

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

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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 June 30, 2014

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

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

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

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

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

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

Yes  No

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

Yes  No

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

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

| <u>Title of each class</u>             | <u>Outstanding at June 30, 2014</u> |
|--|-------------------------------------|
| Common Stock Class A, \$1.00 par value | 2,377,689                           |
| Common Stock Class B, \$1.00 par value | 24,891,737                          |

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Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended June 30, 2014

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## Part I – Financial Information

## Item 1. Financial Statements

## Triple-S Management Corporation

## Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | June 30,<br>2014 | December<br>31,<br>2013 |
|--|------------------|-------------------------|
| Assets   |                  |                         |
| Investments and cash:  |                  |                         |
| Securities available for sale, at fair value:  |                  |                         |
| Fixed maturities   | \$1,116,792      | \$1,055,874             |
| Equity securities  | 232,131          | 239,933                 |
| Securities held to maturity, at amortized cost:  |                  |                         |
| Fixed maturities   | 4,068            | 6,139                   |
| Policy loans   | 6,877            | 6,705                   |
| Cash and cash equivalents  | 59,349           | 74,356                  |
| Total investments and cash   | 1,419,217        | 1,383,007               |
| Premiums and other receivables, net  | 348,032          | 274,939                 |
| Deferred policy acquisition costs and value of business acquired   | 180,115          | 177,289                 |
| Property and equipment, net  | 84,460           | 89,086                  |
| Deferred tax asset   | 31,862           | 33,519                  |
| Goodwill   | 25,397           | 25,397                  |
| Other assets   | 55,585           | 64,387                  |
| Total assets   | \$2,144,668      | \$2,047,624             |
| Liabilities and Stockholders' Equity   |                  |                         |
| Claim liabilities  | \$414,708        | \$420,421               |
| Liability for future policy benefits   | 316,056          | 304,363                 |
| Unearned premiums  | 83,521           | 87,362                  |
| Policyholder deposits  | 116,354          | 115,923                 |
| Liability to Federal Employees' Health Benefits Program (FEHBP)  | 4,625            | 8,148                   |
| Accounts payable and accrued liabilities   | 181,237          | 161,422                 |
| Deferred tax liability   | 25,310           | 20,783                  |
| Long-term borrowings   | 88,310           | 89,302                  |
| Liability for pension benefits   | 57,308           | 54,697                  |
| Total liabilities  | 1,287,429        | 1,262,421               |
| Stockholders' equity:  |                  |                         |
| Triple-S Management Corporation stockholders' equity   |                  |                         |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 at June 30, 2014 and December 31, 2013, respectively                        | 2,378            | 2,378                   |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 24,891,737 and 25,091,277 shares at June 30, 2014 and December 31, 2013, respectively | 24,892           | 25,091                  |
| Additional paid-in capital   | 125,359          | 130,098                 |
| Retained earnings  | 630,116          | 595,685                 |
| Accumulated other comprehensive income   | 74,721           | 32,129                  |
| Total Triple-S Management Corporation stockholders' equity   | 857,466          | 785,381                 |

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|   |             |   |             |   |
|---|-------------|---|-------------|---|
| Non-controlling interest in consolidated subsidiary | (227        | ) | (178        | ) |
| Total stockholders' equity                          | 857,239     |   | 785,203     |   |
| Total liabilities and stockholders' equity          | \$2,144,668 |   | \$2,047,624 |   |

