

TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 04, 2016

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 September 30, 2016

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

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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 September 30, 2016</u> |
|--|--|
| Common Stock Class A, \$1.00 par value | 950,968 |
| Common Stock Class B, \$1.00 par value | 23,321,748 |

Triple-S Management Corporation
 FORM 10-Q
 For the Quarter Ended September 30, 2016

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Part I – Financial Information

Item 1. Financial Statements

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

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Assets | | |
| Investments and cash: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities | \$ 1,162,209 | \$ 1,133,645 |
| Equity securities | 302,077 | 197,071 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities | 2,833 | 2,929 |
| Policy loans | 8,372 | 7,901 |
| Cash and cash equivalents | 165,523 | 197,818 |
| Total investments and cash | 1,641,014 | 1,539,364 |
| Premiums and other receivables, net | 333,964 | 282,646 |
| Deferred policy acquisition costs and value of business acquired | 190,443 | 190,648 |
| Property and equipment, net | 68,184 | 73,953 |
| Deferred tax asset | 57,950 | 52,361 |
| Goodwill | 25,397 | 25,397 |
| Other assets | 57,966 | 41,776 |
| Total assets | \$ 2,374,918 | \$ 2,206,145 |
| Liabilities and Equity | | |
| Claim liabilities | | |
| Liability for future policy benefits | \$ 511,377 | \$ 491,765 |
| Unearned premiums | 315,404 | 289,530 |
| Policyholder deposits | 160,066 | 80,260 |
| Liability to Federal Employees' Health Benefits Program (FEHBP) | 181,323 | 179,287 |
| Accounts payable and accrued liabilities | 34,474 | 26,695 |
| Deferred tax liability | 188,517 | 176,910 |
| Long-term borrowings | 23,938 | 15,070 |
| Liability for pension benefits | 35,597 | 36,827 |
| Total liabilities | 56,015 | 62,945 |
| 1,506,711 | 1,359,289 | |
| Stockholders' equity: | | |
| Triple-S Management Corporation stockholders' equity | | |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 950,968 at September 30, 2016 and December 31, 2015, respectively | 951 | 951 |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 23,321,748 and 24,047,755 shares at September 30, 2016 and December 31, 2015, respectively | 23,322 | 24,048 |
| Additional paid-in capital | 65,058 | 83,438 |
| Retained earnings | 718,861 | 713,466 |
| Accumulated other comprehensive income | 60,691 | 25,623 |
| Total Triple-S Management Corporation stockholders' equity | 868,883 | 847,526 |

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| | | | | |
|---|--------------|---|--------------|---|
| Non-controlling interest in consolidated subsidiary | (676 |) | (670 |) |
| Total stockholders' equity | 868,207 | | 846,856 | |
| Total liabilities and equity | \$ 2,374,918 | | \$ 2,206,145 | |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Earnings (Unaudited)

(dollar amounts in thousands, except per share data)

| | Three months ended | | Nine months ended | |
|--|--------------------|-----------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Premiums earned, net | \$721,187 | \$746,718 | \$2,188,770 | \$2,033,383 |
| Administrative service fees | 4,146 | 6,163 | 13,749 | 39,835 |
| Net investment income | 12,337 | 10,618 | 36,570 | 32,534 |
| Other operating revenues | 871 | 862 | 2,598 | 2,656 |
| Total operating revenues | 738,541 | 764,361 | 2,241,687 | 2,108,408 |
| Net realized investment gains (losses): | | | | |
| Total other-than-temporary impairment losses on securities | - | (1,627) | (1,434) | (4,489) |
| Net realized gains, excluding other-than-temporary impairment losses on securities | 5,376 | 66 | 8,388 | 19,748 |
| Total net realized investment gains (losses) on sale of securities | 5,376 | (1,561) | 6,954 | 15,259 |
| Other income, net | 734 | 2,289 | 5,468 | 5,131 |
| Total revenues | 744,651 | 765,089 | 2,254,109 | 2,128,798 |
| Benefits and expenses: | | | | |
| Claims incurred | 629,169 | 634,909 | 1,877,950 | 1,705,237 |
| Operating expenses | 123,406 | 125,887 | 367,498 | 380,086 |
| Total operating costs | 752,575 | 760,796 | 2,245,448 | 2,085,323 |
| Interest expense | 1,893 | 1,979 | 5,729 | 6,235 |
| Total benefits and expenses | 754,468 | 762,775 | 2,251,177 | 2,091,558 |
| (Loss) income before taxes | (9,817) | 2,314 | 2,932 | 37,240 |
| Income tax benefit | (7,873) | (1,850) | (2,457) | (631) |
| Net (loss) income | (1,944) | 4,164 | 5,389 | 37,871 |
| Less: Net loss attributable to non-controlling interest | 3 | 30 | 6 | 85 |
| Net (loss) income attributable to Triple-S Management Corporation | \$(1,941) | \$4,194 | \$5,395 | \$37,956 |
| Earnings per share attributable to Triple-S Management Corporation | | | | |
| Basic net (loss) income per share | \$(0.08) | \$0.17 | \$0.22 | \$1.46 |
| Diluted net (loss) income per share | \$(0.08) | \$0.16 | \$0.22 | \$1.46 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(dollar amounts in thousands)

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net (loss) income | \$ (1,944) | \$ 4,164 | \$ 5,389 | \$ 37,871 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net unrealized change in fair value of available for sale securities, net of taxes | (1,884) | (4,821) | 33,523 | (32,071) |
| Defined benefit pension plan: | | | | |
| Actuarial loss, net | 525 | 1,016 | 1,754 | 2,919 |
| Prior service credit, net | (59) | (77) | (209) | (215) |
| Total other comprehensive (loss) income, net of tax | (1,418) | (3,882) | 35,068 | (29,367) |
| Comprehensive (loss) income | (3,362) | 282 | 40,457 | 8,504 |
| Comprehensive loss attributable to non-controlling interest | 3 | 30 | 6 | 85 |
| Comprehensive (loss) income attributable to Triple-S Management Corporation | \$ (3,359) | \$ 312 | \$ 40,463 | \$ 8,589 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(dollar amounts in thousands)

| | 2016 | 2015 |
|--|-----------|-----------|
| Balance at January 1 | \$847,526 | \$858,558 |
| Share-based compensation | 2,266 | 5,520 |
| Stock issued upon the exercise of stock options | 55 | 179 |
| Repurchase and retirement of common stock | (21,427) | (41,165) |
| Comprehensive income | 40,463 | 8,589 |
| Total Triple-S Management Corporation stockholders' equity | 868,883 | 831,681 |
| Non-controlling interest in consolidated subsidiary | (676) | (617) |
| Balance at September 30 | \$868,207 | \$831,064 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Nine months ended September 30, | |
|---|------------------------------------|-----------|
| | 2016 | 2015 |
| Cash flows from operating activities: | | |
| Net income | \$5,389 | \$37,871 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 10,617 | 12,031 |
| Net amortization of investments | 6,181 | 4,956 |
| Additions to the allowance for doubtful receivables | 2,498 | 11,425 |
| Deferred tax benefit | (4,026) | (5,140) |
| Net realized investment gain on sale of securities | (6,954) | (15,259) |
| Interest credited to policyholder deposits | 3,091 | 2,557 |
| Share-based compensation | 1,931 | 5,520 |
| (Increase) decrease in assets: | | |
| Premium and other receivables, net | (53,816) | 10,983 |
| Deferred policy acquisition costs and value of business acquired | (5,250) | (2,928) |
| Deferred taxes | (2,384) | 869 |
| Other assets | (15,598) | (13,602) |
| Increase (decrease) in liabilities: | | |
| Claim liabilities | 19,612 | 82,895 |
| Liability for future policy benefits | 25,874 | 17,410 |
| Unearned premiums | 79,806 | (4,216) |
| Liability to FEHBP | 7,779 | 8,032 |
| Accounts payable and accrued liabilities | 8,261 | 18,066 |
| Net cash provided by operating activities | 83,011 | 171,470 |

(Continued)

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

| | Nine months ended | |
|---|-------------------|-----------|
| | September 30, | |
| | 2016 | 2015 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | \$227,631 | \$307,545 |
| Fixed maturities matured/called | 32,308 | 38,323 |
| Equity securities sold | 67,054 | 81,176 |
| Securities held to maturity - fixed maturities matured/called | 1,220 | 639 |
| Acquisition of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (258,378) | (360,588) |
| Equity securities | (153,399) | (81,901) |
| Securities held to maturity - fixed maturities | (1,124) | (623) |
| Increase in other investments | (1,939) | (2,139) |
| Net disbursements for policy loans | (471) | (498) |
| Net capital expenditures | (3,517) | (5,628) |
| Net cash used in investing activities | (90,615) | (23,694) |
| Cash flows from financing activities: | | |
| Change in outstanding checks in excess of bank balances | (1,035) | (5,262) |
| Repayments of long-term borrowings | (1,230) | (12,230) |
| Repurchase and retirement of common stock | (21,371) | (40,983) |
| Proceeds from policyholder deposits | 12,488 | 5,587 |
| Surrenders of policyholder deposits | (13,543) | (10,468) |
| Net cash used in financing activities | (24,691) | (63,356) |
| Net (decrease) increase in cash and cash equivalents | (32,295) | 84,420 |
| Cash and cash equivalents: | | |
| Beginning of period | 197,818 | 110,037 |
| End of period | \$165,523 | \$194,457 |

See accompanying notes to unaudited condensed consolidated financial statements.

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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, 2015.

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 nine months ended September 30, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016.

(2) Recent Accounting Standards

On January 5, 2016, the Financial Accounting Standards Board (FASB) issued guidance to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Among the many targeted improvements to U.S. GAAP are (1) requiring equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and (4) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This guidance applies to all entities that hold financial assets or owe financial liabilities. For public companies, these amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that the adoption of this guidance may have on the Company’s consolidated financial statements.

On February 25, 2016, the FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. This guidance sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The guidance requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that the adoption of this guidance may have on the Company’s consolidated financial statements.

