

TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 06, 2016

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2016

Or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

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

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

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

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

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

Yes No

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

Yes No

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

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company

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

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

| <u>Title of each class</u> | <u>Outstanding at March 31, 2016</u> |
|--|--------------------------------------|
| Common Stock Class A, \$1.00 par value | 950,968 |
| Common Stock Class B, \$1.00 par value | 23,798,815 |

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended March 31, 2016

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Part I – Financial Information

Item 1. Financial Statements

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

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|----------------------|
| Assets | | |
| Investments and cash: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities | \$ 1,180,889 | \$ 1,133,645 |
| Equity securities | 293,985 | 197,071 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities | 2,929 | 2,929 |
| Policy loans | 8,132 | 7,901 |
| Cash and cash equivalents | 112,466 | 197,818 |
| Total investments and cash | 1,598,401 | 1,539,364 |
| Premiums and other receivables, net | 316,802 | 282,646 |
| Deferred policy acquisition costs and value of business acquired | 187,560 | 190,648 |
| Property and equipment, net | 72,221 | 73,953 |
| Deferred tax asset | 51,496 | 52,361 |
| Goodwill | 25,397 | 25,397 |
| Other assets | 67,981 | 41,776 |
| Total assets | \$ 2,319,858 | \$ 2,206,145 |
| Liabilities and Equity | | |
| Claim liabilities | \$ 525,066 | \$ 491,765 |
| Liability for future policy benefits | 306,925 | 289,530 |
| Unearned premiums | 75,873 | 80,260 |
| Policyholder deposits | 180,980 | 179,287 |
| Liability to Federal Employees' Health Benefits Program (FEHBP) | 28,358 | 26,695 |
| Accounts payable and accrued liabilities | 219,941 | 176,910 |
| Deferred tax liability | 17,976 | 15,070 |
| Long-term borrowings | 36,417 | 36,827 |
| Liability for pension benefits | 64,406 | 62,945 |
| Total liabilities | 1,455,942 | 1,359,289 |
| Stockholders' equity: | | |
| Triple-S Management Corporation stockholders' equity | | |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 950,968 at March 31, 2016 and December 31, 2015, respectively | 951 | 951 |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 23,798,815 and 24,047,755 shares at March 31, 2016 and December 31, 2015, respectively | 23,799 | 24,048 |
| Additional paid-in capital | 77,081 | 83,438 |
| Retained earnings | 716,922 | 713,466 |
| Accumulated other comprehensive income | 45,834 | 25,623 |
| Total Triple-S Management Corporation stockholders' equity | 864,587 | 847,526 |
| Non-controlling interest in consolidated subsidiary | (671) | (670) |

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| | | |
|------------------------------|-------------|--------------|
| Total stockholders' equity | 863,916 | 846,856 |
| Total liabilities and equity | \$2,319,858 | \$ 2,206,145 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Earnings (Unaudited)

(dollar amounts in thousands, except per share data)

| | Three months ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2016 | 2015 |
| Revenues: | | |
| Premiums earned, net | \$738,534 | \$532,558 |
| Administrative service fees | 5,083 | 29,123 |
| Net investment income | 11,358 | 10,918 |
| Other operating revenues | 812 | 1,153 |
| Total operating revenues | 755,787 | 573,752 |
| Net realized investment gains (losses): | | |
| Total other-than-temporary impairment losses on securities | - | (1,202) |
| Net realized gains, excluding other-than-temporary impairment losses on securities | 58 | 7,415 |
| Total net investment gains on sale of securities | 58 | 6,213 |
| Other income, net | 875 | 1,759 |
| Total revenues | 756,720 | 581,724 |
| Benefits and expenses: | | |
| Claims incurred | 626,694 | 432,430 |
| Operating expenses | 122,980 | 127,375 |
| Total operating costs | 749,674 | 559,805 |
| Interest expense | 1,882 | 2,182 |
| Total benefits and expenses | 751,556 | 561,987 |
| Income before taxes | 5,164 | 19,737 |
| Income taxes | 1,709 | 4,931 |
| Net income | 3,455 | 14,806 |
| Less: Net loss attributable to non-controlling interest | 1 | 30 |
| Net income attributable to Triple-S Management Corporation | \$3,456 | \$14,836 |
| Earnings per share attributable to Triple-S Management Corporation | | |
| Basic net income per share | \$0.14 | \$0.56 |
| Diluted net income per share | \$0.14 | \$0.56 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(dollar amounts in thousands)

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2016 | 2015 |
| Net income | \$ 3,455 | \$ 14,806 |
| Other comprehensive income (loss), net of tax: | | |
| Net unrealized change in fair value of available for sale securities, net of taxes | 19,577 | 1,794 |
| Defined benefit pension plan: | | |
| Actuarial loss, net | 722 | 887 |
| Prior service credit, net | (88) | (61) |
| Total other comprehensive income, net of tax | 20,211 | 2,620 |
| Comprehensive income | 23,666 | 17,426 |
| Comprehensive income attributable to non-controlling interest | 1 | 30 |
| Comprehensive income attributable to Triple-S Management Corporation | \$ 23,667 | \$ 17,456 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(dollar amounts in thousands)

| | 2016 | 2015 |
|--|-----------|-----------|
| Balance at January 1 | \$847,526 | \$858,558 |
| Share-based compensation | 1,421 | 1,883 |
| Repurchase and retirement of common stock | (8,027) | (14,997) |
| Comprehensive income | 23,667 | 17,456 |
| Total Triple-S Management Corporation stockholders' equity | 864,587 | 862,900 |
| Non-controlling interest in consolidated subsidiary | (671) | (562) |
| Balance at March 31 | \$863,916 | \$862,338 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three months ended March 31, 2016 | | 2015 | |
|---|---|---|-----------|---|
| Cash flows from operating activities: | | | | |
| Net income | \$ 3,455 | | \$ 14,806 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 3,700 | | 4,174 | |
| Net amortization of investments | 1,936 | | 1,533 | |
| Additions to the allowance for doubtful receivables | 1,531 | | 5,554 | |
| Deferred tax benefit | (2,435) |) | (379) |) |
| Net realized investment gain on sale of securities | (58) |) | (6,213) |) |
| Interest credited to policyholder deposits | 1,195 | | 899 | |
| Share-based compensation | 1,085 | | 1,883 | |
| (Increase) decrease in assets: | | | | |
| Premium and other receivables, net | (35,687) |) | (11,567) |) |
| Deferred policy acquisition costs and value of business acquired | (685) |) | 541 | |
| Deferred taxes | 162 | | (1,282) |) |
| Other assets | (26,485) |) | (25,267) |) |
| Increase (decrease) in liabilities: | | | | |
| Claim liabilities | 33,301 | | 11,556 | |
| Liability for future policy benefits | 17,395 | | 6,323 | |
| Unearned premiums | (4,387) |) | (7,473) |) |
| Liability to FEHBP | 1,663 | | 1,114 | |
| Accounts payable and accrued liabilities | 35,574 | | 42,574 | |

| | | |
|--|--------|--------|
| Net cash provided by operating activities | 31,260 | 38,776 |
|--|--------|--------|

