TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 05, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2014

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.
þ Yes o 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).
þ Yes o No

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 o	Accelerated filer þ
Non-accelerated filer o	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ¨ Yes þ No

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

Title of each class	Outstanding at September 30, 2014
Common Stock Class A, $1.00 par value	2,377,689
Common Stock Class B, $1.00 par value	24,885,646

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended September 30, 2014

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Part I – Financial Information

Item 1. Financial Statements

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

	September 30, 2014	December 31, 2013
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	$1,120,275	$1,055,874
Equity securities	204,882	239,933
Securities held to maturity, at amortized cost:		
Fixed maturities	4,072	6,139
Policy loans	7,057	6,705
Cash and cash equivalents	141,040	74,356
Total investments and cash	1,477,326	1,383,007
Premiums and other receivables, net	273,371	274,939
Deferred policy acquisition costs and value of business acquired	180,561	177,289
Property and equipment, net	81,934	89,086
Deferred tax asset	31,792	33,519
Goodwill	25,397	25,397
Other assets	45,883	64,387
Total assets	$2,116,264	$2,047,624
Liabilities and Stockholders' Equity		
Claim liabilities	$399,807	$420,421
Liability for future policy benefits	322,256	304,363
Unearned premiums	81,744	87,362
Policyholder deposits	118,521	115,923
Liability to Federal Employees' Health Benefits Program (FEHBP)	13,868	8,148
Accounts payable and accrued liabilities	158,998	161,422
Deferred tax liability	26,677	20,783
Long-term borrowings	87,816	89,302
Liability for pension benefits	50,522	54,697
Total liabilities	1,260,209	1,262,421
Stockholders’ equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 at September 30, 2014 and December 31, 2013, respectively	2,378	2,378
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 24,885,646 and 25,091,277 shares at September 30, 2014 and December 31, 2013, respectively	24,886	25,091
Additional paid-in capital	125,761	130,098
Retained earnings	634,839	595,685
Accumulated other comprehensive income	68,486	32,129
Total Triple-S Management Corporation stockholders' equity	856,350	785,381
Non-controlling interest in consolidated subsididary	(295)	(178)

Total stockholders' equity	856,055	785,203
Total liabilities and stockholders' equity	$2,116,264	$2,047,624

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation
Consolidated Statements of Earnings (Unaudited)
(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Revenues:				
Premiums earned, net	$520,766	$547,874	$1,606,353	$1,653,870
Administrative service fees	30,253	22,450	89,509	78,103
Net investment income	11,816	11,363	35,314	34,749
Other operating revenues	939	1,239	3,283	3,638
Total operating revenues	563,774	582,926	1,734,459	1,770,360
Net realized investment gains (losses):				
Total other-than-temporary impairment losses on securities	-	-	(462)	-
Net realized gains (losses), excluding other-than-temporary impairment losses on securities	3,108	(144)	7,624	3,405
Total net realized investment gains (losses)	3,108	(144)	7,162	3,405
Other income, net	367	13,931	1,188	14,778
Total revenues	567,249	596,713	1,742,809	1,788,543
Benefits and expenses:				
Claims incurred	433,853	456,432	1,311,601	1,369,250
Operating expenses	121,036	116,156	369,992	351,246
Total operating costs	554,889	572,588	1,681,593	1,720,496
Interest expense	2,273	2,379	6,974	7,189
Total benefits and expenses	557,162	574,967	1,688,567	1,727,685
Income before taxes	10,087	21,746	54,242	60,858
Income tax expense (benefit):				
Current	2,637	5,636	14,529	14,867
Deferred	2,795	(2,494)	676	(9,874)
Total income taxes	5,432	3,142	15,205	4,993
Net income	4,655	18,604	39,037	55,865
Less: Net loss attributable to non-controlling interest	68	37	117	156
Net income attributable to Triple-S Management Corporation	$4,723	$18,641	$39,154	$56,021
Earnings per share attributable to Triple-S Management Corporation				
Basic net income per share	$0.17	$0.68	$1.44	$2.01
Diluted net income per share	$0.17	$0.68	$1.44	$2.01

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation
Consolidated Statements of Comprehensive Income (Loss) (Unaudited)
(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Net income	$4,655	$18,604	$39,037	$55,865
Other comprehensive income (loss), net of tax:				
Net unrealized change in fair value of available for sale securities, net of taxes	(6,789)	(5,386)	34,593	(39,908)
Defined benefit pension plan:				
Actuarial loss, net	622	1,097	1,976	3,273
Prior service credit, net	(68)	(68)	(212)	(205)
Total other comprehensive income (loss), net of tax	(6,235)	(4,357)	36,357	(36,840)
Comprehensive income (loss)	(1,580)	14,247	75,394	19,025
Comprehensive loss attributable to non-controlling interest	68	37	117	156
Comprehensive income (loss) attributable to Triple-S Management Corporation	$(1,512)	$14,284	$75,511	$19,181

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation
Consolidated Statements of Stockholders' Equity (Unaudited)
(Dollar amounts in thousands, except per share data)

	2014	2013
Balance at January 1	$785,381	$761,907
Share-based compensation	1,617	2,351
Stock issued upon the exercise of stock options	2,885	315
Repurchase and retirement of common stock	(9,044)	(18,571)
Net current period change in comprehensive income	75,511	19,181
Total Triple-S Management Corporation stockholders' equity	856,350	765,183
Non-controlling interest in consolidated subsididary	(295)	84
Balance at September 30	$856,055	$765,267

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation
Consolidated Statements of Cash Flows (Unaudited)
(Dollar amounts in thousands, except per share data)

	Nine months ended September 30,	
	2014	2013
Cash flows from operating activities:		
Net income	$39,037	$55,865
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	15,974	17,804
Net amortization of investments	4,597	4,558
Provision for doubtful receivables, net	5,968	4,283
Deferred tax expense (benefit)	676	(9,874)
Net realized investment gain on sale of securities	(7,162)	(3,405)
Share-based compensation	1,617	2,351
(Increase) decrease in assets:		
Premium and other receivables, net	(4,400)	2,862
Deferred policy acquisition costs and value of business acquired	(3,272)	(3,103)
Other deferred taxes	390	9
Other assets	5,830	(934)
Increase (decrease) in liabilities:		
Claim liabilities	(20,614)	(69)
Liability for future policy benefits	17,893	16,740
Unearned premiums	(5,618)	(5,604)
Policyholder deposits	2,621	2,412
Liability to FEHBP	5,720	(11,016)
Accounts payable and accrued liabilities	1,548	29,196
Net cash provided by operating activities	60,805	102,075

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Triple-S Management Corporation

Consolidated Statements of Cash Flows (Unaudited)

(Dollar amounts in thousands, except per share data)

	Nine months ended September 30, 2014	2013
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$150,049	$81,330
Fixed maturities matured/called	27,892	85,496
Equity securities sold	70,803	93,504
Securities held to maturity:		
Fixed maturities matured/called	2,929	1,127
Other investments	8,925	-
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(211,129)	(205,373)
Equity securities	(23,731)	(132,109)
Securities held to maturity:		
Fixed maturities	(865)	(1,011)
Other investments	(583)	(823)
Net outflows from policy loans	(352)	(209)
Net capital expenditures	(3,801)	(8,934)
Net cash provided by (used in) investing activities	20,137	(87,002)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(6,754)	22,809
Net change in short-term borrowings	-	(16,590)
Repayments of long-term borrowings	(1,486)	(11,475)
Repurchase and retirement of common stock	(5,995)	(18,250)
Proceeds from policyholder deposits	6,413	8,112
Surrenders of policyholder deposits	(6,436)	(7,479)
Net cash used in financing activities	(14,258)	(22,873)
Net increase (decrease) in cash and cash equivalents	66,684	(7,800)
Cash and cash equivalents:		
Beginning of period	74,356	89,564
End of period	$141,040	$81,764

See accompanying notes to unaudited consolidated financial statements.

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

(1) Basis of Presentation

The accompanying 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 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 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, 2013.

On September 1, 2014, the name of American Health, Inc. (“AH” or “AHM”) was changed to Triple-S Advantage, Inc. (“TSA”) to consolidate the Company’s Medicare Advantage products offer and maximize investment in a single line of products.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of such consolidated interim financial statements, have been included. The results of operations for the three months and nine months ended September 30, 2014 are not necessarily indicative of the results for the full year ending December 31, 2014.

(2) Recent Accounting Standards

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer’s portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. We adopted the provisions of this guidance on January 1, 2014 and upon implementation recorded a liability in the consolidated accounts payable and accrued liabilities of approximately $28,500 representing an estimate of the fee for 2014. A corresponding deferred cost was recorded in the consolidated other assets. The Corporation updated this estimate for adjustment in subsequent quarters to reflect the final annual fee assessment of $27,700 paid during this quarter. During the three months and nine months ended September 30, 2014, approximately $7,400 and $21,300, respectively, of the deferred cost was recognized within the consolidated operating expenses; the remainder will be recognized on a straight-line basis over the balance of 2014.

On July 18, 2013, the FASB issued guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carry-forward or a tax credit carry-forward exists. In particular, the guidance provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward, with one exception. That exception states that, to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15,

2013. The Company adopted this guidance on January 1, 2014; there was no significant impact on our financial position or results of operations as a result of the adoption.

On March 14, 2014, the FASB issued guidance that amended the Master Glossary of the Accounting Standards Codification ("ASC"), including technical corrections related to glossary links, glossary term deletions, and glossary term name changes. In addition, this guidance included more substantive, limited-scope improvements to reduce instances of the same term appearing multiple times in the Master Glossary with similar, but not entirely identical, definitions. These are items that represent narrow and incremental improvements to U.S. GAAP and are not purely technical corrections and affect a wide variety of Topics in the ASC. The amendments in this guidance apply to all reporting entities within the scope of the affected accounting guidance and are effective upon issuance for both public entities and nonpublic entities. The Company adopted this guidance upon issuance with no impact on our financial position and results of operations.

On June 12, 2014, the FASB issued guidance that amends current accounting and disclosures for repurchase agreements and similar transactions. This guidance is effective for public companies for the first interim or annual period beginning after December 15, 2014. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

On June 19, 2014, the FASB issued updated guidance on the accounting for share-based payments when the terms of an award provide that a performance target could be achieved after the requisite service period. This guidance seeks to resolve the diversity in practice that exists when accounting for share-based payments. In particular, this guidance requires a performance target that affects vesting and that could be achieved after the requisite service period to be treated as a performance conditions. For all entities, this guidance is effective for annual periods and interim periods within those annual periods beginning after December 15, 2015, with earlier adoption permitted. We are currently evaluating the impact, if any, the adoption of this guidance will have on our financial position or results of operations.

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, 2014 that could have a material impact on the Corporation’s financial position, operating results or financials statement disclosures.

(3) 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 following tables summarize the operations by reportable segment for the three months and nine months ended September 30, 2014 and 2013:

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

	Three months ended September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Operating revenues:				
Managed Care:				
Premiums earned, net	$462,765	$491,046	$1,431,762	$1,483,456
Administrative service fees	30,253	22,450	89,509	78,103
Intersegment premiums /service fees	1,267	1,369	4,108	4,142
Net investment income	3,625	3,975	11,235	12,009
Total managed care	497,910	518,840	1,536,614	1,577,710
Life Insurance:				
Premiums earned, net	35,817	32,279	105,507	95,991
Intersegment premiums	13	88	195	304
Net investment income	5,907	5,303	17,558	16,317
Total life insurance	41,737	37,670	123,260	112,612
Property and Casualty Insurance:				
Premiums earned, net	22,184	24,549	69,084	74,423
Intersegment premiums	153	153	460	460
Net investment income	2,237	2,041	6,345	6,077
Total property and casualty insurance	24,574	26,743	75,889	80,960
Other segments: *				
Intersegment service revenues	2,392	1,981	6,923	7,211
Operating revenues from external sources	940	1,240	3,285	3,640
Total other segments	3,332	3,221	10,208	10,851
Total business segments	567,553	586,474	1,745,971	1,782,133
TSM operating revenues from external sources	14	43	81	300
Elimination of intersegment premiums	(1,433)	(1,610)	(4,763)	(4,906)
Elimination of intersegment service fees	(2,392)	(1,981)	(6,923)	(7,211)
Other intersegment eliminations	32	-	93	44
Consolidated operating revenues	$563,774	$582,926	$1,734,459	$1,770,360