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

On March 30, 2016, the FASB issued guidance to reduce complexity in accounting standards. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including (1) accounting for income taxes, (2) classification of excess tax benefits on the statement of cash flow, (3) forfeitures; (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes; (6) the practical expedient for estimating the expected term, and (7) intrinsic value. For public companies, these amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

On May 9, 2016, the FASB issued guidance which affects only the narrow aspects of guidance related to revenue from contracts with customers that include: (1) clarification of the collectibility criterion and the addition of a new criterion to clarify when revenue would be recognized for a contract that fails to meet the criteria in step 1 of the core principle of the guidance (i.e., identifying the contracts with a customer); (2) presentation of sales taxes and similar taxes collected from customers; (3) non-cash consideration; (4) contract modifications at transition; (5) completed contracts at transition; and (6) clarification that an entity that retrospectively applies in the guidance to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption, but is still required to disclose the effect of the changes on any prior periods retrospectively adjusted. For public companies, these amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

On June 16, 2016, the FASB issued guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public companies, these amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

On August 26, 2016, the FASB issued guidance to addresses stakeholders' concerns regarding diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows under, Statement of Cash Flows, and other Topics. In particular, the guidance addresses eight specific cash flow issues in an effort to reduce this diversity in practice: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon bonds; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (6) distributions received from equity method investees; (7) beneficial interests in securitization transactions; and (8) separately identifiable cash flows and application of the predominance principle. For public companies, these amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and nine months ended September 30, 2016 that could have a material impact on the

Corporation's financial position, operating results or financials statement disclosures.

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

(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 September 30, 2016 and December 31, 2015, were as follows:

| | September 30, 2016 | | | |
|---|--------------------|------------|------------|-------------|
| | Amortized | Gross | Gross | Estimated |
| | cost | unrealized | unrealized | fair value |
| | | gains | losses | |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government- sponsored enterprises | \$59,423 | \$ 512 | \$ - | \$59,935 |
| U.S. Treasury securities and obligations of U.S. government | | | | |
| instrumentalities | 77,790 | 948 | (2) | 78,736 |
| Obligations of the Commonwealth of Puerto Rico and its | | | | |
| instrumentalities | 17,624 | 3,248 | - | 20,872 |
| Municipal securities | 687,107 | 55,639 | (37) | 742,709 |
| Corporate bonds | 226,761 | 20,642 | (93) | 247,310 |
| Residential mortgage-backed securities | 728 | 43 | - | 771 |
| Collateralized mortgage obligations | 11,823 | 61 | (8) | 11,876 |
| Total fixed maturities | 1,081,256 | 81,093 | (140) | 1,162,209 |
| Equity securities - Mutual funds | 262,314 | 39,968 | (205) | 302,077 |
| Total | \$1,343,570 | \$ 121,061 | \$ (345) | \$1,464,286 |

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

| | December 31, 2015 | | | Estimated fair value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government- sponsored enterprises | \$ 115,965 | \$ 301 | \$ (26) | \$ 116,240 |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 163,322 | 234 | (286) | 163,270 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 25,302 | 317 | - | 25,619 |
| Municipal securities | 612,225 | 35,418 | (197) | 647,446 |
| Corporate bonds | 148,198 | 9,782 | (572) | 157,408 |
| Residential mortgage-backed securities | 883 | 54 | - | 937 |
| Collateralized mortgage obligations | 22,363 | 368 | (6) | 22,725 |
| Total fixed maturities | 1,088,258 | 46,474 | (1,087) | 1,133,645 |
| Equity securities - Mutual funds | 169,593 | 27,851 | (373) | 197,071 |
| Total | \$ 1,257,851 | \$ 74,325 | \$ (1,460) | \$ 1,330,716 |

| | September 30, 2016 | | | Estimated fair value |
|--|--------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | |
| Securities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | \$ 619 | \$ 224 | \$ - | \$ 843 |
| Residential mortgage-backed securities | 191 | 20 | - | 211 |
| Certificates of deposit | 2,023 | - | - | 2,023 |
| Total | \$ 2,833 | \$ 244 | \$ - | \$ 3,077 |

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

| | December 31, 2015 | | | |
|---|-------------------|------------------------|-------------------------|----------------------|
| | 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 | \$620 | \$ 178 | \$ - | \$ 798 |
| Residential mortgage-backed securities | 191 | 17 | - | 208 |
| Certificates of deposit | 2,118 | - | - | 2,118 |
| Total | \$2,929 | \$ 195 | \$ - | \$ 3,124 |

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 September 30, 2016 and December 31, 2015 were as follows:

| | September 30, 2016 | | | | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | 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 | | | | | | | | | |
| U.S. Treasury securities and obligations of U.S. governmental instrumentalities | \$2,497 | \$ (2) | 1 | \$ - | \$ - | - | \$2,497 | \$ (2) | 1 |
| Municipal securities | 13,251 | (37) | 2 | - | - | - | 13,251 | (37) | 2 |
| Corporate bonds | 26,644 | (93) | 7 | - | - | - | 26,644 | (93) | 7 |
| Collateralized mortgage obligations | 5,561 | (4) | 4 | 940 | (4) | 1 | 6,501 | (8) | 5 |
| Total fixed maturities | 47,953 | (136) | 14 | 940 | (4) | 1 | 48,893 | (140) | 15 |
| Equity securities-Mutual funds | 7,958 | (205) | 5 | - | - | - | 7,958 | (205) | 5 |
| Total for securities available for sale | \$55,911 | \$ (341) | 19 | \$ 940 | \$ (4) | 1 | \$56,851 | \$ (345) | 20 |

| | December 31, 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 | | | | | | | | | |
| | \$18,989 | \$ (26) | 1 | \$ - | \$ - | - | \$18,989 | \$ (26) | 1 |

Obligations of government-sponsored enterprises

U.S. Treasury securities and obligations of U.S.

| | | | | | | | | | |
|---|-----------|------------|----|------|------|---|-----------|------------|----|
| governmental instrumentalities | 130,996 | (286) | 5 | - | - | - | 130,996 | (286) | 5 |
| Municipal securities | 43,937 | (197) | 11 | - | - | - | 43,937 | (197) | 11 |
| Corporate bonds | 35,718 | (572) | 9 | - | - | - | 35,718 | (572) | 9 |
| Collateralized mortgage obligations | 1,448 | (6) | 1 | - | - | - | 1,448 | (6) | 1 |
| Total fixed maturities | 231,088 | (1,087) | 27 | - | - | - | 231,088 | (1,087) | 27 |
| Equity securities-Mutual funds | 9,319 | (373) | 2 | - | - | - | 9,319 | (373) | 2 |
| Total for securities available for sale | \$240,407 | \$(1,460) | 29 | \$ - | \$ - | - | \$240,407 | \$(1,460) | 29 |

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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 U.S. Government Instrumentalities, Municipal Securities and Corporate bonds: The unrealized losses on the Corporation's investments in obligations of U.S. Government Instrumentalities, Municipal Securities and Corporate bonds were mainly caused by fluctuations in interest rates and general market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. In addition, these investments have investment grade ratings. Because the decline in fair value is attributable to changes in interest rates and not credit quality; because the Corporation does not intend to sell the investments and it is not more likely than not that the Corporation will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Corporation expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Collateralized mortgage obligations: The unrealized losses on investments collateralized mortgage obligations ("CMOs") were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior), typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Corporation owns. The Corporation does not consider these investments other-than-temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality; the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Corporation expects to collect all contractual cash flows.

Mutual Funds: As of September 30, 2016, investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired based on market conditions and the length of time the funds have been in a loss position. During the nine months ended September 30, 2016, positions with a total fair market value of \$11,582 were impaired by \$1,434. There were no impairment on mutual funds during the three months ended September 30, 2016. During the three months and nine months ended September 30, 2015, we recorded an other-than-temporary impairment related to mutual funds amounting to \$479.

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 \$7,787 and a gross unrealized gain of \$15, and (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of \$13,085 and a gross unrealized gain of \$3,233.

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.

There was no impairment on Cofina during the three months and nine months ended September 30, 2016. During the three and nine months ended September 30, 2015, we recorded an other-than-temporary impairment related to these

positions amounting to \$1,148 and \$4,010, respectively.

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Maturities of investment securities classified as available for sale and held to maturity were as follows:

| | September 30, 2016 | |
|--|--------------------|----------------------|
| | Amortized cost | Estimated fair value |
| Securities available for sale: | | |
| Due in one year or less | \$18,504 | \$18,666 |
| Due after one year through five years | 337,657 | 344,781 |
| Due after five years through ten years | 120,438 | 133,079 |
| Due after ten years | 592,106 | 653,036 |
| Residential mortgage-backed securities | 728 | 771 |
| Collateralized mortgage obligations | 11,823 | 11,876 |
| | \$1,081,256 | \$1,162,209 |
| Securities held to maturity: | | |
| Due in one year or less | \$2,023 | \$2,023 |
| Due after ten years | 619 | 843 |
| Residential mortgage-backed securities | 191 | 211 |
| | \$2,833 | \$3,077 |

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 is as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2016 | September 30, 2015 | September 30, 2016 | September 30, 2015 |
| Securities available for sale: | | | | |
| Realized gains (losses): | | | | |
| Securities available for sale: | | | | |
| Fixed maturity securities: | | | | |
| Gross gains from sales | \$ 187 | \$ 868 | \$2,060 | \$7,205 |
| Gross losses from sales | (20) | (136) | (1,482) | (540) |
| Gross losses from other-than-temporary impairments | - | (1,148) | - | (4,010) |
| Total fixed maturity securities | 167 | (416) | 578 | 2,655 |
| Equity securities: | | | | |
| Gross gains from sales | 5,873 | 126 | 8,985 | 14,000 |
| Gross losses from sales | (664) | (792) | (1,175) | (917) |
| Gross losses from other-than-temporary impairments | - | (479) | (1,434) | (479) |
| Total equity securities | 5,209 | (1,145) | 6,376 | 12,604 |
| Net realized gains (losses) on securities available for sale | \$ 5,376 | \$ (1,561) | \$ 6,954 | \$ 15,259 |

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| | Three months ended | | Nine months ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Changes in net unrealized gains (losses): | | | | |
| Recognized in accumulated other comprehensive income: | | | | |
| Fixed maturities – available for sale | \$(5,762) | \$6,379 | \$35,566 | \$(13,378) |
| Equity securities – available for sale | 2,608 | (12,018) | 12,285 | (24,891) |
| | \$(3,154) | \$(5,639) | \$47,851 | \$(38,269) |
| Not recognized in the consolidated financial statements: | | | | |
| Fixed maturities – held to maturity | \$(14) | \$15 | \$49 | \$(5) |

The deferred tax asset (liability) on unrealized gains (losses) change recognized in accumulated other comprehensive income during the nine months ended September 30, 2016 and 2015 was (\$14,328) and \$6,198, respectively.

