TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 07, 2012

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

FORM 10-Q

(Mark One)

þQUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE

ACT OF 1934

For the quarterly period ended September 30, 2012

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 (State or other jurisdiction of incorporation or organization)	66-0555678 (I.R.S. Employer Identification No.)
1441 F.D. Roosevelt Avenue San Juan, Puerto Rico (Address of principal executive offices)	00920 (Zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if

any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes ¨ No

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

Large accelerated filer ¨	Accelerated filer þ
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 þ No

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

Title of each class	Outstanding at September 30, 2012
Common Stock Class A, $1.00 par value	9,042,809
Common Stock Class B, $1.00 par value	19,417,716

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended September 30, 2012

Table of Contents

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

Table of Contents

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

	September 30, 2012	December 31, 2011
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	$ 1,106,726	$ 988,894
Equity securities	191,623	144,408
Securities held to maturity, at amortized cost:		
Fixed maturities	4,128	13,684
Policy loans	6,223	6,307
Cash and cash equivalents	68,750	71,834
Total investments and cash	1,377,450	1,225,127
Premiums and other receivables, net	283,349	287,184
Deferred policy acquisition costs and value of business acquired	164,128	155,788
Property and equipment, net	96,818	81,872
Deferred tax asset	29,305	28,707
Goodwill	25,397	25,397
Other assets	74,691	76,502
Total assets	$ 2,051,138	$ 1,880,577
Liabilities and Stockholders' Equity		
Claim liabilities	$ 428,189	$ 391,259
Liability for future policy benefits	270,556	254,194
Unearned premiums	94,353	94,772
Policyholder deposits	106,385	76,753
Liability to Federal Employees' Health Benefits Program (FEHBP)	16,954	19,051
Accounts payable and accrued liabilities	167,801	151,052
Deferred tax liability	31,953	24,603
Short-term borrowings	11,200	-
Long-term borrowings	101,762	114,387
Liability for pension benefits	69,151	77,547
Total liabilities	1,298,304	1,203,618
Stockholders’ equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at September 30, 2012 and December 31, 2011	9,043	9,043
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 19,417,716 and 19,321,524 shares at September 30, 2012 and December 31, 2011, respectively	19,418	19,322
Additional paid-in capital	145,493	144,302
Retained earnings	521,993	485,729
Accumulated other comprehensive income	56,580	18,563
Total Triple-S Management Corporation stockholders' equity	752,527	676,959
Noncontrolling interest in consolidated subsidiary	307	-
Total stockholders' equity	752,834	676,959
Total liabilities and stockholders’ equity	$ 2,051,138	$ 1,880,577

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Revenues:				
Premiums earned, net	$565,607	$525,371	$1,695,157	$1,520,485
Administrative service fees	27,181	5,210	82,473	18,767
Net investment income	11,595	12,061	34,349	36,513
Other operating revenues	1,206	-	3,358	-
Total operating revenues	605,589	542,642	1,815,337	1,575,765
Net realized investment gains	21	5,569	2,157	18,457
Net unrealized investment loss on trading securities	-	(6,007)	-	(7,267)
Other income (expense), net	598	(169)	1,514	311
Total revenues	606,208	542,035	1,819,008	1,587,266
Benefits and expenses:				
Claims incurred	485,495	442,399	1,457,388	1,272,913
Operating expenses	104,604	83,623	309,378	252,216
Total operating costs	590,099	526,022	1,766,766	1,525,129
Interest expense	2,956	2,499	8,181	8,583
Total benefits and expenses	593,055	528,521	1,774,947	1,533,712
Income before taxes	13,153	13,514	44,061	53,554
Income tax expense (benefit):				
Current	1,344	1,161	8,116	3,155
Deferred	126	740	(254)	11,330
Total income taxes	1,470	1,901	7,862	14,485
Net income	11,683	11,613	36,199	39,069
Less: Net loss attributable to noncontrolling interest	32	-	65	-
Net income attributable to Triple-S Management Corporation	$11,715	$11,613	$36,264	$39,069
Earnings per share attributable to Triple-S Management Corporation				
Basic net income per share	$0.41	$0.40	$1.28	$1.36
Diluted net income per share	$0.41	$0.40	$1.27	$1.35