* 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,	
	2014	2013	2014	2013
Operating income:				
Managed care	$903	$7,274	$32,928	$41,165
Life insurance	5,642	3,795	16,051	11,512
Property and casualty insurance	2,295	402	7,516	974
Other segments *	(751)	(939)	(1,002)	(1,452)
Total business segments	8,089	10,532	55,493	52,199
TSM operating revenues from external sources	14	43	81	300
TSM unallocated operating expenses	(1,655)	(2,673)	(10,002)	(9,440)
Elimination of TSM intersegment charges	2,437	2,436	7,294	6,805
Consolidated operating income	8,885	10,338	52,866	49,864
Consolidated net realized investment gains	3,108	(144)	7,162	3,405
Consolidated interest expense	(2,273)	(2,379)	(6,974)	(7,189)
Consolidated other income, net	367	13,931	1,188	14,778
Consolidated income before taxes	$10,087	$21,746	$54,242	$60,858
Depreciation and amortization expense:				
Managed care	$4,634	$4,744	$13,617	$15,322
Life insurance	181	257	598	672
Property and casualty insurance	122	133	369	399
Other segments*	260	240	776	764
Total business segments	5,197	5,374	15,360	17,157
TSM depreciation expense	199	216	614	647
Consolidated depreciation and amortization expense	$5,396	$5,590	$15,974	$17,804

* 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)

	September 30, 2014	December 31, 2013
Assets:		
Managed care	$952,625	$934,467
Life insurance	746,228	698,650
Property and casualty insurance	359,265	346,212
Other segments *	27,467	28,407
Total business segments	2,085,585	2,007,736
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	33,848	28,316
Property and equipment, net	20,631	21,278
Other assets	25,195	26,406
	79,674	76,000
Elimination entries-intersegment receivables and others	(48,995)	(36,112)
Consolidated total assets	$2,116,264	$2,047,624

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

(Dollar amounts in thousands, except per share data)

(4) 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, 2014 and December 31, 2013, were as follows:

	September 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$ 126,898	$ 1,122	$ (171)	$ 127,849
U.S. Treasury securities and obligations of U.S. government instrumentalities	59,960	727	(70)	60,617
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	45,990	394	(1,534)	44,850
Municipal securities	583,329	42,662	(384)	625,607
Corporate bonds	178,934	16,489	(380)	195,043
Residential mortgage-backed securities	8,101	431	-	8,532
Collateralized mortgage obligations	55,625	2,159	(7)	57,777
Total fixed maturities	1,058,837	63,984	(2,546)	1,120,275
Equity securities - Mutual funds	149,141	55,754	(13)	204,882
Total	$ 1,207,978	$ 119,738	$ (2,559)	$ 1,325,157

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

	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$104,317	$1,854	$(380)	$105,791
U.S. Treasury securities and obligations of U.S. government instrumentalities	38,131	1,068	-	39,199
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	49,557	262	(4,814)	45,005
Municipal securities	597,297	19,328	(5,182)	611,443
Corporate bonds	146,936	9,883	(879)	155,940
Residential mortgage-backed securities	7,388	324	(9)	7,703
Collateralized mortgage obligations	87,854	3,072	(133)	90,793
Total fixed maturities	1,031,480	35,791	(11,397)	1,055,874
Equity securities-Mutual funds	187,356	53,013	(436)	239,933
Total	$1,218,836	$88,804	$(11,833)	$1,295,807

	September 30, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$622	$ 166	$ -	$ 788
Residential mortgage-backed securities	217	20	-	237
Certificates of deposit	3,233	-	-	3,233
Total	$4,072	$ 186	$ -	$ 4,258

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

	December 31, 2013			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$1,793	$ 26	$ -	$ 1,819
U.S. Treasury securities and obligations of U.S. government instrumentalities	622	117	-	739
Residential mortgage-backed securities	346	27	-	373
Certificates of deposit	3,378	-	-	3,378
Total	$6,139	$ 170	$ -	$ 6,309

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, 2014 and December 31, 2013 were as follows:

	September 30, 2014								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	$56,824	$(171)	5	$-	$-	-	$56,824	$(171)	5
US Treasury securities and obligations of US governmental instrumentalities	22,443	(70)	2	-	-	-	22,443	(70)	2
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	10,840	(614)	6	5,215	(920)	1	16,055	(1,534)	7
Municipal securities	26,205	(128)	7	35,433	(256)	9	61,638	(384)	16
Corporate bonds	25,614	(109)	5	31,302	(271)	8	56,916	(380)	13
Collateralized mortgage obligations	-	-	-	2,917	(7)	1	2,917	(7)	1
Total fixed maturities	141,926	(1,092)	25	74,867	(1,454)	19	216,793	(2,546)	44
Equity securities:									
Mutual funds	1,672	(13)	1	-	-	-	1,672	(13)	1
Total for securities available for sale	$143,598	$(1,105)	26	$74,867	$(1,454)	19	$218,465	$(2,559)	45

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

	December 31, 2013								
	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
Securites available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	$46,797	$(380)	4	$-	$-	-	$46,797	$(380)	4
Obligations of government-Commonwealth of Puerto Rico and its instrumentalities	22,285	(4,814)	13	-	-	-	22,285	(4,814)	13
Municipal securities	234,594	(5,145)	51	4,646	(37)	1	239,240	(5,182)	52
Corporate bonds	45,203	(879)	19	-	-	-	45,203	(879)	19
Residential mortgage-backed securities	24	(9)	6	-	-	-	24	(9)	6
Collateralized mortgage obligations	1,106	(6)	3	9,469	(127)	3	10,575	(133)	6
Total fixed maturities	350,009	(11,233)	96	14,115	(164)	4	364,124	(11,397)	100
Equity securities - Mutual funds	25,231	(436)	7	-	-	-	25,231	(436)	7
Total for securities available for sale	$375,240	$(11,669)	103	$14,115	$(164)	4	$389,355	$(11,833)	107

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

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

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

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

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

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

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

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

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

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

Obligations of Government-Sponsored Enterprises, and Obligations of U.S. Government Instrumentalities: The unrealized losses on the Corporation's investments in obligations of states of the United States and political subdivisions of the states 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.

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 $22,385 and a gross unrealized gain of $185, (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of $20,785; a gross unrealized loss of $1,534 offset in part by a gross unrealized gain of $128, and (3) bonds of various other Puerto Rico issuers with a fair value of $1,680 and a gross unrealized gain of $81.

Besides holdings in escrowed bonds, which are backed by US Government securities and therefore have an implicit AA+/Aaa rating, our largest positions are in bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina). These sales tax bonds are secured by a 7% sales tax levied on the island, of which 1.5% is allocated to municipalities. Of the remaining 5.5%, the largest of 3.50% or a base amount is pledged to these sales tax bonds. The percentage pledged to the sales tax bonds was increased in October 2013 from 2.75% to 3.50%. In terms of flow of funds, the 5.5% remaining revenue is first used for debt service on the senior lien bonds, then for debt service on the subordinated bonds and the excess flows into the General Fund.

On June 28, 2014, Act 71-2014, known as the Puerto Rico Public Corporations Debt Enforcement and Recovery Act ("the Recovery Act") was signed into law to provide a legal framework for restructuring public corporation debt. The Central Government, municipalities and related agencies (including Cofina and GDB) are explicitly not eligible, i.e. these cannot be restructured under this new act. In other words, the Act makes a clear distinction between the central Government and its related entities versus the agencies/public corporations. Both Moody's and Standard & Poor's

(S&P) have taken various ratings actions on the back of this new legislation, including on those credits which were explicitly excluded under the new Act. The rating agencies have positioned their ratings of bonds issued by Cofina closer to that of General Obligation debt.

S&P notes that the proposal is indicative of the growing economic and fiscal challenges for the Commonwealth as a whole, which could lead to additional liquidity pressures. S&P also mentions that this legislation may also signal a potential shift in the Commonwealth’s historically strong willingness to continue to meet its obligations to bondholders. On July 11, 2014, S&P lowered its Cofina ratings from AA- to BBB for senior lien bonds and from A+ to BBB- for subordinate bonds.

According to Moody’s, the new law marks the end of the Commonwealth’s long history of taking actions needed to support its debt. The rating agency notes that it signals a depleted capacity for revenue increases and austerity measures, and a new preference for shifting fiscal pressures to creditors. In Moody’s view this has implications for all of Puerto Rico’s debt, i.e. not only of the public corporations but also of the central Government. On July 1, 2014, Moody’s lowered its Cofina ratings from Baa1 to Ba3 for senior lien bonds and from Baa2 to Ba3 for subordinate bonds.

The bonds of various other Puerto Rico issuers, which are mentioned above, consist of General Obligation bonds insured by National Public Finance Guarantee (AA- stable outlook, A3 negative outlook) and Government Development Bank ("GDB") notes (BB-, B3 negative outlook).

The Corporation did not consider the Cofina positions other-than-temporarily impaired as of September 30, 2014 because: (a) we do not have the intent to sell these investments, (b) it is not more likely than not that we will be required to sell the investments before recovery of their amortized cost bases (which may be maturity), (c) the Recovery Act explicitly excludes Cofina debt from any restructuring, (d) the debt has a separate revenue stream, and (e) we expect to collect all contractual cash flows.

As of June 30, 2014, the Corporation considered GDB and PREPA positions other-than-temporary impaired and recorded and impairment loss of $462 because: (a) the dollar price of these positions was far below par for a considerable amount of time, (b) the weak financial & liquidity condition of both issuers combined with the Recovery Act (directly for PREPA and indirectly for GDB) could mean that not all contractual cash flows will be collected. During the three months ended September 30, 2014, the Corporation sold PREPA positions at a realized gain of $26, taking into account the new cost base after impairment.

Municipal Securities: The unrealized losses on the Corporation's investments in U.S. municipal securities 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.

Corporate Bonds: The unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. All corporate bonds with an unrealized loss have investment grade ratings. Because the decline in estimated fair value is principally attributable to changes in interest rates; the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Collateralized Mortgage Obligations: The unrealized losses on investments in 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, 2014, investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired because the funds have been in an unrealized loss position for less than six months or the unrealized loss is small (less than $100 and/or 20%).

(Dollar amounts in thousands, except per share data)

Maturities of investment securities classified as available for sale and held to maturity at September 30, 2014 were as follows:

	September 30, 2014	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$25,047	$25,255
Due after one year through five years	372,874	378,998
Due after five years through ten years	134,061	141,211
Due after ten years	463,129	508,502
Residential mortgage-backed securities	8,101	8,532
Collateralized mortgage obligations	55,625	57,777
	$1,058,837	$1,120,275
Securities held to maturity:		
Due in one year or less	$3,233	$3,233
Due after ten years	622	788
Residential mortgage-backed securities	217	237
	$4,072	$4,258

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

Information regarding realized and unrealized gains and losses from investments for the three months and nine months ended September 30, 2014 and 2013 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	$1,600	$620	$3,303	$2,900
Gross losses from sales	(1,934)	(1,086)	(3,891)	(1,613)
Gross losses from other-than-temporary impairments	-	-	(462)	-
Total fixed maturity securities	(334)	(466)	(1,050)	1,287
Equity securities:				
Securities available for sale:				
Gross gains from sales	3,488	814	8,104	3,445
Gross losses from sales	(46)	(492)	(1,317)	(1,327)
Total equity securities	3,442	322	6,787	2,118
Net realized gains (losses) on securities available for sale	3,108	(144)	5,737	3,405
Gross gain from other investment	-	-	1,425	-

Net realized investment gains (losses)	$3,108	$(144)	$7,162	$3,405

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(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Changes in net unrealized gains (losses):				
Recognized in accumulated other comprehensive income:				
Fixed maturities – available for sale	$(2,873)	$(14,052)	$37,044	$(62,094)
Equity securities – available for sale	(5,783)	7,719	3,164	15,249
	$(8,656)	$(6,333)	$40,208	$(46,845)
Not recognized in the consolidated financial statements:				
Fixed maturities – held to maturity	$3	$(41)	$16	$(159)

The deferred tax asset (liability) on unrealized gains (losses) change recognized in accumulated other comprehensive income during the nine months ended September 30, 2014 and 2013 was $(5,615) and $6,937, respectively.

As of September 30, 2014 and December 31, 2013, no individual investment in securities exceeded 10% of stockholders' equity.

