TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 08, 2018

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, 2018

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

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
Emerging growth company	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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.

Title of each class	Outstanding at March 31, 2018
Common Stock Class A, $1.00 par value	950,968
Common Stock Class B, $1.00 par value	22,331,922

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended March 31, 2018

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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, 2018	December 31, 2017
Assets		
Investments and cash:		
Fixed maturities available for sale, at fair value	$1,323,777	$ 1,216,788
Fixed maturities held to maturity, at amortized cost	2,483	2,319
Equity investments, at fair value	272,189	342,309
Other invested assets, at net asset value	44,149	34,984
Policy loans	9,262	9,077
Cash and cash equivalents	212,610	198,941
Total investments and cash	1,864,470	1,804,418
Premiums and other receivables, net	775,258	899,327
Deferred policy acquisition costs and value of business acquired	202,581	200,788
Property and equipment, net	76,825	74,716
Deferred tax asset	65,065	65,123
Goodwill	25,397	25,397
Other assets	91,395	46,996
Total assets	$3,100,991	$ 3,116,765
Liabilities and Stockholders' Equity		
Claim liabilities	$1,034,761	$ 1,106,876
Liability for future policy benefits	344,536	339,507
Unearned premiums	174,056	86,349
Policyholder deposits	176,704	176,534
Liability to Federal Employees' Health Benefits and Federal Employees' Programs	56,656	52,287
Accounts payable and accrued liabilities	334,945	354,894
Deferred tax liability	19,127	21,891
Long-term borrowings	31,275	32,073
Liability for pension benefits	33,382	33,672
Total liabilities	2,205,442	2,204,083
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, 2018 and December 31, 2017, respectively	951	951
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 22,331,922 and 22,627,077 shares at March 31, 2018 and December 31, 2017, respectively	22,332	22,627
Additional paid-in capital	39,153	53,142
Retained earnings	829,186	785,390
Accumulated other comprehensive income	4,609	51,254
Total Triple-S Management Corporation stockholders' equity	896,231	913,364

Non-controlling interest in consolidated subsidiary	(682)	(682)
Total stockholders' equity	895,549	912,682
Total liabilities and stockholders' equity	$ 3,100,991	$ 3,116,765

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, 2018	2017
Revenues:		
Premiums earned, net	$752,034	$702,273
Administrative service fees	3,348	4,379
Net investment income	13,755	12,016
Other operating revenues	1,071	965
Total operating revenues	770,208	719,633
Net realized investment gains	2,942	336
Net unrealized investment losses on equity investments	(16,199)	-
Other income, net	1,163	2,525
Total revenues	758,114	722,494
Benefits and expenses:		
Claims incurred	618,989	620,863
Operating expenses	133,134	110,946
Total operating costs	752,123	731,809
Interest expense	1,690	1,686
Total benefits and expenses	753,813	733,495
Income (loss) before taxes	4,301	(11,001)
Income taxes	387	(6,658)
Net income (loss)	3,914	(4,343)
Less: Net loss attributable to non-controlling interest	-	1
Net income (loss) attributable to Triple-S Management Corporation	$3,914	$(4,342)
Earnings per share attributable to Triple-S Management Corporation		
Basic net income (loss) per share	$0.17	$(0.18)
Diluted net income (loss) per share	$0.17	$(0.18)

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,	
	2018	2017
Net income (loss)	$ 3,914	$ (4,343)
Other comprehensive (loss) income, net of tax:		
Net unrealized change in fair value of available for sale securities, net of taxes	(6,894)	8,472
Defined benefit pension plan:		
Actuarial loss, net	131	53
Total other comprehensive (loss) income, net of tax	(6,763)	8,525
Comprehensive (loss) income	(2,849)	4,182
Comprehensive income attributable to non-controlling interest	-	1
Comprehensive (loss) income attributable to Triple-S Management Corporation	$ (2,849)	$ 4,183

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)

	2018	2017
Balance at January 1	$913,364	$863,163
Share-based compensation	391	(1,443)
Repurchase and retirement of common stock	(14,675)	-
Comprehensive (loss) income	(2,849)	4,183
Total Triple-S Management Corporation stockholders' equity	896,231	865,903
Non-controlling interest in consolidated subsidiary	(682)	(678)
Balance at March 31	$895,549	$865,225