(Continued)

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

| | Three months ended March 31, | |
|---|---------------------------------|-----------|
| | 2016 | 2015 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | \$90,328 | \$139,115 |
| Fixed maturities matured/called | 699 | 30,320 |
| Equity securities sold | 11,257 | 28,566 |
| Acquisition of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (118,039) | (126,895) |
| Equity securities | (92,956) | (11,973) |
| Increase in other investments | (182) | (1,549) |
| Net disbursements for policy loans | (231) | (137) |
| Net capital expenditures | (1,465) | (1,463) |
| Net cash (used in) provided by investing activities | (110,589) | 55,984 |
| Cash flows from financing activities: | | |
| Change in outstanding checks in excess of bank balances | 1,916 | (2,428) |
| Repayments of long-term borrowings | (410) | (410) |
| Repurchase and retirement of common stock | (8,027) | (14,997) |
| Proceeds from policyholder deposits | 3,403 | 3,047 |
| Surrenders of policyholder deposits | (2,905) | (3,687) |
| Net cash used in financing activities | (6,023) | (18,475) |
| Net (decrease) increase in cash and cash equivalents | (85,352) | 76,285 |
| Cash and cash equivalents: | | |
| Beginning of period | 197,818 | 110,037 |
| End of period | \$112,466 | \$186,322 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

(1) Basis of Presentation

The accompanying condensed consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The condensed consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments, consisting of a normal recurring nature necessary for a fair presentation of such condensed consolidated interim financial statements, have been included. The results of operations for the three months ended March 31, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016.

(2) Recent Accounting Standards

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

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

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

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2016 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at March 31, 2016 and December 31, 2015, were as follows:

| | March 31, 2016 | | | Estimated fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government- sponsored enterprises | \$ 103,472 | \$ 881 | \$ - | \$ 104,353 |
| U.S. Treasury securities and obligations of U.S.government instrumentalities | 116,643 | 1,354 | - | 117,997 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 25,636 | 782 | - | 26,418 |
| Municipal securities | 642,621 | 48,559 | - | 691,180 |
| Corporate bonds | 202,032 | 16,121 | (13) | 218,140 |
| Residential mortgage-backed securities | 826 | 51 | - | 877 |
| Collateralized mortgage obligations | 21,683 | 242 | (1) | 21,924 |
| Total fixed maturities | 1,112,913 | 67,990 | (14) | 1,180,889 |
| Equity securities - Mutual funds | 259,738 | 35,134 | (887) | 293,985 |
| Total | \$ 1,372,651 | \$ 103,124 | \$ (901) | \$ 1,474,874 |

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

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

| | March 31, 2016 | | | Estimated fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | |
| Securities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S.government instrumentalities | \$ 620 | \$ 214 | \$ - | \$ 834 |
| Residential mortgage-backed securities | 191 | 17 | - | 208 |
| Certificates of deposit | 2,118 | - | - | 2,118 |
| Total | \$ 2,929 | \$ 231 | \$ - | \$ 3,160 |

| | December 31, 2015 | | | Estimated fair value |
|---|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | |
| Securities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S.government instrumentalities | \$ 620 | \$ 178 | \$ - | \$ 798 |
| Residential mortgage-backed securities | 191 | 17 | - | 208 |
| Certificates of deposit | 2,118 | - | - | 2,118 |
| Total | \$ 2,929 | \$ 195 | \$ - | \$ 3,124 |

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

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 March 31, 2016 and December 31, 2015 were as follows:

| | March 31, 2016 | | | | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | Less than 12 months | | | 12 months or longer | | | Total | | |
| | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities |
| Securities available for sale | | | | | | | | | |
| Fixed maturities | | | | | | | | | |
| Corporate bonds | \$5,284 | \$ (13) | 1 | \$ - | \$ - | - | \$5,284 | \$ (13) | 1 |
| Collateralized mortgage obligations | 1,292 | (1) | 1 | - | - | - | 1,292 | (1) | 1 |
| Total fixed maturities | 6,576 | (14) | 2 | - | - | - | 6,576 | (14) | 2 |
| Equity securities-Mutual funds | 30,491 | (887) | 6 | - | - | - | 30,491 | (887) | 6 |
| Total for securities available for sale | \$37,067 | \$ (901) | 8 | \$ - | \$ - | - | \$37,067 | \$ (901) | 8 |

| | December 31, 2015 | | | | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | Less than 12 months | | | 12 months or longer | | | Total | | |
| | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities |
| Securities available for sale | | | | | | | | | |
| Fixed maturities | | | | | | | | | |
| Obligations of government-sponsored enterprises | \$18,989 | \$ (26) | 1 | \$ - | \$ - | - | \$18,989 | \$ (26) | 1 |
| U.S. Treasury securities and obligations of U.S. governmental instrumentalities | 130,996 | (286) | 5 | - | - | - | 130,996 | (286) | 5 |
| Municipal securities | 43,937 | (197) | 11 | - | - | - | 43,937 | (197) | 11 |
| Corporate bonds | 35,718 | (572) | 9 | - | - | - | 35,718 | (572) | 9 |
| Collateralized mortgage obligations | 1,448 | (6) | 1 | - | - | - | 1,448 | (6) | 1 |
| Total fixed maturities | 231,088 | (1,087) | 27 | - | - | - | 231,088 | (1,087) | 27 |
| Equity securities-Mutual funds | 9,319 | (373) | 2 | - | - | - | 9,319 | (373) | 2 |
| Total for securities available for sale | \$240,407 | \$ (1,460) | 29 | \$ - | \$ - | - | \$240,407 | \$ (1,460) | 29 |

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

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; because 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 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.

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

Mutual Funds: Investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired based on market conditions and the length of time the funds have been in a loss position.

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of \$16,306 and a gross unrealized gain of \$46, and (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of \$10,112 and a gross unrealized gain of \$736.

Besides holdings in escrowed bonds, which are backed by US Government securities and therefore have an implicit AA+/Aaa rating, our exposure is in senior lien bonds issued by Cofina.

There was no impairment on Cofina during the three months ended March 31, 2016. During the three months ended March 31, 2015, we recorded an other-than-temporary impairment related to these positions amounting to \$1,202.

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

| | March 31, 2016 | |
|--|----------------|----------------------|
| | Amortized cost | Estimated fair value |
| Securities available for sale: | | |
| Due in one year or less | \$54,942 | \$55,431 |
| Due after one year through five years | 375,679 | 384,401 |
| Due after five years through ten years | 112,592 | 121,883 |
| Due after ten years | 547,191 | 596,373 |
| Residential mortgage-backed securities | 826 | 877 |
| Collateralized mortgage obligations | 21,683 | 21,924 |
| | \$1,112,913 | \$1,180,889 |
| Securities held to maturity: | | |
| Due in one year or less | \$2,118 | \$2,118 |
| Due after ten years | 620 | 834 |
| Residential mortgage-backed securities | 191 | 208 |
| | \$2,929 | \$3,160 |

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.