The components of net investment income were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Fixed maturities	$9,587	$9,307	$28,826	$27,533
Equity securities	1,850	1,717	5,466	6,236
Policy loans	150	119	408	351
Cash equivalents and interest-bearing deposits	39	16	65	61
Other	190	204	549	568
Total	$11,816	$11,363	$35,314	$34,749

(5) Premiums and Other Receivables, Net

Premiums and other receivables, net as of September 30, 2014 and December 31, 2013 were as follows:

	September 30, 2014	December 31, 2013
Premiums	$104,691	$108,963
Self-insured group receivables	56,074	55,598
FEHBP	11,948	11,804
Agent balances	24,146	27,655
Accrued interest	10,429	11,879
Reinsurance recoverable	51,137	46,116

Other	42,463	34,473
	300,888	296,488
Less allowance for doubtful receivables:		
Premiums	21,090	14,403
Other	6,427	7,146
	27,517	21,549
Total premiums and other receivables, net	$ 273,371	$ 274,939

(Dollar amounts in thousands, except per share data)

(6) Claim Liabilities

The activity in the total claim liabilities for the three months and nine months ended September 30, 2014 and 2013 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Claim liabilities at beginning of period	$414,708	$414,124	$420,421	$416,918
Reinsurance recoverable on claim liabilities	(39,832)	(37,756)	(37,557)	(39,051)
Net claim liabilities at beginning of period	374,876	376,368	382,864	377,867
Incurred claims and loss-adjustment expenses:				
Current period insured events	432,509	456,981	1,334,208	929,037
Prior period insured events	(5,002)	(2,493)	(40,285)	(27,554)
Total	427,507	454,488	1,293,923	901,483
Payments of losses and loss-adjustment expenses:				
Current period insured events	421,395	418,433	1,079,312	636,251
Prior period insured events	21,347	35,673	237,834	266,349
Total	442,742	454,106	1,317,146	902,600
Net claim liabilities at end of period	359,641	376,750	359,641	376,750
Reinsurance recoverable on claim liabilities	40,166	36,521	40,166	36,521
Claim liabilities at end of period	$399,807	$413,271	$399,807	$413,271

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 credit in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and nine months ended September 30, 2014 and 2013 is due primarily to better than expected cost and utilization trends. Reinsurance recoverable on unpaid claims is reported within the 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 $6,346 and $17,678 during the three months and nine months ended September 30, 2014, respectively. The change in the liability for future policy benefits during the three and nine months ended September 30, 2013 amounted to $6,330 and $11,335.

(7) Fair Value Measurements

Assets recorded at fair value in the 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:

Input Definition:

Level Input:	
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.

(Dollar amounts in thousands, except per share data)

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 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 4.

The following tables summarize fair value measurements by level at September 30, 2014 and December 31, 2013 for assets measured at fair value on a recurring basis:

	September 30, 2014			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$127,849	$-	$127,849
U.S. Treasury securities and obligations of U.S government instrumentalities	60,617	-	-	60,617
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	44,850	-	44,850
Municipal securities	-	625,607	-	625,607
Corporate bonds	-	195,043	-	195,043
Residential agency mortgage-backed securities	-	8,532	-	8,532
Collateralized mortgage obligations	-	57,777	-	57,777
Total fixed maturities	60,617	1,059,658	-	1,120,275
Equity securities - Mutual funds	165,868	25,560	13,454	204,882
Total	$226,485	$1,085,218	$13,454	$1,325,157

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$105,791	$-	$105,791
U.S. Treasury securities and obligations of U.S government instrumentalities	39,199	-	-	39,199
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	45,005	-	45,005
Municipal securities	-	611,443	-	611,443
Corporate bonds	-	155,940	-	155,940
Residential agency mortgage-backed securities	-	7,703	-	7,703
Collateralized mortgage obligations	-	90,793	-	90,793
Total fixed maturities	39,199	1,016,675	-	1,055,874

Equity securities - Mutual funds	158,281	63,742	17,910	239,933
Total	$197,480	$1,080,417	$17,910	$1,295,807

(Dollar amounts in thousands, except per share data)

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 mutual funds private equity 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 the funds.

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, 2014 and 2013.

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, 2014 and 2013 is as follows:

	Three months ended					
	September 30, 2014			September 30, 2013		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	$-	$ 16,859	$ 16,859	$-	$ 16,354	$ 16,354
Unrealized gain (loss) in other accumulated comprehensive income	-	(962)	(962)	-	193	193
Capital distributions	-	(2,676)	(2,676)	-	-	-
Capital calls	-	233	233	-	245	245
Ending balance	$-	$ 13,454	$ 13,454	$-	$ 16,792	$ 16,792

	Nine months ended					
	September 30, 2014			September 30, 2013		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	$-	$ 17,910	$ 17,910	$-	$ 12,822	$ 12,822
Unrealized gain (loss) in other accumulated comprehensive income	-	(356)	(356)	-	2,217	2,217
Capital distributions	-	(4,677)	(4,677)	-	-	-

Capital calls	-	577	577	-	1,753	1,753
Ending balance	$ -	$ 13,454	$ 13,454	$ -	$ 16,792	$ 16,792

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB 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 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 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 loans payable to bank – fixed and senior unsecured notes payable was determined using broker quotations.

(iv) Repurchase Agreement

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

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our consolidated balance sheet at September 30, 2014 and December 31, 2013 are as follows:

	September 30, 2014				
		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$7,057	$-	$7,057	$ -	$7,057
Liabilities:					

Policyholder deposits	$118,521	$-	$118,521	$ -	$118,521
Long-term borrowings:					
Loans payable to bank - variable	14,877	-	14,877	-	14,877
Loans payable to bank - fixed	12,939	-	12,939	-	12,939
6.6% senior unsecured notes payable	35,000	-	33,425	-	33,425
Repurchase agreement	25,000	-	25,411	-	25,411
Total long-term borrowings	87,816	-	86,652	-	86,652
Total liabilities	$206,337	$-	$205,173	$ -	$205,173

(Dollar amounts in thousands, except per share data)

	December 31, 2013				
		Fair Value			
	Carrying Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$6,705	$-	$6,705	$ -	$6,705
Liabilities:					
Policyholder deposits	$115,923	$-	$115,923	$ -	$115,923
Long-term borrowings:					
Loans payable to bank - variable	16,107	-	16,107	-	16,107
Loans payable to bank - fixed	13,195	-	13,195	-	13,195
6.6% senior unsecured notes payable	35,000	-	33,775	-	33,775
Repurchase agreement	25,000	-	25,638	-	25,638
Total long-term borrowings	89,302	-	88,715	-	88,715
Total liabilities	$205,225	$-	$204,638	$ -	$204,638

(8) Share-Based Compensation

Share-based compensation expense recorded during the three months and nine months ended September 30, 2014 was $396 and $1,617, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2013 was $1,188 and $2,351, respectively. There was no cash received from stock options exercises nine months ended September 30, 2014 and 2013. During the nine months ended September 30, 2014 and 2013, 174,090 and 14,095 shares, respectively, were repurchased and retired as a result of non-cash exercises of stock options.

(9) Comprehensive Income

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

	Net unrealized gain on securities	Liability for pension benefits	Accumulated other comprehensive income
Balance at January 1, 2014	$ 65,584	$(33,455)	$ 32,129
Other comprehensive income before reclassifications	40,918	-	40,918
Amounts reclassified from accumulated other comprehensive income	(6,325)	1,764	(4,561)
Net current period change	34,593	1,764	36,357
Balance at September 30, 2014	$ 100,177	$(31,691)	$ 68,486

(10) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of September 30, 2014, tax years 2010 through 2013 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

Managed Care and Property and Casualty corporations are taxed essentially the same as other corporations, with taxable income primarily determined on the basis of the statutory annual statements filed with the insurance regulatory authorities. Also, operations are subject to an alternative minimum income tax, which is calculated based on the formula established by existing tax laws. Any alternative minimum income tax paid may be used as a credit against the excess, if any, of regular income tax over the alternative minimum income tax in future years.

The Corporation, through one of its Managed Care corporations, has a branch in the United States Virgin Islands that is subject to a 5% premium tax on policies underwritten therein. As a qualified foreign insurance company, the Company is subject to income taxes in the U.S. Virgin Islands, which has implemented a mirror tax law based on the U.S. Tax Code. The operations of U.S. Virgin Islands had certain net operating losses for U.S. Virgin Islands tax purposes for which a valuation allowance has been recorded.

Companies within our Life Insurance segment operate as qualified domestic life insurance companies and are subject to the alternative minimum tax and taxes on its capital gains.

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the TSA group of companies is a U.S.-based corporation and is subject to U.S. federal income taxes. This U.S.-based corporation within our group has not provided U.S. deferred taxes on an outside basis difference created as a result of the business combination of TSA and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2013 is estimated at $56,000. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

On January 31, 2011 the Government of Puerto Rico approved a reduction of the maximum corporate income tax rate from 40.95% to approximately 30%, including the elimination of a 5% additional special tax over the tax obligation imposed for corporations, as well as adding several tax credits and deductions, among other tax reliefs and changes. One of the companies acquired in the TSA transaction elected to continue filing its tax returns under the rules prescribed by the previous Puerto Rico tax code. This election can be revoked now, according the provisions of the newly enacted Puerto Rico tax code.

On June 30, 2013 the Governor of Puerto Rico signed into law Puerto Rico’s Act No.40, known as the “Tax Burden Adjustment and Redistribution Act’’ and other Acts, which among other things, increased the maximum corporate income tax rate from 30% to 39%. This tax rate applies to fiscal years starting after December 31, 2012. These new laws also include some amendments to the computations of the corporate alternative minimum tax, including the consideration of an additional tax on gross revenues. In addition, the law established a premium tax of 1% on premiums earned after June 30, 2013, except for annuity deposits, and premiums derived from Medicare Advantage and Medicaid programs.

On October 14, 2013, the Governor of Puerto Rico signed into law Act No.117 providing additional changes and transitional provisions in connection with Act 40 and clarifies that gross income does not include dividends received from a 100% controlled domestic subsidiary and income attributable to a trade of business outside of Puerto Rico.

On July 1, 2014, the Governor of Puerto Rico signed into law Act No. 77 including multiple amendments to the Puerto Rico tax code that will have a direct impact on the tax liabilities of individual and corporate taxpayers. The amendments to the Puerto Rico tax code include, among others, changes to the corporate tax over long-term capital gains, which was increased from 15% to 20% for all transactions occurring after June 30, 2014. During the three months ending September 30, 2014, the Company recognized a one-time charge to operations of approximately $6,300 as a consequence of this change in the enacted rate to account for the effect of the increase in rate in the unrealized gain on its investment portfolio.

The Act No. 77 of 2014, also includes changes to the gross receipts tax, (1) eliminating the additional gross receipts tax as a component of the corporate alternative minimum tax commencing on January 1, 2014 and thereafter, and (2) adding a new gross receipts tax. Although the new gross receipts tax will be an additional tax over the Corporation gross income, it will be deductible for purposes of computing taxable income, but only to the extent that the new gross receipts tax is paid on or before the filing date of the income tax return. The impact of the amendments to the gross receipts tax will not be significant to the results of operations.

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

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

(11) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30, 2014 and 2013 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Components of net periodic benefit cost:				
Service cost	$885	$1,047	$2,835	$3,093
Interest cost	2,042	1,947	6,435	5,851
Expected return on assets	(1,847)	(1,662)	(5,848)	(5,054)
Amortization of prior service benefit	(111)	(111)	(348)	(337)
Amortization of actuarial loss	1,019	1,798	3,239	5,366
Net periodic benefit cost	$1,988	$3,019	$6,313	$8,919

Employer Contributions: As of September 30, 2014, the Corporation has contributed $8,000 to the pension program in 2014.

(12) 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 months and nine months ended September 30, 2014 and 2013:

	Three months ended September 30,		Nine months ended September 30,	
	2014	2013	2014	2013
Numerator for earnings per share:				
Net income attributable to TSM available to stockholders	$4,723	$18,641	$39,154	$56,021
Denominator for basic earnings per share:				
Weighted average of common shares	27,081,142	27,336,724	27,142,910	27,812,521
Effect of dilutive securities	59,961	102,370	109,896	103,179
Denominator for diluted earnings per share	27,141,103	27,439,094	27,252,806	27,915,700
Basic net income per share attributable to TSM	$0.17	$0.68	$1.44	$2.01

Diluted net income per share attributable to TSM	$0.17	$0.68	$1.44	$2.01

(13) Contingencies

Our business is subject to numerous laws and regulations promulgated by Federal and Puerto Rico 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 and Puerto Rico 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.

As of September 30, 2014, 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 losses 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 losses, 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.

Additionally, we may face various potential litigation claims that have not been asserted to date, including claims from persons purporting to have contractual rights to acquire shares of the Company on favorable terms pursuant to (“Share Acquisition Agreements”) or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Claims by Heirs of Former Shareholders

The Company and Triple-S Salud, Inc. (“TSS”) are defending seven individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 102 shares of the Company or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts and allegations, the lawsuits generally allege that the redemption of the shares by the Company pursuant to transfer and ownership restrictions contained in the Company's (or its predecessors' or affiliates') articles of incorporation and bylaws was improper.

In one of these cases, entitled Vera Sánchez, et al, v. Triple-S, the plaintiffs argued that the redemption of shares was fraudulent and was not subject to the two-year statute of limitations contained in the local securities law. The Court of First Instance determined that the plaintiffs’ claims were time barred under the local securities law. The plaintiffs appealed, and in January 2012, the Puerto Rico Court of Appeals upheld the dismissal, holding that even if the plaintiffs could have survived the securities law's two-year statute of limitations, their complaint was time-barred under the Puerto Rico Civil Code's four-year statute of limitations on claims of fraud. On March 28, 2012 the plaintiffs filed a petition for writ of certiorari before the Puerto Rico Supreme Court that was granted on May 31, 2012. We filed our respondent's brief on October 5, 2012. On October 1, 2013, the Puerto Rico Supreme Court reversed the dismissal of the case, holding that the two-year statute of limitations contained in the local securities law did not apply based on the facts of this case and returning it to the Court of First Instance. Continuance of hearings is set for February 18, 2015.

