

TRIPLE-S MANAGEMENT CORP  
Form 10-Q  
November 12, 2013

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

FORM 10-Q  
(Mark One)

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

For the quarterly period ended September 30, 2013

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 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.

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

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

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

| <u>Title of each class</u>             | <u>Outstanding at September 30, 2013</u> |
|--|--|
| Common Stock Class A, \$1.00 par value | 2,377,689                                |
| Common Stock Class B, \$1.00 par value | 25,090,375                               |

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TRIPLE-S MANAGEMENT CORPORATION

FORM 10-Q

For the Quarter Ended September 30, 2013

Table of Contents

|  |    |
|--|----|
| Part I – <u>Financial Information</u>  | 3  |
| Item 1. <u>Financial Statements</u>  | 3  |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 35 |
| <u>Cautionary Statement Regarding Forward-Looking Information</u>                                    | 35 |
| <u>Overview</u>  | 35 |
| <u>Recent Developments</u>   | 37 |
| <u>Recent Accounting Standards</u>   | 38 |
| <u>Managed Care Membership</u>   | 39 |
| <u>Consolidated Operating Results</u>  | 40 |
| <u>Managed Care Operating Results</u>  | 43 |
| <u>Life Insurance Operating Results</u>  | 46 |
| <u>Property and Casualty Insurance Operating Results</u>   | 47 |
| <u>Liquidity and Capital Resources</u>   | 49 |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 51 |
| Item 4. <u>Controls and Procedures</u>   | 51 |
| Part II – <u>Other Information</u>   | 51 |
| Item 1. <u>Legal Proceedings</u>   | 51 |
| Item 1A. <u>Risk Factors</u>   | 52 |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 52 |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 52 |
| Item 4. <u>Mine Safety Disclosures</u>   | 52 |
| Item 5. <u>Other Information</u>   | 52 |

Item 6. Exhibits

52

SIGNATURES

53

2

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Table of Contents

## Part I – Financial Information

## Item 1. Financial Statements

## Triple-S Management Corporation

## Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

|   | September<br>30,<br>2013 | December<br>31,<br>2012 |
|---|--------------------------|-------------------------|
| Assets  |                          |                         |
| Investments and cash:   |                          |                         |
| Securities available for sale, at fair value:   |                          |                         |
| Fixed maturities  | \$1,034,054              | \$1,059,761             |
| Equity securities   | 265,694                  | 209,722                 |
| Securities held to maturity, at amortized cost:   |                          |                         |
| Fixed maturities  | 4,880                    | 5,000                   |
| Policy loans  | 6,370                    | 6,161                   |
| Cash and cash equivalents   | 81,764                   | 89,564                  |
| Total investments and cash  | 1,392,762                | 1,370,208               |
| Premiums and other receivables, net   | 285,052                  | 292,197                 |
| Deferred policy acquisition costs and value of business acquired  | 171,760                  | 168,657                 |
| Property and equipment, net   | 90,087                   | 92,423                  |
| Deferred tax asset  | 38,327                   | 33,548                  |
| Goodwill  | 27,766                   | 27,766                  |
| Other assets  | 69,768                   | 74,545                  |
| Total assets  | \$2,075,522              | \$2,059,344             |
| Liabilities and Stockholders' Equity  |                          |                         |
| Claim liabilities   | \$416,849                | \$416,918               |
| Liability for future policy benefits  | 293,310                  | 276,570                 |
| Unearned premiums   | 90,256                   | 95,860                  |
| Policyholder deposits   | 114,737                  | 111,692                 |
| Liability to Federal Employees' Health Benefits Program (FEHBP)   | 10,337                   | 21,353                  |
| Accounts payable and accrued liabilities  | 179,687                  | 128,580                 |
| Deferred tax liability  | 23,172                   | 32,934                  |
| Short-term borrowings   | 13,410                   | 30,000                  |
| Long-term borrowings  | 89,796                   | 101,271                 |
| Liability for pension benefits  | 78,701                   | 82,019                  |
| Total liabilities   | 1,310,255                | 1,297,197               |
| Stockholders' equity:   |                          |                         |
| Triple-S Management Corporation stockholders' equity  |                          |                         |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 and 9,042,809 at September 30, 2013 and December 31, 2012, respectively          | 2,378                    | 9,043                   |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 25,090,375 and 19,321,944 shares at September 30, 2013 and December 31, 2012, respectively | 25,090                   | 19,322                  |
| Additional paid-in capital  | 129,669                  | 144,677                 |
| Retained earnings   | 595,782                  | 539,761                 |

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|  |             |             |
|--|-------------|-------------|
| Accumulated other comprehensive income                     | 12,264      | 49,104      |
| Total Triple-S Management Corporation stockholders' equity | 765,183     | 761,907     |
| Non-controlling interest in consolidated subsidiary        | 84          | 240         |
| Total stockholders' equity                                 | 765,267     | 762,147     |
| Total liabilities and stockholders' equity                 | \$2,075,522 | \$2,059,344 |

See accompanying notes to unaudited consolidated financial statements.

3

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Table of Contents

Triple-S Management Corporation

Consolidated Statements of Earnings (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | Three months ended<br>September 30, |           | Nine months ended<br>September 30, |             |
|--|-------------------------------------|-----------|------------------------------------|-------------|
|  | 2013                                | 2012      | 2013                               | 2012        |
| Revenues:  |                                     |           |                                    |             |
| Premiums earned, net   | \$547,874                           | \$565,607 | \$1,653,870                        | \$1,695,157 |
| Administrative service fees  | 22,450                              | 27,181    | 78,103                             | 82,473      |
| Net investment income  | 11,363                              | 11,595    | 34,749                             | 34,349      |
| Other operating revenues   | 1,239                               | 1,206     | 3,638                              | 3,358       |
| Total operating revenues   | 582,926                             | 605,589   | 1,770,360                          | 1,815,337   |
| Net realized investment gains (losses)                             | (144 )                              | 21        | 3,405                              | 2,157       |
| Other income, net  | 13,931                              | 598       | 14,778                             | 1,514       |
| Total revenues   | 596,713                             | 606,208   | 1,788,543                          | 1,819,008   |
| Benefits and expenses:   |                                     |           |                                    |             |
| Claims incurred  | 456,432                             | 485,495   | 1,369,250                          | 1,457,388   |
| Operating expenses   | 116,156                             | 104,604   | 351,246                            | 309,378     |
| Total operating costs  | 572,588                             | 590,099   | 1,720,496                          | 1,766,766   |
| Interest expense   | 2,379                               | 2,956     | 7,189                              | 8,181       |
| Total benefits and expenses  | 574,967                             | 593,055   | 1,727,685                          | 1,774,947   |
| Income before taxes  | 21,746                              | 13,153    | 60,858                             | 44,061      |
| Income tax expense (benefit):                                      |                                     |           |                                    |             |
| Current  | 5,636                               | 1,344     | 14,867                             | 8,116       |
| Deferred   | (2,494 )                            | 126       | (9,874 )                           | (254 )      |
| Total income taxes   | 3,142                               | 1,470     | 4,993                              | 7,862       |
| Net income   | 18,604                              | 11,683    | 55,865                             | 36,199      |
| Less: Net loss attributable to non-controlling interest            | 37                                  | 32        | 156                                | 65          |
| Net income attributable to Triple-S Management Corporation         | \$18,641                            | \$11,715  | \$56,021                           | \$36,264    |
| Earnings per share attributable to Triple-S Management Corporation |                                     |           |                                    |             |
| Basic net income per share   | \$0.68                              | \$0.41    | \$2.01                             | \$1.28      |
| Diluted net income per share                                       | \$0.68                              | \$0.41    | \$2.01                             | \$1.27      |

See accompanying notes to unaudited consolidated financial statements.

4

Table of Contents

Triple-S Management Corporation

Consolidated Statements of Comprehensive Income (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | Three months<br>ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--|--|----------|------------------------------------|----------|
|  | 2013                                   | 2012     | 2013                               | 2012     |
| Net income   | \$18,604                               | \$11,683 | \$55,865                           | \$36,199 |
| Other comprehensive income (loss), net of tax:                                     |  |          |                                    |          |
| Net unrealized change in fair value of available for sale securities, net of taxes | (5,386 )                               | 14,838   | (39,908)                           | 35,008   |
| Defined benefit pension plan:  |  |          |                                    |          |
| Actuarial loss, net  | 1,097                                  | 1,117    | 3,273                              | 3,247    |
| Prior service credit, net  | (68 )                                  | (82 )    | (205 )                             | (238 )   |
| Total other comprehensive income (loss), net of tax                                | (4,357 )                               | 15,873   | (36,840)                           | 38,017   |
| Comprehensive income   | 14,247                                 | 27,556   | 19,025                             | 74,216   |
| Comprehensive loss attributable to non-controlling interest                        | 37                                     | 32       | 156                                | 65       |
| Comprehensive income attributable to Triple-S Management Corporation               | \$14,284                               | \$27,588 | \$19,181                           | \$74,281 |

See accompanying notes to unaudited consolidated financial statements.

5



Table of Contents

Triple-S Management Corporation

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | 2013      | 2012      |
|--|-----------|-----------|
| Balance at January 1                                       | \$761,907 | \$676,959 |
| Share-based compensation                                   | 2,351     | 1,876     |
| Stock issued upon the exercise of stock options            | 315       | 3,001     |
| Repurchase and retirement of common stock                  | (18,571 ) | (3,590 )  |
| Net current period change in comprehensive income          | 19,181    | 74,281    |
| Total Triple-S Management Corporation stockholders' equity | 765,183   | 752,527   |
| Non-controlling interest in consolidated subsidiary        | 84        | 307       |
| Balance at September 30                                    | \$765,267 | \$752,834 |

See accompanying notes to unaudited consolidated financial statements.

6

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Table of ContentsTriple-S Management  
Corporation

Consolidated Statements of Cash Flows (Unaudited)

(Dollar amounts in  
thousands, except per  
share data)

|   | Nine months ended<br>September 30,<br>2013 |  | 2012      |
|---|--|--|-----------|
| Cash flows from<br>operating activities:  |  |  |           |
| Net income  | \$ 55,865                                  |  | \$ 36,199 |
| Adjustments to<br>reconcile net income<br>to net cash provided<br>by operating<br>activities: |  |  |           |
| Depreciation and<br>amortization  | 17,804                                     |  | 17,989    |
| Net amortization of<br>investments  | 4,558                                      |  | 4,566     |
| Provision for doubtful<br>receivables, net  | 4,283                                      |  | 1,321     |
| Deferred tax benefit  | (9,874 )                                   |  | (254 )    |
| Net realized<br>investment gain on<br>sale of securities                                      | (3,405 )                                   |  | (2,157 )  |
| Share-based<br>compensation   | 2,351                                      |  | 1,876     |
| (Increase) decrease in<br>assets:   |  |  |           |
| Premium and other<br>receivables, net   | 2,862                                      |  | 5,272     |
| Deferred policy<br>acquisition costs and<br>value of business<br>acquired                     | (3,103 )                                   |  | (8,340 )  |
| Other deferred taxes  | 9  |  | 200       |
| Other assets  | (934 )                                     |  | (4,364 )  |
| Increase (decrease) in<br>liabilities:  |  |  |           |
| Claim liabilities   | (69 )                                      |  | 36,930    |
| Liability for future<br>policy benefits   | 16,740                                     |  | 16,362    |
| Unearned premiums   | (5,604 )                                   |  | (419 )    |
| Policyholder deposits   | 2,412                                      |  | 1,507     |
| Liability to FEHBP  | (11,016 )                                  |  | (2,097 )  |
| Accounts payable and<br>accrued liabilities   | 29,196                                     |  | 7,503     |

|  |         |         |
|--|---------|---------|
| Net cash provided by<br>operating activities | 102,075 | 112,094 |
|--|---------|---------|

(Continued)

7

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Table of Contents

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

|  | Nine months ended<br>September 30, |           |
|--|------------------------------------|-----------|
|  | 2013                               | 2012      |
| Cash flows from investing activities:  |                                    |           |
| Proceeds from investments sold or matured:   |                                    |           |
| Securities available for sale:   |                                    |           |
| Fixed maturities sold  | \$81,330                           | \$67,943  |
| Fixed maturities matured/called  | 85,496                             | 115,649   |
| Equity securities sold   | 93,504                             | 50,016    |
| Securities held to maturity:   |                                    |           |
| Fixed maturities matured/called  | 1,127                              | 11,080    |
| Acquisition of investments:  |                                    |           |
| Securities available for sale:   |                                    |           |
| Fixed maturities   | (205,373)                          | (278,533) |
| Equity securities  | (132,109)                          | (78,135)  |
| Securities held to maturity:   |                                    |           |
| Fixed maturities   | (1,011)                            | (1,067)   |
| Other investments  | (823)                              | 18        |
| Net inflows (outflows) from policy loans   | (209)                              | 84        |
| Acquisition of business, net of cash acquired of \$816 in the nine months ended September 30, 2012 | -                                  | (2,685)   |
| Net capital expenditures   | (8,934)                            | (8,756)   |
| Net cash used in investing activities  | (87,002)                           | (124,386) |
| Cash flows from financing activities:  |                                    |           |
| Change in outstanding checks in excess of bank balances  | 22,809                             | (3,332)   |
| Net change in short-term borrowings  | (16,590)                           | 11,200    |
| Repayments of long-term borrowings   | (11,475)                           | (26,464)  |
| Repurchase and retirement of common stock  | (18,250)                           | (637)     |
| Proceeds from exercise of stock options  | -                                  | 316       |
| Proceeds from policyholder deposits  | 8,112                              | 32,946    |
| Surrenders of policyholder deposits  | (7,479)                            | (4,821)   |
| Net cash (used in) provided by financing activities  | (22,873)                           | 9,208     |
| Net decrease in cash and cash equivalents  | (7,800)                            | (3,084)   |
| Cash and cash equivalents:   |                                    |           |
| Beginning of period  | 89,564                             | 71,834    |
| End of period  | \$81,764                           | \$68,750  |

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)

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(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2012.

On May 16, 2013, the Corporation, in connection with a registered underwritten secondary public offering of its Class B common stock (the “Offering”), entered into an underwriting agreement (the “Underwriting Agreement”) with certain shareholders of the Corporation (the “Selling Shareholders”), pursuant to which the Selling Shareholders sold to the underwriters an aggregate of 6,210,423 shares (the “Shares”) of Class B common stock at a price of \$18.25 per share.