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Information regarding realized and unrealized gains and losses from investments is as follows:

| | Three months ended March 31, | |
|---|---------------------------------|----------|
| | 2016 | 2015 |
| Realized gains (losses): | | |
| Fixed maturity securities: | | |
| Securities available for sale: | | |
| Gross gains from sales | \$ 961 | \$ 4,009 |
| Gross losses from sales | (1,359) | (275) |
| Gross losses from other-than-temporary impairments | - | (1,202) |
| Total fixed maturity securities | (398) | 2,532 |
| Securities available for sale: | | |
| Gross gains from sales | 587 | 3,736 |
| Gross losses from sales | (131) | (55) |
| | 456 | 3,681 |
| Total equity securities | 456 | 3,681 |
| Net realized gains on securities available for sale | \$ 58 | \$ 6,213 |

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

| | Three months ended March 31, | |
|--|---------------------------------|----------|
| | 2016 | 2015 |
| Changes in net unrealized gains (losses): | | |
| Recognized in accumulated other comprehensive income: | | |
| Fixed maturities – available for sale | \$ 22,589 | \$ 4,091 |
| Equity securities – available for sale | 6,769 | (1,278) |
| | \$ 29,358 | \$ 2,813 |
| Not recognized in the consolidated financial statements: | | |
| Fixed maturities – held to maturity | \$ 36 | \$ 17 |

The deferred tax liability on unrealized gains change recognized in accumulated other comprehensive income during the three months ended March 31, 2016 and 2015 was \$9,781 and \$1,019, respectively.

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

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(4) Premiums and Other Receivables, Net

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

| | March 31, 2016 | December 31, 2015 |
|--|-------------------|----------------------|
| Premium | \$ 118,298 | \$ 92,600 |
| Self-funded group receivables | 69,761 | 73,552 |
| FEHBP | 13,105 | 13,859 |
| Agent balances | 22,207 | 25,424 |
| Accrued interest | 11,435 | 12,624 |
| Reinsurance recoverable | 59,160 | 48,506 |
| Other | 61,527 | 53,325 |
| | 355,493 | 319,890 |
| Less allowance for doubtful receivables: | | |
| Premium | 30,270 | 28,944 |
| Other | 8,421 | 8,300 |
| | 38,691 | 37,244 |
| Total premium and other receivables, net | \$ 316,802 | \$ 282,646 |

As of March 31, 2016 and December 31, 2015, the Company had premiums and other receivables of \$90,046 and \$78,230, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of March 31, 2016 and December 31, 2015 were \$19,491 and \$19,133, respectively.

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(5) Fair Value Measurements

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

| | |
|---------|--|
| Level | Input Definition: |
| 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. |

The Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment.

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

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

| | March 31, 2016 | | | Total |
|--|----------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | |
| Securities available for sale: | | | | |
| Fixed maturity securities | | | | |
| Obligations of government-sponsored enterprises | \$- | \$ 104,353 | \$- | \$ 104,353 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 117,997 | - | - | 117,997 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 26,418 | - | 26,418 |
| Municipal securities | - | 691,180 | - | 691,180 |
| Corporate bonds | - | 218,140 | - | 218,140 |
| Residential agency mortgage-backed securities | - | 877 | - | 877 |
| Collateralized mortgage obligations | - | 21,924 | - | 21,924 |

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| | | | | |
|----------------------------------|-----------|-------------|---------|-------------|
| Total fixed maturities | 117,997 | 1,062,892 | - | 1,180,889 |
| Equity securities - Mutual funds | 236,032 | 50,956 | 6,997 | 293,985 |
| Total | \$354,029 | \$1,113,848 | \$6,997 | \$1,474,874 |

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

The fair value of fixed maturity and equity securities included in the Level 2 category were based on market values obtained from independent pricing services, which utilize evaluated pricing models that vary by asset class and incorporate available trade, bid and other market information and for structured securities, cash flow and when available loan performance data. Because many fixed income securities do not trade on a daily basis, the models used by independent pricing service providers to prepare evaluations apply available information, such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing. For certain equity securities, quoted market prices for the identical security are not always available and the fair value is estimated by reference to similar securities for which quoted prices are available. The independent pricing service providers monitor market indicators, industry and economic events, and for broker-quoted only securities, obtain quotes from market makers or broker-dealers that they recognize to be market participants. The fair value of the investments in partnerships included in the Level 3 category was based on the net asset value (NAV) which is affected by the changes in the fair market value of the investments held in these partnerships.

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in and/or out of Level 3 and between Levels 1 and 2 during the three months ended March 31, 2016 and 2015.

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A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31 is as follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | |
|--|---|-----------|
| | 2016 | 2015 |
| Beginning balance | \$ 7,958 | \$ 13,349 |
| Realized gains | 151 | 1,412 |
| Unrealized in other accumulated comprehensive income | (649) | (2,602) |
| Purchases | 8 | 79 |
| Capital distributions | (471) | (2,047) |
| Ending balance | \$ 6,997 | \$ 10,191 |

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

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

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

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

(i) Policy Loans

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

(ii) Policyholder Deposits

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

(iii) Long-term Borrowings

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

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A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our condensed consolidated balance sheets at March 31, 2016 and December 31, 2015 are as follows:

| | March 31, 2016 | | | | |
|-------------------------------------|----------------|------------------|-----------|---------|-----------|
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Policy loans | \$8,132 | \$- | \$8,132 | \$ - | \$8,132 |
| Liabilities: | | | | | |
| Policyholder deposits | \$180,980 | \$- | \$180,980 | \$ - | \$180,980 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 12,417 | - | 12,417 | - | 12,417 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,800 | - | 19,800 |
| Total long-term borrowings | 36,417 | - | 32,217 | - | 32,217 |
| Total liabilities | \$217,397 | \$- | \$213,197 | \$ - | \$213,197 |
| December 31, 2015 | | | | | |
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Policy loans | \$7,901 | \$- | \$7,901 | \$ - | \$7,901 |
| Liabilities: | | | | | |
| Policyholder deposits | \$179,287 | \$- | \$179,287 | \$ - | \$179,287 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 12,827 | - | 12,827 | - | 12,827 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,920 | - | 19,920 |
| Total long-term borrowings | 36,827 | - | 32,747 | - | 32,747 |
| Total liabilities | \$216,114 | \$- | \$212,034 | \$ - | \$212,034 |

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(6) Claim Liabilities

The activity in claim liabilities is as follows:

| | Three months ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2016 | 2015 |
| Claim liabilities at beginning of period | \$491,765 | \$390,086 |
| Reinsurance recoverable on claim liabilities | (40,714) | (40,635) |
| Net claim liabilities at beginning of period | 451,051 | 349,451 |
| Incurred claims and loss-adjustment expenses: | | |
| Current period insured events | 633,681 | 447,162 |
| Prior period insured events | (13,749) | (21,609) |
| Total | 619,932 | 425,553 |
| Payments of losses and loss-adjustment expenses: | | |
| Current period insured events | 370,135 | 244,728 |
| Prior period insured events | 215,653 | 168,592 |
| Total | 585,788 | 413,320 |
| Net claim liabilities at end of period | 485,195 | 361,684 |
| Reinsurance recoverable on claim liabilities | 39,871 | 39,958 |
| Claim liabilities at end of period | \$525,066 | \$401,642 |

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 favorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2016 and 2015 are due primarily to better than expected utilization trends. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to \$6,762 and \$6,877 during the three months ended March 31, 2016 and 2015, respectively.