In the second case, entitled Olivella Zalduondo, et al, v. Seguros de Servicios de Salud, et al, the Puerto Rico Court of First Instance granted the Company's motion to dismiss on grounds that the complaint was time-barred under the two-year statute of limitations of the local securities laws. On appeal, the Court of Appeals affirmed the decision of the lower court. Plaintiffs filed a petition for certiorari before the Puerto Rico Supreme Court which was granted on January 20, 2012. On January 8, 2013, the Puerto Rico Supreme Court ruled that the applicable statute of limitations is the fifteen-year period of the Puerto Rico Civil Code for collection of monies. On January 28, 2013, the Company filed a motion for reconsideration which was subsequently denied. On March 26, 2013, plaintiffs amended the complaint for the second time and the Company answered on April 16, 2013. Discovery is ongoing.

In the third case, entitled Heirs of Dr. Juan Acevedo, et al, v. Triple-S Management Corporation, et al, the Court of First Instance denied our motion for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Court of First Instance. Our request for reconsideration was denied in December 2011. The case was reassigned to a new judge and the parties are awaiting further proceedings.

The fourth case, entitled Montilla López, et al, v. Seguros de Servicios de Salud, et al, was filed on November 29, 2011. The Company filed a motion to dismiss on the grounds that the claim is time barred under the local securities laws. On October 15, 2012, while the motion to dismiss was pending, plaintiffs amended their complaint. The court denied our motion to dismiss on January 24, 2013. The Company answered the complaint on March 8, 2013. Subsequently, plaintiffs amended their complaint and the Company filed its response on June 13, 2013. Discovery is ongoing.

The fifth 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. The court allowed plaintiff to conduct limited discovery in connection with plaintiff's opposition to our motion for summary judgment. The limited discovery is currently ongoing.

The sixth case, entitled Irizarry Antonmattei, et al, v. Seguros de Servicios de Salud, et al, was filed on April 16, 2013 and the Company filed its response on June 21, 2013. On June 28, 2013, the Court of First Instance ordered plaintiffs to reply to the Company's response specifically on the matter of the statute of limitations applicable to the complaint. Plaintiffs failed to timely respond and the Company moved to dismiss. Plaintiffs subsequently moved to amend the complaint and, although the Company opposed the amendment, the court allowed plaintiffs to amend their complaint. On November 5, 2013, the Company moved to dismiss the first amended complaint on the grounds that it is time-barred under the fifteen-year statute of limitations of the Puerto Rico Civil Code for collection of monies. On December 16, 2013, plaintiffs filed an opposition thereto and the Company filed a reply on January 7, 2014. On February 19, 2014, the court ordered plaintiffs to file a memorandum of law by April 22, 2014 regarding the validity of the restrictions on transfer applicable to the shares. On May 16, 2014, plaintiffs filed a motion for summary judgment, which the Company opposed on May 28, 2014. On June 16, 2014, the court ordered plaintiffs to file the memoranda of law and struck the motion for summary judgment. On June 27, 2014, plaintiffs filed the memoranda of law. On September 18, 2014, the court denied the motion to dismiss. On September 29, 2014, the Company filed a motion for reconsideration. The parties are awaiting court's decision on Company's motion for reconsideration.

The seventh case, entitled Allende Santos, et al, v. Triple-S Salud, et al, was filed on March 28, 2014. On July 2, 2014, the Company filed its response. Discovery has not commenced and the parties are pending further proceeding. The initial scheduling conference is scheduled for February 19, 2015.

Management believes the aforesaid claims are time barred under one or more statutes of limitations and will vigorously defend them on these grounds; however, as a result of the Puerto Rico Supreme Court's decision to deny the applicability of the statute of limitations contained in the local securities law, some of these claims will likely be litigated on their merits.

Joint Underwriting Association Litigations

On August 19, 2011, plaintiffs, purportedly a class of motor vehicle owners, filed an action in the United States District Court for the District of Puerto Rico against the Puerto Rico Joint Underwriting Association ("JUA") and 18 other defendants, including Triple-S Propiedad, Inc. ("TSP"), alleging violations under the Puerto Rico Insurance Code, the Puerto Rico Civil Code, the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the local statute against organized crime and money laundering. JUA is a private association created by law to administer a compulsory public liability insurance program for motor vehicles in Puerto Rico ("CLI"). As required by its enabling act, JUA is composed of all the insurers that underwrite private motor vehicle insurance in Puerto Rico and exceed the minimum underwriting percentage established in such act. TSP is a member of JUA.

In this lawsuit, entitled Noemí Torres Ronda, et al v. Joint Underwriting Association, et al., plaintiffs allege that the defendants illegally charged and misappropriated a portion of the CLI premiums paid by motor vehicle owners in violation of the Puerto Rico Insurance Code. Specifically, they claim that because the defendants did not incur acquisition or administration costs allegedly totaling 12% of the premium dollar, charging for such costs constitutes the illegal traffic of premiums. Plaintiffs also claim that the defendants, as members of JUA, violated RICO through various inappropriate actions designed to defraud motor vehicle owners located in Puerto Rico and embezzle a portion of the CLI premiums for their benefit.

Plaintiffs seek the reimbursement of funds for the class amounting to $406,600 treble damages under RICO, and equitable relief, including a permanent injunction and declaratory judgment barring defendants from their alleged conduct and practices, along with costs and attorneys' fees.

On December 30, 2011, TSP and other insurance companies filed a joint motion to dismiss, arguing, among other things, that plaintiffs' claims are barred by the filed rate doctrine, inasmuch as a suit cannot be brought, even under RICO, to amend the compulsory liability insurance rates that were approved by the Puerto Rico Legislature and the Commissioner of Insurance of Puerto Rico.

On February 17, 2012, plaintiffs filed their opposition. On April 4, 2012, TSP filed a reply in support of our motion to dismiss, which was denied by the court. On October 2, 2012, the court issued an order certifying the class. On October 12, 2012, several defendants, including TSP, filed an appeal before the U.S. Court of Appeals for the First District, requesting the court to vacate the District Court's certification order. The First Circuit denied the authorization to file the writ of appeals. Discovery is ongoing.

Dentists Association Litigation

On February 11, 2009, the Puerto Rico Dentists Association ("Colegio de Cirujanos Dentistas de Puerto Rico," in Spanish) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Company and two of its subsidiaries, TSS and Triple-C, Inc. ("TCI"), were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated.

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of $150,000. In addition, the complaint claims that the Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists.

Two codefendant plans, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Company, opposed. On February 8, 2011, the federal district court in Puerto Rico decided to retain jurisdiction. The defendants filed a joint motion to dismiss the case on the merits. On August 31, 2011, the District Court dismissed all of plaintiffs' claims except for its breach of contract claim, and ordered the parties to brief the issue of whether the court still has federal jurisdiction under the Class

Action Fairness Act of 2005 (“CAFA”). Plaintiffs moved the court to reconsider its August 31, 2011 decision and the defendants did the same, arguing that the breach of contract claim failed to state a claim upon which relief can be granted. On May 2, 2012, the court denied the plaintiffs' motion. On May 31, 2012, plaintiffs appealed the District Court's dismissal of their complaint and the denial of plaintiffs’ motion for reconsideration. The U.S. Court of Appeals for the First Circuit dismissed the appeal for lack of jurisdiction. On September 25, 2012 the District Court denied without prejudice the defendants’ motion for reconsideration. On October 10, 2012 the parties filed their briefs with respect to class certification. On March 13, 2013, the district court denied plaintiffs’ request for class certification and ordered the parties to brief the court on whether jurisdiction still exists under CAFA following such denial. On April 24, 2013, all parties briefed the court on this issue. On September 6, 2013, the District Court dismissed the Dentist Association for lack of associational standing, leaving only the individual dentists as plaintiffs. The court also granted plaintiffs’ leave to amend, on or before September 23, 2013, their complaint to address mediation or settlement negotiations and, to cure deficiencies pertaining to the breach-of-contract claims. On December 23, 2013, five plaintiffs filed a Second Amended Complaint (“SAC”) seeking damages in the amount of $30 in which the dentists alleged that defendants altered the coding of the claims billed by the dentist, resulting in a lower payment. Only one of the five plaintiffs presented a claim against the Company. On January 31, 2014, the Company answered the complaint. On April 11, 2014, TSS filed a motion to compel arbitration, as provided by the claimant’s provider contract. Court’s decision on this motion is still pending. On April 24, 2014, the Company and the claimant filed a voluntary dismissal with prejudice, TSS and TCI continuing as defendants. On June 4, 2014, TSS, TCI, and the remaining plaintiff filed a joint notice of settlement and a request for dismissal. On June 6, 2014 the court dismissed the claim as requested by the parties. On June 26, 2014, the court entered an amended judgment to indicate that dismissal of the case was with prejudice.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the BCBSA in a multi-district class action litigation filed on July 24, 2012 that alleges that the exclusive service area ("ESA") requirements of the Primary License Agreements with Plans violate antitrust law, and the plaintiffs in these suits seek monetary awards and in some instances, injunctive relief barring ESAs. Those cases have been centralized in the United States District Court for the Northern District of Alabama. Prior to centralization, motions to dismiss were filed by several plans, including TSS. Plaintiffs opposed TSS' motion to dismiss. On April 9, 2014, the Court held an argumentative hearing to discuss the motions to dismiss. During the hearing, the Court did not issue a ruling on the motions to dismiss thus, decision on said motions are still pending. On June 18, 2014, the court denied TSS' motion to dismiss. Discovery is ongoing. The Company has joined BCBSA in vigorously contesting these claims.

Claims Relating to the Provision of Health Care Services

TSS is defendant in several claims for collection of monies in connection with the provision of health care services. Among them are individual complaints filed before the Puerto Rico Health Insurance Administration (ASES) by six community health centers alleging TSS' breached their contracts with respect to certain capitation payments and other monetary claims. Such claims have an aggregate value of approximately $9,600. Discovery is ongoing, and given their early stage, the Company cannot assess the probability of an adverse outcome or the reasonable financial impact that any such outcome may have on the Company. TSS believes these complaints are time-barred and intends to vigorously defend them on these and other grounds.

Also, 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 and intends to vigorously defend this claim.

Intrusions into TCI's Internet IPA Database

On September 21, 2010, the Company learned from a competitor that a specific internet database containing information pertaining to individuals insured at the time by TSS under the Government of Puerto Rico Medicaid program and to independent practice associations that provided services to those individuals, had been accessed without authorization by certain of its employees.

The Company reported these events to the appropriate Puerto Rico and federal government agencies. It then received and complied with requests for information from ASES and the Office for Civil Rights ("OCR") of the U.S. Department of Health and Human Services, which entities are conducting reviews of these data breaches and TSS' and TCI's compliance with applicable security and privacy rules. ASES levied a fine of $100 on TSS in connection with these incidents, but following the Company's request for reconsideration, ASES withdrew the fine pending the outcome of the review by the OCR. The OCR has not issued its determination on this matter. The Company at this time cannot reasonably assess the impact of these proceedings on the Company.

Unauthorized Disclosure of Protected Health Information

On September 20, 2013, TSS mailed a pamphlet to our approximately 70,000 Medicare Advantage beneficiaries that inadvertently displayed the receiving beneficiary's Medicare Health Insurance Claim Number ("HICN"). The HICN is the unique number assigned by the Social Security Administration to each Medicare beneficiary and is considered protected health information under the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"). TSS conducted an investigation and reported the incident to the appropriate Puerto Rico and federal government agencies. It then received and complied with requests for information from ASES and OCR concerning this matter. TSS issued a breach notification through the local media and notified the situation to all affected beneficiaries by mail, notifying them of certain protective measures as well.

On April 16, 2014, ASES received a complaint submitted by an AHM Platino product beneficiary alleging that the pamphlet distributed by AHM also had Protected Health Information ("PHI") visible on its external cover. AHM conducted the investigation of this allegation and discovered that the external cover of the pamphlets mailed to Platino members displayed the unique contract number randomly assigned by AHM to its members. This number combined with the name and address of the member identified each individual as an AHM Platino beneficiary and the use of the unique contract number on the outside of the pamphlets may be viewed as a violation of the HIPAA minimum necessary rule set forth in regulation. A total of 39,944 members were affected by the incident, from which 28,413 were Platino members. We treated this as a separate incident. Therefore, we reported the incident to concerned local and federal regulators. Similarly, we issued a letter by mail and posted a substitute notice on our webpage to the affected individuals and notified the breach through the local media.