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, 2018	2017
Cash flows from operating activities:		
Net income (loss)	$3,914	$(4,343)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	3,410	2,990
Net amortization of investments	1,939	2,356
Additions (reductions) to the allowance for doubtful receivables	709	(3,209)
Deferred tax benefit	(1,503)	(7,525)
Net realized investment gain on sale of securities	(2,942)	(336)
Net unrealized loss on equity investments	16,199	-
Interest credited to policyholder deposits	1,094	991
Share-based compensation	391	(1,443)
Decrease (increase) in assets:		
Premium and other receivables, net	123,360	(3,263)
Deferred policy acquisition costs and value of business acquired	(161)	(822)
Deferred taxes	431	(265)
Other assets	(40,489)	(37)
(Decrease) increase in liabilities:		
Claim liabilities	(72,115)	42,361
Liability for future policy benefits	5,029	4,930
Unearned premiums	87,707	84,470
Liability to Federal Employees' Health Benefits and Federal Employees' Programs	4,369	2,836
Accounts payable and accrued liabilities	(869)	11,274
Net cash provided by operating activities	130,473	130,965

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

	Three months ended March 31,	
	2018	2017
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$443,419	$26,023
Fixed maturities matured/called	5,368	5,001
Securities held to maturity:		
Fixed maturities matured/called	1,048	703
Equity investments sold	113,863	10,272
Other invested assets sold	845	-
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(575,694)	(33,738)
Securities held to maturity:		
Fixed maturities	(1,212)	(382)
Equity investments	(49,591)	(5,482)
Other invested assets	(9,683)	-
Increase in other investments	(4,136)	(2,044)
Net change in policy loans	(185)	18
Net capital expenditures	(4,861)	(3,295)
Net cash used in investing activities	(80,819)	(2,924)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(19,992)	(11,401)
Repayments of long-term borrowings	(810)	(24,676)
Proceeds from long-term borrowings	-	24,266
Repurchase and retirement of common stock	(14,259)	-
Proceeds from policyholder deposits	6,237	4,116
Surrenders of policyholder deposits	(7,161)	(4,890)
Net cash used in financing activities	(35,985)	(12,585)
Net increase in cash and cash equivalents	13,669	115,456
Cash and cash equivalents:		
Beginning of period	198,941	103,428
End of period	$212,610	$218,884

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 United States of America (GAAP or U.S. GAAP) for complete financial statement presentation. 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, 2017.

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, 2018 are not necessarily indicative of the results for the full year ending December 31, 2018.

(2) Significant Accounting Policies

Investments

Fixed maturities and other invested assets

Investment in debt securities at March 31, 2018 and December 31, 2017 consists mainly of obligations of government sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of the Commonwealth of Puerto Rico and its instrumentalities, municipal securities, corporate bonds, residential mortgage-backed securities, collateralized mortgage obligations. The Company classifies its debt securities in one of two categories: available-for-sale or held-to-maturity. Securities classified as held-to-maturity are those securities in which the Company has the ability and intent to hold until maturity. All other securities not included in held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. The fair values of debt securities (both available-for-sale and held-to-maturity investments) are based on quoted market prices for those or similar investments at the reporting date. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums and discounts, respectively. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are included in earnings and are determined on a specific identification basis.

Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held-to-maturity to available-for-sale are recorded as a separate component of other comprehensive income. The unrealized holding gains or losses included in the separate component of other comprehensive income for securities transferred from available-for-sale to held-to-maturity, are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

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If a fixed maturity security is in an unrealized loss position and the Company has the intent to sell the fixed maturity security, or it is more likely than not that the Company will have to sell the fixed maturity security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in earnings in the Company's consolidated statements of earnings. For impaired fixed maturity securities that the Company does not intend to sell or it is more likely than not that such securities will not have to be sold, but the Company expects not to fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in earnings in the Company's consolidated statements of earnings and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of acquisition.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, market conditions, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