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(7) Long-Term Borrowings

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

(8) Pension Plan

The components of net periodic benefit cost for the three months ended March 31 were as follows:

| | Three months ended | |
|--|--------------------|----------|
| | March 31, 2016 | 2015 |
| Components of net periodic benefit cost: | | |
| Service cost | \$ 1,250 | \$ 897 |
| Interest cost | 2,762 | 1,900 |
| Expected return on assets | (2,926) | (1,864) |
| Amortization of prior service benefit | (144) | (100) |
| Amortization of actuarial loss | 1,183 | 1,454 |
| Net periodic benefit cost | \$ 2,125 | \$ 2,287 |

Employer Contributions: The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2015 that it expected to contribute \$8,000 to the pension program in 2016. As of March 31, 2016, the Corporation has not made contributions to the pension program.

(9) Stock Repurchase Program

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

In November 2015 the Company's Board of Directors authorized a \$25,000 repurchase program of its Class B common stock. During the three months ended March 31, 2016, the Company repurchased and retired under this program 367,101 shares at an average per share price of \$21.99, for an aggregate cost of \$8,027.

(10) Comprehensive Income

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

| March 31, 2016 | Accumulated |
|-----------------|---------------|
| Net | other |
| unrealized | comprehensive |
| Liability for | income |
| gain on pension | |
| securities | |
| benefits | |

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| | | | |
|--|----------|--------------|-----------|
| Balance at January 1, 2016 | \$62,478 | \$ (36,855) | \$ 25,623 |
| Other comprehensive income before reclassifications | 19,623 | - | 19,623 |
| Amounts reclassified from accumulated other comprehensive income | (46) | 634 | 588 |
| Net current period change | 19,577 | 634 | 20,211 |
| Balance at March 31, 2016 | \$82,055 | \$ (36,221) | \$ 45,834 |

| | March 31, 2015 | | |
|--|--|--------------------------------------|---|
| | Net unrealized gain on securities | Liability for pension benefits | Accumulated other comprehensive income |
| Balance at January 1, 2015 | \$101,467 | \$ (52,691) | \$ 48,776 |
| Other comprehensive income before reclassifications | 832 | - | 832 |
| Amounts reclassified from accumulated other comprehensive income | 962 | 826 | 1,788 |
| Net current period change | 1,794 | 826 | 2,620 |
| Balance at March 31, 2015 | \$103,261 | \$ (51,865) | \$ 51,396 |

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(11) Share-Based Compensation

Share-based compensation expense recorded during the three months ended March 31, 2016 and 2015 was \$1,085 and \$1,883, respectively. There were no stock option exercises during the three months ended March 31, 2016 and 2015.

(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 ended March 31:

| | Three months ended March 31, | |
|--|---------------------------------|------------|
| | 2016 | 2015 |
| Numerator for earnings per share: | | |
| Net income attributable to TSM available to stockholders | \$3,456 | \$14,836 |
| Denominator for basic earnings per share: | | |
| Weighted average of common shares | 24,587,681 | 26,497,642 |
| Effect of dilutive securities | 72,353 | 97,576 |
| Denominator for diluted earnings per share | 24,660,034 | 26,595,218 |
| Basic net income per share attributable to TSM | \$0.14 | \$0.56 |
| Diluted net income per share attributable to TSM | \$0.14 | \$0.56 |

(13) Contingencies

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

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

adverse outcome in one or more of these matters could have a material adverse effect on the consolidated financial condition, operating results and/or cash flows of the Company.

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

Claims by Heirs of Former Shareholders

The Company and TSS are defending nine individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 124 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 Puerto Rico's Court of First Instance dismissed the claim and determined it was time barred under the local securities law. On January 27, 2012, the Puerto Rico Court of Appeals upheld the dismissal. On October 1, 2013, the Puerto Rico Supreme Court reversed the dismissal, holding that the two-year statute of limitations contained in the local securities law did not apply and returning it to the Court of First Instance. After returning to the Court of First Instance, the parties have been conducting discovery. On December 16, 2015, the Company filed a motion for summary judgement. The parties are awaiting further proceedings.

In the second case, entitled Olivella Zalduondo, et al, v. Seguros de Servicios de Salud, et al, the Puerto Rico's 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. 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's 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 their complaint, which was answered by the Company 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 Puerto Rico 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 Puerto Rico's Court of First Instance and denied a subsequent plea for reconsideration. Both parties have filed motions for summary judgment and, consequently, their respective oppositions. The parties are awaiting the Court's decision on their respective motions for summary judgment.

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, which was denied by the Court on January 24, 2013. After two amendments to plaintiff's complaint, the Company filed its response on June 13, 2013. A status conference is scheduled for May 24, 2016. 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, which was denied by the court. On November 2, 2015, the Company filed a Petition for a Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on March 8, 2016. On March 23, 2016, the Company filed with the Puerto Rico Court of Appeals a request for reconsideration, which the plaintiff opposed. The parties are awaiting the Court of Appeals' decision on Motion for Reconsideration.

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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. After several pleas, including a motion to dismiss filed by the Company, plaintiffs amended their complaint. On November 5, 2013, the Company moved to dismiss the first amended complaint. 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 a memorandum of law and struck plaintiff's motion for summary judgment. On September 18, 2014, the Court denied the Company's motion to dismiss the amended complaint. On September 29, 2014, the Company filed a motion for reconsideration, which was denied by the Court on November 4, 2014. On December 4, 2014, the Company filed a Petition for a Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on April 1, 2015. A pretrial hearing is scheduled for June 16, 2016. Discovery is ongoing.

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. A status conference is scheduled for May 19, 2016. Discovery is ongoing.

The eighth case, entitled Gallardo Mendez, et al, v. Triple-S Management Corporation, was filed on December 30, 2014. On March 13, 2015, the Company filed a motion to dismiss. After an extension of time granted by the Court, plaintiff did not file an opposition. Therefore, on June 16, 2015, the Court deemed the Company's motion to dismiss unopposed. On March 18, 2016, the court dismissed the complaint with prejudice.