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Net income	$11,683	$11,613	$36,199	$39,069
Other comprehensive income (loss), net of tax:				
Net unrealized change in fair value of available for sale securities, net of taxes	14,838	20,508	35,008	25,109
Defined benefit pension plan:				
Actuarial loss, net	1,117	566	3,247	1,744
Prior service credit, net	(82)	(77)	(238)	(241)
Total other comprehensive income, net of tax	15,873	20,997	38,017	26,612
Comprehensive income	27,556	32,610	74,216	65,681
Comprehensive income attributable to noncontrolling interest	32	-	65	-
Comprehensive income attributable to Triple-S Management Corporation	$27,588	$32,610	$74,281	$65,681

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	2012	2011
Balance at January 1	$676,959	$617,272
Share-based compensation	1,876	1,489
Cash settlement of options granted under share-based compensation plan	-	(2,420)
Stock issued upon the exercise of stock options	3,001	914
Repurchase and retirement of common stock	(3,590)	(8,279)
Net current period change in comprehensive income	74,281	65,681
Total Triple-S Management Corporation stockholders' equity	752,527	674,657
Noncontrolling interest in consolidated subsididary	307	-
Balance at September 30	$752,834	$674,657

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Nine months ended September 30, 2012	2011
Cash flows from operating activities:		
Net income	$36,199	$39,069
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	17,989	16,435
Net amortization of investments	4,566	398
Provision for doubtful receivables, net	1,321	5,807
Deferred tax expense (benefit)	(254)	11,330
Net realized investment gain on sale of securities	(2,157)	(18,457)
Net unrealized loss on trading securities	-	7,267
Share-based compensation	1,876	1,489
Proceeds from trading securities sold:		
Equity securities	-	53,066
Acquisition of securities in trading portfolio:		
Equity securities	-	(2,764)
(Increase) decrease in assets:		
Premium and other receivables, net	5,272	70,430
Deferred policy acquisition costs and value of business acquired	(8,340)	(1,729)
Other deferred taxes	200	(177)
Other assets	(4,364)	(13,703)
Increase (decrease) in liabilities:		
Claim liabilities	36,930	(8,808)
Liability for future policy benefits	16,362	11,415
Unearned premiums	(419)	65,859
Policyholder deposits	1,507	986
Liability to FEHBP	(2,097)	5,412
Accounts payable and accrued liabilities	7,503	(26,416)
Net cash provided by operating activities	112,094	216,909

(Continued)

Table of Contents

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

	Nine months ended September 30, 2012	2011
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$67,943	$225,060
Fixed maturities matured/called	115,649	76,786
Equity securities sold	50,016	31,253
Securities held to maturity:		
Fixed maturities matured/called	11,080	1,941
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(278,533)	(212,358)
Equity securities	(78,135)	(111,770)
Securities held to maturity:		
Fixed maturities	(1,067)	(755)
Other investments	18	-
Net inflows (outflows) from policy loans	84	(392)
Acquisition of business, net of cash acquired of $816 and $29,370 in the nine months ended September 30, 2012 and 2011, respectively	(2,685)	(54,058)
Net capital expenditures	(8,756)	(12,000)
Net cash used in investing activities	(124,386)	(56,293)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(3,332)	(9,275)
Net change in short-term borrowings	11,200	(15,575)
Repayments of long-term borrowings	(26,464)	(51,230)
Repurchase and retirement of common stock	(637)	(7,554)
Cash settlements of stock options	-	(2,420)
Proceeds from exercise of stock options	316	189
Proceeds from policyholder deposits	32,946	20,725
Surrenders of policyholder deposits	(4,821)	(4,580)
Net cash provided by (used in) financing activities	9,208	(69,720)
Net increase (decrease) in cash and cash equivalents	(3,084)	90,896
Cash and cash equivalents:		
Beginning of period	71,834	45,021
End of period	$68,750	$135,917

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us”, and “our” refer to Tri Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2011.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2012 are not necessarily indicative of the results for the full year ending December 31, 2012.

(2) Recent Accounting Standards

In October 2010 the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and d. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs— Capitalized Advertising Costs, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The Corporation adopted this guidance in January 1, 2012; there was no significant impact on our financial position or results of operations as a result of the adoption.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders’ equity. The amendments require that all non-owner changes in stockholders’ equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB required reclassification adjustments from accumulated other comprehensive income to be measured and presented by income statement line item in net income and also in other comprehensive income on the face of the financial statement. However, responding to concerns from financial statement preparers, the FASB decided to indefinitely defer that requirement pending further outreach. The Corporation adopted this guidance in January 1, 2012 electing to present the components of comprehensive income in two separate but consecutive financial statements.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ("IFRS"). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this guidance in January 1, 2012, with no significant impact on our financial position or results of operations as a result of the adoption. However, we have added disclosure requirements related to fair value measurements in Note 7, "Fair Value Measurements".