The Company regularly invests in mortgaged-backed securities and other securities subject to prepayment and call risk. Significant changes in prevailing interest rates may adversely affect the timing and amount of cash flows on such securities. In addition, the amortization of market premium and accretion of market discount for mortgaged-backed securities is based on historical experience and estimates of future payment speeds on the underlying mortgage loans. Actual prepayment speeds may differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

Other invested assets at March 31, 2018 and December 31, 2017 consist mainly of alternative investments in partnerships which invest in several private debt and private equity funds. Portfolios are diversified by vintage year, stage, geography, business sectors and number of investments. These investments are not redeemable with the funds. Distributions from each fund are received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated in the next 5 to 12 years. The fair values of the investments in this class have been estimated using the net asset value (NAV) of the Company's ownership interest in the partnerships. Total unfunded capital commitments for these positions as of March 31, 2018 amounted to $107,035. The remaining average commitments period is approximately three years.

Equity investments

Investment in equity securities at March 31, 2018 and December 31, 2017 consists of mutual funds whose underlying assets are comprised of domestic equity securities, international equity securities and higher risk fixed income instruments. Equity investments are recorded at fair value. The fair values of equity investments are based on quoted market prices. Unrealized holding gains and losses, on equity investments are included in earnings. Realized gains and losses from the sale of equity investments are included in earnings and are determined on a specific identification basis.

Recent Accounting Standards

On February 28, 2018, the Financial Accounting Standard Board (FASB) issued guidance for Technical Corrections and Improvement to Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Areas for correction or improvement include (1) equity securities without a readily determinable fair value—discontinuation, (2) equity securities without a readily determinable fair value—adjustments, (3) forward contracts and purchased options, (4) presentation requirements for certain fair value option liabilities, (5) fair value option liabilities denominated in a foreign currency, and (6) transition guidance for equity securities without a readily determinable fair value. For public companies, these amendments, will be applied on a prospective basis, for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Public entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt these amendments until the interim period beginning after June 15, 2018. The adoption of this guidance should not have a material impact on the presentation of the Company's consolidated result of operations.

Recently Adopted 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 income; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and (4) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity's other deferred tax assets. This guidance applies to all entities that hold financial assets or owe financial liabilities. The Company also adopted guidance issued by FASB on March 9, 2018 that removes the previous guidance for Other Than Temporary Impairment of Certain Investments in Equity Securities as required by SEC Staff Accounting Bulletin (SAB) No. 117 and SEC Release No. 33-9273, since it is no longer applicable. For public companies, these amendments became effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance for equity securities effective January 1, 2018. A cumulative-effect adjustment of $39,882 was made from accumulated other comprehensive income to the beginning retained earnings at the implementation date.

Other than the accounting pronouncements disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2018 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

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Triple-S Management Corporation
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(dollar amounts in thousands, except per share data)
(unaudited)

(3) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for the Company's investments in securities by major security type and class of security at March 31, 2018 and December 31, 2017, were as follows:

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturities available for sale				
Obligations of government- sponsored enterprises	$1,441	$ 6	$ -	$ 1,447
U.S. Treasury securities and obligations of U.S. government instrumentalities	268,264	570	(335)	268,499
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	8,117	9	-	8,126
Municipal securities	758,689	24,033	(1,587)	781,135
Corporate bonds	187,392	14,349	(1,168)	200,573
Residential mortgage-backed securities	52,624	149	(764)	52,009
Collateralized mortgage obligations	12,335	6	(353)	11,988
Total fixed maturities available for sale	$1,288,862	$ 39,122	$ (4,207)	$ 1,323,777

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Fixed maturities held to maturity				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$617	$ 131	$ -	$ 748
Residential mortgage-backed securities	191	2	-	193
Certificates of deposit	1,675	-	-	1,675
Total	$2,483	$ 133	$ -	$ 2,616

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Equity investments - Mutual Funds	$238,539	$ 35,111	$ (1,461)	$272,189

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(dollar amounts in thousands, except per share data)
(unaudited)

	March 31, 2018			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Other invested assets - Alternative investments	$43,859	$ 927	$ (637)	$ 44,149