The ninth case, entitled Ruiz de Porras, et al, v. Triple-S Salud, Inc., was filed on January 7, 2016. On March 28, 2016, the Company filed a Motion to Dismiss on the grounds that the complaint is time-barred. On April, 19, 2016, the Court ordered the Plaintiff to oppose to the Company's Motion to Dismiss within 30 days.

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 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.

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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. Discovery has been completed.

Since 2011, TSP has been defending this claim and, jointly with other defendants, has filed several pleas in connection with the certification of the class and the dismissal of the claim. On December 17, 2015, three defendants filed a joint motion informing the court that said defendants are conducting negotiations to settle the claim and requested a 60-day period in order to continue the negotiations. Subsequently, the term to continue negotiations was extended until April 17, 2016. On April 22, 2016, plaintiff and negotiating defendants filed a stipulation of settlement and release which is subject to approval of the court. TSP is evaluating the terms of the proposed settlement and release to determine further actions.

(14) Segment Information

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

The Managed Care segment participates in the Commonwealth of Puerto Rico Health Insurance Plan (similar to Medicaid) (Medicaid) program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the government of Puerto Rico, by administering the provision of the physical health component in designated service regions in Puerto Rico. We served all eight service regions on an administrative service only basis (ASO) until March 31, 2015. Administrative service fees during the three months ended March 31, 2015 amounted to \$23,642. Effective April 1, 2015, we started to provide healthcare services to only two regions of the Medicaid program on a risk based model.

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

The following tables summarize the operations by reportable segment for the three months ended March 31, 2016 and 2015:

| | Three months ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2016 | 2015 |
| Operating revenues: | | |
| Managed Care: | | |
| Premiums earned, net | \$678,380 | \$472,167 |
| Administrative service fees | 5,083 | 29,123 |
| Intersegment premiums/service fees | 1,485 | 1,193 |
| Net investment income | 3,480 | 2,998 |
| Total managed care | 688,428 | 505,481 |
| Life Insurance: | | |
| Premiums earned, net | 38,966 | 37,780 |
| Intersegment premiums | 137 | 61 |
| Net investment income | 5,914 | 5,781 |
| Total life insurance | 45,017 | 43,622 |
| Property and Casualty Insurance: | | |
| Premiums earned, net | 21,188 | 22,611 |
| Intersegment premiums | 153 | 153 |
| Net investment income | 1,929 | 2,090 |
| Total property and casualty insurance | 23,270 | 24,854 |
| Other segments: * | | |
| Intersegment service revenues | 2,545 | 2,383 |
| Operating revenues from external sources | 856 | 1,183 |
| Total other segments | 3,401 | 3,566 |
| Total business segments | 760,116 | 577,523 |
| TSM operating revenues from external sources | 4 | 14 |
| Elimination of intersegment premiums/service fees | (1,775) | (1,407) |
| Elimination of intersegment service revenues | (2,545) | (2,383) |
| Other intersegment eliminations | (13) | 5 |
| Consolidated operating revenues | \$755,787 | \$573,752 |

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

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

| | Three months ended March 31, | |
|--|---------------------------------|-----------|
| | 2016 | 2015 |
| Operating income (loss): | | |
| Managed care | \$ (641) | \$ 10,972 |
| Life insurance | 5,598 | 4,816 |
| Property and casualty insurance | 2,111 | 1,506 |
| Other segments * | (179) | (163) |
| Total business segments | 6,889 | 17,131 |
| TSM operating revenues from external sources | 4 | 14 |
| TSM unallocated operating expenses | (3,167) | (5,603) |
| Elimination of TSM intersegment charges | 2,387 | 2,405 |
| Consolidated operating income | 6,113 | 13,947 |
| Consolidated net realized investment gains | 58 | 6,213 |
| Consolidated interest expense | (1,882) | (2,182) |
| Consolidated other income, net | 875 | 1,759 |
| Consolidated income before taxes | \$ 5,164 | \$ 19,737 |
| Depreciation and amortization expense: | | |
| Managed care | \$ 2,934 | \$ 3,479 |
| Life insurance | 255 | 270 |
| Property and casualty insurance | 161 | 102 |
| Other segments* | 153 | 126 |
| Total business segments | 3,503 | 3,977 |
| TSM depreciation expense | 197 | 197 |
| Consolidated depreciation and amortization expense | \$ 3,700 | \$ 4,174 |

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

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

| | March 31, 2016 | December 31, 2015 |
|---|-------------------|-------------------------|
| Assets: | | |
| Managed care | \$1,120,881 | \$1,034,725 |
| Life insurance | 808,929 | 770,721 |
| Property and casualty insurance | 355,090 | 350,514 |
| Other segments * | 25,979 | 25,629 |
| Total business segments | 2,310,879 | 2,181,589 |
| Unallocated amounts related to TSM: | | |
| Cash, cash equivalents, and investments | 154 | 12,304 |
| Property and equipment, net | 22,996 | 23,219 |
| Other assets | 30,608 | 31,732 |
| | 53,758 | 67,255 |
| Elimination entries-intersegment receivables and others | (44,779) | (42,699) |
| Consolidated total assets | \$2,319,858 | \$2,206,145 |

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

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Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

(15) Subsequent Events

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

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

In this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), the "Corporation", the "Company", "TSM", "we", "us" and "our" refers to Triple-S Management Corporation and its subsidiaries. MD&A included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months ended March 31, 2016. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2015 and the MD&A included therein, and our unaudited consolidated financial statements and accompanying notes as of and for the three months ended March 31, 2016 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, Medicaid and Medicare Advantage markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. We also participate in the Government of Puerto Rico Health Insurance Plan (a government of Puerto Rico-funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S.) (Medicaid), by administering the provision of the physical health component in designated service regions in Puerto Rico. We served all eight regions on an administrative service only basis (ASO) until March 31, 2015. Effective April 1, 2015, the government changed the Medicaid delivery model from ASO to a risk-based model that include the physical and mental health components. We elected to participate in this sector as a fully-insured provider in only two regions of Puerto Rico. See details of the Medicaid contract in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2015 under the sub-caption "We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business."

We have the exclusive right to use the Blue Cross Blue Shield (BCBS) name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands and Anguilla. As of March 31, 2016, we served approximately 1,067,000 members across all regions of Puerto Rico. For the three months ended March 31, 2016 and 2015 respectively, our managed care segment represented approximately 92% and 89% of our total consolidated premiums earned. We also have significant positions in the life insurance and property and casualty insurance markets.

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

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

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. See note 14 of the Condensed Consolidated Financial Statements included in Quarterly Report on Form 10-Q.

Our revenues primarily consist of premiums earned, net and administrative service fees. These revenues are derived from the sale of managed care products in the Commercial market to employer groups, individuals and government-sponsored programs, principally Medicare and the Government of Puerto Rico Health Insurance Plan. Premiums are derived from insurance contracts 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 also includes the Health Insurance Providers Fee paid under the Affordable Care Act (ACA).