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

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In July 2012, the FASB issued guidance to establish a two-step analysis for impairment testing of indefinite-lived intangibles other than goodwill, which brings the accounting treatment for determining impairment charges on other intangible assets in to conformity with the treatment of goodwill. This guidance is effective for periods beginning after September 15, 2012. The adoption of this guidance has no impact on the financial statements disclosures.

In August 27, 2012 and October 1, 2012, the FASB issued guidance to make generally non-substantive technical corrections to certain codification topics, remove inconsistencies and outdated provisions, clarify the FASB's intent and amend or delete various Securities and Exchange Commission ("SEC") paragraphs. In particular, the updates consist of:

- Technical corrections and amendments as part of the FASB's standing agenda to review and improve the Accounting Standards Codification,
- Conforming amendments related to fair value measurements, in accordance with Topic 820,
- Reflect the issuance of the SEC's Staff Accounting Bulletin No. 114, Revisions and Rescissions of Portions of the Interpretative Guidance Included in the Codification of Staff Accounting Bulletins, and
- Reflect the issuance of the SEC Final Rulemaking Release No. 33-9250, Technical Amendments to Commission Rules and Forms Related to the FASB's Accounting Standards Codification.

This guidance is effective for fiscal periods beginning after December 15, 2012. The adoption of this guidance had no impact on the Corporation's financial position or results of operations.

Other than the accounting pronouncements disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2012 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

As discussed further in note 14, our Managed Care segment includes the results of operations and financial condition of Socios Mayores en Salud Holdings, Inc. (from now on referred to as “American Health” or “AH”) since February 1, 2011.

The following tables summarize the operations by major operating segment for the three months and nine months ended September 30, 2012 and 2011:

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

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Operating revenues:				
Managed Care:				
Premiums earned, net	$ 508,152	$ 471,945	$ 1,531,703	$ 1,363,053
Administrative service fees	27,181	5,210	82,473	18,767
Intersegment premiums /service fees	1,489	1,644	4,622	4,584
Net investment income	3,999	4,474	11,783	13,475
Total managed care	540,821	483,273	1,630,581	1,399,879
Life Insurance:				
Premiums earned, net	31,654	28,651	92,190	83,410
Intersegment premiums	107	88	302	262
Net investment income	5,207	4,619	15,304	13,549
Total life insurance	36,968	33,358	107,796	97,221
Property and Casualty Insurance:				
Premiums earned, net	25,801	24,775	71,264	74,022
Intersegment premiums	153	153	460	460
Net investment income	2,210	2,482	6,707	7,065
Total property and casualty insurance	28,164	27,410	78,431	81,547
Other segments: *				
Intersegment service revenues	3,634	3,906	10,887	11,548
Operating revenues from external sources	1,207	-	3,361	4
Total other segments	4,841	3,906	14,248	11,552
Total business segments	610,794	547,947	1,831,056	1,590,199
TSM operating revenues from external sources	143	312	447	1,261
Elimination of intersegment premiums	(1,749)	(1,885)	(5,384)	(5,306)
Elimination of intersegment service fees	(3,634)	(3,906)	(10,887)	(11,548)
Other intersegment eliminations	35	174	105	1,159
Consolidated operating revenues	$ 605,589	$ 542,642	$ 1,815,337	$ 1,575,765

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

Table of Contents

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Operating income:				
Managed care	$7,329	$11,264	$33,320	$32,669
Life insurance	4,065	5,263	12,480	13,178
Property and casualty insurance	1,936	(1,046)	4,047	1,957
Other segments *	(349)	384	(188)	515
Total business segments	12,981	15,865	49,659	48,319
TSM operating revenues from external sources	143	308	447	1,261
TSM unallocated operating expenses	(111)	(1,783)	(8,405)	(6,810)
Elimination of TSM intersegment charges	2,477	2,230	6,870	7,866
Consolidated operating income	15,490	16,620	48,571	50,636
Consolidated net realized investment gains	21	5,569	2,157	18,457
Consolidated net unrealized loss on trading securities	-	(6,007)	-	(7,267)
Consolidated interest expense	(2,956)	(2,499)	(8,181)	(8,583)
Consolidated other income, net	598	(169)	1,514	311
Consolidated income before taxes	$13,153	$13,514	$44,061	$53,554
Depreciation and amortization expense:				
Managed care	$5,397	$5,137	$15,747	$14,196
Life insurance	219	162	547	487
Property and casualty insurance	136	371	434	1,148
Other segments*	221	-	622	-
Total business segments	5,973	5,670	17,350	15,831
TSM depreciation expense	215	200	639	604
Consolidated depreciation and amortization expense	$6,188	$5,870	$17,989	$16,435