	December 31, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government- sponsored enterprises	$1,431	$ 13	$ -	$1,444
U.S. Treasury securities and obligations of U.S. government instrumentalities	118,858	41	(550)	118,349
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	8,059	34	-	8,093
Municipal securities	771,789	30,468	(1,467)	800,790
Corporate bonds	217,046	17,767	(489)	234,324
Residential mortgage-backed securities	32,465	2	(355)	32,112
Collateralized mortgage obligations	22,003	10	(337)	21,676
Total fixed maturities	1,171,651	48,335	(3,198)	1,216,788
Equity securities				
Mutual Funds	292,460	50,072	(223)	342,309
Alternative investments	34,669	559	(244)	34,984
Total equity securities	327,129	50,631	(467)	377,293
Total	$1,498,780	$ 98,966	$ (3,665)	$1,594,081

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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, 2017			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$617	$ 154	$ -	$ 771
Residential mortgage-backed securities	191	2	-	193
Certificates of deposit	1,511	-	-	1,511
Total	$2,319	$ 156	$ -	$ 2,475

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, 2018 and December 31, 2017 were as follows:

	March 31, 2018								
	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
Fixed maturities available for sale									
U.S. Treasury securities and obligations of U.S. governmental instrumentalities	$70,224	$(335)	6	$-	$ -	-	$70,224	$(335)	6
Municipal securities	173,011	(1,581)	26	712	(6)	1	173,723	(1,587)	27
Corporate bonds	94,616	(1,168)	21	-	-	-	94,616	(1,168)	21
Residential mortgage-backed securities	30,529	(764)	19	-	-	-	30,529	(764)	19
Collateralized mortgage obligations	3,464	(94)	1	7,898	(259)	2	11,362	(353)	3
Total fixed maturities	$371,844	$(3,942)	73	$8,610	$ (265)	3	$380,454	$(4,207)	76
Other invested assets - Alternative investments	$16,031	$(185)	5	$5,694	$ (452)	2	$21,725	$(637)	7

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(dollar amounts in thousands, except per share data)

	December 31, 2017								
	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									
U.S. Treasury securities and obligations of U.S. governmental instrumentalities	$96,617	$(550)	7	$-	$ -	-	$96,617	$(550)	7
Municipal securities	162,731	(1,467)	27	-	-	-	162,731	(1,467)	27
Corporate bonds	80,374	(489)	16	-	-	-	80,374	(489)	16
Residential mortgage-backed securities	31,736	(355)	19	-	-	-	31,736	(355)	19
Collateralized mortgage obligations	13,630	(239)	3	7,294	(98)	2	20,924	(337)	5
Total fixed maturities	385,088	(3,100)	72	7,294	(98)	2	392,382	(3,198)	74
Equity securities									
Mutual funds	42,983	(223)	6	-	-	-	42,983	(223)	6
Alternative investments	9,986	(212)	5	3,162	(32)	1	13,148	(244)	6
Total equity securities	52,969	(435)	11	3,162	(32)	1	56,131	(467)	12
Total for securities available for sale	$438,057	$(3,535)	83	$10,456	$(130)	3	$448,513	$(3,665)	86

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

Obligations of U.S. Government Instrumentalities and Municipal Securities: The unrealized losses on the Company's investments in U.S. Government Instrumentalities and Municipal Securities were mainly caused by fluctuations in interest rates and general market conditions. The contractual terms of these investments do not permit the issuer to settle the securities at a price less than the par value of the investment. In addition, these investments have investment grade ratings. Because the decline in fair value is attributable to changes in interest rates and not credit quality; because the 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.

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.

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 Company owns. The Company 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 Company does not intend to sell the investments and it is more likely than not that the Company will not 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.