On February 11, 2014, ASES notified TSS of its intention to impose a civil monetary penalty of $6,778 and other administrative sanctions with respect to the breach described above involving 13,336 of our dual eligible Medicare beneficiaries. The sanctions include the suspension of all new enrollments of dual eligible Medicare beneficiaries and the obligation to notify affected individuals of their right to disenroll. In its letter, ASES alleged TSS has failed to take all required steps in response to the breach. After TSS submitted a corrective action plan and, on February 21, 2014, ASES requested TSS to provide additional information in connection with the corrective action plan and, on February 26, 2014, ASES temporarily lifted the sanctions related to the enrollment of dual eligible Medicare beneficiaries. On March 6, 2014, ASES confirmed its determination lifting the enrollment sanction and notified its intention to provide TSS a corrective action plan. On March 11, 2014, TSS filed an answer challenging the monetary civil penalty and requesting an administrative hearing and simultaneously filed a notice of removal in the federal District Court for the District of Puerto Rico. TSS alleges that the administrative proceeding should be dismissed on several grounds, including lack of jurisdiction. On April 10, 2014, ASES filed a motion to remand, and, on April 24, 2014 TSS filed its opposition. This matter is pending court's resolution.

While TSS is collaborating with ASES on these matters, it intends to vigorously contest the monetary fine and other sanctions subject of ASES' notices. At this time, the Company is unable to determine the ultimate outcome of its challenge to ASES' sanctions, the incident's ultimate financial impact on TSS or what measures, if any, will be taken by the OCR or other regulators regarding this matter.

In connection with this event, four individuals have filed suit against TSS in the Court of First Instance of Puerto Rico. In the first case, filed on February 10, 2014, one individual, on his behalf and on behalf of his spouse asserts emotional damages due the disclosure of his protected health information. In the second case, filed on February 24, 2014, another individual filed a class-action suit claiming approximately $20,000 in damages. With respect with this class-action suit, on February 27, 2014, TSS filed a motion to dismiss the class-action suit based on several grounds, including lack of standing. The court ordered plaintiff to submit an opposition to TSS' motion to dismiss, subject to the dismissal of the claim if plaintiff failed to comply. Plaintiff filed its opposition on March 12, 2014 and, on April 14, 2014, TSS replied. The Court's ruling on the motions is pending. In the third case, filed on April 23, 2014, another individual asserts emotional damages and identity theft. The fourth case, filed on September 19, 2014, an individual asserts emotional damages in connection with this matter. The Company intends to vigorously defend against these claims.

ASES Audits

On July 2, 2014, ASES notified TSS that it conducted an audit reflecting an overpayment of premium in the amount of $7,950 corresponding to payments made to TSS pursuant to prior contracts with ASES for the provision of services under the government health plan as a result of audits conducted by ASES covering several periods from October 2005 to September 2013. TSS contends that ASES request for reimbursement has no merits on several grounds, including a 2011 settlement between both parties covering the majority of the amount claimed by ASES. In connection with ASES allegations, ASES withheld $4,800 in service fees corresponding to services provided for the period from October 2005 to September 2010. On August 29, 2014, ASES delivered the $4,800 previously withheld. TSS intends to vigorously challenge this claim and defend the validity of the settlement agreement signed by the parties in 2011.

(Dollar amounts in thousands, except per share data)

(14) Business Combination

Effective November 7, 2013, the Company's subsidiary Triple-S Vida, Inc. ("TSV") completed the acquisition of 100% of the outstanding capital stock of Atlantic Southern Insurance Company ("ASICO"), an insurer dedicated to the sale of individual life and cancer insurance in Puerto Rico, as well as individual and group health insurance in the U.S. Virgin Islands, British Virgin Islands, Anguilla and Costa Rica. With this acquisition the Company has solidified its position in the life insurance business in Puerto Rico. The Company accounted for this acquisition in accordance with the provisions of Accounting Standard Codification Topic 805, Business Combinations. The results of operations and financial condition of Atlantic Southern Insurance Company are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity was $9,413. Direct costs related to the acquisition amounted to $435.

Although the closing date of the transaction was November 7, 2013, the consideration amount was determined using ASICO's financial position as of October 31, 2013. Therefore, we recorded a preliminary allocation of the purchase price to ASICO's tangible and intangible assets acquired and liabilities assumed based on their fair value as of October 31, 2013. No goodwill was recorded on the acquisition since the purchase price was equal to the fair value of the net assets acquired. The following table summarizes the consideration paid to acquire ASICO as of December 31, 2013 and the allocation of the purchase price to the assets acquired and liabilities assumed at the acquisition.

Cash	$2,544
Escrow funds for pension liability	3,600
Escrow funds for contingencies and pension termination costs	2,900
Due to seller	804
Acquisition costs reimbursed to seller	(435)
Total purchase price	$9,413
Investments and cash and cash equivalents	$13,292
Premiums and other receivables	915
Property and equipment	9
VOBA	4,499
Other assets	265
Deferred tax asset	133
Future policy benefits and claim liabilities	(6,440)
Claim and policyholders liabilities	(2,123)
Accounts payable and accrued liabilities	(1,137)
Total net assets	$9,413

On October 31, 2013, we recognized a VOBA asset of $4,499, resulting from the ASICO transaction in the consolidated balance sheet. During the three months and nine months ended September 30, 2014, we recognized $153 and $461, respectively, of amortization expense related to the VOBA asset.

(Dollar amounts in thousands, except per share data)

The consolidated statements of earnings for the three months ended September 30, 2014 include $1,943 in operating revenues and a $71 net gain related to ASICO. The consolidated statements of earnings for the nine months ended September 30, 2014 include $5,932 in operating revenues and a $628 net gain related to ASICO. The following unaudited pro forma financial information presents the combined results of operations of the Company and ASICO as if the acquisition had occurred at the beginning of 2013. The unaudited pro forma financial information is not intended to represent or be indicative of the Company’s consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company’s future consolidated results of operations.

	Three months ended September 30, 2013	Nine months ended September 30, 2013
Operating revenues	$ 585,172	$ 1,777,097
Net Income	$ 17,907	$ 54,799
Basic net income per share	$ 0.66	$ 1.97
Diluted net income per share	$ 0.65	$ 1.96

The above unaudited pro forma operating revenues and net income considers an estimated acquisition adjustment related to the VOBA asset, including an amortization expense of $114 and $344 for the three months and nine months ended September 30, 2013, respectively.

(15) Subsequent Events

The Company evaluated subsequent events through the date that these consolidated interim financial statements were issued.

On October 14, 2014, ASES issued a Notice of Intent to Award Contract informing that TSS has been selected to provide healthcare services in the Metro North and West regions of the Government's Health Plan, on an at-risk basis commencing April 1, 2015.

Under the terms of the current agreement, which was extended effective July 1, 2014 for eight months until March 31, 2015, TSS is a third-party administrator responsible for the provision of administrative services to Medicaid enrollees in all the Puerto Rico regions: West, North, Metro North, San Juan, Northeast, Virtual (which covers services provided throughout Puerto Rico to children in foster care and certain victims of domestic violence), Southwest, Southeast and East. The administrative services provided include case, disease and utilization management, network management and credentialing, enrollment and enrollee services and claims administration, among others. The claims related to the administration of the Medicaid business are paid from a bank account owned and funded by the government of Puerto Rico.

No other events have occurred that require disclosure or adjustments.

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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, 2014. 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, 2013 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, 2014 included in this Quarterly Report on Form 10-Q.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other of our publicly available documents 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 most significant players in the managed care industry in Puerto Rico and have over 50 years of experience in this industry. We offer a broad portfolio of managed care and related products in the Commercial and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan ("PDP")) 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 Reform (a government of Puerto Rico-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. For the nine months ended September 30, 2014, operating income generated under the Medicaid program represented 26% of our consolidated operating income, compared to 27% for the same period in 2013. 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, 2013 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 BCBS name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands and Anguilla. As of September 30, 2014, we served approximately 2,137,000 members across all regions of Puerto Rico. For the nine months ended September 30, 2014, our managed care segment represented approximately 89% of our total consolidated premiums earned, net and approximately 62% of our operating income. We also have significant positions in the life insurance and property and casualty insurance markets in Puerto Rico. Our life insurance segment had a market share of approximately 12% (in terms of direct premiums) during the year ended December 31, 2013. Our property and casualty segment had a market share of approximately 8% (in terms of direct premiums) during the year ended December 31, 2013.

We participate in the managed care market through our subsidiaries, TSS and TSA. TSS and TSA are BCBSA licensees, which provides us with exclusive use of the Blue Cross and Blue Shield name and mark throughout Puerto Rico and the U.S. Virgin Islands.

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We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. ("TSP"), each one representing approximately 7% and 4%, respectively, of our consolidated premiums earned, net for the nine months ended September 30, 2014.

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. The following table shows premiums earned, net and net fee revenue and operating income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

(Dollar amounts in millions)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Premiums earned, net:				
Managed care	$463.2	$491.4	$1,432.8	$1,484.6
Life insurance	35.8	32.4	105.7	96.3
Property and casualty insurance	22.3	24.7	69.5	74.9
Intersegment premiums earned	(0.5)	(0.6)	(1.6)	(1.9)
Consolidated premiums earned, net	$520.8	$547.9	$1,606.4	$1,653.9
Administrative service fees:				
Managed care	$31.1	$23.4	$92.6	$81.1
Intersegment administrative service fees	(0.8)	(1.0)	(3.1)	(3.0)
Consolidated administrative service fees	$30.3	$22.4	$89.5	$78.1
Operating income:				
Managed care	$0.9	$7.3	$32.9	$41.2
Life insurance	5.7	3.8	16.1	11.5
Property and casualty insurance	2.3	0.4	7.5	1.0
Intersegment and other	-	(1.2)	(3.6)	(3.8)
Consolidated operating income	$8.9	$10.3	$52.9	$49.9

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. Premiums are derived from insurance contracts and 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 of 2014 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.

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Recent Developments

Puerto Rico’s Economy

History and Description

Puerto Rico’s economy experienced a considerable transformation during the past sixty-five years, passing from an agriculture economy to an industrial one. Every sector in the economy participated in this expansion. Factors contributing to this expansion include government-sponsored economic development programs, increases in the level of federal transfer payments, and the relatively low cost of borrowing. In some years, these factors were aided by a significant rise in construction investment driven by infrastructure projects, private investment, primarily in housing, and relatively low oil prices. Nevertheless, the significant oil price increases in past years, the continuous contraction of the manufacturing sector, and budgetary pressures on government finances have triggered a general contraction in the economy.

Puerto Rico’s economy entered a recession in the fourth quarter of government fiscal year 2006, during which the real gross national product grew by only 0.5%. Puerto Rico’s gross national product (GNP) contracted (in real terms) every fiscal year between 2007 and 2011. GNP grew by 0.9% and 0.3% in fiscal years 2012 and 2013, respectively. According to the Puerto Rico Planning Board’s latest projections, made in April of 2014, it is projected that Puerto Rico’s real GNP for fiscal years 2014 and 2015 will increase by 0.1% and 0.2%, respectively. However, the monthly economic indicators for the whole fiscal year 2014 indicate that the final GNP figures for that fiscal year may end up lower than the last projection presented by the Puerto Rico Planning Board.

Personal income, both aggregate and per capita, has shown a positive average growth rate from 1947 to 2010. In fiscal year 2013, aggregate personal income was $62.4 billion and personal income per capita was $17,413. According to the Puerto Rico Department of Labor and Human Resources Household Employment Survey, known as the “Household Survey”, the number of persons employed in Puerto Rico during the fiscal year 2014 averaged 1,006,646, a decrease of 2.2% compared to the previous fiscal year. During the first three months of fiscal year 2015 total employment averaged 974,800, a 3.3% reduction with respect to the same period of the prior year. The unemployment rate for fiscal year 2014 and for the first three months of fiscal year 2015 was 14.3% and 14.7%, respectively.

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. The manufacturing sector has undergone fundamental changes over the years as a result of increased emphasis on higher wages, high technology industries, such as pharmaceuticals, biotechnology, computers, microprocessors, professional and scientific instruments, and certain high technology machinery and equipment. The services sector, which includes finance, insurance, real estate, wholesale and retail trade, transportation, communications and public utilities, and other services, plays a major role in the economy. It ranks second to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment.

The economy of Puerto Rico is closely linked to that of the United States, as most of the external factors that affect the Puerto Rico economy (other than the price of oil) are determined by the policies and results of the U.S. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. In the past, the economy of Puerto Rico has generally followed economic trends in the overall United States economy. However, in recent years economic growth in Puerto Rico has not been consistent with the performance of the United States economy. Since 2000, the government has faced a number of fiscal challenges, including an imbalance between its general fund revenues and expenditures, reaching its highest level in fiscal year 2009 with a deficit of $3.3 billion. In the past, the Government of Puerto Rico generally bridged deficits through the use of non-recurring measures, such as borrowings, postponing payments to suppliers, and other one-time measures such as the use of derivatives and borrowings collateralized with government-owned real estate. Recurring budget deficits have substantially increased the amount of public sector debt. The total outstanding public sector debt amounted to $71.4 billion as of July 31, 2014.