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

Recent Developments

During recent years, Puerto Rico has been facing economic and fiscal challenges and its economy has been contracting. On January 1, 2016, Puerto Rico missed payments on \$35.9 million Puerto Rico Infrastructure Financing Authority debt and \$1.4 million Puerto Rico Public Finance Corporation debt. On the same day, all other debt service payments due were made, including those on general obligation and COFINA bonds.

On March 21, 2016, Standard & Poor's (S&P) affirmed a CC rating for both general obligation bonds and tax-backed debt, combined with a negative outlook. The rating agency recognized that the COFINA bond trustee holds sufficient funds for the upcoming August 2016 debt service payment. However, it also noted that this may not be the case for the next fiscal year due to the liquidity issues and the perceived unwillingness of the Government of Puerto Rico to prioritize debt service over other operating costs.

On March 22, 2016, the U.S. Supreme Court conducted oral arguments on the Puerto Rico Public Corporations Debt Enforcement and Recovery Act (“the Recovery Act”), which was previously ruled unconstitutional by the U.S. District Court of Puerto Rico. The Recovery Act would allow certain Puerto Rico public corporations to restructure their debt and would give the Government of Puerto Rico additional leverage in its negotiations with creditors.

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On March 24, 2016, the Natural Resources Committee of the U.S. House of Representatives circulated a draft bill that would create a federal control board with the legal authority over the budget of the Government of Puerto Rico and would allow the restructuring of certain obligations of the Government of Puerto Rico and its instrumentalities. On April 12, 2016, the U.S. House of Representatives released a second draft of the bill, which is expected to suffer additional amendments. It is unclear when a definitive bill will be approved.

On April 4, 2016, a group of investors holding debt from the Government Development Bank for Puerto Rico (“GDB”) sued to impede GDB from making payments to government agencies.

On April 7, 2016, the Government of Puerto Rico enacted a law that would allow the Governor of Puerto Rico to declare an emergency period for certain government entities and place a moratorium on debt payments. On April 9, 2016 the Governor signed an executive order declaring an emergency period for GDB and established a procedure with respect to governmental withdrawals, payments, and transfer requests of funds held on deposit at GDB and for loan disbursements made by GDB.

On May 2, 2016, the Governor of Puerto Rico declared a debt moratorium and the Government Development Bank defaulted on a \$422 million bond payment. This default could have consequences for the upcoming debt service payments due on July 1, 2016, when Puerto Rico would have to pay \$2 billion, which amount includes the payment of \$805 million for General Obligation bonds.

If the liquidity of the Government of Puerto Rico, its agencies, municipalities and public corporations becomes significantly affected as a result of their inability to raise funding in the market or generate enough revenues, we may face credit losses in our premium and fees receivables from these and other government related entities. As of March 31, 2016, the Company had premiums and other receivables of \$90.0 million from the Government of Puerto Rico, including its agencies, municipalities and public corporations with a related allowance for doubtful receivables of \$19.5 million.

See Item 1A. Risk Factors—Risks Related to Our Business – “We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business.” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

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.

Table of ContentsManaged Care Membership

| | As of March 31, | |
|---|-----------------|-----------|
| | 2016 | 2015 |
| Managed care enrollment: | | |
| Commercial ¹ | 544,846 | 568,422 |
| Medicare | 119,224 | 116,292 |
| Medicaid ² | 402,933 | 1,407,045 |
| Total | 1,067,003 | 2,091,759 |
| Managed care enrollment by funding arrangement: | | |
| Fully-insured | 886,547 | 494,090 |
| Self-insured | 180,456 | 1,597,669 |
| Total | 1,067,003 | 2,091,759 |

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

Membership for 2016 is on at-risk basis and for 2015 on a self-insured basis. Effective April 1, 2015, membership (2) decreased since we elected to provide services to only two regions when the delivery model changed to an at-risk basis.

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.

| | Three months ended | |
|--------------------------------|--------------------|----------|
| | March 31, | |
| (dollar amounts in millions) | 2016 | 2015 |
| Revenues: | | |
| Premiums earned, net | \$ 738.5 | \$ 532.6 |
| Administrative service fees | 5.1 | 29.1 |
| Net investment income | 11.4 | 10.9 |
| Other operating revenues | 0.8 | 1.2 |
| Total operating revenues | 755.8 | 573.8 |
| Net realized investment gains | - | 6.2 |
| Other income, net | 0.9 | 1.7 |
| Total revenues | 756.7 | 581.7 |
| Benefits and expenses: | | |
| Claims incurred | 626.7 | 432.4 |
| Operating expenses | 123.0 | 127.4 |
| Total operating expenses | 749.7 | 559.8 |
| Interest expense | 1.9 | 2.2 |
| Total benefits and expenses | 751.6 | 562.0 |
| Income before taxes | 5.1 | 19.7 |
| Income taxes | 1.7 | 4.9 |
| Net income attributable to TSM | \$ 3.4 | \$ 14.8 |

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Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Operating Revenues

Consolidated premiums earned, net for the three months ended March 31, 2016 increased by \$205.9 million, or 38.7%, to \$738.5 million when compared to the three months ended March 31, 2015. This increase primarily reflects higher premiums in the Managed Care segment by \$206.2 million after the change in the Medicaid business model from an ASO agreement to a fully insured model effective April 1, 2015, which generated premiums of \$202.2 million in this quarter, as well as higher premiums in the Medicare and Commercial businesses.

The consolidated administrative service fees decreased by \$24.0 million, or 82.5%, when compared to the same period in 2015, mostly as a result of the previously mentioned change in the Medicaid contract model. Total administrative fees related to the previous Medicaid ASO agreement during the 2015 period amounted to \$23.6 million.

Net Realized Investment Gains

Net realized investment gains are the result of the sale of debt and equity securities classified as available for sale, following our asset/liability management and tax planning strategies.

Claims Incurred

Consolidated claims incurred increased by \$194.3 million, or 44.9%, to \$626.7 million during the three months ended March 31, 2016 when compared to the claims incurred during the three months ended March 31, 2015, mostly due to higher claims in the Managed Care segment. This increase primarily reflects the claims incurred in the segment's Medicaid business after the change from an ASO model to a fully insured model as well as an increase in the claims of the Medicare business. The consolidated loss ratio increased by 370 basis points to 84.9%.

Operating Expenses

Consolidated operating expenses during the three months ended March 31, 2016 decreased by \$4.4 million, or 3.5%, to \$123.0 million as compared to the operating expenses during the three months ended March 31, 2015. The decrease reflects lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve from eight regions under an ASO agreement to only two regions when the contract was changed to a fully-insured model, as well as lower professional services incurred. The lower operating expenses also reflects a decrease in the provision for doubtful accounts, mostly reflecting the strengthening of the allowance for doubtful receivables in the 2015 period. This decrease in the operating expenses was partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter 2015 and an increase in the Health Insurance Providers Fee, reflecting the higher fully insured member month enrollment after the Medicaid model change. For the three months ended March 31, 2016, the consolidated operating expense ratio decreased 620 basis points to 16.5%, reflecting higher premiums revenue during this year and lower membership in our Medicaid business.