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

Table of Contents

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

	September 30, 2012	December 31, 2011
Assets:		
Managed care	$ 933,021	$ 832,850
Life insurance	676,459	610,118
Property and casualty insurance	356,366	348,480
Other segments *	36,039	15,846
Total business segments	2,001,885	1,807,294
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	44,349	53,172
Property and equipment, net	21,645	22,269
Other assets	27,451	27,794
	93,445	103,235
Elimination entries-intersegment receivables and others	(44,192)	(29,952)
Consolidated total assets	$ 2,051,138	$ 1,880,577

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

(4) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at September 30, 2012 and December 31, 2011, were as follows:

Table of Contents

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

	September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$61,971	$5,236	$-	$67,207
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,411	2,033	-	41,444
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	61,001	1,735	-	62,736
Municipal securities	510,364	58,208	(133)	568,439
Corporate bonds	106,976	24,556	-	131,532
Residential mortgage-backed securities	22,471	742	(4)	23,209
Collateralized mortgage obligations	207,643	5,075	(559)	212,159
Total fixed maturities	1,009,837	97,585	(696)	1,106,726
Equity securities:				
Common stocks	66	3,876	-	3,942
Mutual funds	166,825	20,884	(28)	187,681
Total equity securities	166,891	24,760	(28)	191,623
Total	$1,176,728	$122,345	$(724)	$1,298,349

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$75,429	$5,392	$-	$80,821
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,544	2,311	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	83,685	2,584	(10)	86,259
Municipal securities	394,201	40,094	(116)	434,179
Corporate bonds	109,024	20,268	(148)	129,144
Residential mortgage-backed securities	8,367	748	-	9,115
Collateralized mortgage obligations	203,305	4,586	(370)	207,521
Total fixed maturities	913,555	75,983	(644)	988,894
Equity securities:				
Common stocks	66	3,257	-	3,323
Perpetual preferred stocks	1,000	-	(101)	899
Mutual funds	137,101	5,453	(2,368)	140,186
Total equity securities	138,167	8,710	(2,469)	144,408
Total	$1,051,722	$84,693	$(3,113)	$1,133,302

Table of Contents

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

	September 30, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$1,793	$133	$-	$1,926
U.S. Treasury securities and obligations of U.S.government instrumentalities	624	235	-	859
Residential mortgage-backed securities	449	43	-	492
Certificates of deposit	1,262	-	-	1,262
Total	$4,128	$411	$-	$4,539

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government- sponsored enterprises	$1,793	$173	$-	$1,966
U.S. Treasury securities and obligations of U.S. government instrumentalities	624	223	-	847
Corporate bonds	9,839	130	-	9,969
Residential mortgage-backed securities	479	42	-	521
Certificates of deposit	949	-	-	949
Total	$13,684	$568	$-	$14,252

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2012 and December 31, 2011 were as follows:

	September 30, 2012								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Municipal securities	$ 24,191	$ (133)	8	$ -	$ -	-	$ 24,191	$ (133)	8
Residential mortgage-backed securities	3,821	(4)	1	-	-	-	3,821	(4)	1

Collateralized mortgage obligations	57,219	(543)	12	7,424	(16)	1	64,643	(559)	13
Total fixed maturities	85,231	(680)	21	7,424	(16)	1	92,655	(696)	22
Equity securities:									
Mutual funds	-	-	-	2,477	(28)	1	2,477	(28)	1
Total equity securities	-	-	-	2,477	(28)	1	2,477	(28)	1
Total for securities available for sale	$ 85,231	$ (680)	21	$ 9,901	$ (44)	2	$ 95,132	$ (724)	23