The Shares included 810,055 shares of Class B common stock purchased pursuant to the over-allotment option granted to the Underwriters pursuant to the Underwriting Agreement. The Corporation purchased and retired 1,000,000 shares in the Offering at a price of \$18.25 per share. The Corporation did not receive any proceeds from the sale of the Shares by the Selling Shareholders.

In the opinion of management all 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, 2013 are not necessarily indicative of the results for the full year ending December 31, 2013.

(2) Recent Accounting Standards

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer’s portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. 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, that the adoption of this guidance will have on our financial position or results of operations.

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.

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

9

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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In February 5, 2013 the FASB issued guidance to improve the transparency of reporting reclassifications out of accumulated other comprehensive income. In particular, the guidance requires an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under GAAP to be reclassified in its entirety to net income. For other amounts that are not required under GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under GAAP that provide additional detail about those amounts. This guidance applies to all entities that issue financial statements that are presented in conformity with GAAP and that report items of other comprehensive income. The Corporation adopted this guidance in January 1, 2013; there was no significant impact on our financial position or results of operations as a result of the adoption.

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2013 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

The following tables summarize the operations by reportable segment for the three months and nine months ended September 30, 2013 and 2012:

|  | Three months ended |           | Nine months ended |             |
|--|--------------------|-----------|-------------------|-------------|
|  | September 30,      |           | September 30,     |             |
|  | 2013               | 2012      | 2013              | 2012        |
| Operating revenues:                          |                    |           |                   |             |
| Managed Care:                                |                    |           |                   |             |
| Premiums earned, net                         | \$491,046          | \$508,152 | \$1,483,456       | \$1,531,703 |
| Administrative service fees                  | 22,450             | 27,181    | 78,103            | 82,473      |
| Intersegment premiums /service fees          | 1,369              | 1,489     | 4,142             | 4,622       |
| Net investment income                        | 3,975              | 3,999     | 12,009            | 11,783      |
| Total managed care                           | 518,840            | 540,821   | 1,577,710         | 1,630,581   |
| Life Insurance:                              |                    |           |                   |             |
| Premiums earned, net                         | 32,279             | 31,654    | 95,991            | 92,190      |
| Intersegment premiums                        | 88                 | 107       | 304               | 302         |
| Net investment income                        | 5,303              | 5,207     | 16,317            | 15,304      |
| Total life insurance                         | 37,670             | 36,968    | 112,612           | 107,796     |
| Property and Casualty Insurance:             |                    |           |                   |             |
| Premiums earned, net                         | 24,549             | 25,801    | 74,423            | 71,264      |
| Intersegment premiums                        | 153                | 153       | 460               | 460         |
| Net investment income                        | 2,041              | 2,210     | 6,077             | 6,707       |
| Total property and casualty insurance        | 26,743             | 28,164    | 80,960            | 78,431      |
| Other segments: *                            |                    |           |                   |             |
| Intersegment service fees                    | 1,981              | 3,634     | 7,211             | 10,887      |
| Operating revenues from external sources     | 1,240              | 1,207     | 3,640             | 3,361       |
| Total other segments                         | 3,221              | 4,841     | 10,851            | 14,248      |
| Total business segments                      | 586,474            | 610,794   | 1,782,133         | 1,831,056   |
| TSM operating revenues from external sources | 43                 | 143       | 300               | 447         |
| Elimination of intersegment premiums         | (1,610 )           | (1,749 )  | (4,906 )          | (5,384 )    |
| Elimination of intersegment service fees     | (1,981 )           | (3,634 )  | (7,211 )          | (10,887 )   |
| Other intersegment eliminations              | -                  | 35        | 44                | 105         |
| Consolidated operating revenues              | \$582,926          | \$605,589 | \$1,770,360       | \$1,815,337 |

\* 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)

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|  | Three months<br>ended<br>September 30, |          | Nine months<br>ended<br>September 30, |          |
|--|--|----------|---------------------------------------|----------|
|  | 2013                                   | 2012     | 2013                                  | 2012     |
| Operating income:                                  |  |          |                                       |          |
| Managed care                                       | \$7,274                                | \$7,329  | \$41,165                              | \$33,320 |
| Life insurance                                     | 3,795                                  | 4,065    | 11,512                                | 12,480   |
| Property and casualty insurance                    | 402                                    | 1,936    | 974                                   | 4,047    |
| Other segments *                                   | (939 )                                 | (349 )   | (1,452 )                              | (188 )   |
| Total business segments                            | 10,532                                 | 12,981   | 52,199                                | 49,659   |
| TSM operating revenues from external sources       | 43                                     | 143      | 300                                   | 447      |
| TSM unallocated operating expenses                 | (2,673 )                               | (111 )   | (9,440 )                              | (8,405 ) |
| Elimination of TSM intersegment charges            | 2,436                                  | 2,477    | 6,805                                 | 6,870    |
| Consolidated operating income                      | 10,338                                 | 15,490   | 49,864                                | 48,571   |
| Consolidated net realized investment gains         | (144 )                                 | 21       | 3,405                                 | 2,157    |
| Consolidated interest expense                      | (2,379 )                               | (2,956 ) | (7,189 )                              | (8,181 ) |
| Consolidated other income, net                     | 13,931                                 | 598      | 14,778                                | 1,514    |
| Consolidated income before taxes                   | \$21,746                               | \$13,153 | \$60,858                              | \$44,061 |
| Depreciation and amortization expense:             |  |          |                                       |          |
| Managed care                                       | \$4,744                                | \$5,397  | \$15,322                              | \$15,747 |
| Life insurance                                     | 257                                    | 219      | 672                                   | 547      |
| Property and casualty insurance                    | 133                                    | 136      | 399                                   | 434      |
| Other segments*                                    | 240                                    | 221      | 764                                   | 622      |
| Total business segments                            | 5,374                                  | 5,973    | 17,157                                | 17,350   |
| TSM depreciation expense                           | 216                                    | 215      | 647                                   | 639      |
| Consolidated depreciation and amortization expense | \$5,590                                | \$6,188  | \$17,804                              | \$17,989 |

\* 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<br>30,<br>2013 | December<br>31,<br>2012 |
|---|--------------------------|-------------------------|
| Assets:   |                          |                         |
| Managed care  | \$970,918                | \$916,712               |
| Life insurance  | 687,103                  | 691,425                 |
| Property and casualty insurance                         | 362,331                  | 356,161                 |
| Other segments *  | 30,895                   | 31,480                  |
| Total business segments                                 | 2,051,247                | 1,995,778               |
| Unallocated amounts related to TSM:                     |                          |                         |
| Cash, cash equivalents, and investments                 | 28,334                   | 41,334                  |
| Property and equipment, net                             | 20,783                   | 21,430                  |
| Other assets  | 36,347                   | 29,858                  |
|   | 85,464                   | 92,622                  |
| Elimination entries-intersegment receivables and others | (61,189 )                | (29,056 )               |
| Consolidated total assets                               | \$2,075,522              | \$2,059,344             |

\* 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)

## (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, 2013 and December 31, 2012, were as follows:

|  | September 30, 2013 |                              |                               |                         |
|--|--------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses | Estimated<br>fair value |
| Securities available for sale:   |                    |                              |                               |                         |
| Fixed maturities:  |                    |                              |                               |                         |
| Obligations of government-sponsored enterprises                                  | \$69,220           | \$ 2,084                     | \$(82 )                       | \$71,222                |
| U.S. Treasury securities and obligations of U.S. government<br>instrumentalities | 39,096             | 1,376                        | -                             | 40,472                  |
| Obligations of the Commonwealth of Puerto Rico and its<br>instrumentalities      | 47,005             | 257                          | (5,290 )                      | 41,972                  |
| Municipal securities   | 598,332            | 26,795                       | (4,892 )                      | 620,235                 |
| Corporate bonds  | 135,587            | 11,208                       | (699 )                        | 146,096                 |
| Residential mortgage-backed securities   | 11,213             | 348                          | (19 )                         | 11,542                  |
| Collateralized mortgage obligations  | 99,397             | 3,290                        | (172 )                        | 102,515                 |
| Total fixed maturities   | 999,850            | 45,358                       | (11,154 )                     | 1,034,054               |
| Equity securities  |                    |                              |                               |                         |
| Mutual funds   | 226,237            | 41,661                       | (2,204 )                      | 265,694                 |
| Total equity securities  | 226,237            | 41,661                       | (2,204 )                      | 265,694                 |
| Total  | \$1,226,087        | \$ 87,019                    | \$(13,358 )                   | \$1,299,748             |

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|  | December 31, 2012 |                              |                               | Estimated<br>fair value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                         |
| Securities available for sale:   |                   |                              |                               |                         |
| Fixed maturities:  |                   |                              |                               |                         |
| Obligations of government sponsored enterprises                                  | \$56,758          | \$4,876                      | \$ -                          | \$61,634                |
| U.S. Treasury securities and obligations of U.S. government<br>instrumentalities | 39,365            | 1,848                        | -                             | 41,213                  |
| Obligations of the Commonwealth of Puerto Rico and its<br>instrumentalities      | 63,470            | 2,277                        | (2 )                          | 65,745                  |
| Municipal securities   | 529,822           | 59,106                       | (165 )                        | 588,763                 |
| Corporate bonds  | 106,968           | 22,899                       | -                             | 129,867                 |
| Residential mortgage-backed securities   | 20,009            | 551                          | (52 )                         | 20,508                  |
| Collateralized mortgage obligations  | 147,071           | 5,129                        | (169 )                        | 152,031                 |
| Total fixed maturities   | 963,463           | 96,686                       | (388 )                        | 1,059,761               |
| Equity securities:   |                   |                              |                               |                         |
| Common stock   | 16                | 993                          | -                             | 1,009                   |
| Mutual funds   | 185,498           | 23,256                       | (41 )                         | 208,713                 |
| Total equity securities  | 185,514           | 24,249                       | (41 )                         | 209,722                 |
| Total  | \$1,148,977       | \$120,935                    | \$ (429 )                     | \$1,269,483             |

|  | September 30, 2013 |                              |                               | Estimated<br>fair value |
|--|--------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>cost  | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                         |
| Securities held to maturity:   |                    |                              |                               |                         |
| Obligations of government-sponsored enterprises                                  | \$1,793            | \$ 49                        | \$ -                          | \$ 1,842                |
| U.S. Treasury securities and obligations of U.S. government<br>instrumentalities | 623                | 145                          | -                             | 768                     |
| Corporate bonds  | -                  | -                            | -                             | -                       |
| Residential mortgage-backed securities   | 345                | 24                           | -                             | 369                     |
| Certificates of deposit  | 2,119              | -                            | -                             | 2,119                   |
| Total  | \$4,880            | \$ 218                       | \$ -                          | \$ 5,098                |

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|   | December 31, 2012 |                        |                         |                      |
|---|-------------------|------------------------|-------------------------|----------------------|
|   | Amortized cost    | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Securities held to maturity:  |                   |                        |                         |                      |
| Obligations of government-sponsored enterprises                               | \$1,793           | \$ 115                 | \$ -                    | \$ 1,908             |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 623               | 225                    | -                       | 848                  |
| Residential mortgage-backed securities  | 450               | 37                     | -                       | 487                  |
| Certificates of deposit   | 2,134             | -                      | -                       | 2,134                |
| Total   | \$5,000           | \$ 377                 | \$ -                    | \$ 5,377             |

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, 2013 and December 31, 2012 were as follows:

|  | September 30, 2013   |                 |               | December 31, 2012    |                 |               | September 30, 2013   |                 |               |
|--|----------------------|-----------------|---------------|----------------------|-----------------|---------------|----------------------|-----------------|---------------|
|  | Less than 12 months  |                 |               | 12 months or longer  |                 |               | Total                |                 |               |
|  | Gross                |                 | Number        | Gross                |                 | Number        | Gross                |                 | Number        |
|  | Estimated Fair Value | Unrealized Loss | of Securities | Estimated Fair Value | Unrealized Loss | of Securities | Estimated Fair Value | Unrealized Loss | of Securities |
| Securities available for sale:   |                      |                 |               |                      |                 |               |                      |                 |               |
| Fixed maturities:  |                      |                 |               |                      |                 |               |                      |                 |               |
| Obligations of government-sponsored enterprises                          | \$11,968             | \$(82)          | 1             | \$-                  | \$-             | -             | \$11,968             | \$(82)          | 1             |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 20,028               | (5,290)         | 5             | -                    | -               | -             | 20,028               | (5,290)         | 5             |
| Municipal securities   | 177,445              | (4,892)         | 44            | -                    | -               | -             | 177,445              | (4,892)         | 44            |
| Corporate bonds  | 33,686               | (699)           | 15            | -                    | -               | -             | 33,686               | (699)           | 15            |
| Residential mortgage-backed securities                                   | 5,587                | (19)            | 4             | -                    | -               | -             | 5,587                | (19)            | 4             |
| Collateralized mortgage obligations                                      | 7,692                | (78)            | 6             | 3,676                | (94)            | 1             | 11,368               | (172)           | 7             |
| Total fixed maturities   | 256,406              | (11,060)        | 75            | 3,676                | (94)            | 1             | 260,082              | (11,154)        | 76            |
| Equity securities:   |                      |                 |               |                      |                 |               |                      |                 |               |
| Mutual funds   | 72,299               | (2,204)         | 13            | -                    | -               | -             | 72,299               | (2,204)         | 13            |
| Total equity securities  | 72,299               | (2,204)         | 13            | -                    | -               | -             | 72,299               | (2,204)         | 13            |
| Total for securities available for sale                                  | \$328,705            | \$(13,264)      | 88            | \$3,676              | \$(94)          | 1             | \$332,381            | \$(13,358)      | 89            |



Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|                                | December 31, 2012   |            |            | 12 months or longer |            |            | Total     |            |            |
|--------------------------------|---------------------|------------|------------|---------------------|------------|------------|-----------|------------|------------|
|                                | Less than 12 months |            |            | 12 months or longer |            |            | Total     |            |            |
|                                | Gross               |            |            | Gross               |            |            | Gross     |            |            |
|                                | Number              |            |            | Number              |            |            | Number    |            |            |
|                                | Estimated           | Unrealized | of         | Estimated           | Unrealized | of         | Estimated | Unrealized | of         |
|                                | Fair                | Loss       | Securities | Fair                | Loss       | Securities | Fair      | Loss       | Securities |
|                                | Value               | Loss       | Securities | Value               | Loss       | Securities | Value     | Loss       | Securities |
| Securities available for sale: |                     |            |            |                     |            |            |           |            |            |
| Fixed maturities:              |                     |            |            |                     |            |            |           |            |            |
| Obligations of government-     |                     |            |            |                     |            |            |           |            |            |
| Commonwealth of Puerto         |                     |            |            |                     |            |            |           |            |            |
| Rico and its instrumentalities | \$5,770             | \$ (2 )    | 1          | \$-                 | \$ -       | -          | \$5,770   | \$ (2 )    | 1          |
| Municipal securities           | 27,426              | (165 )     | 10         | -                   | -          | -          | 27,426    | (165 )     | 10         |
| Residential mortgage-backed    |                     |            |            |                     |            |            |           |            |            |
| securities                     | 5,892               | (52 )      | 2          | -                   | -          | -          | 5,892     | (52 )      | 2          |
| Collateralized mortgage        |                     |            |            |                     |            |            |           |            |            |
| obligations                    | 20,894              | (169 )     | 6          | -                   | -          | -          | 20,894    | (169 )     | 6          |
| Total fixed maturities         | 59,982              | (388 )     | 19         | -                   | -          | -          | 59,982    | (388 )     | 19         |
| Equity securities:             |                     |            |            |                     |            |            |           |            |            |
| Mutual funds                   | -                   | -          | -          | 2,708               | (41 )      | 1          | 2,708     | (41 )      | 1          |
| Total equity securities        | -                   | -          | -          | 2,708               | (41 )      | 1          | 2,708     | (41 )      | 1          |
| Total for securities available |                     |            |            |                     |            |            |           |            |            |
| for sale                       | \$59,982            | \$ (388 )  | 19         | \$2,708             | \$ (41 )   | 1          | \$62,690  | \$ (429 )  | 20         |

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

Due to the subjective nature of the Corporation's analysis, along with the judgment that must be applied in the analysis, it is possible that the Corporation could reach a different conclusion whether or not to record an impairment to a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other-than-temporary, the carrying amount of the security is reduced to its fair value in accordance with current accounting guidance. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into

net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

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

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

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

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

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

17

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

---

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

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

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

**Obligations of the Commonwealth of Puerto Rico and its Instrumentalities:** Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of \$21,944 and an unrealized gain of \$257, and (2) Cofina bonds with a fair value of \$20,028 and an unrealized loss of \$5,290. Escrowed bonds are backed by U.S. Government securities and therefore have an implicit AA+/Aaa rating. Cofina bonds, issued by the Sales Tax Financing Corporation, are senior lien and are rated AA-/A2.

The sales tax bonds are secured by a 7% sales tax levied on the island, of which 1.5% goes to municipalities. Of the remaining 5.5%, the larger of 3.50% or a base amount is pledged to the sales tax bonds. The percentage pledged to the sales tax bonds was increased in October 2013 from 2.75% to 3.50%. Both senior lien and subordinate sales tax bonds are outstanding; our positions are senior lien bonds. In terms of flow of funds, the 5.5% remaining revenue is first used for debt service on the senior lien bonds, then for debt service on the subordinate bonds and the excess flows into the General Fund.

Cofina senior bonds are rated AA- by Standard & Poor's. S&P revised its outlook from stable to negative on September 30, 2013, based on declining economic and population trends. S&P notes that debt service coverage remains strong in the short term, particularly after the recent legislated expansion of the sales tax base. However, growth in sales tax revenues is still needed to maintain high annual debt service coverage for first-lien bonds. This links the credit quality of the sales tax bonds to the financial and economic condition of the Commonwealth of Puerto Rico ("Commonwealth") as a whole.

Moody's downgraded Cofina senior bonds to A2 on October 3, 2013 and changed the outlook to negative. The downgrade reflects the weak economy of the Commonwealth and constrained growth in sales tax revenues. Moody's notes that measures have been taken to stabilize the fiscal situation, but economic recovery prospects remain weak. The current four notch rating differential between General Obligation bonds (Baa3) and Cofina Senior bonds (A2) reflects Moody's view of a strong legal separation between the two credits.

18

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

---

The Corporation does not consider these positions other-than-temporarily impaired because the Corporation does not have the intent to sell these investments, and it is not more likely than not that the Corporation will be required to sell the investments before recovery of its amortized cost bases (which may be maturity); because the positions have been at an unrealized loss for a short period of time (less than 3 months); because the unrealized loss is partially due to market conditions; because the positions continue with an investment grade rating; and because the Corporation expects to collect all contractual cash flows.

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

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: All funds have been in an unrealized loss position for less than twelve months. These positions are not considered other-than-temporarily impaired because the Company does not have the intent to sell these investments, and the Company has the ability to hold the investments until a market price recovery.

19

---

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, 2013 were as follows:

|  | September 30, 2013 |                      |
|--|--------------------|----------------------|
|  | Amortized cost     | Estimated fair value |
| Securities available for sale:         |                    |                      |
| Due in one year or less                | \$48,124           | \$48,422             |
| Due after one year through five years  | 229,711            | 235,519              |
| Due after five years through ten years | 146,846            | 154,002              |
| Due after ten years                    | 464,559            | 482,054              |
| Residential mortgage-backed securities | 11,213             | 11,542               |
| Collateralized mortgage obligations    | 99,397             | 102,515              |
|  | \$999,850          | \$1,034,054          |
| Securities held to maturity:           |                    |                      |
| Due in one year or less                | \$2,119            | \$2,119              |
| Due after five years through ten years | 1,793              | 1,842                |
| Due after ten years                    | 623                | 768                  |
| Residential mortgage-backed securities | 345                | 369                  |
|  | \$4,880            | \$5,098              |

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, 2013 and 2012 is as follows:

|                                  | Three months ended |                    | Nine months ended  |                    |
|----------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                  | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Realized gains (losses):         |                    |                    |                    |                    |
| Fixed maturity securities:       |                    |                    |                    |                    |
| Securities available for sale:   |                    |                    |                    |                    |
| Gross gains from sales           | \$620              | \$99               | \$2,900            | \$1,731            |
| Gross losses from sales          | (1,086)            | -                  | (1,613)            | (189 )             |
| Total debt securities            | (466 )             | 99                 | 1,287              | 1,542              |
| Equity securities:               |                    |                    |                    |                    |
| Securities available for sale:   |                    |                    |                    |                    |
| Gross gains from sales           | 814                | 388                | 3,445              | 1,850              |
| Gross losses from sales          | (492 )             | (466)              | (1,327)            | (1,235)            |
| Total equity securities          | 322                | (78 )              | 2,118              | 615                |
| Net realized gains on securities | \$(144 )           | \$21               | \$3,405            | \$2,157            |



Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|  | Three months<br>ended<br>September 30,<br>2013 |          | Nine months ended<br>September 30,<br>2013 |          |
|--|--|----------|--|----------|
|  | 2012   | 2012     | 2012                                       | 2012     |
| Changes in net unrealized gains (losses):                |  |          |  |          |
| Recognized in accumulated other comprehensive income:    |  |          |  |          |
| Fixed maturities – available for sale                    | \$(14,052)                                     | \$8,493  | \$(62,094)                                 | 21,550   |
| Equity securities – available for sale                   | \$7,719  | 8,964    | 15,249                                     | 18,491   |
|  | \$(6,333 )                                     | \$17,457 | \$(46,845)                                 | \$40,041 |
| Not recognized in the consolidated financial statements: |  |          |  |          |
| Fixed maturities – held to maturity                      | \$(41 )  | \$(6 )   | \$(159 )                                   | \$(157 ) |

The deferred tax asset (liability) on net unrealized gains change recognized in accumulated other comprehensive income during the nine months ended September 30, 2013 and 2012 was \$6,937 and (\$5,033), respectively.

As of September 30, 2013 and December 31, 2012, no individual investment in securities exceeded 10% of stockholders' equity.

The components of net investment income were as follows:

|  | Three months<br>ended<br>September 30,<br>2013 |          | Nine months<br>ended<br>September 30,<br>2013 |          |
|--|--|----------|---|----------|
|  | 2012   | 2012     | 2012  | 2012     |
| Fixed maturities                               | \$9,307  | \$9,481  | \$27,533                                      | \$28,828 |
| Equity securities                              | 1,717  | 1,760    | 6,236   | 4,453    |
| Policy loans                                   | 119  | 117      | 351   | 348      |
| Cash equivalents and interest-bearing deposits | 16   | 34       | 61  | 88       |
| Other  | 204  | 203      | 568   | 632      |
| Total  | \$11,363                                       | \$11,595 | \$34,749                                      | \$34,349 |

## (5) Premiums and Other Receivables, Net

Premiums and other receivables, net as of September 30, 2013 and December 31, 2012 were as follows:

|                               | September<br>30,<br>2013 | December<br>31,<br>2012 |
|-------------------------------|--------------------------|-------------------------|
| Premiums                      | \$95,596                 | \$113,537               |
| Self-funded group receivables | 65,376                   | 64,359                  |
| FEHBP                         | 11,518                   | 11,707                  |
| Agent balances                | 30,700                   | 34,261                  |

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|   |            |            |
|---|------------|------------|
| Accrued interest                          | 10,641     | 11,409     |
| Reinsurance recoverable                   | 51,972     | 52,063     |
| Other                                     | 47,961     | 29,290     |
|   | 313,764    | 316,626    |
| Less allowance for doubtful receivables:  |            |            |
| Premiums                                  | 17,686     | 14,416     |
| Other                                     | 11,026     | 10,013     |
|   | 28,712     | 24,429     |
| Total premiums and other receivables, net | \$ 285,052 | \$ 292,197 |

21

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

## (6) Claim Liabilities

The activity in the total claim liabilities for the three months and nine months ended September 30, 2013 and 2012 was as follows:

|  | Three months ended |           | Nine months ended |           |
|--|--------------------|-----------|-------------------|-----------|
|  | September 30,      |           | September 30,     |           |
|  | 2013               | 2012      | 2013              | 2012      |
| Claim liabilities at beginning of period         | \$413,271          | \$421,894 | \$416,918         | \$391,259 |
| Reinsurance recoverable on claim liabilities     | (36,521 )          | (37,124 ) | (39,051 )         | (37,234 ) |
| Net claim liabilities at beginning of period     | 376,750            | 384,770   | 377,867           | 354,025   |
| Incurred claims and loss-adjustment expenses:    |                    |           |                   |           |
| Current period insured events                    | 453,732            | 476,450   | 1,382,769         | 1,451,254 |
| Prior period insured events                      | (2,967 )           | 3,138     | (30,521 )         | (10,504 ) |
| Total  | 450,765            | 479,588   | 1,352,248         | 1,440,750 |
| Payments of losses and loss-adjustment expenses: |                    |           |                   |           |
| Current period insured events                    | 430,591            | 452,411   | 1,066,842         | 1,129,384 |
| Prior period insured events                      | 16,329             | 21,068    | 282,678           | 274,512   |
| Total  | 446,920            | 473,479   | 1,349,520         | 1,403,896 |
| Net claim liabilities at end of period           | 380,595            | 390,879   | 380,595           | 390,879   |
| Reinsurance recoverable on claim liabilities     | 36,254             | 37,310    | 36,254            | 37,310    |
| Claim liabilities at end of period               | \$416,849          | \$428,189 | \$416,849         | \$428,189 |

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

The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended September 30, 2013 and the nine months ended September 30, 2013 and 2012 is due primarily to better than expected cost and utilization trends. The amount in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended September 30, 2012 is due primarily to higher than anticipated utilization trends. Reinsurance recoverable on unpaid claims is reported within the premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to \$5,667 and \$17,002 during the three and nine months ended September 30, 2013, respectively. The change in the liability for future policy benefits during the three and six months ended September 30, 2012 amounted to \$5,907 and \$16,638, respectively.

## (7) Fair Value Measurements

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



Level Input: Input Definition:

Level 1 Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

Level 2 Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date.

Level 3 Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date.

22

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 4.

The following tables summarize fair value measurements by level at September 30, 2013 and December 31, 2012 for assets measured at fair value on a recurring basis:

|  | September 30, 2013 |             |          | Total       |
|--|--------------------|-------------|----------|-------------|
|  | Level 1            | Level 2     | Level 3  |             |
| Securities available for sale:   |                    |             |          |             |
| Fixed maturity securities  |                    |             |          |             |
| Obligations of government-sponsored enterprises                              | \$-                | \$71,222    | \$-      | \$71,222    |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 40,472             | -           | -        | 40,472      |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities     | -                  | 41,972      | -        | 41,972      |
| Municipal securities   | -                  | 620,235     | -        | 620,235     |
| Corporate bonds  | -                  | 146,096     | -        | 146,096     |
| Residential agency mortgage-backed securities                                | -                  | 11,542      | -        | 11,542      |
| Collateralized mortgage obligations  | -                  | 102,515     | -        | 102,515     |
| Total fixed maturities   | 40,472             | 993,582     | -        | 1,034,054   |
| Equity securities  |                    |             |          |             |
| Mutual funds   | 152,576            | 96,326      | 16,792   | 265,694     |
| Total equity securities  | 152,576            | 96,326      | 16,792   | 265,694     |
| Total  | \$193,048          | \$1,089,908 | \$16,792 | \$1,299,748 |

23

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|  | December 31, 2012 |             |          | Total       |
|--|-------------------|-------------|----------|-------------|
|  | Level 1           | Level 2     | Level 3  |             |
| Securities available for sale:   |                   |             |          |             |
| Fixed maturity securities  |                   |             |          |             |
| Obligations of government-sponsored enterprises                              | \$-               | \$61,634    | \$-      | \$61,634    |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 41,213            | -           | -        | 41,213      |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities     | -                 | 65,745      | -        | 65,745      |
| Municipal securities   | -                 | 588,763     | -        | 588,763     |
| Corporate bonds  | -                 | 129,867     | -        | 129,867     |
| Residential agency mortgage-backed securities                                | -                 | 20,508      | -        | 20,508      |
| Collateralized mortgage obligations  | -                 | 152,031     | -        | 152,031     |
| Total fixed maturities   | 41,213            | 1,018,548   | -        | 1,059,761   |
| Equity securities  |                   |             |          |             |
| Common stock   | 1,009             | -           | -        | 1,009       |
| Mutual funds   | 134,398           | 61,493      | 12,822   | 208,713     |
| Total equity securities  | 135,407           | 61,493      | 12,822   | 209,722     |
| Total  | \$176,620         | \$1,080,041 | \$12,822 | \$1,269,483 |