As of September 30, 2016 and December 31, 2015, no individual investment in securities exceeded 10% of stockholders' equity.

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net as of September 30, 2016, and December 31, 2015 were as follows:

| | September 30, | December 31, |
|--|---------------|--------------|
| | 2016 | 2015 |
| Premium | \$ 137,064 | \$ 92,600 |
| Self-funded group receivables | 60,094 | 73,552 |
| FEHBP | 12,421 | 13,859 |
| Agent balances | 26,463 | 25,424 |
| Accrued interest | 11,325 | 12,624 |
| Reinsurance recoverable | 58,076 | 48,506 |
| Other | 67,153 | 53,325 |
| | 372,596 | 319,890 |
| Less allowance for doubtful receivables: | | |
| Premium | 29,950 | 28,944 |
| Other | 8,682 | 8,300 |
| | 38,632 | 37,244 |
| Total premium and other receivables, net | \$ 333,964 | \$ 282,646 |

As of September 30, 2016 and December 31, 2015, the Company had premiums and other receivables of \$112,020 and \$78,230, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of September 30, 2016 and December 31, 2015 were \$20,558 and \$19,133, respectively.

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(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.

The following tables summarize fair value measurements by level at September 30, 2016 and December 31, 2015 for assets measured at fair value on a recurring basis:

| | September 30, 2016 | | | Total |
|--|--------------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Securities available for sale: | | | | |
| Fixed maturity securities | | | | |
| Obligations of government-sponsored enterprises | \$- | \$59,935 | \$- | \$59,935 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 78,736 | - | - | 78,736 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 20,872 | - | 20,872 |
| Municipal securities | - | 742,709 | - | 742,709 |
| Corporate bonds | - | 247,310 | - | 247,310 |
| Residential agency mortgage-backed securities | - | 771 | - | 771 |
| Collateralized mortgage obligations | - | 11,876 | - | 11,876 |
| Total fixed maturities | 78,736 | 1,083,473 | - | 1,162,209 |
| Equity securities - Mutual funds | 205,924 | 69,700 | 26,453 | 302,077 |

| | | | | |
|-------|-----------|-------------|----------|-------------|
| Total | \$284,660 | \$1,153,173 | \$26,453 | \$1,464,286 |
|-------|-----------|-------------|----------|-------------|

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| | December 31, 2015 | | | Total |
|--|-------------------|-----------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Securities available for sale: | | | | |
| Fixed maturity securities | | | | |
| Obligations of government-sponsored enterprises | - | 116,240 | - | 116,240 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 163,270 | - | - | 163,270 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 25,619 | - | 25,619 |
| Municipal securities | - | 647,446 | - | 647,446 |
| Corporate bonds | - | 157,408 | - | 157,408 |
| Residential agency mortgage-backed securities | - | 937 | - | 937 |
| Collateralized mortgage obligations | - | 22,725 | - | 22,725 |
| Total fixed maturities | 163,270 | 970,375 | - | 1,133,645 |
| Equity securities - Mutual funds | 167,082 | 22,031 | 7,958 | 197,071 |
| Total | \$330,352 | \$992,406 | \$7,958 | \$1,330,716 |

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.

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 nine months ended September 30, 2016 and 2015.

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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 and nine months ended September 30 is as follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | |
|--|---|----------|--------------------|-----------|
| | Three months ended | | Nine months ended | |
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Beginning balance | \$ 14,869 | \$ 9,083 | \$ 7,958 | \$ 13,349 |
| Realized gains | 21 | 125 | 234 | 1,537 |
| Unrealized in other accumulated comprehensive income | (485) | 18 | (1,454) | (3,284) |
| Purchases | 12,587 | 125 | 21,220 | 314 |
| Capital distributions | (539) | (175) | (1,505) | (2,740) |
| Ending balance | \$ 26,453 | \$ 9,176 | \$ 26,453 | \$ 9,176 |

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.

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.

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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 September 30, 2016 and December 31, 2015 are as follows:

| | September 30, 2016 | | | | |
|-------------------------------------|--------------------|------------------|-----------|---------|-----------|
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Policy loans | \$8,372 | \$- | \$8,372 | \$ - | \$8,372 |
| Liabilities: | | | | | |
| Policyholder deposits | \$181,323 | \$- | \$181,323 | \$ - | \$181,323 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 11,597 | - | 11,597 | - | 11,597 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,200 | - | 19,200 |
| Total long-term borrowings | 35,597 | - | 30,797 | - | 30,797 |
| Total liabilities | \$216,920 | \$- | \$212,120 | \$ - | \$212,120 |

| | December 31, 2015 | | | | |
|-------------------------------------|-------------------|------------------|-----------|---------|-----------|
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Policy loans | \$7,901 | \$- | \$7,901 | \$ - | \$7,901 |
| Liabilities: | | | | | |
| Policyholder deposits | \$179,287 | \$- | \$179,287 | \$ - | \$179,287 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 12,827 | - | 12,827 | - | 12,827 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,920 | - | 19,920 |
| Total long-term borrowings | 36,827 | - | 32,747 | - | 32,747 |
| Total liabilities | \$216,114 | \$- | \$212,034 | \$ - | \$212,034 |

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(6) Claim Liabilities

The activity in claim liabilities is as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Claim liabilities at beginning of period | \$481,864 | \$462,186 | \$491,765 | \$390,086 |
| Reinsurance recoverable on claim liabilities | (38,109) | (39,156) | (40,714) | (40,635) |
| Net claim liabilities at beginning of period | 443,755 | 423,030 | 451,051 | 349,451 |
| Incurred claims and loss-adjustment expenses: | | | | |
| Current period insured events | 615,125 | 631,135 | 1,878,029 | 1,700,653 |
| Prior period insured events | 6,908 | (2,315) | (20,619) | (13,597) |
| Total | 622,033 | 628,820 | 1,857,410 | 1,687,056 |
| Payments of losses and loss-adjustment expenses: | | | | |
| Current period insured events | 570,110 | 561,269 | 1,540,182 | 1,345,082 |
| Prior period insured events | 23,728 | 56,699 | 296,329 | 257,543 |
| Total | 593,838 | 617,968 | 1,836,511 | 1,602,625 |
| Net claim liabilities at end of period | 471,950 | 433,882 | 471,950 | 433,882 |
| Reinsurance recoverable on claim liabilities | 39,427 | 39,099 | 39,427 | 39,099 |
| Claim liabilities at end of period | \$511,377 | \$472,981 | \$511,377 | \$472,981 |

As a result of differences between actual amounts and estimates of insured events in prior years, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred.

The amount in the incurred claims and loss-adjustment expenses for the prior period insured events for the three months ended September 30, 2016 is due primarily to higher than anticipated utilization trends. The favorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2016 and for the three months and nine months ended September 30, 2015 are due primarily to better than expected utilization trends. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to \$7,136 and \$20,540 during the three months and nine months ended September 30, 2016, respectively. The change in the liability for future policy benefits during the three months and nine months ended September 30, 2015 amounted to \$6,089 and \$18,181, respectively.

(7) Long-Term Borrowings

On March 11, 2016, Triple-S Salud, Inc. (TSS) entered into a \$30,000 revolving loan agreement with a commercial bank in Puerto Rico. This line of credit, unused as of September 30, 2016, has an interest rate of LIBOR plus 220 basis points, matures on March 11, 2017, and contains certain financial and non-financial covenants that are customary for this type of facility.

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(8) Income Taxes

In connection with the Puerto Rico tax code, as amended, on April 15, 2015, the group of corporations that comprise TSM entered into a Closing Agreement with the Puerto Rico Department of Treasury. The Closing Agreement, among other matters, was related with the payment of the preferential tax rate on the increase in value of some of its long-term capital assets, as permitted by Act No. 238 of 2014 and Act No. 44 of 2015. The agreement also covered certain tax attributes of the Corporation. During the nine months ended September 30, 2016, as a result of the aforementioned tax laws and the Closing Agreement, the Company: (1) obtained a benefit from the lower tax rate provided under these statutes, (2) reassessed the realizability of some of its deferred taxes and (3) recorded a tax benefit of \$3,129.

During the nine months ended September 30, 2016, our Property and Casualty subsidiary, Triple-S Propiedad, Inc. (TSP), reassessed the tax rate used to measure several temporary differences, from 20% to 39%, which resulted in an increase in the deferred tax expense of approximately \$2,633.

(9) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30 were as follows:

| | Three months ended | | Nine months ended | |
|--|--------------------|----------|-------------------|----------|
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 779 | \$ 1,160 | \$ 2,907 | \$ 3,217 |
| Interest cost | 1,874 | 2,322 | 6,575 | 6,544 |
| Expected return on assets | (1,928) | (2,350) | (6,908) | (6,564) |
| Amortization of prior service benefit | (96) | (126) | (342) | (352) |
| Amortization of actuarial loss | 863 | 1,665 | 2,877 | 4,784 |
| Net periodic benefit cost | \$ 1,492 | \$ 2,671 | \$ 5,109 | \$ 7,629 |

Employer Contributions: The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2015 that it expected to contribute \$8,000 to the pension program in 2016. As of September 30, 2016, the Corporation has contributed \$10,000 to the pension program.

(10) Stock Repurchase Program

The Company repurchases shares through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, under repurchase programs authorized by the Board of Directors.