Table of Contents

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

	December 31, 2011								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of government-Commonwealth of Puerto Rico and its instrumentalities	$ 6,073	$ (10)	3	$ -	$ -	-	$ 6,073	$ (10)	3
Municipal securities	16,726	(116)	5	-	-	-	16,726	(116)	5
Corporate bonds	3,790	(85)	3	800	(63)	1	4,590	(148)	4
Collateralized mortgage obligations	29,813	(274)	7	1,611	(96)	1	31,424	(370)	8
Total fixed maturities	56,402	(485)	18	2,411	(159)	2	58,813	(644)	20
Equity securities:									
Perpetual preferred stocks	-	-	-	899	(101)	1	899	(101)	1
Mutual funds	37,943	(2,270)	18	1,917	(98)	1	39,860	(2,368)	19
Total equity securities	37,943	(2,270)	18	2,816	(199)	2	40,759	(2,469)	20
Total for securities available for sale	$ 94,345	$ (2,755)	36	$ 5,227	$ (358)	4	$ 99,572	$ (3,113)	40

The Corporation regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Corporation's intent to sell or the likelihood of a required sale prior to recovery, (4) the recoverability of principal and interest for fixed maturity securities, or cost for equity securities, and (5) other factors, as applicable. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment's cost exceeds its estimated fair value solely due to changes in interest rates, other-than temporary impairment may not be appropriate. Due to the subjective nature of the Corporation's analysis, along with the judgment that must be applied in the analysis, it is possible that the Corporation could reach a different conclusion whether or not to impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale security below cost is other-than-temporary, the carrying amount of equity securities is reduced to its fair value and of fixed maturity securities is reduced by the credit component of the other-than-temporary impairment. When a decline in the estimated fair value of any held-to-maturity security below cost is deemed other-than-temporary, the carrying amount of the security is reduced by the other-than-temporary impairment. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

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

Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than $50.

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

Table of Contents

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

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

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

The Corporation continually reviews its investment portfolios under the Corporation's impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

Municipal securities: The unrealized losses of these securities were principally caused by fluctuations in interest rates and general market conditions. The Corporation does not consider these investments other-than-temporarily impaired because the decline in estimated fair value is principally attributable to changes in interest rates, the Corporation does not intend to sell the investments and its 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.

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

Mutual Funds: The unrealized loss of the security included in the twelve months or longer category has improved since December 31, 2011. This position is not considered other-than-temporarily impaired because the Corporation does not have the intent to sell this position, and the Corporation has the ability and intent to hold the investment until a market price recovery.

Table of Contents

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

Maturities of investment securities classified as available for sale and held to maturity at September 30, 2012 were as follows:

	September 30, 2012	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$16,164	$16,264
Due after one year through five years	169,817	178,922
Due after five years through ten years	170,044	188,586
Due after ten years	423,698	487,586
Residential mortgage-backed securities	22,471	23,209
Collateralized mortgage obligations	207,643	212,159
	$1,009,837	$1,106,726
Securities held to maturity:		
Due in one year or less	$1,262	$1,262
Due after five years through ten years	1,793	1,926
Due after ten years	624	859
Residential mortgage-backed securities	449	492
	$4,128	$4,539

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

Information regarding realized and unrealized gains and losses from investments for the three months and nine months ended September 30, 2012 and 2011 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2012	2011	2012	2011
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	$99	$3,792	$1,731	$10,941
Gross losses from sales	-	(13)	(189)	(248)
Total debt securities	99	3,779	1,542	10,693
Equity securities:				
Trading securities:				
Gross gains from sales	-	7,329	-	11,195
Gross losses from sales	-	(4,298)	-	(4,726)
	-	3,031	-	6,469
Securities available for sale:				
Gross gains from sales	388	686	1,850	3,317
Gross losses from sales	(466)	(1,927)	(1,235)	(2,022)

	(78)	(1,241)	615	1,295
Total equity securities	(78)	1,790	615	7,764
Net realized gains on securities	$21	$5,569	$2,157	$18,457

Table of Contents

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

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Changes in net unrealized gains (losses):				
Recognized in income:				
Equity securities – trading	$-	$(6,007)	$-	$(7,267)
Recognized in accumulated other comprehensive income:				
Fixed maturities – available for sale	8,493	39,441	21,550	44,913
Equity securities – available for sale	8,964	(13,943)	18,491	(13,699)
	$17,457	$25,498	$40,041	$31,214
Not recognized in the consolidated financial statements:				
Fixed maturities – held to maturity	$(6)	$(50)	$(157)	$(172)

The deferred tax liability/asset related to unrealized gains and losses, respectively, recognized in accumulated other comprehensive income during the nine months ended September 30, 2012 and 2011 aggregated to $5,033 and $6,105, respectively.

As of September 30, 2012 and December 31, 2011, no individual investment in securities exceeded 10% of stockholders' equity.

Components of net investment income were as follows:

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Fixed maturities				