Income Taxes

Consolidated income taxes decreased by \$3.2 million, to \$1.7 million for the three months ended March 31, 2016. The year over year change in income taxes primarily results from decreased capital gains, which are taxed at a lower tax rate, and a decline in the Managed Care segment's income before tax in 2016.

Table of ContentsManaged Care Operating Results

| (dollar amounts in millions) | Three months ended | | | |
|---------------------------------|--------------------|-----------|--------|---|
| | March 31, | | | |
| | 2016 | 2015 | | |
| Operating revenues: | | | | |
| Medical premiums earned, net: | | | | |
| Commercial | \$215.5 | \$212.5 | | |
| Medicare | 261.0 | 260.0 | | |
| Medicaid | 202.2 | - | | |
| Medical premiums earned, net | 678.7 | 472.5 | | |
| Administrative service fees | 6.3 | 30.0 | | |
| Net investment income | 3.5 | 3.0 | | |
| Total operating revenues | 688.5 | 505.5 | | |
| Medical operating costs: | | | | |
| Medical claims incurred | 596.3 | 400.1 | | |
| Medical operating expenses | 92.8 | 94.4 | | |
| Total medical operating costs | 689.1 | 494.5 | | |
| Medical operating (loss) income | \$(0.6 |) | \$11.0 | |
| Additional data: | | | | |
| Member months enrollment: | | | | |
| Commercial: | | | | |
| Fully-insured | 1,091,415 | 1,143,729 | | |
| Self-funded | 543,026 | 574,334 | | |
| Total Commercial member months | 1,634,441 | 1,718,063 | | |
| Medicare member months | 364,427 | 347,082 | | |
| Medicaid: | | | | |
| Fully-insured | 1,221,892 | - | | |
| Self-insured | - | 4,229,082 | | |
| Total Medicaid member months | 1,221,892 | 4,229,082 | | |
| Total member months | 3,220,760 | 6,294,227 | | |
| Medical loss ratio | 87.9 | % | 84.7 | % |
| Operating expense ratio | 13.5 | % | 18.8 | % |
| Operating income margin | -0.1 | % | 2.2 | % |

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Medical Operating Revenues

Medical premiums earned for the three months ended March 31, 2016 increased by \$206.2 million, or 43.6%, to \$678.7 million when compared to the medical premiums earned during the three months ended March 31, 2015. This increase is principally the result of the following:

• Medical premiums generated by the Medicaid business amounted to \$202.2 million after the change in the Medicaid service model, from an ASO agreement to a fully insured model effective April 1, 2015.

Medical premiums generated by the Commercial business increased by \$3.0 million, or 1.4%, to \$215.5 million. This fluctuation is primarily the result of approximately 6% year over year increase in average premium rates, partially offset by a decrease in fully insured member month enrollment.

Medical premiums generated by the Medicare business increased by \$1.0 million, or 0.4%, to \$261.0 million. This fluctuation primarily results from higher member month enrollment in Medicare Advantage products as compared with 2015, offset in part by the expected 5% reduction in 2016 Medicare reimbursement and a change in the business mix from duals to non-dual, which have lower per member per month premiums.

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Administrative service fees decreased by \$23.7 million, or 79.0%, to \$6.3 million mainly due to the previously mentioned change in the Medicaid contract effective April 1, 2015.

Medical Claims Incurred

Medical claims incurred during the three months ended March 31, 2016 increased by \$196.2 million, or 49.0%, to \$596.3 million when compared to the three months ended March 31, 2015. The medical loss ratio (MLR) of the segment increased 320 basis points during the 2016 period, to 87.9%. This fluctuation is primarily attributed to the net effect of the following:

Effective April 1, 2015, the Medicaid delivery model changed from an ASO contract to a fully insured model. The medical claims incurred related to this contract for the three months ended March 31, 2016 amounted \$182.2 million. The medical loss ratio of this segment was 90.1%, similar to our bid.

The medical claims incurred of the Medicare business increased by \$12.3 million, or 5.5%, during the 2016 period and its MLR increased by 430 basis points, to 90.1%, primarily reflecting the reduction in Medicare reimbursement rates and higher claims cost associated to the performance of Health Risk Assessments (HRA) in the current year. In 2016 we have been able to complete a higher number of HRAs when compared to the same quarter last year. Adjusting for the effect of prior period reserve developments, premium and claim adjustments, and the increased HRA expenses, our Medicare MLR would have been approximately 88% this quarter, about 150 basis points higher than last year.

The medical claims incurred of the Commercial business increased by \$1.7 million, or 1.0%, during the 2016 period mostly reflecting the impact of prior period reserve development. The Commercial MLR was 82.8%, which is 40 basis points lower than the MLR for the prior year. Excluding the effect of prior period reserve developments in 2016 and 2015, the MLR would have decreased by 640 basis points, reflecting the continuity of our underwriting discipline, which has resulted in premium trends higher than claims trends.

Medical Operating Expenses

Medical operating expenses for the three months ended March 31, 2016 decreased by \$1.6 million, or 1.7%, to \$92.8 million when compared to the three months ended March 31, 2015. The operating expense ratio decreased by 530 basis points to 13.5% in 2016 as a result of the increase in premiums revenue and lower expenses. The decrease mostly reflects higher premiums and lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve from eight to only two regions when the contract was changed to a fully insured model. This decrease in the operating expenses was partially offset by an increase in the Health Insurance Providers Fee and professional services incurred during the 2016 period.

Table of ContentsLife Insurance Operating Results

| (dollar amounts in millions) | Three months ended | |
|-------------------------------------|--------------------|---------|
| | March 31, | |
| | 2016 | 2015 |
| Operating revenues: | | |
| Premiums earned, net: | | |
| Premiums earned | \$ 39.8 | \$ 38.7 |
| Assumed earned premiums | 1.5 | 1.6 |
| Ceded premiums earned | (2.2) | (2.5) |
| Premiums earned, net | 39.1 | 37.8 |
| Net investment income | 5.9 | 5.8 |
| Total operating revenues | 45.0 | 43.6 |
| Operating costs: | | |
| Policy benefits and claims incurred | 21.4 | 21.5 |
| Underwriting and other expenses | 18.0 | 17.3 |
| Total operating costs | 39.4 | 38.8 |
| Operating income | \$ 5.6 | \$ 4.8 |
| Additional data: | | |
| Loss ratio | 54.7 % | 56.9 % |
| Operating expense ratio | 46.0 % | 45.8 % |

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Operating Revenues

Premiums earned, net increased by \$1.3 million, or 3.4% to \$39.1 million as the result of premium growth in the segment's Individual Life and Cancer lines of business.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred remained in line, decreasing only \$0.1 million, or 0.5%, to \$21.4 million. The loss ratio for the period decreased from 56.9% in 2015 to 54.7% in 2016, or 220 basis points, mostly reflecting higher premium revenue.