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers between Levels 1 and 2 during the three months and nine months ended September 30, 2013 and 2012.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and nine months ended September 30, 2013 and 2012 is as follows:

|  | Three months ended<br>September 30, 2013 | September 30, 2012 |
|--|--|--------------------|
|--|--|--------------------|

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|   | Fixed<br>Maturity<br>Securities |           |          | Fixed<br>Maturity<br>Securities |           |          |
|---|---------------------------------|-----------|----------|---------------------------------|-----------|----------|
|   | Total                           | Total     | Total    | Total                           |           |          |
| Beginning balance   | \$-                             | \$ 16,354 | \$16,354 | \$-                             | \$ 9,014  | \$9,014  |
| Unrealized gain in other accumulated comprehensive income | -                               | 193       | 193      | -                               | 473       | 473      |
| Purchases   | -                               | 245       | 245      | -                               | 2,000     | 2,000    |
| Ending balance  | \$-                             | \$ 16,792 | \$16,792 | \$-                             | \$ 11,487 | \$11,487 |

24

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|   | Nine months ended  |            |           | September 30, 2012 |            |           |
|---|--------------------|------------|-----------|--------------------|------------|-----------|
|   | September 30, 2013 |            |           | September 30, 2012 |            |           |
|   | Fixed              | Equity     | Total     | Fixed              | Equity     | Total     |
|   | Securities         | Securities |           | Securities         | Securities |           |
| Beginning balance   | \$-                | \$ 12,822  | \$ 12,822 | \$-                | \$ 7,094   | \$ 7,094  |
| Unrealized gain in other accumulated comprehensive income | -                  | 2,217      | 2,217     | -                  | 884        | 884       |
| Purchases   | -                  | 1,753      | 1,753     | -                  | 4,579      | 4,579     |
| Transfers in and/or out of Level 3                        | -                  | -          | -         | -                  | (1,070 )   | (1,070 )  |
| Ending balance  | \$-                | \$ 16,792  | \$ 16,792 | \$-                | \$ 11,487  | \$ 11,487 |

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

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

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

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

## (i) Policy Loans

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

## (ii) Policyholder Deposits

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

## (iii) Long-term Borrowings

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

## (iv) Repurchase Agreement

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

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our consolidated balance sheet at September 30, 2013 and December 31, 2012 are as follows:

25

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|                                     | September 30, 2013 |            |           |         |           |
|-------------------------------------|--------------------|------------|-----------|---------|-----------|
|                                     | Carrying Value     | Fair Value |           |         | Total     |
|                                     |                    | Level 1    | Level 2   | Level 3 |           |
| Assets:                             |                    |            |           |         |           |
| Policy loans                        | \$6,370            | \$-        | \$6,370   | \$ -    | \$6,370   |
| Liabilities:                        |                    |            |           |         |           |
| Policyholder deposits               | \$114,737          | \$-        | \$114,737 | \$ -    | \$114,737 |
| Long-term borrowings:               |                    |            |           |         |           |
| Loans payable to bank - variable    | 16,517             | -          | 16,517    | -       | 16,517    |
| Loans payable to bank - fixed       | 13,279             | -          | 13,279    | -       | 13,279    |
| 6.6% senior unsecured notes payable | 35,000             | -          | 34,213    | -       | 34,213    |
| Repurchase agreement                | 25,000             | -          | 25,698    | -       | 25,698    |
| Total long-term borrowings          | 89,796             | -          | 89,707    | -       | 89,707    |
| Total liabilities                   | \$204,533          | \$-        | \$204,444 | \$ -    | \$204,444 |

|                                     | December 31, 2012 |            |           |         |           |
|-------------------------------------|-------------------|------------|-----------|---------|-----------|
|                                     | Carrying Value    | Fair Value |           |         | Total     |
|                                     |                   | Level 1    | Level 2   | Level 3 |           |
| Assets:                             |                   |            |           |         |           |
| Policy loans                        | \$6,161           | \$-        | \$6,161   | \$ -    | \$6,161   |
| Liabilities:                        |                   |            |           |         |           |
| Policyholder deposits               | \$111,692         | \$-        | \$111,692 | \$ -    | \$111,692 |
| Long-term borrowings:               |                   |            |           |         |           |
| Loans payable to bank - variable    | 17,747            | -          | 17,747    | -       | 17,747    |
| Loans payable to bank - fixed       | 13,524            | -          | 13,524    | -       | 13,524    |
| 6.6% senior unsecured notes payable | 35,000            | -          | 34,213    | -       | 34,213    |
| 6.7% senior unsecured notes payable | 10,000            | -          | 9,950     | -       | 9,950     |
| Repurchase agreement                | 25,000            | -          | 25,937    | -       | 25,937    |
| Total long-term borrowings          | 101,271           | -          | 101,371   | -       | 101,371   |
| Total liabilities                   | \$212,963         | \$-        | \$213,063 | \$ -    | \$213,063 |

## (8) Share-Based Compensation

Share-based compensation expense recorded during the three months and nine months ended September 30, 2013 was \$1,188 and \$2,351, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2012 was \$517 and \$1,876, respectively. During the nine months ended September 30, 2012 cash received from stock options exercised was \$316. The impact of these cash receipts is included within the cash flows from financing activities in the accompanying consolidated statement of cash flows. There was no cash received from stock option exercises during the nine months ended September 30, 2013. During the nine months ended September 30, 2013 and 2012, 14,095 and 140,666 shares, respectively, were repurchased and retired as a result

of non-cash exercises of stock options.

26

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

## (9) Comprehensive Income

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

|   | Net<br>unrealized<br>gain on<br>securities | Liability<br>for<br>pension<br>benefits | Accumulated<br>other<br>comprehensive<br>income (loss) |
|---|--|---|--|
| Balance at January 1, 2013  | \$ 102,515                                 | \$ (53,411)                             | \$ 49,104  |
| Other comprehensive loss before reclassifications                       | (37,014 )                                  | -                                       | (37,014 )  |
| Amounts reclassified from accumulated other comprehensive income (loss) | (2,894 )                                   | 3,068                                   | 174  |
| Net current period change   | (39,908 )                                  | 3,068                                   | (36,840 )  |
| Balance at September 30, 2013   | \$ 62,607                                  | \$ (50,343)                             | \$ 12,264  |

Reclassifications out of accumulated other comprehensive income (loss) related to the net unrealized gain on securities affected the net realized investment gains line item in the accompanying consolidated statements of earnings. Also, reclassifications out of accumulated other comprehensive income (loss) related to the liability for pension benefits affected the liability for pension benefits line item in the accompanying consolidated balance sheets.

## (10) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes on foreign source dividend income. As of September 30, 2013, tax years 2009 through 2012 of the Company and its subsidiaries are open for examination by Puerto Rico taxing authorities.

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

The Life Insurance corporation operates as a qualified domestic life insurance company and is subject to the alternative minimum tax and taxes on its capital gains.

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the American Health ("AH") group of companies is a U.S.-based corporation and is subject to U.S. federal income taxes. This U.S.-based corporation within our group has not provided U.S. deferred taxes on an outside basis difference created as a result of the business combination of AH and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2012 is estimated at \$48,000. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a

reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

27

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

On June 30, 2013 the Governor of Puerto Rico signed into law Puerto Rico's Act No. 40 and other Acts, which among other things, increased the maximum corporate income tax rate from 30% to 39%. This tax rate applies to fiscal years starting after December 31, 2012. These new laws also include some amendments to the computations of the corporate alternative minimum tax, including the consideration of an additional tax on gross receipts. In addition, the law established premium tax of 1% on premiums earned after June 30, 2013, except for annuities, premiums derived from Medicare Advantage, Medicaid, or the government of Puerto Rico's MI SALUD program.

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

As a result of the recently enacted amendments to the income tax law in Puerto Rico mentioned above, the Corporation adjusted the value of its deferred taxes, resulting in a benefit of approximately \$7,700 during the three months ended June 30, 2013.

## (11) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30, 2013 and 2012 were as follows:

|  | Three months<br>ended<br>September 30,<br>2013 |         | Nine months<br>ended<br>September 30,<br>2012 |         |
|--|--|---------|---|---------|
| Components of net periodic benefit cost: |  |         |   |         |
| Service cost                             | \$1,047  | \$1,438 | \$3,093                                       | \$4,184 |
| Interest cost                            | 1,947  | 1,963   | 5,851   | 5,688   |
| Expected return on assets                | (1,662)  | (1,639) | (5,054)                                       | (4,712) |
| Amortization of prior service benefit    | (111 )   | (117 )  | (337 )  | (340 )  |
| Amortization of actuarial loss           | 1,798  | 1,597   | 5,366   | 4,639   |
| Net periodic benefit cost                | \$3,019  | \$3,242 | \$8,919                                       | \$9,459 |

Employer contributions: As of September 30, 2013, the Corporation has contributed \$7,500 to the pension program.

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

## (12) Net Income Available to Stockholders and Net Income per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months and nine months ended September 30, 2013 and 2012:

|  | Three months ended    |            | Nine months ended     |            |
|--|-----------------------|------------|-----------------------|------------|
|  | September 30,<br>2013 | 2012       | September 30,<br>2013 | 2012       |
| Numerator for earnings per share:                        |                       |            |                       |            |
| Net income attributable to TSM available to stockholders | \$ 18,641             | \$ 11,715  | \$ 56,021             | \$ 36,264  |
| Denominator for basic earnings per share:                |                       |            |                       |            |
| Weighted average of common shares                        | 27,336,724            | 28,348,097 | 27,812,521            | 28,343,550 |
| Effect of dilutive securities                            | 102,370               | 105,946    | 103,179               | 129,193    |
| Denominator for diluted earnings per share               | 27,439,094            | 28,454,043 | 27,915,700            | 28,472,743 |
| Basic net income per share attributable to TSM           | \$0.68                | \$0.41     | \$2.01                | \$1.28     |
| Diluted net income per share attributable to TSM         | \$0.68                | \$0.41     | \$2.01                | \$1.27     |

There were no anti-dilutive stock option shares excluded from the denominator for the diluted earnings per share computation during the three months and nine months ended September 30, 2013 and 2012.

## (13) Contingencies

As of September 30, 2013, the Company is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. Furthermore, the Commissioner of Insurance of Puerto Rico, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with applicable insurance and other laws and regulations.

Management believes that the aggregate liabilities, if any, arising from all such claims, assessments, audits and lawsuits will not have a material adverse effect on the consolidated financial position or results of operations of the Company. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could have a material adverse effect on the financial condition, operating results and/or cash flows of the Company. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. 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.

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

Hau et al Litigation (formerly known as Jordan et al)

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Company, the Company's subsidiary Triple-S Salud, Inc. ("TSS") and others in the Court of First Instance for San Juan, Superior Section (the "Court of First Instance"), alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of \$12,000. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more limited group of plaintiffs, and increase their claim for damages to approximately \$207,000. Plaintiffs amended their complaint for the third time in December 2010 and dropped all claims predicated on violations of the antitrust and RICO laws and the Puerto Rico Insurance Code. In addition, the plaintiffs voluntarily dismissed with prejudice any and all claims against officers of the Company and TSS. Two of the original plaintiffs were also eliminated from the Third Amended Complaint ("TAC"). The TAC alleges breach of six Share Acquisition Agreements, breach of the provider contract by way of discriminatory audits and improper payment of services rendered. Plaintiffs also allege a claim for libel and slander against a former president of the Company. In January 2011, we filed our response and a counterclaim for malicious prosecution and abuse of process. Discovery has been substantially completed. On April 13, 2012 the Company filed a motion to dismiss and for summary judgment, seeking the dismissal of the TAC, which the plaintiffs opposed. On March 25, 2013, the parties reached an agreement in open court that settles all claims and counterclaims involved in this case (which amount had already been reserved in our books). The parties executed a written settlement agreement and general release and, on August 14, 2013, the court granted the parties' joint petition to dismiss the complaint with prejudice and entered judgment dismissing the complaint.

29

---

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

---

Dentists Association Litigation

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

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

Two codefendant plans, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Company, opposed. Following months of jurisdictional proceedings in the federal court system, the federal district court in Puerto Rico decided to retain jurisdiction on February 8, 2011. The defendants filed a joint motion to dismiss the case on the merits, because the complaint fails to state a claim upon which relief can be granted. On August 31, 2011, the District Court dismissed all of plaintiffs' claims except for its breach of contract claim, and ordered the parties to brief the issue of whether the court still has federal jurisdiction under the Class Action Fairness Act of 2005 ("CAFA"). Plaintiffs moved the court to reconsider its August 31, 2011 decision and the defendants did the same, arguing that the breach of contract claim failed to state a claim upon which relief can be granted. On May 2, 2012, the court denied the plaintiffs' motion. On May 31, 2012, plaintiffs appealed the District Court's dismissal of their complaint and the denial of plaintiffs' motion for reconsideration. The Court of Appeals for the First Circuit dismissed the appeal for lack of jurisdiction. On September 25, 2012 the District Court denied without prejudice the defendants' motion for reconsideration. On October 10, 2012 the parties filed their briefs with respect to class certification. On March 13, 2013, the district court denied plaintiffs' request for class certification and ordered the parties to brief the court on whether jurisdiction still exists under CAFA following such denial. On April 24, 2013, all parties briefed the court on this issue. On September 6, 2013, the District Court dismissed the Dentist Association for lack of associational standing, leaving only the individual dentists as plaintiffs. The court also granted plaintiffs' leave to amend their complaint to address mediation or settlement negotiations and, to cure deficiencies pertaining to the breach-of-contract claims. Originally the court granted plaintiffs until September 23 to comply with the order. On plaintiffs' motion, the Court extended the due date to December 23, 2013.

Claims by Heirs of Former Shareholders

The Company and TSS are defending six individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 92 shares of the Company or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts and allegations, the lawsuits generally allege that the redemption of the shares by the Company pursuant to transfer and ownership restrictions contained in the Company's (or its predecessors' or affiliates') articles of incorporation and bylaws was improper.



Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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In one of these cases, the plaintiffs argued that the redemption of shares was fraudulent and was not subject to the two-year statute of limitations contained in the local securities law. The Court of First Instance determined that the plaintiffs' claims are time barred under the local securities law. The plaintiffs appealed, and in January 2012, the Puerto Rico Court of Appeals upheld the dismissal, holding that even if the plaintiffs could have survived the securities law's two-year statute of limitations, their complaint was time-barred under the Civil Code's four-year statute of limitations on claims of fraud. On March 28, 2012 the plaintiffs filed a petition for writ of certiorari before the Puerto Rico Supreme Court that was granted on May 31, 2012. We filed our respondent's brief on October 5, 2012. On October 1, 2013, the Supreme Court reversed the dismissal of the case, returning it to the Court of First Instance for the continuance of the case.

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

In the third case, the court of First Instance denied our motion for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Court of First Instance. Our request for reconsideration was denied in December 2011. Trial is set to begin January 29, 2014.

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

The fifth case was filed on March 26, 2013, and the Company filed its response on May 16, 2013. Discovery is ongoing.

The sixth case was filed on April 16, 2013 and the Company filed its response on June 21, 2013. On June 28, 2013, the court of First Instance ordered the plaintiff to reply to the Company's response specifically on the matter of the statutes of limitations applicable to the complaint. Plaintiff failed to timely respond and the Company moved to dismiss. Plaintiff subsequently moved to amend the complaint. Although the Company opposed it, the court granted leave. The answer or other pleading to the complaint is due on November 14, 2013.

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



Intrusions into Triple-C, Inc. Internet IPA Database

On September 21, 2010, the Company learned from a competitor that a specific internet database managed by its subsidiary TCI containing information pertaining to individuals previously insured by TSS under the Government of Puerto Rico's Health Insurance Plan ("HIP") and to independent practice associations ("IPAs") that provided services to those individuals, had been accessed without authorization by certain of its competitor's employees from September 9 to September 15, 2010. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010.

31

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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The Company conducted an investigation of these events with the assistance of external resources and identified the information that was accessed and downloaded into the competitor's network.

The Company gave public notice of the intrusions and sent written notices to all identifiable beneficiaries potentially affected by the intrusions. It also established a toll-free call center to address inquiries and complaints from the individuals notified. The call center received approximately 1,530 inquiries. However, to date, the Company has not received complaints from potentially affected individuals.

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

The Company has conducted an assessment of its system-wide data and facility security and has taken measures to strengthen its systems' security and credential management procedures to prevent future intrusions.

On February 11, 2011, the Company filed an action before the Puerto Rico Court of First Instance against certain individuals believed to have participated in the intrusions. The complaint was later amended to include additional defendants, including the Company's competitor. After being removed to the federal District Court for Puerto Rico, this case was remanded to state court and is in its initial pleadings stage. On April 22, 2013, the state court denied all motions to dismiss filed in the case and ordered the defendants to answer the complaint. After some of the defendants had answered, the Company reached a settlement agreement and executed a release regarding the intrusions referenced above. A joint stipulation for dismissal with prejudice was executed and filed with the court on October 17, 2013.

Joint Underwriting Association Litigations

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

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

various inappropriate actions designed to defraud motor vehicle owners located in Puerto Rico and embezzle a portion of the CLI premiums for their benefit.

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

On December 30, 2011, TSP and other insurance companies filed a joint motion to dismiss, arguing that plaintiffs' claims are barred by the filed rate doctrine, inasmuch a suit cannot be brought, even under RICO, to amend the compulsory liability insurance rates that were approved by the Puerto Rico Legislature and the Commissioner of Insurance of Puerto Rico. The motion also argues that since RICO is not a federal statute that specifically relates to the business of insurance, and its application in the claims at issue would frustrate state policy and interfere with Puerto Rico's insurance administrative regime, the McCarran-Ferguson Act precludes plaintiffs' claims. Finally, TSP argued that plaintiffs failed to allege the necessary elements of an actionable RICO claim, or, in the alternative, their damages claim is time barred.

32

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Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

Given the early stage of this case, the Company cannot assess the probability of an adverse outcome, or the reasonable financial impact that the outcome may have on the Company. The Company intends to vigorously defend this lawsuit.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the BCBSA in a multi-district class action litigation that alleges that the exclusive service area (ESA) requirements of the Primary License Agreements with Plans violate antitrust law, and the plaintiffs in these suits seek monetary awards and in some instances, injunctive relief barring ESAs. Those cases have been centralized in the United States District Court for the Northern District of Alabama. Prior to centralization, motions have been filed to dismiss some of the cases and are pending the court's decision. Discovery has not yet commenced. The Company has joined BCBSA in vigorously contesting these claims.

Claims Relating to the Provision of Health Care Services

TSS is a defendant in a lawsuit filed in 2007 by Centro Médico del Turabo, Inc. ("CMT") in state court originally claiming approximately \$3,700 for collection of monies due to unpaid invoices for emergency services rendered to TSS-insured patients pursuant to the Puerto Rico Patients' Bill of Rights. In February 2012, CMT amended the complaint to increase the claimed amount to \$9,800. Discovery began in November 2012. After careful review of invoices provided by CMT during discovery, TSS determined in April 2013 that a number of these invoices are valid, but believes the amount due to CMT is substantially below the amount claimed. TSS is vigorously defending this lawsuit.

Several other claims for collection of monies have been filed against TSS in connection with the provision of health care services. Among them are individual complaints filed before the Puerto Rico Health Insurance Administration by six community health centers that contain similar breach of contract allegations and claim an aggregate of \$9,597.

Discovery has not yet commenced in these complaints, and given their early stage, the Company cannot assess the probability of an adverse outcome or the reasonable financial impact that any such outcome may have on the Company. However, we believe these complaints are time-barred and intend to vigorously defend them on these and other grounds.

Table of Contents

Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

## (14) Business Combination

On January 18, 2012, TSM completed the acquisition of 90.8% of the outstanding capital stock of a health clinic in Puerto Rico. The cost of this acquisition was approximately \$3,501, funded with unrestricted cash. The following table summarizes the net assets acquired as a result of this acquisition:

|  |          |
|--|----------|
| Cash                                     | \$816    |
| Accounts receivable                      | 1,466    |
| Property and equipment                   | 12,289   |
| Intangible asset                         | 2,730    |
| Other assets                             | 296      |
| Accounts payable and accrued liabilities | (2,233 ) |
| Loans payable                            | (13,838) |
| Total net assets                         | 1,526    |
| Fair value of noncontrolling interest    | (372 )   |
| Total net assets                         | \$1,154  |

The acquisition is being accounted for under the purchase method of accounting and the health clinic is included in the Company's consolidated financial statements from the January 18, 2012 acquisition date. The allocation of purchase price to the fair value of the acquired assets less the liabilities assumed indicated goodwill of approximately \$2,300. Goodwill will not be deductible for tax purposes and is attributable to synergies and economies of scale expected from the acquisition.

## (15) Subsequent Events

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

On November 7, 2013, one of the Corporation's subsidiaries, Triple-S Vida ("TSV") completed the acquisition of 100% of the outstanding shares of capital stock of Atlantic Southern Insurance Company ("ASICO") for an aggregate purchase price of approximately \$10 million. As a result of this acquisition, TSV expects to strengthen its leadership position in Puerto Rico's life insurance industry, and the Company, together with its health business units, will expand its managed care business footprint into Costa Rica and the English-speaking Caribbean. ASICO's results from operations are not reflected in the accompanying consolidated financial statements since the effective date of the transaction is November 7, 2013. The Company is in the process of obtaining third-party valuations of certain assets; thus, as of this date it is not possible to determine the allocation of the purchase price to the net assets acquired.

No other events have occurred that require disclosure or adjustments.

Table of Contents

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

In this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), the "Corporation", the "Company", "TSM", "we", "us" and "our" refers to Triple-S Management Corporation and its subsidiaries. MD&A included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and nine months ended September 30, 2013.

Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2012 and the MD&A included therein, and our unaudited consolidated financial statements and accompanying notes as of and for the three months and nine months ended September 30, 2013 included in this Quarterly Report on Form 10-Q.

Cautionary Statement Regarding Forward-Looking Information

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

Overview

We are one of the most significant players in the managed care industry in Puerto Rico and have over 50 years of experience in this industry. We offer a broad portfolio of managed care and related products in the Commercial and Medicare markets (including Medicare Advantage and the Part D stand-alone prescription drug plan ("PDP")). In the Commercial market we are the largest provider of managed care products. We offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement.

We also participate in the Government of Puerto Rico Health Reform (a government of Puerto Rico-funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S.) ("Medicaid"), by administering the provision of the physical health component in all the service regions in Puerto Rico effective October 1, 2013. For the nine months ended September 30, 2013, operating income generated under the Medicaid program represented 27% of our consolidated operating income. See details of the Medicaid contract in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012 under the sub-caption "We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business." See also sub-caption "Recent Developments—Managed Care—Medicaid Business" of this Quarterly Report on Form 10-Q.

We have the exclusive right to use the Blue Cross Blue Shield name and mark throughout Puerto Rico and U.S. Virgin Islands. As of September 30, 2013, we serve approximately 1,680,000 members across all regions of Puerto Rico and U.S. Virgin Islands. On October 1, 2013, we began to serve approximately 540,000 additional members through the government of Puerto Rico's MI SALUD program. For the nine months ended September 30, 2013, our managed care segment represented approximately 90% of our total consolidated premiums earned. We also have significant

positions in the life insurance and property and casualty insurance markets. Our life insurance segment had a market share of approximately 13.9% (in terms of direct premiums) during the year ended December 31, 2012. Our property and casualty segment had a market share of approximately 8.8% (in terms of direct premiums) during the year ended December 31, 2012.

We participate in the managed care market through our subsidiaries, Triple-S Salud, Inc. (“TSS”) and Socios Mayores en Salud Holdings, Inc. (from now on referred to as “American Health” or “AH”). TSS is a Blue Cross Blue Shield Association (“BCBSA”) licensee, which provides us with exclusive use of the Blue Cross Blue Shield name and mark throughout Puerto Rico and U.S. Virgin Islands. Also, as of January 1, 2013, AH was granted the license to use the names and mark of the BCBSA in Puerto Rico.

35

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Table of Contents

We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. (“TSV”) and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. (“TSP”), each one representing approximately 6% and 4%, respectively, of our consolidated premiums earned, net for the nine months ended September 30, 2013.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. The following table shows premiums earned, net and net fee revenue and operating income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

| (Dollar amounts in millions)             | Three months ended |                    | Nine months ended  |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Premiums earned, net:                    |                    |                    |                    |                    |
| Managed care                             | \$491.4            | \$508.5            | \$1,484.6          | \$1,532.8          |
| Life insurance                           | 32.4               | 31.8               | 96.3               | 92.5               |
| Property and casualty insurance          | 24.7               | 25.9               | 74.9               | 71.7               |
| Intersegment premiums earned             | (0.6 )             | (0.6 )             | (1.9 )             | (1.8 )             |
| Consolidated premiums earned, net        | \$547.9            | \$565.6            | \$1,653.9          | \$1,695.2          |
| Administrative service fees:             |                    |                    |                    |                    |
| Managed care                             | \$23.4             | \$28.4             | \$81.1             | \$86.0             |
| Intersegment administrative service fees | (1.0 )             | (1.2 )             | (3.0 )             | (3.5 )             |
| Consolidated administrative service fees | \$22.4             | \$27.2             | \$78.1             | \$82.5             |
| Operating income:                        |                    |                    |                    |                    |
| Managed care                             | \$7.3              | \$7.3              | \$41.2             | \$33.3             |
| Life insurance                           | 3.8                | 4.1                | 11.5               | 12.5               |
| Property and casualty insurance          | 0.4                | 1.9                | 1.0                | 4.1                |
| Intersegment and other                   | (1.2 )             | 2.2                | (3.8 )             | (1.4 )             |
| Consolidated operating income            | \$10.3             | \$15.5             | \$49.9             | \$48.5             |

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

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



We use operating income as a measure of performance of the underwriting and investment functions of our segments.

We also use the loss ratio and the operating expense ratio as measures of performance. The loss ratio is claims incurred divided by premiums earned, net, multiplied by 100. The operating expense ratio is operating expenses divided by premiums earned; net and administrative service fees, multiplied by 100.

36

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Table of Contents

Recent Developments

Puerto Rico's Economy

History and description

Puerto Rico's economy is currently in a recession that began in the fourth quarter of fiscal year 2006, during which the real gross national product grew by only 0.5%. For fiscal years 2007, 2008, 2009, 2010 and 2011 the real gross national product contracted by 1.2%, 2.9%, 3.8%, 3.6%, and 1.6% respectively. For fiscal year 2012 Puerto Rico's gross national product grew by 0.1%. The latest projections of the Puerto Rico Planning Board (the "Planning Board") made in April 2013, which took into account the preliminary results for fiscal year 2012, the estimated effects on the Puerto Rico economy of the United States' budget sequestration, the end of the American Recovery and Reinvestment Act (ARRA) funds, the impact of the initial phase of the tax reform, the recent initiatives to promote private employment creation, the end of the local stimulus plan, and other economic factors, projected (base scenario) that Puerto Rico's real gross national product for fiscal year 2013 will decrease by 0.4%. Puerto Rico's real gross national product for fiscal year 2014 is forecasted to grow by 0.2%.

In fiscal year 2012, aggregate personal income was \$59.4 billion and personal income per capita was \$15,995. From fiscal year 2000 to fiscal year 2012, total employment decreased at an average annual rate of 0.9%, from 1,150,291 to 1,035,465. According to the Puerto Rico Department of Labor and Human Resources Household Employment Survey, known as the "Household Survey", total employment fell by 1.1% in fiscal year 2012 and remained stationary with a negative 0.1% growth for the first nine months of fiscal year 2013. The unemployment rate for fiscal year 2012 and for the first nine months of fiscal year 2013 was 15.2% and 14.2%, respectively.

The dominant sectors of the Puerto Rico economy in terms of production and income are manufacturing and services. The services sector, which includes finance, insurance, real estate, wholesale and retail trade, transportation, communications and public utilities, and other services, plays a major role in the economy. It ranks second to manufacturing in contribution to the gross domestic product and leads all sectors in providing employment.