In November 2015 the Company's Board of Directors authorized a \$25,000 repurchase program of its Class B common stock. During the three months ended September 30, 2016, the Company repurchased and retired under this program 299,884 shares at an average per share price of \$22.60, for an aggregate cost of \$6,825. During the nine

months ended September 30, 2016, the Company repurchased and retired under this program 951,831 shares at an average per share price of \$22.54, for an aggregate cost of \$21,418. This program was completed on September 14, 2016.

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(11) Comprehensive Income

The accumulated balances for each classification of other comprehensive income, net of tax, are as follows:

| | Net Unrealized Gain on Securities | | | |
|--|--|------------|-------------------|------------|
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$97,885 | \$74,217 | \$62,478 | \$101,467 |
| Other comprehensive income before reclassifications | 2,417 | (5,764) | 40,233 | (17,269) |
| Amounts reclassified from accumulated other comprehensive income | (4,301) | 943 | (6,710) | (14,802) |
| Net current period change | (1,884) | (4,821) | 33,523 | (32,071) |
| Ending Balance | \$96,001 | \$69,396 | \$96,001 | \$69,396 |
| | Liability for Pension Benefits | | | |
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$(35,776) | \$(50,926) | \$(36,855) | \$(52,691) |
| Other comprehensive income before reclassifications | - | - | - | - |
| Amounts reclassified from accumulated other comprehensive income | 466 | 939 | 1,545 | 2,704 |
| Net current period change | 466 | 939 | 1,545 | 2,704 |
| Ending Balance | \$(35,310) | \$(49,987) | \$(35,310) | \$(49,987) |
| | Accumulated Other Comprehensive Income | | | |
| | Three months ended | | Nine months ended | |
| | September 30, | | September 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$62,109 | \$23,291 | \$25,623 | \$48,776 |
| Other comprehensive income before reclassifications | 2,417 | (5,764) | 40,233 | (17,269) |
| Amounts reclassified from accumulated other comprehensive income | (3,835) | 1,882 | (5,165) | (12,098) |
| Net current period change | (1,418) | (3,882) | 35,068 | (29,367) |
| Ending Balance | \$60,691 | \$19,409 | \$60,691 | \$19,409 |

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(12) Share-Based Compensation

Share-based compensation expense (benefit) recorded during the three months and nine months ended September 30, 2016 was (\$383) and \$1,931, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2015 was \$2,321 and \$5,520, respectively. There was no cash received from stock option exercises during the nine months ended September 30, 2016 and 2015. During the nine months ended September 30, 2016 and 2015, 2,290 and 7,235 shares, respectively, were repurchased and retired as a result of non-cash exercises of stock options.

(13) Net Income Available to Stockholders and Net Income per Share

The following table sets forth the computation of basic and diluted earnings per share for the three and nine months ended September 30:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|-------------------------------------|------------|------------------------------------|------------|
| | 2016 | 2015 | 2016 | 2015 |
| Numerator for earnings per share: | | | | |
| Net (loss) income attributable to TSM available to stockholders | \$(1,941 |) \$4,194 | \$5,395 | \$37,956 |
| Denominator for basic earnings per share: | | | | |
| Weighted average of common shares | 24,386,076 | 25,388,077 | 24,534,647 | 25,932,049 |
| Effect of dilutive securities | - | 72,983 | 70,632 | 88,688 |
| Denominator for diluted earnings per share | 24,386,076 | 25,461,060 | 24,605,279 | 26,020,737 |
| Basic net (loss) income per share attributable to TSM | \$(0.08 |) \$0.17 | \$0.22 | \$1.46 |
| Diluted net (loss) income per share attributable to TSM | \$(0.08 |) \$0.16 | \$0.22 | \$1.46 |

No dilutive securities have been included in the diluted earnings per share calculation for the three months ended September 30, 2016 due to our reporting of a net loss for the quarter.

(14) Contingencies

The following information supplements and amends, as applicable, the disclosures in Note 24 to the Consolidated Financial Statements of the Company's 2015 Annual Report on Form 10-K. Our business is subject to numerous laws and regulations promulgated by Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla governmental authorities. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. The Commissioner of Insurance of Puerto Rico, as well as other Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with such laws and regulations. Penalties associated with violations of these laws and regulations may include significant fines and exclusion from participating in certain publicly funded programs and may require the Company to comply with corrective action plans or changes in our practices.

We are involved in various legal actions arising in the ordinary course of business. We are also defendants in various other litigations and proceedings, some of which are described below. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. Although we believe our estimates of such losses are reasonable, these estimates could change as a result of further developments in these matters. In other cases, it is at least reasonably possible that the Company may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Company is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution. The outcome of legal proceedings is inherently uncertain and pending matters for which accruals have not been established have not progressed sufficiently to enable us to estimate a range of possible loss, if any. Given the inherent unpredictability of these matters, it is possible that an adverse outcome in one or more of these matters could have a material adverse effect on the consolidated financial condition, operating results and/or cash flows of the Company.

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

Additionally, we may face various potential litigation claims that have not been asserted to date, including claims from persons purporting to have rights to acquire shares of the Company on favorable terms pursuant to agreements previously entered by our predecessor managed care subsidiary, Seguros de Servicios de Salud de Puerto Rico, Inc. (SSS), with physicians or dentists who joined our provider network to sell such new provider shares of SSS at a future date (Share Acquisition Agreements) or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Claims by Heirs of Former Shareholders

In the case entitled *Cebollero Santamaría v. Triple-S Salud, Inc., et al*, was filed on March 26, 2013, and the Company filed its response on May 16, 2013. On October 29, 2013, the Company filed a motion for summary judgment on the grounds that the claim is time-barred under the fifteen-year statute of limitations of the Puerto Rico Civil Code for collection of monies and, in the alternative, that plaintiff failed to state a claim for which relief can be granted, which was denied by the court. On November 2, 2015, the Company filed a petition of Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on March 8, 2016. On March 23, 2016, the Company filed a request for reconsideration to its petition of Writ of Certiorari with the Puerto Rico Court of Appeals, which the plaintiff opposed. The Court of Appeals denied reconsideration on April 28, 2016. The Company filed a Writ of Certiorari before the Supreme Court on May 31, 2016, which was denied on September 23, 2016. Defendants requested reconsideration on October 11, 2016 and are still waiting for the Court's determination.. The same has been opposed by the plaintiff.

In the case entitled *Gallardo Mendez, et al, v. Triple-S Management Corporation*, which was filed on December 30, 2014, the Company filed a motion to dismiss on March 13, 2015. After an extension of time granted by the court, plaintiff did not file an opposition. Therefore, on June 16, 2015, the court deemed our motion to dismiss unopposed. On March 18, 2016, the court dismissed the complaint with prejudice. Since plaintiff did not file within 30 days an appeal brief opposing the trial court's determination, the dismissal of the case is final.

Claims Relating to the Provision of Health Care Services

On June 5, 2014, ASES initiated an administrative hearing against TSS moved by a primary medical group for alleged outstanding claims related to services provided to Medicaid beneficiaries from 2005 to 2010, totaling approximately \$3,000. On June 19, 2014, TSS filed its response. On June 25, 2014, the hearing officer ordered the parties to file a joint working plan and schedule. In the process of executing said plan and after discovery was completed, this matter was settled for \$316 on June 6, 2016.

(15) Segment Information

The operations of the Corporation are conducted principally through three business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. The Corporation evaluates performance based primarily on the operating revenues and operating income of each segment. Operating revenues include premiums earned, net, administrative service fees, net investment income, and revenues derived from other segments. Operating costs include claims incurred and operating expenses. The Corporation calculates operating income or loss as operating revenues less operating costs.

The Managed Care segment participates in the Commonwealth of Puerto Rico Health Insurance Plan (similar to Medicaid) (Medicaid) program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the government of Puerto Rico, by administering the provision of the physical health component in designated service regions in Puerto Rico. We served all eight service regions on an administrative service only basis (ASO) until March 31, 2015. During the nine months ended September administrative service fees related to this agreement amounted to \$24,367. Effective April 1, 2015, we started to provide healthcare services to only two regions of the Medicaid program on a risk based model.

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Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

The following tables summarize the operations by reportable segment for the three and nine months ended September 30, 2016 and 2015:

| | Three months ended | | Nine months ended | |
|---|-----------------------|------------|-----------------------|--------------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Operating revenues: | | | | |
| Managed Care: | | | | |
| Premiums earned, net | \$ 660,660 | \$ 689,532 | \$ 2,007,972 | \$ 1,857,216 |
| Administrative service fees | 4,146 | 6,163 | 13,749 | 39,835 |
| Intersegment premiums/service fees | 1,384 | (248) | 4,521 | 4,257 |
| Net investment income | 3,628 | 2,727 | 11,215 | 8,444 |
| Total managed care | 669,818 | 698,174 | 2,037,457 | 1,909,752 |
| Life Insurance: | | | | |
| Premiums earned, net | 38,729 | 35,636 | 116,286 | 109,661 |
| Intersegment premiums | 212 | 54 | 551 | 185 |
| Net investment income | 6,355 | 5,840 | 18,681 | 17,724 |
| Total life insurance | 45,296 | 41,530 | 135,518 | 127,570 |
| Property and Casualty Insurance: | | | | |
| Premiums earned, net | 21,798 | 21,550 | 64,512 | 66,506 |
| Intersegment premiums | 153 | 153 | 460 | 460 |
| Net investment income | 2,358 | 1,951 | 6,612 | 6,172 |
| Total property and casualty insurance | 24,309 | 23,654 | 71,584 | 73,138 |
| Other segments: * | | | | |
| Intersegment service revenues | 2,502 | 2,770 | 7,664 | 7,932 |
| Operating revenues from external sources | 878 | 905 | 2,693 | 2,768 |
| Total other segments | 3,380 | 3,675 | 10,357 | 10,700 |
| Total business segments | 742,803 | 767,033 | 2,254,916 | 2,121,160 |
| TSM operating revenues from external sources | 7 | 15 | 12 | 45 |
| Elimination of intersegment premiums/service fees | (1,749) | 41 | (5,532) | (4,902) |
| Elimination of intersegment service revenues | (2,502) | (2,770) | (7,664) | (7,932) |
| Other intersegment eliminations | (18) | 42 | (45) | 37 |
| Consolidated operating revenues | \$ 738,541 | \$ 764,361 | \$ 2,241,687 | \$ 2,108,408 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