Recent Measures

In recent years, the Government of Puerto Rico has been focused on implementing measures to achieve fiscal balance, restore economic growth, and find solutions to its underfunded pension system and thereby safeguarding the investment-grade ratings of its bonds. Measures taken include (1) a reduction in the amount of government employees, (2) tax reform, (3) the lease of the Luis Muñoz Marín airport in San Juan and the concession of certain highways through public-private partnerships, (4) pension reform reducing benefits and increasing the retirement age and, more recently, (5) the enactment of the Fiscal Sustainability Act (as defined below), and (6) the enactment of the Puerto Rico Public Corporations Debt Enforcement and Recovery Act ("the Recovery Act").

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On June 30, 2013, the Governor of Puerto Rico signed into law significant changes to the Internal Revenue Code for a New Puerto Rico, as amended (the "2011 Code"). Relevant amendments to the 2011 Code impacting income taxes include the expansion of the corporate alternative minimum tax and individual alternative basic tax in lieu of the proposed "National Gross Receipts Tax", a moratorium on tax credits, modified excise taxes, sales and use taxes, and taxes on insurance premiums. These changes, as applicable, have been considered and recorded in the Corporation's financial statements as of and for the nine months ended September 30, 2014. In addition to the changes in the 2011 Code, the Government of Puerto Rico expects to take other revenue raising measures. On October 30, 2014, representatives of the Government of Puerto Rico provided the investment community with an update on its fiscal and economic development progress. The update covered the significant actions the Government of Puerto Rico has taken to improve its liquidity and ensure the financial viability of its public corporations, an update on Puerto Rico's Fiscal Year 2015 Budget, and the progress on reforming its tax code and growing the economy. The tax reform is intended to reduce the marginal income tax rate both individual and corporate, repeal the gross profit tax enacted in 2013, and shift toward consumption taxes. Under the reform, Puerto Rico would replace its 7% sales tax with a broad-based goods and services tax, which is expected to evolve into a value-added tax levied at each level of the distribution chain. These measures could have a material adverse effect on our business, financial condition and results of operations.

In December 2013 a bill to reform the Teachers' Retirement System was signed into law. However, on April 11, 2014, the Puerto Rico Supreme Court ruled that amendments to the Teacher's Retirement Systems are applicable only to those beneficiaries entering the retirement systems after the enactment of the reform.

On June 17, 2014, the Legislature of the Commonwealth enacted Act No. 66-2014 (the "Fiscal Sustainability Act"). The Fiscal Sustainability Act is a fiscal emergency law enacted to address the fiscal pressures on the Commonwealth imposed by excessive leverage, persistent budgetary deficits, sluggish economic growth, and fiscally challenged public corporations, among others, as exacerbated by the credit rating downgrades that occurred in February of 2014. The Fiscal Sustainability Act will remain in effect for three fiscal years ending on June 30, 2017, or earlier if certain parameters are met, including (i) that the preceding fiscal year ends without a budget deficit; (ii) that the economic growth rate forecast for the following fiscal year be 1.5% or higher; and (iii) that a nationally recognized rating agency upgrade the credit rating of the Commonwealth's general obligations to investment grade level.

The principal corrective measures adopted by the Fiscal Sustainability Act include the following: (i) the freezing of benefits under collective bargaining agreements and the reduction of certain non-salary compensation; (ii) the contribution of the savings generated by certain public corporations to support certain General Fund expenses; (iii) the freezing of formula appropriation increases to the University of Puerto Rico and the municipalities; (iv) the freezing and reduction of formula appropriations to the Judicial Branch, the Legislative Assembly and certain other entities; (v) the reduction in school transportation costs; (vi) the reduction of rates for professional and purchased services; (vii) the freezing of water rates for governmental entities; and (viii) the implementation of a payment plan system for legal judgments, among others. In addition, the Fiscal Sustainability Act imposes substantial additional managerial and administrative controls on the operations of the Executive Branch, including hiring and contracting requirements and procedures, savings targets for rent and utilities, fines to public employees for unauthorized transactions, and overall strengthening of oversight by the Commonwealth's Office of Management and Budget ("OMB").

On June 28, 2014, the Commonwealth enacted the Recovery Act. Prior to the enactment of the Recovery Act, there was no Commonwealth statute providing an orderly recovery regime for public corporations experiencing financial difficulties. At the same time, Chapters 9 and 11 of the United States Bankruptcy Code are generally inapplicable to public corporations that are governmental instrumentalities of the Commonwealth. Thus, the Recovery Act is intended to fill this statutory gap and provide for an orderly legal process governing the enforcement and restructuring of the debts and other obligations of certain public corporations of the Commonwealth. The purpose of the Recovery Act is to create a legal framework that: (1) allows certain public corporations to adjust their debts in a manner that protects the interests of all affected creditors; (2) provides procedures for the orderly enforcement and restructuring of the debts and obligations of eligible public corporations in a manner that is consistent with the United States and Commonwealth Constitution; and (3) maximizes the return to such public corporation's stakeholders.

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The Recovery Act does not apply to the Commonwealth. It applies solely to public corporations, other than the following: the Children's Trust; the Employees Retirement System of the Government of the Commonwealth of Puerto Rico and its Instrumentalities; Government Development Bank for Puerto Rico and its subsidiaries, affiliates, and any entities ascribed to GDB; the Judiciary Retirement System; the Municipal Finance Agency; the Municipal Finance Corporation; the Puerto Rico Public Finance Corporation; the Puerto Rico Industrial Development Company, the Puerto Rico Industrial, Tourist, Educational, Medical and Environmental Control Facilities Financing Authority; the Puerto Rico Infrastructure Financing Authority; the Puerto Rico Sales Tax Financing Corporation (COFINA); the Puerto Rico System of Annuities and Pensions for Teachers; and the University of Puerto Rico.

Rating Agencies and Markets

Since February of 2014, the credit ratings of the Commonwealth's general obligation bonds and Commonwealth guaranteed bonds, as well as the ratings of most of the Commonwealth's public corporations, have been lowered (more than once in most cases) to noninvestment grade by Moody's, S&P, and Fitch. According to the rating agencies, further downgrades are possible in some cases.

The following table sets forth the ratings of the Commonwealth and certain of its public corporations after giving effect to these downgrades:

	S&P	Moody's	Fitch
Commonwealth of Puerto Rico (General Obligations) *	BB	B2	BB
Government Development Bank *	BB-	B3	
COFINA			
Senior Lien *	BBB	Ba3	BB-
First Subordinate Lien	BBB-	B1	BB-
PR Electric Power Authority	CCC	Caa3	CC
PR Highways and Transportation Authority			
Highway Revenue Bonds	B	Caa1	
Transportation Revenue Bonds	B	Caa1	
Subordinate Transportation Revenue Bonds	B	Caa2	
PR Aqueduct and Sewer Authority			
Revenue Bonds	BB-	Caa1	B+
Guaranteed Bonds	BB	B2	BB-
PR Public Buildings Authority	BB	B2	BB-
PR Employees Retirement System	BB-	B3	BB-
PR Public Finance Corporation (Commonwealth Appropriation Bonds)	BB-	B3	

* The Corporation holds positions in these bonds and are included within the securities available for sale as Obligations of the Commonwealth of Puerto Rico and its Instrumentalities.

The Commonwealth faces a number of fiscal and economic challenges and its liquidity has been adversely affected by the ratings downgrades described above, the significant increase in credit spreads for obligations of the Commonwealth and its instrumentalities, the limited market access experienced by the Commonwealth and its instrumentalities, and by a significant reduction of liquidity in the local Puerto Rico financial markets.

As a result of the current economic conditions in Puerto Rico, the rating downgrades mentioned above, the fiscal situation and liquidity constraints of the government and certain of its public corporations, and the enactment of the Recovery Act, we may experience a reduction in business, and we are exposed to higher credit risk from government and certain of its public corporations accounts.

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The credit risk associated with the aforementioned situations is covered in the disclosure included in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013, under the sub-caption “The geographic concentration of our business in Puerto Rico may subject us to economic downturns in the region.”

Managed Care – Medicaid Business

On October 14, 2014, ASES issued a Notice of Intent to Award Contract informing that TSS has been selected to provide healthcare services in the Metro North and West regions of the Government's Health Plan, on an at-risk basis commencing April 1, 2015. The proposed contract provides that ASES will pay Triple-S Salud a rate of $173.86 per member per month (pmpm) for the Metro North Region and $140.31 pmpm for the West Region. The proposed contract will have a 27-month term that could potentially be extended, subject to rate negotiations, by up to 12 months at ASES’ discretion.

Under the terms of the current agreement, which was extended effective July 1, 2014 for eight months until March 31, 2015, TSS is a third-party administrator responsible for the provision of administrative services to Medicaid enrollees in all the Puerto Rico regions: West, North, Metro North, San Juan, Northeast, Virtual (which covers services provided throughout Puerto Rico to children in foster care and certain victims of domestic violence), Southwest, Southeast and East. The administrative services provided include case, disease and utilization management, network management and credentialing, enrollment and enrollee services and claims administration, among others. The claims related to the administration of the Medicaid business are paid from a bank account owned and funded by the government of Puerto Rico.

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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.

Managed Care Membership

	As of September 30,	
	2014	2013
Managed care enrollment:		
Commercial [1]	600,287	668,287
Medicare [2]	120,367	114,783
Medicaid [3]	1,416,390	896,452
Total	2,137,044	1,679,522
Managed care enrollment by insurance arrangement:		
Fully-insured	525,951	570,323
Self-insured	1,611,093	1,109,199
Total	2,137,044	1,679,522

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

(2) Includes Medicare Advantage as well as stand-alone PDP plan membership.

(3) All are self-insured members.

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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 September 30, 2014	Three months ended September 30, 2013	Nine months ended September 30, 2014	Nine months ended September 30, 2013
Revenues:				
Premiums earned, net	$520.8	$547.9	$1,606.4	$1,653.9
Administrative service fees	30.3	22.4	89.5	78.1
Net investment income	11.8	11.4	35.3	34.8
Other operating revenues	0.9	1.2	3.3	3.6
Total operating revenues	563.8	582.9	1,734.5	1,770.4
Net realized investment gains (losses)	3.1	(0.1)	7.1	3.4
Other income, net	0.3	13.9	1.2	14.8
Total revenues	567.2	596.7	1,742.8	1,788.6
Benefits and expenses:				
Claims incurred	433.9	456.4	1,311.6	1,369.2
Operating expenses	121.0	116.2	370.0	351.3
Total operating expenses	554.9	572.6	1,681.6	1,720.5
Interest expense	2.3	2.4	7.0	7.2
Total benefits and expenses	557.2	575.0	1,688.6	1,727.7
Income before taxes	10.0	21.7	54.2	60.9
Income tax expense	5.4	3.1	15.2	5.0
Net income	4.6	18.6	39.0	55.9
Less: net loss attributable to non-controlling interest	-	-	0.1	0.1
Net income attributable to TSM	$4.6	$18.6	$39.1	$56.0

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Operating Revenues

Consolidated premiums earned, net for the three months ended September 30, 2014 decreased by $27.1 million, or 4.9%, to $520.8 million when compared to the three months ended September 30, 2013. This decrease primarily reflects lower Medicare premiums as well as a lower fully-insured membership in the Commercial sector of our Managed Care segment. The premiums of the Property and Casualty Insurance segment also presented a decrease during this quarter due to lower premiums written. Life Insurance premiums increased during the three months ended September 30, 2014 primarily reflecting the acquisition of Atlantic Southern Insurance Company ("ASICO") effective November 2013.

The consolidated administrative service fees of $30.3 million increased by $7.9 million, or 35.3%, when compared to the same period in 2013, mostly as a result of the three regions added to the Medicaid contract effective October 1, 2013.

Net Realized Investment Gains

Consolidated net realized investment gains of $3.1 million during the 2014 period are mainly the result of sales of equity securities.

Other Income

Other income decreased by $13.6 million, during the three months ended September 30, 2014 when compared to the three months ended September 30, 2013, mostly due to a special distribution received in the 2013 period from the Puerto Rico Joint Underwriting Association ("JUA") in the Property and Casualty segment of $12.8 million, net of tax.

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Claims Incurred

Consolidated claims incurred decreased by $22.5 million, or 4.9%, to $433.9 million during the three months ended September 30, 2014 when compared to the claims incurred during the three months ended September 30, 2013. This decrease is mostly due to lower claims in the Commercial business of the Managed Care segment reflecting the lower member month enrollment in 2014 and lower risk score adjustments from CMS in the Medicare Advantage business in the 2014 period. Property and Casualty Insurance claims also experienced a decrease during this quarter, reflecting a favorable loss experience, mostly in the Commercial Auto line of business. The consolidated loss ratio remained at 83.3%.