(dollar amounts in thousands, except per share data)

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

	March 31, 2018	
	Amortized cost	Estimated fair value
Fixed maturities available for sale		
Due in one year or less	29,553	29,684
Due after one year through five years	382,708	383,269
Due after five years through ten years	350,676	353,952
Due after ten years	460,966	492,875
Residential mortgage-backed securities	52,624	52,009
Collateralized mortgage obligations	12,335	11,988
	$1,288,862	$1,323,777
Fixed maturities held to maturity		
Due in one year or less	1,675	1,675
Due after ten years	617	748
Residential mortgage-backed securities	191	193
	$2,483	$2,616

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, 2018	2017
Realized gains (losses)		
Fixed maturity securities:		
Securities available for sale:		
Gross gains	$ 172	$ 17
Gross losses	(7,930)	(119)
Total debt securities	(7,758)	(102)
Equity investments:		
Gross gains	8,203	438
Gross losses	(499)	-
Total equity securities	7,704	438
Other invested assets:		
Gross gains	3,207	-
Gross losses	(211)	-
Total other invested assets	2,996	-
Net realized investment gains	$ 2,942	$ 336

	Three months ended March 31, 2018	2017
Changes in net unrealized gains (losses):		
Recognized in accumulated other comprehensive income:		
Fixed maturities – available for sale	$ (10,222)	$ (439)
Other invested assets	(25)	11,143
	$ (10,247)	$ 10,704
Not recognized in the consolidated financial statements:		
Fixed maturities – held to maturity	$ (23)	$ 2

The change in deferred tax liability on unrealized gains recognized in accumulated other comprehensive income during the three months ended March 31, 2018 and 2017 was $3,679 and $2,136, respectively.

As of March 31, 2018 and December 31, 2017, no individual investment in securities exceeded 10% of stockholders' equity.

(dollar amounts in thousands, except per share data)

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net were as follows:

	March 31, 2018	December 31, 2017
Premium	$ 84,731	$ 103,027
Self-funded group receivables	40,236	39,859
FEHBP	14,084	13,346
Agent balances	29,346	32,818
Accrued interest	12,417	14,331
Reinsurance recoverable	552,615	661,679
Other	78,053	70,150
	811,482	935,210
Less allowance for doubtful receivables:		
Premium	27,002	26,490
Other	9,222	9,393
	36,224	35,883
Total premium and other receivables, net	$ 775,258	$ 899,327

As of March 31, 2018 and December 31, 2017, the Company had premiums and other receivables of $51,976 and $81,838, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of March 31, 2018 and December 31, 2017 were $17,009 and $16,436, respectively.

(dollar amounts in thousands, except per share data)

(5) Fair Value Measurements

Our condensed consolidated balance sheets include the following financial instruments: securities available for sale, equity investments, policy loans, policyholder deposits, and long-term borrowings. We consider the carrying amounts of policy loans, policyholder deposits, and long-term borrowings to approximate their fair value due to the short period of time between the origination of these instruments and the expected realization or payment. Certain assets are measured at fair value on a recurring basis and are disclosed below. These assets are classified into one of three levels of a hierarchy defined by GAAP. For a description of the methods and assumptions that are used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument, see the consolidated financial statements and notes thereto included in our 2017 Annual Report on Form 10-K.

The following tables summarize fair value measurements by level for assets measured at fair value on a recurring basis:

	March 31, 2018			
	Level 1	Level 2	Level 3	Total
Fixed maturity securities available for sale				
Obligations of government-sponsored enterprises	$-	$1,447	$ -	$1,447
U.S. Treasury securities and obligations of U.S government instrumentalities	268,499	-	-	268,499
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	8,126	-	8,126
Municipal securities	-	781,135	-	781,135
Corporate bonds	-	200,573	-	200,573
Residential agency mortgage-backed securities	-	52,009	-	52,009
Collateralized mortgage obligations	-	11,988	-	11,988
Total fixed maturities	$268,499	$1,055,278	$ -	$1,323,777
Equity investments	$138,685	$133,504	$ -	$272,189
Alternative investments - measured at net asset value	$-	$-	$ -	$44,149

	December 31, 2017			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$1,444	$ -	$1,444
U.S. Treasury securities and obligations of U.S government instrumentalities	118,349	-	-	118,349
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	8,093	-	8,093

Municipal securities	-	800,790	-	800,790
Corporate bonds	-	234,324	-	234,324
Residential agency mortgage-backed securities	-	32,112	-	32,112
Collateralized mortgage obligations	-	21,676	-	21,676
Total fixed maturities	118,349	1,098,439	-	1,216,788
Equity securities - Mutual funds	193,160	149,149	-	342,309
Alternative investments - measured at net asset value	-	-	-	34,984
Total equity securities	193,160	149,149	-	377,293
Total	$311,509	$1,247,588	$ -	$1,594,081

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(dollar amounts in thousands, except per share data)

There were no transfers between Levels 1 and 2 during the three months ended March 31, 2018 and 2017.