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(dollar amounts in thousands, except per share data)

(unaudited)

| | Three months ended September 30, | | Nine months ended September 30, | |
|--|-------------------------------------|-------------|------------------------------------|-----------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating (loss) income: | | | | |
| Managed care | \$ (22,022) | \$ (2,169) | \$ (26,443) | \$ 6,288 |
| Life insurance | 4,247 | 4,300 | 14,899 | 14,402 |
| Property and casualty insurance | 4,017 | 2,593 | 9,516 | 6,553 |
| Other segments * | (894) | (219) | (1,255) | (503) |
| Total business segments | (14,652) | 4,505 | (3,283) | 26,740 |
| TSM operating revenues from external sources | 7 | 15 | 12 | 45 |
| TSM unallocated operating expenses | (1,771) | (3,397) | (7,645) | (10,937) |
| Elimination of TSM intersegment charges | 2,382 | 2,442 | 7,155 | 7,237 |
| Consolidated operating income | (14,034) | 3,565 | (3,761) | 23,085 |
| Consolidated net realized investment gains (losses) | 5,376 | (1,561) | 6,954 | 15,259 |
| Consolidated interest expense | (1,893) | (1,979) | (5,729) | (6,235) |
| Consolidated other income, net | 734 | 2,289 | 5,468 | 5,131 |
| Consolidated (loss) income before taxes | \$ (9,817) | \$ 2,314 | \$ 2,932 | \$ 37,240 |
| Depreciation and amortization expense: | | | | |
| Managed care | \$ 2,622 | \$ 3,227 | \$ 8,395 | \$ 9,987 |
| Life insurance | 247 | 261 | 751 | 810 |
| Property and casualty insurance | 91 | 88 | 402 | 278 |
| Other segments* | 160 | 120 | 479 | 365 |
| Total business segments | 3,120 | 3,696 | 10,027 | 11,440 |
| TSM depreciation expense | 197 | 197 | 590 | 591 |
| Consolidated depreciation and amortization expense | \$ 3,317 | \$ 3,893 | \$ 10,617 | \$ 12,031 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

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Triple-S Management Corporation

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(dollar amounts in thousands, except per share data)

(unaudited)

| | September 30, 2016 | December 31, 2015 |
|---|-----------------------|----------------------|
| Assets: | | |
| Managed care | \$ 1,165,750 | \$ 1,034,725 |
| Life insurance | 830,074 | 770,721 |
| Property and casualty insurance | 360,314 | 350,514 |
| Other segments * | 26,064 | 25,629 |
| Total business segments | 2,382,202 | 2,181,589 |
| Unallocated amounts related to TSM: | | |
| Cash, cash equivalents, and investments | 2,269 | 12,304 |
| Property and equipment, net | 22,620 | 23,219 |
| Other assets | 29,362 | 31,732 |
| | 54,251 | 67,255 |
| Elimination entries-intersegment receivables and others | (61,535 |) (42,699 |
| Consolidated total assets | \$ 2,374,918 | \$ 2,206,145 |

* Includes segments that are not required to be reported separately, primarily the data processing services organization and the health clinic.

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

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(16) Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued. No events, other than those described in these notes, have occurred that require adjustment or disclosure pursuant to current Accounting Standards Codification.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

In this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), the "Corporation", the "Company", "TSM", "we", "us" and "our" refers to Triple-S Management Corporation and its subsidiaries. MD&A included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and nine months ended September 30, 2016. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2015 and the MD&A included therein, and our unaudited consolidated financial statements and accompanying notes as of and for the three months and nine months ended September 30, 2016 included in this Quarterly Report on Form 10-Q.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q may include statements that constitute "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things: statements concerning our business and our financial condition and results of operations. These statements are not historical, but instead represent our belief regarding future events, any of which, by their nature, are inherently uncertain and outside of our control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. The factors that could cause actual results to differ from those in the forward-looking statements are discussed throughout this form. We are not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligations), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

Overview

We are one of the largest players in the managed care industry in Puerto Rico with over 50 years of experience in this industry. We offer a broad portfolio of managed care and related products in the Commercial, Medicaid and Medicare Advantage markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. We also participate in the Government of Puerto Rico Health Insurance Plan (a government of Puerto Rico and U.S. Federal Government funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S.) (Medicaid), by administering the provision of the physical health component in designated service regions in Puerto Rico. We served all eight regions on an administrative service only basis (ASO) until March 31, 2015. Effective April 1, 2015, the government changed the Medicaid delivery model from ASO to a risk-based model that includes the physical and mental health components. We elected to participate in this sector as a fully-insured provider in only two regions. See details of the Medicaid contract in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015 under the sub-caption "We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business."

We have the exclusive right to use the Blue Cross Blue Shield (BCBS) name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands and Anguilla. As of September 30, 2016, we served approximately 1,038,000 members. For the nine months ended September 30, 2016 and 2015, our managed care segment represented approximately 92% and 91%, respectively, of our total consolidated premiums earned. We also have significant positions in the life insurance and property and casualty insurance markets.

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We participate in the managed care market through our subsidiaries, Triple-S Salud, Inc. (TSS) and Triple-S Advantage, Inc. (TSA). TSS, TSA and Triple-S Blue, Inc. (TSB) are Blue Cross Blue Shield Association (BCBSA) BCBSA licensees, which provides us with exclusive use of the Blue Cross and Blue Shield name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, British Virgin Islands, and Anguilla.

We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. (TSV), and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. (TSP).

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. See note 15 of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

Our revenues primarily consist of premiums earned, net and administrative service fees. These revenues are derived from the sale of managed care products in the Commercial market to employer groups, individuals and government-sponsored programs, principally Medicare and the Government of Puerto Rico Health Insurance Plan. Premiums are derived from insurance contracts. Administrative service fees are derived from self-funded contracts, under which we provide a range of services, including claims administration, billing and membership services, among others. Revenues also include premiums earned from the sale of property and casualty and life insurance contracts, and investment income and revenues derived from other segments. Substantially all of our earnings are generated in Puerto Rico.

Claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. Each segment's results of operations depend to a significant extent on their ability to accurately predict and effectively manage claims. A portion of the claims incurred for each period consists of claims reported but not paid during the period, as well as a management and actuarial estimate of claims incurred but not reported during the period. Operating expenses consist primarily of compensation, commission payments to brokers and other overhead business expenses. Operating expenses also includes the Health Insurance Providers Fee paid under the Affordable Care Act (ACA).

We use operating income as a measure of performance of the underwriting and investment functions of our segments. We also use the loss ratio and the operating expense ratio as measures of performance. The loss ratio is claims incurred divided by premiums earned, net, multiplied by 100. The operating expense ratio is operating expenses divided by premiums earned; net and administrative service fees, multiplied by 100.

Recent Developments

Puerto Rico Economy Update

During recent years, Puerto Rico has been facing economic and fiscal challenges and its economy has been contracting.

On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth of Puerto Rico (Commonwealth) and its component units, access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In general, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

On July 1, 2016, the Commonwealth defaulted on \$911 million of bond payments, which included \$780 million of General Obligation debt, after the Governor of Puerto Rico evoked a local debt moratorium provision.

On August 31, 2016, the President of the United States appointed the seven members of the Financial Oversight and Management Board for Puerto Rico (the Oversight Board) created by PROMESA, which held its first official meeting on September 30, 2016.

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On October 10, 2016, several hedge funds, which hold General Obligation bonds of the Commonwealth, filed a lawsuit against the Commonwealth, demanding the Commonwealth to discontinue directing sales tax revenues towards the Puerto Rico Sales Tax Financing Corporation (Cofina) debt service and requesting the court to declare that the General Obligations bonds of the Commonwealth have payment priority over Cofina debt.

On October 14, 2016, the Government of Puerto Rico presented the Commonwealth of Puerto Rico Fiscal Plan to the Oversight Board. The fiscal plan, which is subject to the review and approval of the Oversight Board, includes structural reforms to reduce the size of the government, the deficit and public spending and proposals to achieve economic growth, while providing for essential services such as healthcare, public safety and education.

If the liquidity of the Government of Puerto Rico, its agencies, municipalities and public corporations becomes significantly affected as a result of their inability to raise funding in the market or generate enough revenues, we may face credit losses in our premium and fees receivables from these and other government related entities. As of September 30, 2016, the Company had premiums and other receivables of \$112.0 million from the Government of Puerto Rico, including its agencies, municipalities and public corporations with a related allowance for doubtful receivables of \$20.6 million.

See Item 1A. Risk Factors—Risks Related to Our Business – “Our business is geographically concentrated in Puerto Rico and weakness in the economy and the fiscal health of the government has adversely impacted and may continue to adversely impact us.” and “We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business.” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Managed Care – Medicare Advantage

On October 12, 2016, the Centers for Medicare & Medicaid Services (CMS) published the STAR Ratings for payment year 2018. Contract H5774, the Triple-S Advantage Health Maintenance Organization (HMO) contract, scored 4.0 overall on a 5.0 star rating system, increasing 1.0 versus the prior year, and achieved 5 stars in Part D, all this demonstrating our dedication to providing the highest quality of care for our members as well as the significant investments we have made in technology and systems. Contract H4005, the Triple-S Advantage Preferred Provider Organization (PPO) contract, scored 3.5 overall, sustaining the rating from the previous year and achieved 4.5 stars in Part D. It is worth noting that no plan in Puerto Rico has achieved more than a 4 overall star rating. Star ratings are calculated annually and are subject to change each year.

Recent Accounting Standards

For a description of recent accounting standards, see note 2 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

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| | As of September 30, | |
|---|---------------------|-----------|
| | 2016 | 2015 |
| Managed care enrollment: | | |
| Commercial ¹ | 521,994 | 552,471 |
| Medicare | 113,950 | 124,004 |
| Medicaid | 402,358 | 423,944 |
| Total | 1,038,302 | 1,100,419 |
| Managed care enrollment by funding arrangement: | | |
| Fully-insured | 860,619 | 919,374 |
| Self-insured | 177,683 | 181,045 |
| Total | 1,038,302 | 1,100,419 |

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, Federal government and local government employees.