The economy of Puerto Rico is closely linked to that of the United States, as most of the external factors that affect the Puerto Rico economy (other than the price of oil) are determined by the policies and results of the U.S. These external factors include exports, direct investment, the amount of federal transfer payments, the level of interest rates, the rate of inflation, and tourist expenditures. In recent years, economic growth in Puerto Rico has not been consistent with the performance of the United States economy. Since 2000, the Government of Puerto Rico ("the Government") has faced a number of fiscal challenges, including a continued imbalance between its general fund revenues and expenditures, reaching its highest level in fiscal year 2009 with a deficit of \$3.3 billion. Deficits were generally bridged through the use of non-recurring measures, such as borrowings, postponing payments to suppliers, and other one-time measures such as the use of derivatives and borrowings collateralized with government-owned real estate. Recurrent budget deficits have substantially increased the amount of public sector debt. The total outstanding public sector debt amounted to \$70.4 billion as of March 31, 2013. We depend on Government contracts for a significant amount of our consolidated revenues. If the Government is unable to fund payment on these contracts, our results of operations would be materially affected.

Recent measures

In recent years, the Government has been focused on implementing measures to achieve fiscal balance, restore economic growth, find solutions for its underfunded pension system and thereby safeguard the investment-grade ratings of its bonds. Measures taken include (1) a reduction in the amount of Governmental employees, (2) tax reform, (3) privatization of the airport and certain highways through public-private partnerships, and (4) a pension reform reducing benefits and increasing retirement age.

On June 30, 2013 the Governor of Puerto Rico signed House Bill 1073 (Act 40-2013) and other Bills, such as HB 1172 (Act 46-2013) and 991 (Act 42-2013) into law. These new laws represent significant changes to the Puerto Rico Internal Revenue Code of 2011, as amended ("2011 Code"). Relevant amendments to the 2011 Code impacting income taxes include the expansion of the corporate alternative minimum tax and individual alternative basic tax in lieu of the proposed "National Gross Receipts Tax", a moratorium on tax credits, modified excise taxes, sales and use taxes, and taxes on insurance premiums. These changes, as applicable, have been considered and recorded in the Corporation's financial statements as of and for the nine months ended September 30, 2013. In addition to the changes in the 2011 Code, the Government of Puerto Rico may take other revenue raising measures, which could have a material adverse effect on our business, financial condition and results of operations.

37

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### Table of Contents

In October 2013 a bill to amend Act 91-2006 was signed into law. The amendments in this bill expand the capacity of the Sales Tax Financing Corporation, also known as Cofina, to issue additional bonds. The amendments increase the Sales and Use Tax percentage allocated to Cofina from 2.75 percent to 3.50 percent, and allows the use of these funds for financings related to the budgets of fiscal years 2012, 2013 and 2014.

### Rating agencies and markets

In December 2012, Moody's downgraded Puerto Rico General Obligation debt from Baa1 to Baa3, combined with a negative outlook. In March 2013, Standard & Poor's downgraded Puerto Rico General Obligation debt to BBB-, combined with a negative outlook. In March 2013, Fitch also downgraded Puerto Rico General Obligation debt to BBB-, combined with a negative outlook.

In September 2013, Standard & Poor's affirmed its ratings on sales tax bonds issued by the Puerto Rico Sales Tax Financing Corporation (AA- for senior lien bonds, A+ for subordinate bonds), also known as Cofina, but revised its outlook to negative. In October 2013, Moody's affirmed its rating and the negative outlook on General Obligation Debt. Moody's downgraded senior lien sales tax bonds from Aa3 to A2 and added a negative outlook on both senior lien and subordinate sales tax bonds.

Recently, Puerto Rico bonds have experienced steep price declines due to various factors. Since the end of May, interest rates for longer dated maturities have risen on the back of the expectation of a decrease ("tapering") in asset purchases by the Federal Reserve. Besides this, the overall municipal market has underperformed compared to other fixed income sectors on the back of mutual fund outflows. Besides these general factors, investor worries about the economic and financial situation of the Commonwealth caused underperformance of Puerto Rico bonds.

### Managed Care – Medicaid Business

On July 1, 2013, TSS, amended and restated its agreement with the Puerto Rico Health Insurance Administration ("ASES" by its Spanish acronym). The amended and restated agreement (the "Contract") extends the administration of the provision of the physical health component of the Medicaid program in service regions in the Commonwealth of Puerto Rico currently administered by TSS for a 12-month period. The Contract also transfers the administration of the three remaining service regions to TSS upon completion of a transition period, which ended on October 1, 2013 (the "Transition"). The Contract provides for a reduction in the per-member per-month fee when compared to the previous agreement that expired on September 30, 2013, and expires on June 30, 2014. TSS will receive a per-member per-month administrative fee for its services and will not bear the insurance risk of the program.

Under the terms of the Contract, TSS is a third-party administrator responsible for the provision of administrative services to Medicaid enrollees in all the Puerto Rico regions: West, North, Metro North, San Juan, Northeast, Virtual (which covers services provided throughout Puerto Rico to children in foster care and certain victims of domestic violence) and, after completion of the Transition, Southwest, Southeast and East. The administrative services to be provided include case, disease and utilization management, network management and credentialing, enrollment and enrollee services and claims administration, among others.

### Recent Accounting Standards

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

Table of ContentsManaged Care Membership

|   | As of September 30, |           |
|---|---------------------|-----------|
|   | 2013                | 2012      |
| Managed care enrollment:                        |                     |           |
| Commercial <sup>1</sup>                         | 668,287             | 708,643   |
| Medicare <sup>2</sup>                           | 114,783             | 122,925   |
| Medicaid <sup>3</sup>                           | 896,452             | 872,496   |
| Total   | 1,679,522           | 1,704,064 |
| Managed care enrollment by funding arrangement: |                     |           |
| Fully-insured                                   | 570,323             | 606,028   |
| Self-insured                                    | 1,109,199           | 1,098,036 |
| Total   | 1,679,522           | 1,704,064 |

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

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

(3) All are self-funded members.

39

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Table of ContentsConsolidated Operating Results

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

| (Dollar amounts in millions)                            | Three months ended |                    | Nine months ended  |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Revenues:   |                    |                    |                    |                    |
| Premiums earned, net                                    | \$547.9            | \$565.6            | \$1,653.9          | \$1,695.2          |
| Administrative service fees                             | 22.4               | 27.2               | 78.1               | 82.5               |
| Net investment income                                   | 11.4               | 11.6               | 34.8               | 34.3               |
| Other operating revenues                                | 1.2                | 1.2                | 3.6                | 3.3                |
| Total operating revenues                                | 582.9              | 605.6              | 1,770.4            | 1,815.3            |
| Net realized investment gains (losses)                  | (0.1 )             | -                  | 3.4                | 2.2                |
| Other income, net                                       | 13.9               | 0.6                | 14.8               | 1.5                |
| Total revenues  | 596.7              | 606.2              | 1,788.6            | 1,819.0            |
| Benefits and expenses:                                  |                    |                    |                    |                    |
| Claims incurred   | 456.4              | 485.5              | 1,369.2            | 1,457.4            |
| Operating expenses                                      | 116.2              | 104.6              | 351.3              | 309.4              |
| Total operating expenses                                | 572.6              | 590.1              | 1,720.5            | 1,766.8            |
| Interest expense  | 2.4                | 2.9                | 7.2                | 8.1                |
| Total benefits and expenses                             | 575.0              | 593.0              | 1,727.7            | 1,774.9            |
| Income before taxes                                     | 21.7               | 13.2               | 60.9               | 44.1               |
| Income tax expense                                      | 3.1                | 1.5                | 5.0                | 7.8                |
| Net income  | 18.6               | 11.7               | 55.9               | 36.3               |
| Less: net loss attributable to non-controlling interest | -                  | -                  | 0.1                | -                  |
| Net income attributable to TSM                          | \$18.6             | \$11.7             | \$56.0             | \$36.3             |

## Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

## Operating Revenues

Consolidated premiums earned, net decreased by \$17.7 million, or 3.1%, to \$547.9 million during the three months ended September 30, 2013 when compared to the three months ended September 30, 2012; mostly due to a decrease in Managed Care premiums resulting from lower member month enrollment in the Commercial and Medicare businesses.

The consolidated administrative service fees decreased by \$4.8 million, or 17.6% during the three months ended September 30, 2013 when compared with the three months ended September 30, 2012, mostly as the result of the new MI SALUD contract, which included lower per-member per-month fees. This new rate was effective on July 1, 2013.

## Other Income

Other income increased by \$13.3 million, during the three months ended September 30, 2013 when compared to the three months ended September 30, 2012, mostly due to a special distribution received from the Puerto Rico Joint Underwriting Association ("JUA") in the Property and Casualty segment of \$12.8 million, net of tax.

## Claims Incurred

Consolidated claims incurred decreased by \$29.1 million, or 6.0%, to \$456.4 million during the three months ended September 30, 2013 when compared to the claims incurred during the three months ended September 30, 2012. This decrease is mostly due to lower claims in the Managed Care segment reflecting the decreased member month enrollment in the Commercial and Medicare businesses, and lower utilization and cost trends in the Medicare business. The claims incurred in the Property and Casualty and Life Insurance segments increased during this period as the result of an unfavorable loss experience. The consolidated loss ratio decreased by 250 basis points to 83.3%.

40

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Table of Contents

Operating Expenses

Consolidated operating expenses during the three months ended September 30, 2013 increased by \$11.6 million, or 11.1%, to \$116.2 million as compared to the operating expenses during the three months ended September 30, 2012.

For the three months ended September 30, 2013, the consolidated operating expense ratio increased by 280 basis points to 20.4%. The higher operating expenses and operating expenses ratio are mainly related to special technology initiatives, expenses related to the reorganization of the Medicare business, higher payroll and related expenses mostly as a result of recruitment of additional Medicare sales force, an increase in professional services related to our CMS star ratings efforts, and the additional expenses incurred to serve the additional three regions in the MI SALUD program effective October 1, 2013. Operating expenses for the quarter also include \$2.6 million in premium taxes. These premium taxes became effective on July 1, 2013.

Income Tax Expense

Consolidated income tax expense during the three months ended September 30, 2013 increased by \$1.7 million, to \$3.1 million, as compared to the income tax expense during the three months ended September 30, 2012, due to an increase in the enacted tax rate from 30% to 39% that was effective January 1, 2013. Consequently, the effective tax rate increased from 11.4% during the three months ended September 30, 2012 to 14.3% during the three months ended September 30, 2013.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Revenues

Consolidated premiums earned, net decreased by \$41.3 million, or 2.4%, to \$1,653.9 million during the nine months ended September 30, 2013 when compared to the nine months ended September 30, 2012. The decrease was mostly the result of the lower member month enrollment in the Medicare and Commercial businesses and the receipt of lower risk score adjustments from CMS in 2013 as compared to 2012.

The consolidated administrative service fees decreased by \$4.4 million, or 5.3% during the nine months ended September 30, 2013 when compared with the nine months ended September 30, 2012, mostly as the result of the new MI SALUD contract, which includes lower per-member per-month fees. This new rate was effective July 1, 2013.

Net Realized Investment Gains

Consolidated net realized investment gains of \$3.4 million during the 2013 period are the result of net realized gains from the sale of debt and equity securities.

Other Income

Other income increased by \$13.3 million, during the nine months ended September 30, 2013 when compared to the nine months ended September 30, 2012, mostly due to a special distribution received from JUA in the Property and Casualty segment of \$12.8 million, net of tax.

Claims Incurred

Consolidated claims incurred decreased by \$88.2 million, or 6.1%, to \$1,369.2 million during the nine months ended September 30, 2013 when compared to the claims incurred during the nine months ended September 30, 2012. This decrease in the claims incurred primarily results from the lower Managed Care member month enrollment and lower utilization and cost trends in the Medicare and Commercial businesses. This decrease was partially offset by an



increase in claims of the Life and Property and Casualty segments. The consolidated loss ratio decreased by 320 basis points to 82.8%.

41

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Table of Contents

Operating Expenses

Consolidated operating expenses during the nine months ended September 30, 2013 increased by \$41.9 million, or 13.5%, to \$351.3 million as compared to the operating expenses during the nine months ended September 30, 2012.

For the nine months ended September 30, 2013, the consolidated operating expense ratio increased by 290 basis points to 20.3%. The higher operating expenses and operating expenses ratio are mainly related to special technology initiatives, expenses related to the reorganization of the Medicare business, higher payroll and related expenses mostly as a result of recruitment of additional Medicare sales force, and the additional expenses incurred to serve the additional three regions in the MI SALUD program effective October 1, 2013. In 2012, the sales efforts for some MA products were outsourced. Professional services also reflect an increase related to our CMS star ratings efforts.

Operating expenses for the nine months ended September 30, 2013 also include \$2.6 million in premium taxes.

These premium taxes became effective on July 1, 2013.

Income Tax Expense

Consolidated income tax expense during the nine months ended September 30, 2013 decreased by \$1.6 million, to \$5.0 million, as compared to the income tax expense during the nine months ended September 30, 2012. This decrease is primarily due to the effect of a \$7.7 million adjustment to the consolidated net deferred tax assets after an increase in the enacted tax rate from 30% to 39%, net of additional tax expense due to the aforementioned tax rate increase that was effective January 1, 2013. Consequently, the effective tax rate decreased by 950 basis points from 17.7% during the nine months ended September 30, 2012, to 8.2% during the nine months ended September 30, 2013.