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, 2018 and December 31, 2017 are as follows:

	March 31, 2018				
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$9,262	$-	$9,262	$ -	$9,262
Liabilities:					
Policyholder deposits	$176,704	$-	$176,704	$ -	$176,704
Long-term borrowings:					
Loans payable to bank - variable	31,541	-	31,541	-	31,541
Total liabilities	$208,245	$-	$208,245	$ -	$208,245

	December 31, 2017				
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$9,077	$-	$9,077	$ -	$9,077
Liabilities:					
Policyholder deposits	$176,534	$-	$176,534	$ -	$176,534
Long-term borrowings:					
Loans payable to bank - variable	32,350	-	32,350	-	32,350
Total liabilities	$208,884	$-	$208,884	$ -	$208,884

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(6) Claim Liabilities

A reconciliation of the beginning and ending balances of claim liabilities is as follows:

	Three months ended March 31, 2018		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of period	$ 367,357	$ 739,519	$ 1,106,876
Reinsurance recoverable on claim liabilities	-	(633,099)	(633,099)
Net claim liabilities at beginning of period	367,357	106,420	473,777
Claims incurred			
Current period insured events	603,947	30,907	634,854
Prior period insured events	(20,226)	(1,818)	(22,044)
Total	583,721	29,089	612,810
Payments of losses and loss-adjustment expenses			
Current period insured events	322,388	7,021	329,409
Prior period insured events	226,246	22,746	248,992
Total	548,634	29,767	578,401
Net claim liabilities at end of period	402,444	105,742	508,186
Reinsurance recoverable on claim liabilities	-	526,575	526,575
Claim liabilities at end of period	$ 402,444	$ 632,317	$ 1,034,761

* Other Business Segments include the Life Insurance and Property and Casualty segments, as well as intersegment eliminations.

(dollar amounts in thousands, except per share data)

	Three months ended March 31, 2017		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of period	$ 349,047	$ 138,896	$ 487,943
Reinsurance recoverable on claim liabilities	-	(38,998)	(38,998)
Net claim liabilities at beginning of period	349,047	99,898	448,945
Claims incurred			
Current period insured events	602,620	28,226	630,846
Prior period insured events	(15,340)	(1,333)	(16,673)
Total	587,280	26,893	614,173
Payments of losses and loss-adjustment expenses			
Current period insured events	350,450	7,965	358,415
Prior period insured events	192,352	17,945	210,297
Total	542,802	25,910	568,712
Net claim liabilities at end of period	393,525	100,881	494,406
Reinsurance recoverable on claim liabilities	-	35,898	35,898
Claim liabilities at end of period	$ 393,525	$ 136,779	$ 530,304

* Other Business Segments include the Life Insurance and Property and Casualty segments, as well as intersegment eliminations.

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, 2018 and 2017 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 $6,179 and $6,690 during the three months ended March 31, 2018 and 2017, respectively.

(dollar amounts in thousands, except per share data)

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The following is information about total incurred but not reported (IBNR) liabilities plus expected development on reported claims included in the liability for unpaid claims adjustment expenses for the Managed Care segment as of March 31, 2018.

Incurred Year	Total of IBNR Liabilities Plus Expected Development on Reported Claims
2017	44,970
2018	281,559

(7) Pension Plan

The components of net periodic benefit cost were as follows:

	Three months ended March 31, 2018	2017
Components of net periodic benefit cost:		
Interest cost	$ 1,693	$ 1,798
Expected return on assets	(2,281)	(2,199)
Amortization of actuarial loss	215	86
Settlement loss	325	-
Net periodic benefit cost	$ (48)	$ (315)

Employer Contributions: The Company disclosed in its audited consolidated financial statements for the year ended December 31, 2017 that it expected to contribute $2,000 to the pension program in 2018. As of March 31, 2018, the Company has not made contributions to the pension program.