Consolidated Operating Results

The following table sets forth the Corporation's consolidated operating results. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

| (dollar amounts in millions) | Three months ended | | Nine months ended | |
|---|--------------------|---------------|-------------------|---------------|
| | September 30, | September 30, | September 30, | September 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Revenues: | | | | |
| Premiums earned, net | \$ 721.2 | \$ 746.7 | \$2,188.8 | \$2,033.4 |
| Administrative service fees | 4.2 | 6.2 | 13.7 | 39.8 |
| Net investment income | 12.3 | 10.6 | 36.6 | 32.5 |
| Other operating revenues | 0.9 | 0.9 | 2.6 | 2.7 |
| Total operating revenues | 738.6 | 764.4 | 2,241.7 | 2,108.4 |
| Net realized investment gains (losses) | 5.4 | (1.6) | 7.0 | 15.3 |
| Other income, net | 0.7 | 2.3 | 5.4 | 5.1 |
| Total revenues | 744.7 | 765.1 | 2,254.1 | 2,128.8 |
| Benefits and expenses: | | | | |
| Claims incurred | 629.2 | 634.9 | 1,878.0 | 1,705.2 |
| Operating expenses | 123.4 | 125.9 | 367.5 | 380.1 |
| Total operating expenses | 752.6 | 760.8 | 2,245.5 | 2,085.3 |
| Interest expense | 1.9 | 2.0 | 5.7 | 6.3 |
| Total benefits and expenses | 754.5 | 762.8 | 2,251.2 | 2,091.6 |
| (Loss) income before taxes | (9.8) | 2.3 | 2.9 | 37.2 |
| Income tax benefit | (7.9) | (1.9) | (2.5) | (0.7) |
| Net (loss) income | (1.9) | 4.2 | 5.4 | 37.9 |
| Less: net loss attributable to non-controlling interest | - | - | - | 0.1 |
| Net (loss) income attributable to TSM | \$ (1.9) | \$ 4.2 | \$5.4 | \$38.0 |

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Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Operating Revenues

Consolidated premiums earned, net decreased by \$25.5 million, or 3.4%, to \$721.2 million. This decrease primarily reflects lower premiums in the Managed Care segment by \$28.8 million mainly due to lower fully-insured membership across all sectors. This impact is offset in part by an increase in Life Insurance premiums and the increase in Medicaid premiums resulting from the release of the accrual of excess profit (previously recorded as accrual return premiums) to the government of Puerto Rico. This release of the accrual of excess profit is in line with the provisions of the Medicaid at-risk contract.

Claims Incurred

Consolidated claims incurred decreased by \$5.7 million, or 0.9%, to \$629.2 million, mostly due to the Managed Care segment's decrease in fully-insured membership, partially offset by unfavorable prior period reserve developments across all sectors. Also, we experienced higher claims incurred in the Life Insurance segment. The consolidated loss ratio increased by 220 basis points to 87.2%. Excluding the impact of prior period reserve developments, as well as moving risk score revenue adjustments to its corresponding period, consolidated loss ratio was 83.8%, 90 basis points lower than last year.

Operating Expenses

Consolidated operating expenses decreased by \$2.5 million, or 2.0%, to \$123.4 million. The lower operating expenses reflects a \$4.4 million contingency accrual recorded in the 2015 period and lower personnel costs and professional service fees in the 2016 period. These decreases were partially offset by an increase in the Health Insurance Providers Fee, reflecting the at-risk Medicaid enrollment after the model changed in 2015, as well as to a new business-to-business tax implemented in Puerto Rico at the end of the third quarter of 2015. For the three months ended September 30, 2016, the consolidated operating expense ratio increased 30 basis points to 17.0%.

Income Taxes

Consolidated income tax benefit increased by \$6.0 million, to \$7.9 million for the three months ended September 30, 2016. The year over year change primarily results from the loss before taxes in the 2016 period incurred in the Managed Care segment.

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Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Operating Revenues

Consolidated premiums earned, net increased by \$155.4 million, or 7.6%, to \$2.2 billion. This increase primarily reflects higher premiums in the Managed Care segment by \$150.8 million after the change in the Medicaid business model from an ASO agreement to a fully insured model effective April 1, 2015 and higher premium rates in the Commercial business.

The consolidated administrative service fees decreased \$26.1 million, or 65.6%, mostly as a result of the previously mentioned change in the Medicaid contract model. Total administrative fees related to the previous Medicaid ASO agreement during the 2015 period amounted to \$24.4 million.

Net investment income increased by \$4.1 million, or 12.6%, to \$36.6 million mostly as a result of higher invested balances.

Claims Incurred

Consolidated claims incurred increased by \$172.8 million, or 10.1%, to \$1.9 billion, mostly due to higher claims in the Managed Care segment. This increase primarily reflects higher claims incurred in the segment's Medicaid business by \$151.9 million after the contract changed to a fully insured model, the impact of Managed Care prior period reserve developments. The consolidated loss ratio increased by 190 basis points to 85.8%. Excluding the impact of prior period development, as well as moving the 2015 risk score revenue adjustments to its corresponding period, consolidated loss ratio was 85.5%, 60 basis points higher than last year.

Operating Expenses

Consolidated operating expenses decreased by \$12.6 million, or 3.3%, to \$367.5 million. The decrease reflects lower expenses following the change in the Medicaid membership after we elected to decrease the number of regions we serve, from eight regions under an ASO agreement to only two regions when the contract changed to a fully-insured model. The lower operating expenses also reflect a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period, as well as a \$4.4 million contingency accrual recorded in 2015. These decreases were partially offset by a new business-to-business tax implemented in Puerto Rico at the end of the third quarter 2015 and an increase in the Health Insurance Providers Fee, reflecting the at-risk Medicaid enrollment after the model changed in 2015. For the nine months ended September 30, 2016, the consolidated operating expense ratio decreased 160 basis points to 16.7%, as the result of the increase in premiums and lower expenses.

Income Taxes

Consolidated income tax benefit increased by \$1.8 million, to \$2.5 million. The higher tax benefit primarily results from the net effect of the following:

For the 2016 period the Managed Care segment, which has a higher effective tax rate than our other segments, incurred in a loss before taxes, resulting in the recording of a tax benefit during the period.

During the 2015 period, the Company executed a Closing Agreement between TSM and its subsidiaries and the Puerto Rico Treasury Department in connection with a local law that provided a temporary preferential tax rate in capital asset transactions. These events allowed the Company to record a \$3.1 million benefit in the 2015 period resulting from the enacted lower taxable rate and the reassessment of the realizability of some of its deferred taxes.

The Property and Casualty segment reassessed the tax rate used to measure several temporary differences; as a consequence such rate was increased from 20% to 39%, resulting in an increase to its deferred tax expense of approximately \$2.6 million.

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Table of ContentsManaged Care Operating Results

| (dollar amounts in millions) | Three months ended | | Nine months ended | |
|---------------------------------|-----------------------|-----------|-----------------------|------------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Operating revenues: | | | | |
| Medical premiums earned, net: | | | | |
| Commercial | \$ 206.3 | \$ 210.6 | \$ 636.8 | \$ 634.9 |
| Medicare | 255.3 | 279.4 | 789.4 | 818.0 |
| Medicaid | 199.4 | 199.8 | 582.8 | 405.3 |
| Medical premiums earned, net | 661.0 | 689.8 | 2,009.0 | 1,858.2 |
| Administrative service fees | 5.2 | 5.6 | 17.3 | 43.2 |
| Net investment income | 3.6 | 2.7 | 11.2 | 8.4 |
| Total operating revenues | 669.8 | 698.1 | 2,037.5 | 1,909.8 |
| Medical operating costs: | | | | |
| Medical claims incurred | 598.0 | 605.5 | 1,784.5 | 1,614.0 |
| Medical operating expenses | 93.8 | 94.8 | 279.4 | 289.5 |
| Total medical operating costs | 691.8 | 700.3 | 2,063.9 | 1,903.5 |
| Medical operating (loss) income | \$ (22.0) | \$ (2.2) | \$ (26.4) | \$ 6.3 |
| Additional data: | | | | |
| Member months enrollment: | | | | |
| Commercial: | | | | |
| Fully-insured | 1,039,842 | 1,119,344 | 3,199,546 | 3,388,436 |
| Self-funded | 534,653 | 544,881 | 1,617,900 | 1,680,435 |
| Total Commercial member months | 1,574,495 | 1,664,225 | 4,817,446 | 5,068,871 |
| Medicare member months | 344,167 | 370,702 | 1,059,702 | 1,073,726 |
| Medicaid: | | | | |
| Fully-insured | 1,205,792 | 1,279,692 | 3,634,029 | 2,583,204 |
| Self-insured | - | - | - | 4,229,082 |
| Total Medicaid member months | 1,205,792 | 1,279,692 | 3,634,029 | 6,812,286 |
| Total member months | 3,124,454 | 3,314,619 | 9,511,177 | 12,954,883 |
| Medical loss ratio | 90.5 % | 87.8 % | 88.8 % | 86.9 % |
| Operating expense ratio | 14.1 % | 13.6 % | 13.8 % | 15.2 % |

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Medical Operating Revenues

Medical premiums earned for the three months ended September 30, 2016 decreased by \$28.8 million, or 4.2%, to \$661.0 million. This decrease is principally the result of the following:

Medicare premiums decrease of \$24.1 million, or 8.6%, primarily results from lower member months enrollment when compared to 2015 combined with a 2.4% average reduction in 2016 Medicare reimbursement rates.

Commercial premiums decrease of \$4.3 million, or 2.0%, primarily results from a decrease in fully-insured member months enrollment, partially offset by an approximately 5% year over year increase in average premium rates.