42

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Table of ContentsManaged Care Operating Results

| (Dollar amounts in millions)         | Three months ended |           | Nine months ended |            |
|--------------------------------------|--------------------|-----------|-------------------|------------|
|                                      | September 30,      |           | September 30,     |            |
|                                      | 2013               | 2012      | 2013              | 2012       |
| Operating revenues:                  |                    |           |                   |            |
| Medical premiums earned, net:        |                    |           |                   |            |
| Commercial                           | \$233.6            | \$240.5   | \$705.9           | \$724.9    |
| Medicare                             | 257.8              | 268.0     | 778.7             | 807.9      |
| Medical premiums earned, net         | 491.4              | 508.5     | 1,484.6           | 1,532.8    |
| Administrative service fees          | 23.4               | 28.4      | 81.1              | 86.0       |
| Net investment income                | 4.0                | 3.9       | 12.0              | 11.7       |
| Total operating revenues             | 518.8              | 540.8     | 1,577.7           | 1,630.5    |
| Medical operating costs:             |                    |           |                   |            |
| Medical claims incurred              | 425.8              | 456.0     | 1,277.6           | 1,373.5    |
| Medical operating expenses           | 85.7               | 77.5      | 258.9             | 223.7      |
| Total medical operating costs        | 511.5              | 533.5     | 1,536.5           | 1,597.2    |
| Medical operating income             | \$7.3              | \$7.3     | \$41.2            | \$33.3     |
| Additional data:                     |                    |           |                   |            |
| Member months enrollment:            |                    |           |                   |            |
| Commercial:                          |                    |           |                   |            |
| Fully-insured                        | 1,372,671          | 1,448,985 | 4,155,820         | 4,375,260  |
| Self-funded                          | 641,177            | 676,007   | 1,964,761         | 2,007,635  |
| Total Commercial member months       | 2,013,848          | 2,124,992 | 6,120,581         | 6,382,895  |
| Medicare:                            |                    |           |                   |            |
| Medicare Advantage                   | 319,434            | 342,180   | 957,848           | 1,011,150  |
| Stand-alone PDP                      | 24,492             | 25,502    | 72,930            | 76,197     |
| Total Medicare member months         | 343,926            | 367,682   | 1,030,778         | 1,087,347  |
| Medicaid member months - Self-funded | 2,668,236          | 2,631,532 | 7,989,168         | 7,886,395  |
| Total member months                  | 5,026,010          | 5,124,206 | 15,140,527        | 15,356,637 |
| Medical loss ratio                   | 86.7               | % 89.7    | % 86.1            | % 89.6     |
| Operating expense ratio              | 16.6               | % 14.4    | % 16.5            | % 13.8     |
| Operating income margin              | 1.4                | % 1.3     | % 2.6             | % 2.0      |

## Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

## Medical Operating Revenues

Medical premiums earned for the three months ended September 30, 2013 decreased by \$17.1 million, or 3.4%, to \$491.4 million when compared to the medical premiums earned during the three months ended September 30, 2012. This decrease is principally the result of the following:

Medical premiums generated by the Medicare business decreased during the three months ended September 30, 2013 by \$10.2 million, or 3.8%, to \$257.8 million. This fluctuation primarily results from the overall decrease in the member month enrollment of this business by approximately 24,000, or 6.5%, when compared with the same period in 2012. Decrease in member month enrollment was attributed to lower sales of our non-dual offerings, which decreased by approximately 37,000, or 20.8%, during the 2013 period.

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Medical premiums generated by the Commercial business decreased by \$6.9 million, or 2.9%, to \$233.6 million during the three months ended September 30, 2013, primarily resulting from the overall decrease in the member month enrollment of this business by approximately 76,000, or 5.3%. The reduction in membership stems from a combination of higher level of attrition in existing accounts as a result of the prevailing economic conditions, plus the loss of some accounts resulting from a more stringent pricing process and market competition. This decrease is partially offset by a moderate increase in average premium rates of approximately 2.5%.

43

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### Table of Contents

Administrative service fees decreased by \$5.0 million, or 17.6% during the three months ended September 30, 2013 when compared with the three months ended September 30, 2012, mostly as the result of the new MI SALUD contract, which includes lower per-member per-month fees. This new rate was effective at the beginning of July 2013.

### Medical Claims Incurred

Medical claims incurred during the three months ended September 30, 2013 decreased by \$30.2 million, or 6.6%, to \$425.8 million when compared to the three months ended September 30, 2012. The medical loss ratio ("MLR") of the segment decreased 300 basis points during the 2013 period, to 86.7%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Medicare business decreased by \$25.6 million, or 10.7% during 2013 and its MLR decreased by 640 basis points, to 83.0% for the three months ended September 30, 2013. Excluding the effect of risk-score premium adjustments and prior period reserve developments in the 2013 and 2012 periods the MLR decreased 300 basis points, mostly as the result of improved drug costs in AH after the new Pharmacy Benefit Manager ("PBM") contract and the impact of changes in 2013 product design, partially offset by higher utilization trends during this period. The medical claims for this quarter were positively impacted by a higher level of rebates in pharmacy.

The medical claims incurred of the Commercial business decreased by \$4.3 million, or 2.0%, during the 2013 period mostly due to the lower fully-insured member month enrollment. The Commercial MLR was 90.5%, which is 70 basis points lower than the MLR for the prior year. Excluding the effect of prior period reserve developments in both periods, the MLR increased by 220 basis points, reflecting higher utilization, plus a higher loss ratio in our USVI operation, principally as a result of occurrence of some shock claims during this quarter.

### Medical Operating Expenses

Medical operating expenses for the three months ended September 30, 2013 increased by \$8.2 million, or 10.6%, to \$85.7 million when compared to the three months ended September 30, 2012. The operating expense ratio increased by 220 basis points, from 14.4% in 2012 to 16.6% in 2013. This increase is mainly related to on-going special project initiatives to comply with regulatory requirements, higher payroll and related expenses mostly as a result of recruitment of additional Medicare sales force, an increase in professional services related to our Medicare risk scoring and CMS star ratings efforts, and expenses incurred as preparation to administer the three new service regions of the MI SALUD program effective October 1, 2013. In addition, there were \$2.0 million in the new premiums tax that became effective on July 1, 2013.

### Nine months Ended September 30, 2013 Compared to Nine months Ended September 30, 2012

### Medical Operating Revenues

Medical premiums earned for the nine months ended September 30, 2013 decreased by \$48.2 million, or 3.1%, to \$1,484.6 million when compared to the medical premiums earned during the nine months ended September 30, 2012. This decrease is principally the result of the following:

Medical premiums generated by the Medicare business decreased during the nine months ended September 30, 2013 by \$29.2 million, or 3.6%, to \$778.7 million. This fluctuation is the result of an overall decrease in the member month enrollment of this business by approximately 57,000, or 5.2%, when compared with the same period in 2012. Decrease in member month enrollment was attributed to lower sales of our non-dual offerings. Also contributing to this fluctuation is the receipt of a lower risk score adjustments from CMS in 2013 as compared to 2012. The nine

months ended September 30, 2013 and 2012 include the net effect of approximately \$2.9 million and \$12.6 million, respectively, related to CMS final risk scores adjustments corresponding to prior periods.

Medical premiums generated by the Commercial business decreased by \$19.0 million, or 2.6%, to \$705.9 million during the nine months ended September 30, 2013. This fluctuation is primarily the result of a decrease in member month enrollment by approximately 219,000, or 5.0%, which was partially offset by an increase in average premium rates of approximately 2.5%. The decrease in member month enrollment is mostly due to the non-renewal of one large commercial account and a higher level of attrition, due to the prevailing economic conditions in the island.

Table of Contents

Administrative service fees decreased by \$4.9 million, or 5.7% during the nine months ended September 30, 2013 when compared with the nine months ended September 30, 2012, mostly as the result of the lower per-member per-month service fee rates considered in the new MI SALUD contract. The lower rates were effective at the beginning of July 2013.

Medical Claims Incurred

Medical claims incurred during the nine months ended September 30, 2013 decreased by \$95.9 million, or 7.0%, to \$1,277.6 million when compared to the nine months ended September 30, 2012. The MLR of the segment decreased 350 basis points during the 2013 period, to 86.1%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Medicare business decreased by \$74.6 million, or 10.3% during the 2013 period and its MLR was 83.4%, which is 620 basis points lower than the MLR for the prior year. The lower member month enrollment in this sector contributed to the decrease in claims incurred. Excluding the effect of risk-score premium adjustments and prior period reserve developments in the 2013 and 2012 periods, the MLR decreased by 420 basis points, mostly as the result of lower utilization and cost trends. The decrease also reflects improved drug costs after the new PBM contract in AH and the impact of changes in 2013 product design.

The medical claims incurred of the Commercial business decreased by \$19.3 million, or 3.0%, during the 2013 period mostly due to the lower fully-insured member month enrollment. The commercial MLR was 88.8%, which is 40 basis points lower than the MLR for the prior year. Excluding the effect of favorable prior period reserve developments in 2013 and 2012, the MLR would have increased by 90 basis points, mostly reflecting higher utilization, plus a higher loss ratio in our USVI operation, principally as a result of occurrence of some shock claims during this quarter.

Medical Operating Expenses

Medical operating expenses for the nine months ended September 30, 2013 increased by \$35.2 million, or 15.7%, to \$258.9 million when compared to the nine months ended September 30, 2012. The operating expense ratio increased by 270 basis points, from 13.8% in 2012 to 16.5% in 2013. This increase is mainly related to on-going special project initiatives related to TSS's core system upgrade to QNXT 5.0, the implementation of a new financial system, expenses related to the reorganization of the Medicare business, higher payroll and related expenses mostly as a result of recruitment of additional Medicare sales force, an increase in professional services related to our Medicare risk scoring and CMS star ratings efforts, consultants' fees for the Medicare integration process, premium taxes of \$2.0 million, and to a lesser extent, expenses incurred to prepare for the administration of the three new service regions of the MI SALUD program, effective October 1, 2013.

Table of ContentsLife Insurance Operating Results

| (Dollar amounts in millions)        | Three months ended |        | Nine months ended  |        |
|-------------------------------------|--------------------|--------|--------------------|--------|
|                                     | September 30, 2013 | 2012   | September 30, 2013 | 2012   |
| Operating revenues:                 |                    |        |                    |        |
| Premiums earned, net:               |                    |        |                    |        |
| Premiums earned                     | \$34.5             | \$33.8 | \$102.6            | \$98.5 |
| Premiums earned ceded               | (2.1)              | (2.0)  | (6.3)              | (6.0)  |
| Premiums earned, net                | 32.4               | 31.8   | 96.3               | 92.5   |
| Net investment income               | 5.3                | 5.2    | 16.3               | 15.3   |
| Total operating revenues            | 37.7               | 37.0   | 112.6              | 107.8  |
| Operating costs:                    |                    |        |                    |        |
| Policy benefits and claims incurred | 17.7               | 17.3   | 52.4               | 48.7   |
| Underwriting and other expenses     | 16.2               | 15.6   | 48.7               | 46.6   |
| Total operating costs               | 33.9               | 32.9   | 101.1              | 95.3   |
| Operating income                    | \$3.8              | \$4.1  | \$11.5             | \$12.5 |
| Additional data:                    |                    |        |                    |        |
| Loss ratio                          | 54.6%              | 54.4%  | 54.4%              | 52.6%  |
| Operating expense ratio             | 50.0%              | 49.1%  | 50.6%              | 50.4%  |

## Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

## Operating Revenues

Premiums earned, net for the three months ended September 30, 2013 increased by \$0.6 million, or 1.9%, to \$32.4 million when compared to the three months ended the September 30, 2012. The increase is mostly related to premium growth in the segment's Cancer and Group Disability businesses, which increased a combined \$1.1 million or 7.1% over last year premiums, offset in part by a reduction in premiums in the individual life lines.

## Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the three months period ended September 30, 2013 increased by \$0.4 million, or 2.3% to \$17.7 million when compared to the three months ended September 30, 2012. The increase is mostly driven by an increased claims experience in the Cancer line of business when compared to the same period last year. As a result, the segment's loss ratio increased, from 54.4% in 2012 to 54.6% in 2013.

## Underwriting and Other Expenses

Underwriting and other expenses for the three month period ended September 30, 2013 increased \$0.6 million, or 3.8%, to \$16.2 million when compared to the 2012 period, mostly related to a lower amount of expenses capitalized as Deferred Policy Acquisition Costs primarily due to lower commission expenses, and to premium taxes, which amounted to \$0.3 million. As a result, the segment's operating expense ratio increased by 90 basis points from 49.1% in 2012 to 50.0% in 2013.

## Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

## Operating Revenues



Premiums earned, net increased for the nine months ended September 30, 2013 by \$3.8 million, or 4.1%, to \$96.3 million when compared to the nine months period ended September 30, 2012. The increase is mostly related to new sales in the Individual Life and Cancer businesses, which presented a year over year increase of \$3.9 million, or 4.5%.

#### Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the nine months period ended September 30, 2013 increased by \$3.7 million, or 7.6%, to \$52.4 million when compared to the nine month period ended September 30, 2012. This increase is the result of claims received in the 2013 period, reflecting the growth of the segment's inforce portfolio. As a result, the loss ratio increased from 52.6% in 2012 to 54.4% in 2013.

46

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Table of Contents

## Underwriting and Other Expenses

Underwriting and other expenses for the nine months period ended September 30, 2013 increased \$2.1 million or 4.5%, to \$48.7 million when compared to the nine months ended September 30, 2012, mostly related to a lower amount of expenses capitalized as Deferred Policy Acquisition Costs, primarily resulting from lower commission expenses. As a result, the operating expense ratio slightly increased from 50.4% in 2012 to 50.6% in 2013.

Property and Casualty Insurance Operating Results

| (Dollar amounts in millions)    | Three months ended |                    | Nine months ended  |                    |
|---------------------------------|--------------------|--------------------|--------------------|--------------------|
|                                 | September 30, 2013 | September 30, 2012 | September 30, 2013 | September 30, 2012 |
| Operating revenues:             |                    |                    |                    |                    |
| Premiums earned, net:           |                    |                    |                    |                    |
| Premiums written                | \$37.6             | \$40.0             | \$114.8            | \$119.3            |
| Premiums ceded                  | (15.5 )            | (16.7 )            | (43.6 )            | (47.3 )            |
| Change in unearned premiums     | 2.6                | 2.6                | 3.7                | (0.3 )             |
| Premiums earned, net            | 24.7               | 25.9               | 74.9               | 71.7               |
| Net investment income           | 2.0                | 2.2                | 6.1                | 6.7                |
| Total operating revenues        | 26.7               | 28.1               | 81.0               | 78.4               |
| Operating costs:                |                    |                    |                    |                    |
| Claims incurred                 | 13.5               | 12.8               | 41.1               | 36.8               |
| Underwriting and other expenses | 12.8               | 13.4               | 38.9               | 37.5               |
| Total operating costs           | 26.3               | 26.2               | 80.0               | 74.3               |
| Operating income                | \$0.4              | \$1.9              | \$1.0              | \$4.1              |
| Additional data:                |                    |                    |                    |                    |
| Loss ratio                      | 54.7 %             | 49.4 %             | 54.9 %             | 51.3 %             |
| Operating expense ratio         | 51.8 %             | 51.7 %             | 51.9 %             | 52.3 %             |
| Combined ratio                  | 106.5 %            | 101.1 %            | 106.8 %            | 103.6 %            |

## Three Months Ended September 30, 2013 Compared to Three Months Ended September 30, 2012

## Operating Revenues

Total premiums written during the three months ended September 30, 2013 decreased by \$2.4 million, or 6.0%, to \$37.6 million, mostly resulting from lower writings of Commercial Property and Dwelling insurance products.