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(8) Comprehensive Income

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

	Three months ended March 31, 2018	2017
Net Unrealized Gain on Securities Beginning Balance	$ 76,238	$ 62,371
Unrealized loss reclassified to beginning retained earnings as a result of implementation new accounting pronouncement	(39,882)	-
Other comprehensive income before reclassifications	(4,540)	8,741
Amounts reclassified from accumulated other comprehensive income	(2,354)	(269)
Net current period change	(6,894)	8,472
Ending Balance	29,462	70,843
Liability for Pension Benefits Beginning Balance	(24,984)	(19,976)
Amounts reclassified from accumulated other comprehensive income	131	53
Ending Balance	(24,853)	(19,923)
Accumulated Other Comprehensive Income Beginning Balance	51,254	42,395
Unrealized loss reclassified to beginning retained earnings as a result of implementation new accounting pronouncement	(39,882)	$ -
Other comprehensive income before reclassifications	(4,540)	8,741
Amounts reclassified from accumulated other comprehensive income	(2,223)	(216)
Net current period change	(6,763)	8,525
Ending Balance	$ 4,609	$ 50,920

(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 August 2017 the Company's Board of Directors authorized a $30,000 repurchase program of its Class B common stock, and in February 2018 the Company's Board of Directors authorized a $25,000 expansion of this program. During the three months ended March 31, 2018, the Company repurchased and retired under this program 563,559 shares at an average per share price of $25.10, for an aggregate cost of $14,259.

(dollar amounts in thousands, except per share data)

(10) Share-Based Compensation

Share-based compensation expense (benefit) recorded during the three months ended March 31, 2018 and 2017 was $391 and ($1,443), respectively. The benefit recorded in the 2017 period results from a decrease in the 2014 and 2015 grants expected performance shares payouts. During the three months ended March 31, 2018, 16,271 shares repurchased and retired as a result of non-cash tax withholdings upon vesting of shares. There were no non-cash tax withholdings during the three months ended March 31, 2017.

(11) Net Income (Loss) Available to Stockholders and Net Income (Loss) per Share

The following table sets forth the computation of basic and diluted earnings per share:

	Three months ended March 31, 2018	Three months ended March 31, 2017
Numerator for earnings per share:		
Net income (loss) attributable to TSM available to stockholders	$ 3,914	$ (4,342)
Denominator for basic earnings per share:		
Weighted average of common shares	23,277,633	24,143,261
Effect of dilutive securities	117,364	-
Denominator for diluted earnings per share	23,394,997	24,143,261
Basic net income (loss) per share attributable to TSM	$ 0.17	$ (0.18)
Diluted net income (loss) per share attributable to TSM	$ 0.17	$ (0.18)

The Company generated a loss from continuing operations attributable to the Company’s common stockholders for the three months ended March 31, 2017, so the effect of dilutive securities is not considered because their effect would be antidilutive. If the Company had generated income from continuing operations during the three months ended March 31, 2017, the effect of restricted stock awards on the diluted shares calculation would have been an increase in shares of 59,284 shares.

(12) Contingencies

The following information supplements and amends, as applicable, the disclosures in Note 23 to the Consolidated Financial Statements of the Company’s 2017 Annual Report on Form 10-K. Our business is subject to numerous laws and regulations promulgated by Federal, Puerto Rico, U.S. Virgin Islands (USVI), Costa Rica, British Virgin Islands (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.