Medicaid premiums decreased by \$0.4 million, or 0.2% primarily as the result of a lower member months enrollment, reflecting the population decline in Puerto Rico, and the lower average premium rates negotiated with the government of Puerto Rico that went into effect July 1, 2016. These decreases are partially offset by a \$15.6 million increase in the Medicaid premiums resulting from a partial reduction of the accrual of excess profit, which was driven by the previously mentioned decrease in premium rates and higher utilization trends.

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Medical Claims Incurred

Medical claims incurred decreased by \$7.5 million, or 1.2%, to \$598.0 million. The medical loss ratio (MLR) of the segment increased 270 basis points during the 2016 period, to 90.5%. This fluctuation is primarily attributed to the net effect of the following:

The medical claims incurred of the Medicaid business decreased by \$6.0 million during the 2016 period primarily reflecting the net effect of the previously described decrease in member months enrollment partially offset by higher pharmacy and outpatient trends.

The medical claims incurred of the Medicare business decreased by \$2.5 million, or 1.0%, during the 2016 period reflecting the previously mentioned decrease in membership and changes in benefit design included in 2016 products as the result of the decrease in reimbursement rates. This decrease is offset by unfavorable prior period reserve developments related to previous quarters. Adjusting for the effect of prior period reserve developments, and moving risk score revenue adjustments to their corresponding periods, our Medicare MLR would have been approximately 87.1% this quarter, about 180 basis points higher than last year, mostly driven by increased Part B drug costs, mainly related to cancer and rheumatoid arthritis and the decrease in premium rates reimbursements from CMS.

The medical claims incurred of the Commercial business increased by \$1.0 million, or 0.6%, during the 2016 period. This increase mostly reflects the impact of unfavorable prior period reserve developments. Excluding the effect of prior period reserve developments in 2016 and 2015, the MLR would have decreased by 270 basis points to 83.4%, reflecting the continuity of our underwriting discipline and premium trends higher than claims trends.

Medical Operating Expenses

Medical operating expenses decreased by \$1.0 million, or 1.1%, to \$93.8 million. The lower operating expenses reflect a \$4.4 million contingency accrual recorded in the 2015 period, and lower professional service fees in the 2016 period. These decreases were partially offset by an increase in the Health Insurance Providers Fee, reflecting the at-risk Medicaid enrollment after the model changed in 2015, as well as to a new business-to-business tax implemented in Puerto Rico at the end of the third quarter of 2015. For the three months ended September 30, 2016, the operating expense ratio increased 50 basis points to 14.1%.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Medical Operating Revenues

Medical premiums earned increased by \$150.8 million, or 8.1%, to \$2.0 billion. This increase is principally the result of the following:

Medical premiums generated by the Medicaid business increased by \$177.5 million to \$582.8 million, primarily as the result of the change in the Medicaid service model, from an ASO agreement to a fully-insured model effective April 1, 2015.

Medical premiums generated by the Commercial business increased by \$1.9 million, or 0.3%, to \$636.8 million. This fluctuation is primarily the result of approximately 6% year over year increase in average premium rates, partially offset by a decrease in fully insured member month enrollment.

Medical premiums generated by the Medicare business decreased by \$28.6 million, or 3.5%, to \$789.4 million. This fluctuation primarily results from lower risk score revenue as compared with 2015, lower member months enrollment, and a reduction in 2016 Medicare reimbursement rates.

Administrative service fees decreased by \$25.9 million, or 60.0%, to \$17.3 million mainly due to the previously mentioned change in the Medicaid contract effective April 1, 2015.

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Medical Claims Incurred

Medical claims incurred increased by \$170.5 million, or 10.6%, to \$1.8 billion. The MLR of the segment increased 190 basis points during the 2016 period, to 88.8%. These fluctuations are primarily attributed to the net effect of the following:

The medical claims incurred of the Medicaid business increased by \$151.9 million during the 2016 period reflecting the previously mentioned change in the Medicaid contract effective April 1, 2015.

The medical claims incurred of the Commercial business increased by \$13.8 million, or 2.6%, during 2016, mostly reflecting the impact of prior period reserve developments, partially offset by lower member months enrollment. The Commercial MLR was 86.4%, which is 200 basis points higher than the MLR for the prior year. Excluding the effect of prior period reserve developments in 2016 and 2015, the MLR would have decreased by 150 basis points, reflecting the continuity of our underwriting discipline and premium trends higher than claims trends.

The medical claims incurred of the Medicare business increased by \$4.8 million, or 0.7%, during 2016 and its MLR was 90.0%, which is 370 basis points higher than the MLR for the prior period. Adjusting for the effect of prior period reserve developments, and moving the 2015 final risk score revenue adjustments to its corresponding period, our Medicare MLR would have been 90.2%, about 310 basis points higher than last year. The higher MLR primarily reflects higher Part B drug costs, mainly related to cancer and rheumatoid arthritis, and the effect of the decrease in 2016 Medicare reimbursement rates. The impact of the lower reimbursement rates was partially offset by a change in benefit design in the 2016 products.

Medical Operating Expenses

Medical operating expenses decreased by \$10.1 million, or 3.5%, to \$279.4 million. The decrease mostly reflects lower expenses following the change in the Medicaid membership after we elected to decrease the number of regions we serve from eight regions under an ASO agreement to only two regions when the contract was changed to a fully-insured model. The lower operating expenses also includes the effect of a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period, as well as to a \$4.4 million contingency accrual recorded in 2015. These decreases were partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter of 2015 and an increase in the Health Insurance Providers Fee, reflecting the at-risk Medicaid enrollment after the model changed in 2015. The operating expense ratio decreased 140 basis points to 13.8% in 2016 as a result of the increase in premiums and lower expenses.

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| (dollar amounts in millions) | Three months ended | | Nine months ended | |
|-------------------------------------|-----------------------|---------|-----------------------|----------|
| | September 30, 2016 | 2015 | September 30, 2016 | 2015 |
| Operating revenues: | | | | |
| Premiums earned, net: | | | | |
| Premiums earned | \$ 40.8 | \$ 38.2 | \$ 120.3 | \$ 115.1 |
| Assumed earned premiums | 0.4 | - | 3.1 | 2.2 |
| Ceded premiums earned | (2.3) | (2.5) | (6.6) | (7.4) |
| Premiums earned, net | 38.9 | 35.7 | 116.8 | 109.9 |
| Net investment income | 6.4 | 5.8 | 18.7 | 17.7 |
| Total operating revenues | 45.3 | 41.5 | 135.5 | 127.6 |
| Operating costs: | | | | |
| Policy benefits and claims incurred | \$ 22.5 | 19.8 | 65.8 | 60.5 |
| Underwriting and other expenses | 18.6 | 17.4 | 54.8 | 52.7 |
| Total operating costs | 41.1 | 37.2 | 120.6 | 113.2 |
| Operating income | \$ 4.2 | \$ 4.3 | \$ 14.9 | \$ 14.4 |
| Additional data: | | | | |
| Loss ratio | 57.8 % | 55.5 % | 56.3 % | 55.1 % |
| Operating expense ratio | 47.8 % | 48.7 % | 46.9 % | 48.0 % |

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Operating Revenues

Premiums earned, net increased by \$3.2 million, or 9.0%, to \$38.9 million, reflecting improved policy retention and higher sales principally in the segment's Individual Life and Cancer lines of business, as well as the growth in the Costa Rica operations.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$2.7 million, or 13.6%, to \$22.5 million, mostly as the result of the higher volume of business during the year, particularly in the Individual Life and Cancer lines of business, as well as to an increase in actuarial reserves. The loss ratio for the period increased from 55.5% in 2015 to 57.8% in 2016, or 230 basis points, reflecting the higher volume in the Cancer line of business, which has a higher loss ratio, and higher claims experience in the Individual Life business.

Underwriting and Other Expenses

Increase in underwriting and other expenses of \$1.2 million, or 6.9% to \$18.6 million is mostly reflecting higher commissions following the segment's premium growth mentioned above. The operating expense ratio decreased 90 basis points from 48.7% in 2015 to 47.8% in 2016, reflecting the increase in premiums during the period.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Operating Revenues

Premiums earned, net increased by \$6.9 million, or 6.3% to \$116.8 million as the result of premium improved policy retention and higher sales in the segment's Individual Life and Cancer lines of business, premiums assumed on

reinsurance agreements, as well as growth in the Costa Rica operations.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$5.3 million, or 8.8%, to \$65.8 million, mostly reflecting a higher volume of business during the year, particularly in the Cancer line of business, and in premiums assumed under reinsurance agreements, which carry a higher loss ratio, as well as to an increase in actuarial reserves. The loss ratio for the period increased 120 basis points to 56.3% in 2016.

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Underwriting and Other Expenses

Underwriting and other expenses increased by \$2.1 million, or 4.0%, primarily reflecting an increase in commissions expense following the segment's premium growth during these period. In addition, the segment has incurred in higher development and marketing expenses related to the development of the Costa Rica operations. The segment's operating expense ratio decreased 110 basis points to 46.9% in 2016, reflecting the increase in premiums during the period.

Property and Casualty Insurance Operating Results

| (Dollar amounts in millions) | Three months ended September 30, | | Nine months ended September 30, | |
|---------------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2016 | 2015 | 2016 | 2015 |
| Operating revenues: | | | | |
| Premiums earned, net: | | | | |
| Premiums written | \$ 32.4 | \$ 32.3 | \$ 100.9 | \$ 99.3 |
| Premiums ceded | (11.8) | (12.0) | (35.3) | (35.3) |
| Change in unearned premiums | 1.4 | 1.4 | (0.6) | 3.0 |
| Premiums earned, net | 22.0 | 21.7 | 65.0 | 67.0 |
| Net investment income | 2.3 | 2.0 | 6.6 | 6.1 |
| Total operating revenues | 24.3 | 23.7 | 71.6 | 73.1 |
| Operating costs: | | | | |
| Claims incurred | 9.4 | 10.3 | 30.0 | 32.9 |
| Underwriting and other expenses | 10.9 | 10.8 | 32.1 | 33.6 |
| Total operating costs | 20.3 | 21.1 | 62.1 | 66.5 |
| Operating income | \$ 4.0 | \$ 2.6 | \$ 9.5 | \$ 6.6 |
| Additional data: | | | | |
| Loss ratio | 42.7 % | 47.5 % | 46.2 % | 49.1 % |
| Operating expense ratio | 49.5 % | 49.8 % | 49.4 % | 50.1 % |
| Combined ratio | 92.2 % | 97.3 % | 95.6 % | 99.2 % |

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Operating Revenues

Total premiums written increased by \$0.1 million, or 0.3%, to \$32.4 million, mostly resulting from higher sales of Commercial Auto insurance products, offset by lower sales in the Commercial Package insurance products.

