
Policy loans	\$7,260	\$-	\$7,260	\$ -	\$7,260
Liabilities:					
Policyholder deposits	\$118,912	\$-	\$118,912	\$ -	\$118,912
Long-term borrowings:					
Loans payable to bank - variable	14,467	-	14,467	-	14,467
6.6% senior unsecured notes payable	35,000	-	33,513	-	33,513
Repurchase agreement	25,000	-	25,337	-	25,337
Total long-term borrowings	74,467	-			