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

On August 28, 2017, local Court of First Instance entered summary judgement in Heirs of Dr. Juan Acevedo, et al., v. Triple-S Management Corporation, et al. ordering the Company to issue 63,000 stock shares in favor of Plaintiffs, plus costs and legal fees. The Company appealed said judgement and on March 15, 2018, Puerto Rico Court of Appeals revoked said judgement and ruled in favor of the Company dismissing the complaint with prejudice. The Court 's opinion held that issuance of Dr. Blanco's shares of stock occurred under the Puerto Rico Corporations Statute of 1956, therefore the Corporations Statute of 1995 was inapplicable to the controversy; applicable law was Puerto Rico Insurance Code and Puerto Rico Corporations Statute of 1956; the amendment approved by the stockholders on April 29, 1990 was a relaxation of the restrictions to transfer the shares of stock by inheritance, not a restriction by itself; Dr. Blanco had actual notice of the original restrictions and as such it was not necessary for the restrictions to appear clear and conspicuously on the certificates of the shares of stock he owned; Dr. Blanco's actual notice of the restrictions was attributable to Plaintiffs as heirs; and Dr. Blanco's shares were correctly redeemed by the Company.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the Blue Cross Blue Shield Association (BCBSA) in a multi-district class action litigation filed by a group of providers and subscribers on July 24, 2012 and October 1, 2012, respectively, that has since been consolidated by the United States District Court for the Northern District of Alabama, Southern Division, in the case captioned In re Blue Cross Blue Shield Association Antitrust Litigation. Essentially, provider plaintiffs allege that the exclusive service area requirements of the Primary License Agreements with the Blue Plans constitute an illegal horizontal market allocation under federal antitrust laws. As per provider plaintiffs, the quid pro quo for said "market allocation" is a horizontal price fixing and boycott conspiracy" implemented through the Inter-Plans Program Committee ("IPPC") and whose benefits are allegedly derived through the BCBSA's Blue Card/National Accounts Program. Among the remedies sought, provider plaintiffs seek increased compensation rates and operational changes. In turn, subscriber plaintiffs allege that the alleged conspiracy to allocate markets have prevented subscribers from being offered competitive prices and resulted in higher premiums for Blue Plan subscribers. Subscribers seek damages in the form of supra-competitive premiums allegedly charged by the Blue Plans and/or the difference between what subscribers have paid the Blues and the lower competitive premiums that non-competing Blues would have charged. Both actions seek injunctive relief.

Prior to consolidation, motions to dismiss were filed by several plans, including TSS - whose request was ultimately denied by the court without prejudice. On April 6, 2015, plaintiffs filed suit in the United States District Court of Puerto Rico against TSS. Said complaint, nonetheless, is believed not to preclude TSS' jurisdictional arguments. Since inception, the Company has joined BCBSA and other Blue Plans in vigorously contesting these claims. On April 5, 2018, the United States District Court for the Northern District of Alabama, Southern Division, issued it's ruling on the parties' respective motions for partial summary judgment on the standard of review applicable to plaintiffs' claims under Section 1 of the Sherman Act and subscriber plaintiffs' motion for partial summary judgment on the Blue Plan's single entity defense. After considering the "undisputed" facts (for summary judgment purposes only) and evidence currently on record in the light most favorable to defendants, the court essentially found that: (a) the Exclusive Service Areas constitute horizontal market allocations that are subject to the Per Se standard of review; (b) the National Best Efforts Rule constitutes an "output restriction" subject to the Per Se standard of review; (c) there remain genuine issues of material fact as to whether defendants' conduct can be shielded by the "single entity" defense; and (d) claims concerning the BlueCard Program and uncoupling rules are due to be analyzed under the Rule of Reason standard.

Presently, the court's ruling is being reviewed and evaluated for purposes of determining the course to follow. Meanwhile, the settlement negotiations between the parties through mediation have been suspended for the time being.

Claims Relating to the Provision of Health Care Services

TSS was a defendant in several claims for collection of monies in connection with the provision of health care services. Among them are individual complaints filed before ASES by six community health centers alleging TSS breached their contracts with respect to certain capitation payments and other monetary claims. The Company has reached a settlement agreement with all six community health centers totaling $1,200, which has been accrued as of March 31, 2018.

ASES Audits

The Company is subject to audits in connection with the provision of services to private and governmental entities. These audits may include numerous aspects of our business, including claim payment practices, contractual obligations, service delivery, third-party obligations, and business practices, among others. Deficiencies in audits could have a material adverse effect on our reputation and business, including termination of contracts, significant increases in the cost of managing and remediating deficiencies, payment of contractual penal clauses, and others, any of which could have a material and adverse effect on our results of operat