Premiums ceded to reinsurers during the three months ended September 30, 2013 decreased by \$1.2 million, or 7.2%, to \$15.5 million. The ratio of premiums ceded to premiums written decreased by 60 basis points, from 41.8% in 2012 to 41.2% in 2013, mostly resulting from a change in the mix of business subscribed by the segment.

## Claims Incurred

Claims incurred during the three months ended September 30, 2013 increased by \$0.7 million, or 5.5%, to \$13.5 million. The loss ratio increased by 530 basis points, to 54.7% during this period as a result of an unfavorable loss experience, mostly in General Liability and Auto Insurance products.

## Underwriting and Other Expenses

Underwriting and other operating expenses for the three months ended September 30, 2013 decreased by \$0.5 million, or 3.7%, to \$12.9 million, primarily due to a lower net commission expense. Premium taxes for this segment were \$0.3 million. The operating expense ratio increased by 50 basis points during the same period, to 52.2% in 2013, resulting from lower volume of premiums of the segment.

47

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Table of Contents

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Operating Revenues

Total premiums written during the nine months ended September 30, 2013 decreased by \$4.5 million, or 3.8%, to \$114.8 million, mostly resulting from lower sales of Dwelling insurance products.

Premiums ceded to reinsurers during the nine months ended September 30, 2013 decreased by \$3.7 million, or 7.8%, to \$43.6 million. The ratio of premiums ceded to premiums written decreased by 160 basis points, from 39.6% in 2012 to 38.0% in 2013, mostly resulting from a change in the mix of business subscribed and lower level of premiums during 2013.

The change in unearned premiums presented an increase of \$4.0 million, to \$3.7 million during the nine months ended September 30, 2013, primarily as the result of the lower volume of premiums written in 2013.

Claims Incurred

Claims incurred during the nine months ended September 30, 2013 increased by \$4.3 million, or 11.7%, to \$41.1 million. The loss ratio increased by 360 basis points, to 54.9% during this period as a result of an unfavorable loss experience, mostly in the Commercial Package, General Liability and Auto Insurance lines of business. The increase also reflects a lower proportion of Dwelling business in our portfolio.

Underwriting and Other Expenses

Underwriting and other operating expenses for the nine months ended September 30, 2013 increased by \$1.4 million, or 3.7%, to \$38.9 million. This increase is mainly related to an assessment received from the Puerto Rico Guarantee Fund and recorded as a charge to operations of \$1.1 million to cover the insolvencies of insurers under liquidation. This assessment is expected to be recovered with policy surcharges in premiums written after September 2013. However, the operating expense ratio decreased by 40 basis points during the same period, to 51.9% in 2013.

Table of ContentsLiquidity and Capital Resources

## Cash Flows

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

| (Dollar amounts in millions)                           | Nine months<br>ended<br>September 30, |          |
|--|---------------------------------------|----------|
|  | 2013                                  | 2012     |
| Sources of cash:                                       |                                       |          |
| Cash provided by operating activities                  | \$102.1                               | \$112.1  |
| Proceeds from short-term borrowings                    | -                                     | 11.2     |
| Proceeds from policyholder deposits                    | 8.1                                   | 32.9     |
| Other  | 22.8                                  | 0.3      |
| Total sources of cash                                  | 133.0                                 | 156.5    |
| Uses of cash:  |                                       |          |
| Net purchases of investment securities                 | (77.0 )                               | (113.0 ) |
| Net capital expenditures                               | (8.9 )                                | (8.7 )   |
| Repurchase and retirement of common stock              | (18.3 )                               | (0.6 )   |
| Repayments of long-term borrowings                     | (11.5 )                               | (26.5 )  |
| Repayments of short-term borrowings                    | (16.6 )                               | -        |
| Surrenders of policyholder deposits                    | (7.5 )                                | (4.8 )   |
| Acquisition of business, net of cash acquired of \$0.8 | -                                     | (2.7 )   |
| Other  | (1.0 )                                | (3.3 )   |
| Total uses of cash                                     | (140.8)                               | (159.6)  |
| Net decrease in cash and cash equivalents              | \$(7.8 )                              | \$(3.1 ) |

Cash flow from operating activities decreased by \$10.0 million for the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, principally due to the effect of lower premium collections by \$40.4 million, a decrease in cash paid to suppliers and employees of \$8.5 million, an increase in the income tax paid of \$11.9, offset in part by a decrease in claims paid of \$52.4 million. The decrease in premiums collected as well as the decrease in claims paid is principally the result of the lower Managed Care member month enrollment.

During the nine months ended September 30, 2013 we received \$8.1 million in policyholder deposits, this represents a decrease \$24.8 million when compared to the prior year and is the result of lower sales of annuity products. The Corporation has reduced the pricing for this product due to the current interest rate scenario.

The increase in other sources of cash for the nine months ended September 30, 2013 is attributed to changes in the amount of outstanding checks over bank balances.

Net acquisition of investment securities were \$36.0 million lower during the nine months ended September 30, 2013 as compared to the nine months ended September 30, 2012, primarily resulting from the investment of lower excess cash flows from operations.

Repurchase and retirement of common stock increased by \$17.7 million mainly due to the repurchase and retirement of 1,000,000 shares of common stock as part of the completed secondary public offering conducted during the nine months ended September 30, 2013.

On January 18, 2012, we acquired a controlling stake in a health clinic in Puerto Rico at a cost of \$2.7 million, net of \$0.8 million of cash acquired. There was no acquisition of business during the nine months ended September 30, 2013.

#### Financing and Financing Capacity

We have several short-term facilities available to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of September 30, 2013, we had \$110.0 million of available credit under these facilities. There are \$14.1 million outstanding short-term borrowings under these facilities as of September 30, 2013.

49

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Table of Contents

As of September 30, 2013, we had the following long-term borrowings:

On December 21, 2005, we issued and sold \$60.0 million of our 6.6% senior unsecured notes due December 2020 (the 6.6% notes). On October 1, 2010 we repaid \$25.0 million of the principal of these senior unsecured notes.

- On November 1, 2010, we entered into a \$25.0 million arrangement to sell securities under repurchase agreements that matures in November 2015. This repurchase agreement pays interests on a quarterly basis at 1.96%. At September 30, 2013 investment securities available for sale with fair value of \$42.0 million (face value of \$40.3 million) were pledged as collateral under this agreement.

The 6.6% notes contain certain non-financial covenants. At September 30, 2013, we are in compliance with these covenants.

On August 23, 2013, we repaid the remaining \$10.0 million of the previously outstanding 6.7% senior unsecured notes, which were due January 2021.

In addition, we are a party to a secured term loan with a commercial bank in Puerto Rico. This secured loan bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus 100 basis points and requires monthly principal repayments of \$0.1 million. As of September 30, 2013, this secured loan had an outstanding balance of \$16.5 million and average annual interest rate of 1.27%.

This secured loan is guaranteed by a first lien on our land, buildings and substantially all leasehold improvements, as collateral for the term of the agreements under a continuing general security agreement. This secured loan contains certain non-financial covenants that are customary for this type of facility, including, but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of September 30, 2013 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

As part of the acquisition transaction of the controlling stake in a health clinic, we assumed a term loan with balance of \$13.3 million as of September 30, 2013. The loan requires monthly payments of \$0.1 million, including principal and interest, is due on December 23, 2014 with a final payment of \$12.9 million and bears interest at an annual rate of 4.75%

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

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to “Item 7.—Management Discussion and Analysis of Financial Condition and Results of Operations” included in our Annual Report on Form 10-K for the year ended December 31, 2012.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We have exposure to market risk mostly in our investment activities.

For purposes of this disclosure, “market risk” is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in our exposure to financial market risks since December 31, 2012.

A discussion of our market risk is incorporated by reference to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

Based on this evaluation, our chief executive officer and chief financial officer have concluded that as of September 30, 2013, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to a reasonable level of assurance.

Changes in Internal Controls Over Financial Reporting

Effective July 1, 2013, the Company implemented a series of SAP enterprise resource planning (“ERP”) modules, including a new general ledger and chart of accounts, procurement, controlling, payroll and human resources. The implementation of these ERP modules and the related workflow capabilities resulted in changes to the Company’s internal controls over financial reporting. Therefore, as appropriate, we have modified the design and documentation of internal control process and procedures relating to the new system to supplement and complement existing internal controls over financial reporting. The system changes were undertaken as a business initiative to integrate systems among the Company and its subsidiaries, improve and enhance our internal control over financial reporting, and were not undertaken in response to any actual or perceived deficiencies in the Company’s internal control over financial reporting.

This was the only change in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) during the quarter ended September 30, 2013, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information



Item 1. Legal Proceedings

For a description of legal proceedings, see note 13 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

51

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Table of Contents

Item 1A. Risk Factors

For a description of our risk factors see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2012.

The following text updates the disclosure included in Item 1A of Part I of our Annual Report on Form 10-K for the year ending December 31, 2012, under the sub-caption “As a Medicare Advantage program participant, we are subject to complex regulations. If we fail to comply with these regulations, we may be exposed to criminal sanctions and significant civil penalties, and our Medicare Advantage contracts may be terminated or our operations may be required to change in a manner that has a material impact on our business.”

CMS recently issued its Star Ratings for 2014. The AH plan retained its 3 star rating for Part C and increased its Part D rating from 2.5 to 3 stars. Two of our TSS plans increased their overall ratings to 3 stars; the Part D portion of these plans, however, received 2.5 stars. The other two TSS plans – the TSS PPO plan and the stand-alone Part D plan – remained at 2.5 stars. Accordingly, we expect that CMS will issue notices to enrollees in all four TSS plans alerting them of the plans’ low rating, encouraging them to explore higher rated plan options, and offering them the opportunity to move into higher quality plans during a special enrollment period in 2014. If the TSS plans do not achieve Star Ratings of 3 stars or higher for 2015, CMS will have the discretion not to renew their Medicare Advantage contracts.

We are devoting the resources and management attention we believe necessary to improve our Star ratings, but cannot warrant that we will be completely successful in increasing the TSS plans to 3 stars or higher. Our failure to achieve Star Ratings of 3 or higher for each of our plans, or to otherwise improve our administration of these plans, would jeopardize our ability to attract and retain members in our TSS Medicare Advantage and Part D plans, as well as our ability to continue to participate in these federal programs and to successfully bid for future CMS contracts in these programs.

The following text updates the disclosure included in Item 1A of Part I of our Annual Report on Form 10-K for the year ending December 31, 2012, under the sub-caption “As a Medicare Advantage program participant, we are subject to complex regulations. If we fail to comply with these regulations, we may be exposed to criminal sanctions and significant civil penalties, and our Medicare Advantage contracts may be terminated or our operations may be required to change in a manner that has a material impact on our business” by creating a new sub-caption entitled “If we fail to comply with our corrective action plans with CMS and ASES regarding our provider credentialing and re-credentialing procedures, we may be subject to CMS compliance actions and ASES sanctions, ranging in each case from monetary penalties to contract termination.”

Under the CAP we submitted to CMS for the credentialing and re-credentialing of our TSS Medicare Advantage provider network, we committed to complete the corresponding procedures for all of the providers by October 31, 2013. As the result of a slower than anticipated external source verification process and provider response rate, we adjusted the CAP deadline to December 20, 2013, the same deadline established in the ASES CAP described below.

Our failure to have properly credentialed and re-credentialed the TSS Medicare Advantage provider network may result in compliance action by CMS. We believe this action, if any, could range from a monetary fine, to a ban on certain marketing of the TSS Medicare Advantage plans, to a termination of TSS's Medicare Advantage contracts with CMS. Any penalty that CMS ultimately imposes could materially adversely affect our business, financial condition, operating results and cash flows.

On April 5, 2013, ASES approved the CAP we submitted on March 4, 2013 regarding the credentialing of our MI SALUD provider network. In August 2013, ASES retained external auditors to test the credentialing and re-credentialing procedures for such network and the progress we had made under the CAP. The auditors concluded that the credentialing documentation examined did not comply with the minimum requirements under federal

regulation and under the MI SALUD contract. As a result, ASES supplemented the CAP and set a credentialing schedule with weekly milestones intended to bring all of our MI SALUD provider files into compliance with the applicable credentialing and re-credentialing requirements by December 20, 2013.

We failed to meet initial milestones under the CAP and on September 11, 2013, ASES issued a warning letter to TSS pursuant to our MI SALUD contract, restating our obligation to meet the deadlines established in the CAP and granting us a one-time deferment to September 27, 2013 for us to complete credentialing procedures for the providers that we had failed to credential by the initial milestone of September 6, 2013. As of October 14, 2013 we remained behind the schedule set forth in the CAP. Since October 14, however, we have exceeded the weekly credentialing goals outlined in the CAP and as of the date of this Quarterly Report on Form 10-Q our credentialing and re-credentialing volume is approximately one week behind schedule.

Table of Contents

On October 30, 2013, ASES issued a notice of administrative inquiry for non-compliance with the credentialing and re-credentialing requirements of our MI SALUD contract. Pursuant to this notice we have the right to submit a supplemental CAP within thirty days of the date of the notice, outlining how we will achieve the goal of credentialing all of the providers in the TSS MI SALUD network by the December 20, 2013 deadline. We intend to submit a supplemental CAP on or before November 30, 2013. If we fail to submit such supplemental CAP in a timely manner or if we fail to meet the December 20, 2013 deadline, ASES is entitled to impose sanctions, including liquidated damages of up to \$200 thousand and contract termination. Any penalty that ASES ultimately imposes could materially adversely affect our business, financial condition, operating results and cash flows.

We intend to come into full compliance with our CMS and ASES credentialing and re-credentialing requirements by our deadline. Although we can give no assurances as to whether we will be able to satisfy CMS or ASES credentialing and re-credentialing requirements with respect to all current providers, we intend on removing all non-compliant providers from our network by such deadline and are evaluating the potential impact this may have on our network adequacy.

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

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Exhibits Description

11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and nine months ended September 30, 2013 and 2012 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

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

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

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

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

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

\* Filed herein.

53

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Table of Contents

SIGNATURES

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

Triple-S Management  
Corporation  
Registrant

Date: November 12, 2013 By: /s/ Ramón M. Ruiz-Comas  
Ramón M. Ruiz-Comas, CPA  
President and  
Chief Executive Officer

Date: November 12, 2013 By: /s/ Amílcar L. Jordán-Pérez  
Amílcar L. Jordán-Pérez  
Vice President,  
Chief Financial Officer and  
Chief Accounting Officer