Operating Expenses

Consolidated operating expenses during the three months ended September 30, 2014 increased by $4.8 million, or 4.1%, to $121.0 million as compared to the operating expenses during the three months ended September 30, 2013. For the three months ended September 30, 2014, the consolidated operating expense ratio increased 160 basis points to 22.0%. The higher operating expenses and operating expenses ratio are mainly related to $7.5 million of Health Insurance Providers Fee that became effective January 1, 2014 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed since the beginning of the year.

Income Tax Expense

Consolidated income tax expense during the three months ended September 30, 2014 increased by $2.3 million, to $5.4 million, as compared to the income tax expense for the three months ended September 30, 2013. The effective tax rate increased from 14.3% in 2013 to 54.0% in 2014. The change in the effective tax rate reflects a one-time $6.3 million adjustment increasing the consolidated deferred tax liability related to investments classified as available for sale after the July 1, 2014 enactment of Puerto Rico tax legislation that increased the corporate tax rate over long-term capital gains, from 15% to 20%, for all transactions occurring after June 30, 2014.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Operating Revenues

Consolidated premiums earned, net for the nine months ended September 30, 2014 decreased by $47.5 million, or 2.9%, to $1,606.4 million when compared to the nine months ended September 30, 2013. This decrease primarily reflects a lower fully-insured Managed Care member month enrollment in the Commercial sector and the receipt of lower risk score adjustments from Centers for Medicare and Medicaid Services (“CMS”) in 2014 as compared to 2013. Property and Casualty Insurance premiums also presented a decrease during the nine months ended September 30, 2014. Life Insurance premiums increased during the 2014 period primarily reflecting the ASICO acquisition.

The consolidated administrative service fees of $89.5 million increased by $11.4 million, or 14.6%, when compared to prior period, triggered by the addition of three new regions in the Medicaid program effective October 1, 2013.

Net Realized Investment Gains

Consolidated net realized investment gains of $7.1 million during the 2014 period are mainly the result of sales of equity securities.

Other Income

Other income decreased by $13.6 million, during the nine months ended September 30, 2014 when compared to the nine months ended September 30, 2013, mostly due to a special distribution received in the 2013 period from the Puerto Rico Joint Underwriting Association (“JUA”) in the Property and Casualty segment of $12.8 million, net of tax.

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Claims Incurred

Consolidated claims incurred decreased by $57.6 million, or 4.2%, to $1,311.6 million during the nine months ended September 30, 2014, mostly in the Commercial businesses of the Managed Care segment. Medical claims incurred in Managed Care decreased mostly as a result of lower member month enrollment in the 2014 period. Property and Casualty claims also decreased during the nine months ended September 30, 2014, reflecting a favorable loss experience, particularly in the Commercial Multi-peril and Commercial Auto lines of business, partially offset with an unfavorable loss experience in the Medical Malpractice line of business. The consolidated loss ratio decreased by 110 basis points to 81.7%.

Operating Expenses

Consolidated operating expenses for the nine months ended September 30, 2014 increased by $18.7 million, or 5.3%, to $370.0 million as compared to the operating expenses for the nine months ended September 30, 2013. The consolidated operating expense ratio increased by 150 basis points to 21.8%. The higher operating expenses and operating expenses ratio are mainly related to $21.4 million of Health Insurance Providers Fee that became effective January 1, 2014, an increase of $4.4 million in premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed during the 2014 period.

Income Tax Expense

Consolidated income tax expense for the nine months ended September 30, 2014 increased by $10.2 million, to $15.2 million, as compared to the income tax expense for the nine months ended September 30, 2013. The effective tax rate increased from 8.2% in 2013 to 28.0% in 2014. The change in the effective tax rate reflects a one-time $6.3 million adjustment increasing the consolidated deferred tax liability related to investments classified as available for sale after the July 1, 2014 enactment of Puerto Rico tax legislation that increased the corporate tax rate over long-term capital gains, from 15% to 20%, for all transactions occurring after June 30, 2014. In addition, the change reflects a one-time $7.7 million adjustment increasing the consolidated net deferred tax assets after the September 30, 2013 enactment of Puerto Rico tax legislation that increased the maximum corporate tax rate from 30% to 39% effective January 1, 2013. The effective tax rates excluding the effect of these deferred tax adjustments are 20.8% for 2013 and 16.4% for 2014, presents a decrease 440 basis points in the effective tax rate, reflecting a lower proportion of taxable income from the Managed Care segment, which operates at a higher effective tax rate.

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Managed Care Operating Results

	Three months ended September 30,		Nine months ended September 30,	
(Dollar amounts in millions)	2014	2013	2014	2013
Operating revenues:				
Medical premiums earned, net:				
Commercial	$215.6	$233.6	$668.3	$705.9
Medicare	247.6	257.8	764.5	778.7
Medical premiums earned, net	463.2	491.4	1,432.8	1,484.6
Administrative service fees	31.1	23.4	92.6	81.1
Net investment income	3.6	4.0	11.2	12.0
Total operating revenues	497.9	518.8	1,536.6	1,577.7
Medical operating costs:				
Medical claims incurred	404.1	425.8	1,223.6	1,277.6
Medical operating expenses	92.9	85.7	280.1	258.9
Total medical operating costs	497.0	511.5	1,503.7	1,536.5
Medical operating income	$0.9	$7.3	$32.9	$41.2
Additional data:				
Member months enrollment:				
Commercial:				
Fully-insured	1,223,825	1,372,671	3,816,561	4,155,820
Self-funded	591,835	641,177	1,828,121	1,964,761
Total Commercial member months	1,815,660	2,013,848	5,644,682	6,120,581
Medicare:				
Medicare Advantage	320,102	319,434	957,618	957,848
Stand-alone PDP	40,739	24,492	123,484	72,930
Total Medicare member months	360,841	343,926	1,081,102	1,030,778
Medicaid member months - Self-funded	4,231,233	2,668,236	12,626,015	7,989,168
Total member months	6,407,734	5,026,010	19,351,799	15,140,527
Medical loss ratio	87.2 %	86.7 %	85.4 %	86.1 %
Operating expense ratio	18.8 %	16.6 %	18.4 %	16.5 %

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Medical Operating Revenues

Medical premiums earned for the three months ended September 30, 2014 decreased by $28.2 million, or 5.7%, to $463.2 million when compared to the medical premiums earned during the three months ended September 30, 2013. This decrease is principally the result of the following:

- Medical premiums generated by the Commercial business decreased by $18.0 million, or 7.7%, to $215.6 million during the three months ended September 30, 2014. This fluctuation is primarily the result of a decrease in fully-insured member month enrollment by 148,846, or 10.8%, mainly in our rated groups and individual accounts products and reflecting pricing sensitivity, cancellation of several commercial accounts and attrition in existing accounts as a result of the island's challenging economic situation. The effect of the lower membership is partially offset by a 3.5% year over year increase in average premium rates. Excluding the effect of the Health Insurance Providers Fee recovered from customers, average premium rates increased by 3.0% during the three months ended September 30, 2014. The Health Insurance Providers Fee became effective January 1, 2014.

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- Medical premiums generated by the Medicare business decreased during the three months ended September 30, 2014 by $10.2 million, or 4.0%, to $247.6 million. This fluctuation primarily results from lower risk score revenue as compared with 2013, due to a decline in the patient diagnosis information being submitted by providers, the decline in 2014 premiums mandated by CMS and a change in membership mix in 2014.

Administrative service fees increased by $7.7 million, or 32.9%, to $31.1 million during the three months ended September 30, 2014. This increase primarily reflects the higher Medicaid enrollment after the addition of three regions effective October 1, 2013.

Medical Claims Incurred

Medical claims incurred during the three months ended September 30, 2014 decreased by $21.7 million, or 5.1%, to $404.1 million when compared to the three months ended September 30, 2013, reflecting lower fully-insured enrollment in 2014. The medical loss ratio ("MLR") of the segment increased 50 basis points during the 2014 period, to 87.2%. These fluctuations are primarily attributed to the effect of the following:

- The medical claims incurred of the Commercial business decreased by $29.3 million, or 13.9%, during the 2014 period mostly due to the lower fully-insured member month enrollment. The Commercial MLR was 84.6%, which is 590 basis points lower than the MLR for the prior year primarily due to favorable prior period reserve development in 2014. Excluding the effect of favorable prior period reserve developments in 2014 and 2013 and other related adjustments, the MLR would have decreased by 70 basis points.

- The medical claims incurred of the Medicare business increased by $7.6 million, or 3.6%, during the 2014 period and its MLR increased by 640 basis points, to 89.4%, primarily resulting from higher pharmacy costs and lower risk score revenue. Excluding the effect of prior period reserve developments and risk-score adjustments in the 2014 and 2013 periods, the MLR presents an increase of 580 basis points, primarily reflecting higher pharmacy costs and lower quarterly risk score revenue.

Medical Operating Expenses

Medical operating expenses for the three months ended September 30, 2014 increased by $7.2 million, or 8.4%, to $92.9 million when compared to the three months ended September 30, 2013. The operating expense ratio increased by 220 basis points, from 16.6% in 2013 to 18.8% in 2014. This increase is mainly related to the $7.5 million Health Insurance Providers Fee that became effective January 1, 2014 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013, which amounted to $6.8 million. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed since the beginning of the year.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Medical Operating Revenues

Medical premiums earned for the nine months ended September 30, 2014 decreased by $51.8 million, or 3.5%, to $1,432.8 million when compared to the medical premiums earned during the nine months ended September 30, 2013. This decrease is principally the result of the following:

- Medical premiums generated by the Commercial business decreased by $37.6 million, or 5.3%, to $668.3 million during the nine months ended September 30, 2014. This fluctuation is primarily the result of a decrease in fully-insured member month enrollment by 339,259, or 8.2%, mainly in our rated groups and individual accounts products and reflecting pricing sensitivity, cancellation of several commercial accounts and attrition in existing accounts as a result of the island's challenging economic situation. The effect of the decreased membership is partially offset by a 3.1% year over year increase in average premium rates. Excluding the effect of the Health Insurance Providers Fee recovered from customers, average premium rates increased by 2.0% during the nine months ended September 30, 2014. The Health Insurance Providers Fee became effective January 1, 2014.

- Medical premiums generated by the Medicare business decreased during the nine months ended September 30, 2014 by $14.2 million, or 1.8%, to $764.5 million. This fluctuation primarily results from lower risk score adjustments when compared to the 2013 period, a decrease in risk score revenue when compared to last year, and the decline in 2014 premiums mandated by CMS and a change in membership mix in 2014.

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Administrative service fees increased by $11.5 million, or 14.2%, to $92.6 million during the nine months ended September 30, 2014. This increase primarily reflects the higher Medicaid enrollment after the addition of three additional regions effective October 1, 2013.

Medical Claims Incurred

Medical claims incurred during the nine months ended September 30, 2014 decreased by $54.0 million, or 4.2%, to $1,223.6 million when compared to the nine months ended September 30, 2013, reflecting lower fully-insured enrollment in 2014 and favorable prior period reserve developments. The MLR of the segment decreased 70 basis points during the 2014 period, to 85.4%. These fluctuations are primarily attributed to the effect of the following:

- The medical claims incurred of the Commercial business decreased by $54.8 million, or 8.7%, during the 2014 period mostly due to the lower fully-insured member month enrollment. The Commercial MLR was 85.6%, which is 320 basis points lower than the MLR for the prior year primarily due to favorable prior period reserve development in 2014. Excluding the effect of favorable prior period reserve developments in both periods and other related adjustments, the MLR would have increased by 190 basis points. The increase reflects higher cost trends, particularly for pharmacy benefits.

- The medical claims incurred of the Medicare business increased by $0.6 million, or 0.1%, during the 2014 period and its MLR increased by 160 basis points, to 85.0%. The MLR excluding prior period reserve developments and risk-score adjustments in the 2014 and 2013 periods presents an increase of 330 basis points, primarily reflecting higher pharmacy costs and lower risk score revenue.

Medical Operating Expenses

Medical operating expenses for the nine months ended September 30, 2014 increased by $21.2 million, or 8.2%, to $280.1 million when compared to the nine months ended September 30, 2013. The operating expense ratio increased by 190 basis points, from 16.5% in 2013 to 18.4% in 2014. This increase is mainly related to $21.4 million of Health Insurance Providers Fee that became effective January 1, 2014, increase of $3.4 million of premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013, which amounted to $22.0 million. The effect of new taxes and fees and the increased Medicaid enrollment was partially offset by the impact of cost containment initiatives in place during the 2014 period.