The premiums ceded to reinsurers decreased by \$0.2 million, or 1.7%, mostly reflecting favorable pricing in the market for nonproportional reinsurance treaties.

Claims Incurred

Claims incurred decreased by \$0.9 million, or 8.7%, to \$9.4 million. The loss ratio decreased 480 basis points, to 42.7%, during this period, primarily as a result of favorable loss experience in the Medical Malpractice line of business.

Underwriting and Other Expenses

Underwriting and other operating expenses increased by \$0.1 million, or 0.9%, mostly due to the timing of the receipt of a refund distribution from the Joint Underwriting Association (JUA), which was received during the second quarter in 2016 and during the third quarter in 2015.

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Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Operating Revenues

Total premiums written increased by \$1.6 million, or 1.6%, to \$100.9 million, mostly reflecting higher sales of the Compulsory Vehicle Liability and Commercial Package insurance product.

The change in unearned premiums presents a decrease of \$3.6 million mostly reflecting the segment's higher volume of premiums written in 2016.

Claims Incurred

Claims incurred decreased by \$2.9 million, or 8.8%, to \$30.0 million. The loss ratio decreased by 290 basis points, to 46.2% during this period, mostly reflecting a favorable loss experience in the Commercial Auto line of business.

Underwriting and Other Expenses

Underwriting and other operating expenses decreased by \$1.5 million, or 4.5%, to \$32.1 million mostly due to lower net commission expenses driven by a decrease in net premiums earned.

Liquidity and Capital Resources

Cash Flows

A summary of our major sources and uses of cash for the periods indicated is presented in the following table:

| (dollar amounts in millions) | Nine months ended | |
|--|-------------------|----------|
| | September 30, | |
| | 2016 | 2015 |
| Sources (uses) of cash: | | |
| Cash provided by operating activities | \$ 83.0 | \$ 171.5 |
| Net purchases of investment securities | (86.6) | (17.6) |
| Net capital expenditures | (3.5) | (5.6) |
| Payments of long-term borrowings | (1.2) | (12.2) |
| Proceeds from policyholder deposits | 12.5 | 5.6 |
| Surrenders of policyholder deposits | (13.5) | (10.5) |
| Repurchase and retirement of common stock | (21.4) | (41.0) |
| Other | (1.6) | (5.8) |
| Net (decrease) increase in cash and cash equivalents | \$ (32.3) | \$ 84.4 |

Cash flow from operating activities decreased as a result of higher claims paid by \$240.4 million and an increase in cash paid to suppliers and employees by \$25.0 million, offset in part by an increase in premium collections of \$165.8 million. The increase in claims paid and premiums collected is principally the result of the change in the Medicaid delivery model from an ASO agreement to a fully insured model effective April 1, 2015.

Increase in net purchases of investments in securities are part of our asset/liability management strategy using cash on hand.

Payments of long-term borrowings decreased by \$11.0 million during the nine months ended September 30, 2016, primarily due to an \$11.0 million repayment of certain senior unsecured notes principal during the 2015 period.

In November 2015 the Company's Board of Directors authorized a \$25.0 million repurchase program of our Class B common stock. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During the nine months ended September 30, 2016, the Company repurchased and retired 951,831 shares of our Class B Common Stock at an average per share price of \$22.54, for an aggregate cost of \$21.4 million. This program was completed on September 14, 2016.

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Financing and Financing Capacity

We have several short-term facilities available to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of September 30, 2016, we had \$60.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of September 30, 2016.

On December 21, 2005, we issued and sold \$60.0 million of our 6.6% senior unsecured notes due December 2020 (the 6.6% notes). On October 1, 2010 and May 14, 2015 we repaid \$25.0 million and \$11.0 million, respectively, of the principal of these senior unsecured notes. Amount currently outstanding is \$24.0 million. The 6.6% notes contain certain non-financial covenants with which we are in compliance at September 30, 2016.

In addition, we are a party to a secured term loan with a commercial bank in Puerto Rico. This secured loan, with original principal balance of \$41.0 million, bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus 100 basis points and requires monthly principal repayments of \$0.1 million. As of September 30, 2016, this secured loan had an outstanding balance of \$11.6 million and average annual interest rate of 1.44%. This secured loan is guaranteed by a first lien on our land, buildings and substantially all leasehold improvements, as collateral for the term of the agreements under a continuing general security agreement. This secured loan contains certain non-financial covenants that are customary for this type of facility, including, but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of September 30, 2016 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

On November 4, 2015, TSS entered into a \$50.0 million revolving loan agreement with a commercial bank in Puerto Rico. This unused line of credit has an interest rate of LIBOR plus 250 basis points, matures on November 4, 2016, and contains certain financial and non-financial covenants that are customary for this type of facility. The agreement stipulates that any unused balance would become unavailable should TSS stop collecting payments under the Medicaid contract for four consecutive weeks.

On March 11, 2016, TSS entered into a \$30.0 million revolving loan agreement with a commercial bank in Puerto Rico. This line of credit, unused as of June 30, 2016, has an interest rate of LIBOR plus 220 basis points, matures on March 11, 2017, and contains certain financial and non-financial covenants that are customary for this type of facility.

We anticipate that we will have sufficient liquidity to support our currently expected needs.

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to “Item 7.—Management Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Critical Accounting Estimates – Goodwill and Other Intangible Asset

Our consolidated goodwill and intangible assets as of September 30, 2016 were \$25.4 million and \$5.3 million, respectively, primarily related to the TSA acquisition in 2011. We perform our annual test of goodwill impairment during the fourth quarter, using October 1 as the measurement date. The result of the annual impairment test performed in 2015 indicated that the fair value of the TSA unit exceeded its carrying value by approximately 30%. Certain interim impairment tests are also performed when potential impairment indicators exist or other changes in our business occur. TSA, through which we manage the Medicare business of our Managed Care segment, has experienced net losses in 2016 largely due to unfavorable prior period reserve developments. If this business continues experiencing net losses, it is possible that the related goodwill or long-lived assets could result in a future impairment charge. On the other hand, in October 2016 the TSA HMO contract scored 4.0 overall on a 5.0 star rating system,

increasing 1.0 versus the prior year, and achieved 5 stars in Part D, all of this is expected to generate additional premiums in 2018. See discussion regarding goodwill and other intangible assets in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations—Critical Accounting Estimates” in our Annual Report on Form 10-K for the year ended December 31, 2015.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We have exposure to market risk mostly in our investment activities. For purposes of this disclosure, “market risk” is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in our exposure to financial market risks since December 31, 2015. A discussion of our market risk is incorporated by reference to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of our Annual Report on Form 10-K for the year ended December 31, 2015.

In 2016 we have increased our market risk exposure to equity instruments to include certain mutual funds, whose underlying assets are mostly comprised of US and international common equities, preferred equity, debt instruments and loan participations, and private investments. We hold these positions in our available-for-sale portfolio. The mutual funds invest primarily in equity and debt securities issued or guaranteed by corporations and financial institutions that are either unrated or have non-investment grade ratings from either Standard & Poor’s or Moody’s. The private investments are comprised of private equity style closed end funds, which make direct equity and debt investments. Our additional investments increase our exposure to equity price risk and credit risk. We manage this indirect exposure to credit risk by closely monitoring the performance of these mutual funds. Assuming an immediate decrease of 10% in the market value of our investments in equity securities as of September 30, 2016 and December 31, 2015, the hypothetical loss in the fair value of these investments would have been approximately \$30.2 million and \$19.7 million, respectively. See note 3 to consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of the Corporation's disclosure controls and procedures conducted under the supervision and with the participation of management, the chief executive officer (CEO) and the chief financial officer (CFO) concluded that, as of September 30, 2016, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in the report that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

There were no significant changes in our disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the CEO and CFO completed the evaluation referred to above.

Changes in Internal Controls Over Financial Reporting

No changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended September 30, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

For a description of legal proceedings that have experienced significant developments during this quarter, see note 14 to the unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q.

Item 1A. Risk Factors

For a description of our risk factors see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015.

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Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Purchases of Equity Securities by the Issuer

The following table presents information related to our repurchases of common stock for the period indicated:

| (Dollar amounts in millions, except per share data) | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs ¹ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---|----------------------------------|------------------------------|--|---|
| July 1, 2016 to July 31, 2016 | - | \$ - | - | \$ 6.8 |
| August 1, 2016 to August 31, 2016 | 174,500 | 22.93 | 174,500 | 2.8 |
| September 1, 2016 to September 30, 2016 | 125,384 | 22.31 | 125,384 | - |

¹ In November 2015 the Company's Board of Directors authorized a \$25.0 million Share Repurchase Program of its Class B common stock. This program was completed on September 14, 2016.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits Description

11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three and nine months ended September 30, 2016 and 2015 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

31.1* Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).

31.2* Certification of the Executive Vice President and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).

32.1* Certification of the President and Chief Executive Officer required pursuant to 18 U.S.C Section 1350.

32.2* Certification of the Executive Vice President and Chief Financial Officer required pursuant to 18 U.S.C Section 1350.

All other exhibits for which provision is made in the applicable accounting regulation of the United States Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

* Filed herein.

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SIGNATURES

Pursuant to the requirements of the United States Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Triple-S Management Corporation
Registrant

Date: November 4, 2016 By: /s/ Roberto García-Rodríguez
Roberto García-Rodríguez
President and Chief Executive Officer

Date: November 4, 2016 By: /s/ Juan J. Román-Jiménez
Juan J. Román-Jiménez
Executive Vice President and Chief Financial Officer