Underwriting and Other Expenses

Underwriting and other expenses increase mostly reflects higher commission expenses and increased general expenses related to the development of the Costa Rica operations. The segment's operating expense ratio increased 20 basis points from 45.8% in 2015 to 46.0% in 2016.

Table of ContentsProperty and Casualty Insurance Operating Results

| (dollar amounts in millions) | Three months ended | |
|---------------------------------|--------------------|---------|
| | 2016 | 2015 |
| Operating revenues: | | |
| Premiums earned, net: | | |
| Premiums written | \$ 27.6 | \$ 27.9 |
| Premiums ceded | (10.4) | (10.8) |
| Change in unearned premiums | 4.1 | 5.7 |
| Premiums earned, net | 21.3 | 22.8 |
| Net investment income | 1.9 | 2.1 |
| Total operating revenues | 23.2 | 24.9 |
| Operating costs: | | |
| Claims incurred | 9.7 | 11.3 |
| Underwriting and other expenses | 11.4 | 12.1 |
| Total operating costs | 21.1 | 23.4 |
| Operating income | \$ 2.1 | \$ 1.5 |
| Additional data: | | |
| Loss ratio | 45.5 % | 49.6 % |
| Operating expense ratio | 53.5 % | 53.1 % |

Three Months Ended March 31, 2016 Compared to Three Months Ended March 31, 2015

Operating Revenues

Total premiums written decreased by \$0.3 million, or 1.1%, to \$27.6 million, mostly resulting from lower sales of Commercial products and Hospital Malpractice, offset in part by an increase in Compulsory Liability insurance product.

The change in unearned premiums presents a decrease of \$1.6 million mostly reflecting the segments lower volume of premiums written during the last twelve months.

Claims Incurred

Claims incurred decreased by \$1.6 million, or 14.2%, to \$9.7 million. The loss ratio decreased by 410 basis points, to 45.5% during this period, primarily as a result of favorable loss experience in the Commercial Auto and Commercial Package lines of business.

Underwriting and Other Expenses

Underwriting and other operating expenses decreased by \$0.7 million, or 5.8%, to \$11.4 million mostly due to a decrease in net commission expenses driven by a lower level of premiums earned.

Table of ContentsLiquidity 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) | Three months ended | |
|--|--------------------|---------|
| | March 31, | |
| | 2016 | 2015 |
| Sources of cash: | | |
| Cash provided by operating activities | \$ 31.3 | \$ 38.8 |
| Net proceeds of investment securities | - | 57.6 |
| Proceeds from policyholder deposits | 3.4 | 3.0 |
| Other | 1.6 | - |
| Total sources of cash | 36.3 | 99.4 |
| Uses of cash: | | |
| Net purchases of investment securities | (108.9) | - |
| Net capital expenditures | (1.5) | (1.5) |
| Payments of long-term borrowings | (0.4) | (0.4) |
| Surrenders of policyholder deposits | (2.9) | (3.7) |
| Repurchase and retirement of common stock | (8.0) | (15.0) |
| Other | - | (2.5) |
| Total uses of cash | (121.7) | (23.1) |
| Net (decrease) increase in cash and cash equivalents | \$ (85.4) | \$ 76.3 |

Cash flow from operating activities decreased by \$7.5 million for the three months ended March 31, 2016 as compared to the three months ended March 31, 2015, principally due to higher claims paid by \$172.0 million and an increase in cash paid to suppliers and employees of \$13.0 million, offset in part by an increase in premium collections of \$177.1 million. The increase in claims paid and premiums collected is principally the result of the change in the Medicaid delivery model from ASO agreement to a fully insured model.

During the three months ended March 31, 2016, we had \$1.6 million of other sources of cash, while in the 2015 period we had a net balance of other uses of cash of \$2.5 million. The fluctuation in the other sources/uses of cash is attributed to changes in the amount of outstanding checks over bank balances.

Net purchases of sales of investment securities were \$108.9 million during the three months ended March 31, 2016, primarily resulting from the net cash flows disbursed on the purchases and sales of investment securities during the 2016 period following our asset/liability management strategy. During the three months ended March 31, 2015 we had net proceeds of investments of \$57.6 million.

Share Repurchase Program

In November 2015 the Company's Board of Directors authorized a \$25.0 million repurchase program of our Class B common stock. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During the three months ended March 31, 2016, the Company repurchased and retired 367,101 shares of our Class B Common Stock at an average per share price of \$21.99, for an aggregate cost of \$8.0 million.

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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 March 31, 2016, we had \$90.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of March 31, 2016.

On December 21, 2005, we issued and sold \$60.0 million of our 6.6% senior unsecured notes due December 2020 (the 6.6% notes). On October 1, 2010 and May 14, 2015 we repaid \$25.0 million and \$11.0 million, respectively, of the principal of these senior unsecured notes. Amount currently outstanding is \$24.0 million. The 6.6% notes contain certain non-financial covenants. At March 31, 2016, 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 March 31, 2016, this secured loan had an outstanding balance of \$12.4 million and average annual interest rate of 1.37%. 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 March 31, 2016 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

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

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

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

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

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Item 3. Quantitative and Qualitative Disclosures about Market Risk

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

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 March 31, 2016, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to 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 March 31, 2016 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

For a description of legal proceedings that have experienced significant developments during this quarter, see note 13 to the unaudited condensed consolidated financial statements included in this quarterly report on Form 10-Q.

Item 1A. Risk Factors

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

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

Purchases of Equity Securities by the Issuer

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

| | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs ¹ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---|---|--|--|---|
| (Dollar amounts in millions, except per share data) | | | | |
| January 1, 2016 to January 31, 2016 | 178,200 | \$ 22.47 | 178,200 | \$ 18.1 |
| February 1, 2016 to February 29, 2016 | 187,700 | 21.30 | 187,700 | 14.1 |
| March 1, 2016 to March 31, 2016 | 1,201 | 23.99 | 1,201 | 14.1 |

¹ In November 2015 the Company's Board of Directors authorized a \$25.0 million Share Repurchase Program of its Class B common stock.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits Description

¹¹ Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months ended March 31, 2016 and 2015 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

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

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

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

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

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

* Filed herein.

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SIGNATURES

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

Triple-S Management Corporation
Registrant

Date: May 6, 2016 By: /s/ Roberto García-Rodríguez
Roberto García-Rodríguez
President and Chief Executive Officer

Date: May 6, 2016 By: /s/ Juan J. Román-Jiménez
Juan J. Román-Jiménez
Executive Vice President and Chief Financial Officer