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Life Insurance Operating Results

(Dollar amounts in millions)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Operating revenues:				
Premiums earned, net:				
Premiums earned	$38.4	$34.5	$113.6	$102.6
Premiums earned ceded	(2.6)	(2.1)	(7.9)	(6.3)
Premiums earned, net	35.8	32.4	105.7	96.3
Net investment income	6.0	5.3	17.6	16.3
Total operating revenues	41.8	37.7	123.3	112.6
Operating costs:				
Policy benefits and claims incurred	18.9	17.7	55.1	52.4
Underwriting and other expenses	17.2	16.2	52.1	48.7
Total operating costs	36.1	33.9	107.2	101.1
Operating income	$5.7	$3.8	$16.1	$11.5
Additional data:				
Loss ratio	52.8%	54.6%	52.1 %	54.4 %
Operating expense ratio	48.0%	50.0%	49.3 %	50.6 %

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Operating Revenues

Premiums earned, net for the three months ended September 30, 2014 increased by $3.4 million, or 10.5% to $35.8 million when compared to the three months ended September 30, 2013 mostly reflecting $1.9 million of additional life, cancer and major medical health premiums brought by the ASICO acquisition effective November 2013. Premiums from the Individual and Group Life lines of business increased by $1.4 million year over year.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the three months ended September 30, 2014 increased by $1.2 million, or 6.8%, to $18.9 million when compared to the three months ended September 30, 2013. This increase reflects the additional $1.0 million in claims and actuarial reserves related to the ASICO business. The loss ratio for the period decreased from 54.6% in 2013 to 52.8% in 2014, or 180 basis points.

Underwriting and Other Expenses

Underwriting and other expenses for the three month period ended September 30, 2014 increased $1.0 million, or 6.2%, to $17.2 million when compared to the three months ended September 30, 2013. The increase is mostly related to the additional $0.8 million related to the ASICO business and a lower amount of expenses capitalized as Deferred Policy Acquisition Costs. As a result of the segment's proportionally higher increase in premiums during this period the operating expense ratio decreased by 200 basis points from 50.0% in 2013 to 48.0% in 2014.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Operating Revenues

Premiums earned, net for the nine months ended September 30, 2014 increased by $9.4 million, or 9.8% to $105.7 million when compared to the nine months ended September 30, 2013 mostly reflecting $5.9 million of additional life premiums brought by the ASICO acquisition effective November 2013. Premiums from the Cancer and Individual Life lines of business increased by $1.8 million, while the Group Life line of business increased $1.6 million year over year.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the nine months ended September 30, 2014 increased by $2.7 million, or 5.2%, to $55.1 million when compared to the nine months ended September 30, 2013, mostly reflecting the additional $2.7 million in claims related to the ASICO business. The loss ratio for the period decreased from 54.4% in 2013 to 52.1% in 2014, or 230 basis points.

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Underwriting and Other Expenses

Underwriting and other expenses for the nine months period ended September 30, 2014 increased $3.4 million, or 7.0%, to $52.1 million when compared to the nine months ended September 30, 2013. The increase is mostly related to the additional $2.4 million in operating expenses of the ASICO business and a lower amount of net expenses capitalized as Deferred Policy Acquisition Costs. As a result of the segment's proportionally higher increase in premiums during this period the operating expense ratio decreased by 130 basis points from 50.6% in 2013 to 49.3% in 2014.

Property and Casualty Insurance Operating Results

(Dollar amounts in millions)	Three months ended September 30, 2014	2013	Nine months ended September 30, 2014	2013
Operating revenues:				
Premiums earned, net:				
Premiums written	$33.2	$37.6	$104.5	$114.8
Premiums ceded	(13.5)	(15.5)	(38.3)	(43.6)
Change in unearned premiums	2.6	2.6	3.3	3.7
Premiums earned, net	22.3	24.7	69.5	74.9
Net investment income	2.2	2.0	6.3	6.1
Total operating revenues	24.5	26.7	75.8	81.0
Operating costs:				
Claims incurred	11.7	13.5	35.1	41.1
Underwriting and other expenses	10.5	12.8	33.2	38.9
Total operating costs	22.2	26.3	68.3	80.0
Operating income	$2.3	$0.4	$7.5	$1.0
Additional data:				
Loss ratio	52.5 %	54.7 %	50.5 %	54.9 %
Operating expense ratio	47.1 %	51.8 %	47.8 %	51.9 %
Combined ratio	99.6 %	106.5%	98.3 %	106.8%

Three Months Ended September 30, 2014 Compared to Three Months Ended September 30, 2013

Operating Revenues

Total premiums written during the three months ended September 30, 2014 decreased by $4.4 million, or 11.7%, to $33.2 million, mostly resulting from lower sales of Commercial products, primarily in the Commercial Package and Commercial Auto insurance products.

Premiums ceded to reinsurers during the three months ended September 30, 2014 decreased by $2.0 million, or 12.9%, to $13.5 million. The ratio of premiums ceded to premiums written decreased by 50 basis points, from 41.2% in 2013 to 40.7% in 2014.

Claims Incurred

Claims incurred during the three months ended September 30, 2014 decreased by $1.8 million, or 13.3%, to $11.7 million. The loss ratio decreased by 220 basis points, to 52.5% during this period primarily as a result of a favorable loss experience, mostly in the Commercial and Personal Auto lines of business, which is partially offset by an unfavorable loss experience in the Medical Malpractice line of business.

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Underwriting and Other Expenses

Underwriting and other operating expenses for the three months ended September 30, 2014 decreased by $2.3 million, or 18.0%, to $10.5 million, primarily due to the receipt of JUA annual ordinary distribution and the impact of cost containment initiatives. The operating expense ratio decreased by 470 basis points during the same period, to 47.1% in 2014.

Nine Months Ended September 30, 2014 Compared to Nine Months Ended September 30, 2013

Operating Revenues

Total premiums written during the nine months ended September 30, 2014 decreased by $10.3 million, or 9.0%, to $104.5 million, mostly resulting from lower sales of General Liability line of business and Commercial products, primarily in the Commercial Auto and Commercial Package insurance products.

Premiums ceded to reinsurers during the nine months ended September 30, 2014 decreased by $5.3 million, or 12.2%, to $38.3 million. The ratio of premiums ceded to premiums written decreased by 130 basis points, from 38.0% in 2013 to 36.7% in 2014. The lower amount of premiums ceded primarily results from a change in the commercial quota share agreement where the cession was changed from 37% to 30% in 2014.

The change in unearned premiums presented a decrease of $0.4 million, to $3.3 million during the nine months ended September 30, 2014, primarily as the result of the levels of net premiums written.

Claims Incurred

Claims incurred during the nine months ended September 30, 2014 decreased by $6.0 million, or 14.6%, to $35.1 million. The loss ratio decreased by 440 basis points, to 50.5% during this period primarily as a result of a favorable loss experience, mostly in the Commercial Multi-peril and Commercial and Personal Auto lines of business, which was offset with an unfavorable loss experience in the Medical Malpractice line of business.

Underwriting and Other Expenses

Underwriting and other operating expenses for the nine months ended September 30, 2014 decreased by $5.7 million, or 14.7%, to $33.2 million, primarily due to a lower net commission expense resulting from the decrease in net premiums earned, favorable variance in salaries and benefits after the implementation of changes in employee benefits and headcount reduction, and recoveries resulting from premium surcharges to recover assessments paid to the Puerto Rico Guarantee Fund. The operating expense ratio decreased by 410 basis points during the same period, to 47.8% in 2014.

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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, 2014	2013
Sources of cash:		
Cash provided by operating activities	$60.8	$102.1
Net proceeds of investment securities	24.3	-
Proceeds from policyholder deposits	6.4	8.1
Other	-	22.8
Total sources of cash	91.5	133.0
Uses of cash:		
Net purchases of investment securities	-	(77.0)
Net capital expenditures	(3.8)	(8.9)
Repurchase and retirement of common stock	(6.0)	(18.3)
Repayments of long-term borrowings	(1.5)	(11.5)
Repayments of short-term borrowings	-	(16.6)
Surrenders of policyholder deposits	(6.4)	(7.5)
Other	(7.1)	(1.0)
Total uses of cash	(24.8)	(140.8)
Net increase (decrease) in cash and cash equivalents	$66.7	$(7.8)

Cash flow from operating activities decreased by $41.3 million for the nine months ended September 30, 2014 as compared to the nine months ended September 30, 2013, principally due to the effect of an increase in cash paid to suppliers and employees by $62.8 million and a decrease in premium collections by $45.8 million, offset in part by lower claims paid by $33.1 million and lower income taxes paid by $20.0 million. The increase in payments to suppliers and employees is primarily related to the higher Medicaid ASO enrollment, the Health Insurance Providers Fee Assessment of approximately $28 million that was paid for the first time during the 2014 period and the collection in 2013 of the $12.8 million JUA special distribution. The decrease in premiums collected is principally the result of lower Managed Care membership enrollment. The decrease in claims mostly results from the lower enrollment in the Managed Care membership.

Net proceeds of investment securities were $24.3 million during the nine months ended September 30, 2014, primarily resulting from the net cash flows received from the sales and purchases of investment securities during the 2014 period. During the nine months ended September 30, 2013 we had net purchases of investments of $77.0 million, primarily resulting from lower excess cash flows from operations.

During the nine months ended September 30, 2014 we received $6.4 million in policyholder deposits, this represents a decrease $1.7 million when compared to the prior year and is the result of lower sales of annuity products.

Net capital expenditures decreased by $5.1 million for the nine months ended September 30, 2014, as compared to the nine months ended September 30, 2013, principally due to special projects initiatives related to information technology during prior year that did not occur during the current period.

During the nine months ended September 30, 2014 we paid approximately $6.0 million under the Corporation's Class B common stock repurchase program.

Net payments of short-term borrowings decreased by $16.6 million during the nine months ended September 30, 2014, addressing timing differences between cash receipts and disbursements.

During the nine months ended September 30, 2014, we had $7.1 million of other uses of cash, while in the 2013 period we had a net balance of other sources of cash of $21.8 million. The fluctuation in the other uses/sources of cash is attributed to changes in the amount of outstanding checks over bank balances.

Stock Repurchase Program

On November 4, 2014, we announced the commencement of a $50.0 million stock repurchase program. The program will be conducted, using available cash, through open-market purchases of Class B shares only, in accordance with Rules 10b-18 and 10b5-1 under the Securities Exchange Act of 1934, as amended. The timing and extent of any purchases under the program will depend on market conditions, the trading price of our shares, and other considerations, and the program may be suspended, modified, or terminated at any time.

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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, 2014, we had $110.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of September 30, 2014.

As of September 30, 2014, we had the following long-term borrowings:

- 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 we repaid $25.0 million of the principal of these senior unsecured notes.

- On November 1, 2010, we entered into a $25.0 million arrangement to sell securities under repurchase agreements that matures in November 2015. This repurchase agreement pays interests on a quarterly basis at 1.96%. At September 30, 2014 investment securities available for sale with fair value of $27.2 million (face value of $27.1 million) were pledged as collateral under this agreement.

The 6.6% notes contain certain non-financial covenants. At September 30, 2014, we are in compliance with these covenants.

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, 2014, this secured loan had an outstanding balance of $14.9 million and average annual interest rate of 1.23%.

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, 2014 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

As part of the acquisition transaction of the controlling stake in a health clinic, we assumed a term loan with balance of $12.9 million as of September 30, 2014. The loan requires monthly payments of $81 thousand, including principal and interest, is due on December 23, 2014 with a final payment of $12.9 million and bears interest at an annual rate of 4.75%. This loan is guaranteed by a first position held by the bank on the health clinic’s premises (land and building) and all of the health clinic's assets as collateral for the term of the loan under a continuing general security agreement. This secured loan contains certain financial and non-financial covenants, which 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.

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, 2013.

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, 2013. 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, 2013.

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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

In connection with the preparation of this Quarterly Report on Form 10-Q, management, under the supervision and with the participation of the chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of the “disclosure controls and procedures” (as such term is defined under Exchange Act Rule 13a-15(e)) of the Corporation and its subsidiaries. Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility that judgments in decision-making can be faulty, and breakdowns as a result of simple errors or mistake. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on this evaluation, our chief executive officer and chief financial officer have concluded that as of September 30, 2014, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to a reasonable level of assurance.

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 chief executive officer and chief financial officer 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, 2014 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, see note 13 to the unaudited 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, 2013.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

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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 months and nine months ended September 30, 2014 and 2013 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 Vice President, Chief Financial Officer and Chief Accounting 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 Vice President, Chief Financial Officer and Chief Accounting 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 5, 2014	By:	/s/ Ramón M. Ruiz-Comas
			Ramón M. Ruiz-Comas
			President and Chief Executive Officer
Date:	November 5, 2014	By:	/s/ Amílcar L. Jordán-Pérez
			Amílcar L. Jordán-Pérez
			Vice President,
			Chief Financial Officer and
			Chief Accounting Officer

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