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Earnings (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | Three months ended |           | Six months ended |             |
|--|--------------------|-----------|------------------|-------------|
|  | June 30,           |           | June 30,         |             |
|  | 2014               | 2013      | 2014             | 2013        |
| Revenues:  |                    |           |                  |             |
| Premiums earned, net   | \$543,735          | \$556,035 | \$1,085,587      | \$1,105,996 |
| Administrative service fees  | 29,506             | 28,543    | 59,256           | 55,653      |
| Net investment income  | 12,147             | 12,019    | 23,498           | 23,386      |
| Other operating revenues   | 850                | 1,212     | 2,344            | 2,399       |
| Total operating revenues   | 586,238            | 597,809   | 1,170,685        | 1,187,434   |
| Net realized investment gains (losses):  |                    |           |                  |             |
| Total other-than-temporary impairment losses on securities                         | (462 )             | -         | -                | -           |
| Net realized gains, excluding other-than-temporary impairment losses on securities | 4,390              | 1,661     | 4,054            | 3,549       |
| Total net realized investment gains  | 3,928              | 1,661     | 4,054            | 3,549       |
| Other income, net  | 575                | 366       | 821              | 847         |
| Total revenues   | 590,741            | 599,836   | 1,175,560        | 1,191,830   |
| Benefits and expenses:   |                    |           |                  |             |
| Claims incurred  | 428,641            | 460,818   | 877,748          | 912,818     |
| Operating expenses   | 123,589            | 120,225   | 248,956          | 235,090     |
| Total operating costs  | 552,230            | 581,043   | 1,126,704        | 1,147,908   |
| Interest expense   | 2,396              | 2,426     | 4,701            | 4,810       |
| Total benefits and expenses  | 554,626            | 583,469   | 1,131,405        | 1,152,718   |
| Income before taxes  | 36,115             | 16,367    | 44,155           | 39,112      |
| Income tax expense (benefit):  |                    |           |                  |             |
| Current  | 10,365             | 3,768     | 11,892           | 9,231       |
| Deferred   | (1,703 )           | (7,479 )  | (2,119 )         | (7,380 )    |
| Total income taxes   | 8,662              | (3,711 )  | 9,773            | 1,851       |
| Net income   | 27,453             | 20,078    | 34,382           | 37,261      |
| Less: Net loss attributable to non-controlling interest                            | 23                 | 64        | 49               | 119         |
| Net income attributable to Triple-S Management Corporation                         | \$27,476           | \$20,142  | \$34,431         | \$37,380    |
| Earnings per share attributable to Triple-S Management Corporation                 |                    |           |                  |             |
| Basic net income per share   | \$1.01             | \$0.72    | \$1.27           | \$1.33      |
| Diluted net income per share   | \$1.01             | \$0.72    | \$1.26           | \$1.33      |

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Comprehensive Income (Loss) (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | Three months ended |            | Six months ended |          |
|--|--------------------|------------|------------------|----------|
|  | June 30,           |            | June 30,         |          |
|  | 2014               | 2013       | 2014             | 2013     |
| Net income   | \$27,453           | \$20,078   | \$34,382         | \$37,261 |
| Other comprehensive income (loss), net of tax:                                     |                    |            |                  |          |
| Net unrealized change in fair value of available for sale securities, net of taxes | 19,080             | (41,164)   | 41,382           | (34,522) |
| Defined benefit pension plan:  |                    |            |                  |          |
| Actuarial loss, net  | 649                | 927        | 1,354            | 2,176    |
| Prior service credit, net  | (70 )              | (58 )      | (144 )           | (137 )   |
| Total other comprehensive income (loss), net of tax                                | 19,659             | (40,295)   | 42,592           | (32,483) |
| Comprehensive income (loss)  | 47,112             | (20,217)   | 76,974           | 4,778    |
| Comprehensive loss attributable to non-controlling interest                        | 23                 | 64         | 49               | 119      |
| Comprehensive income (loss) attributable to Triple-S Management Corporation        | \$47,135           | \$(20,153) | \$77,023         | \$4,897  |

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated Statements of Stockholders' Equity (Unaudited)

(Dollar amounts in thousands, except per share data)

|  | 2014      | 2013      |
|--|-----------|-----------|
| Balance at January 1                                       | \$785,381 | \$761,907 |
| Share-based compensation                                   | 1,221     | 1,163     |
| Stock issued upon the exercise of stock options            | 2,885     | 315       |
| Repurchase and retirement of common stock                  | (9,044 )  | (18,571 ) |
| Net current period change in comprehensive income          | 77,023    | 4,897     |
| Total Triple-S Management Corporation stockholders' equity | 857,466   | 749,711   |
| Non-controlling interest in consolidated subsidiary        | (227 )    | 121       |
| Balance at June 30   | \$857,239 | \$749,832 |

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Consolidated

Statements of Cash

Flows (Unaudited)

(Dollar amounts in thousands, except per share data)

|   | Six months ended<br>June 30,<br>2014 | 2013      |
|---|--------------------------------------|-----------|
| Cash flows from operating activities:   |                                      |           |
| Net income  | \$ 34,382                            | \$ 37,261 |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                      |           |
| Depreciation and amortization   | 10,578                               | 12,214    |
| Net amortization of investments   | 3,031                                | 3,028     |
| Provision for doubtful receivables, net   | 6,388                                | 3,404     |
| Deferred tax benefit  | (2,119 )                             | (7,380 )  |
| Net realized investment gain on sale of securities                                | (4,054 )                             | (3,549 )  |
| Share-based compensation  | 1,221                                | 1,163     |
| (Increase) decrease in assets:  |                                      |           |
| Premium and other receivables, net  | (70,556 )                            | (42,396 ) |
| Deferred policy acquisition costs and value of business acquired                  | (2,826 )                             | (1,909 )  |
| Other deferred taxes  | 259                                  | -         |
| Other assets  | (1,888 )                             | 1,896     |
| Increase (decrease) in liabilities:   |                                      |           |
| Claim liabilities   | (5,713 )                             | (3,647 )  |
| Liability for future policy benefits  | 11,693                               | 11,159    |
| Unearned premiums   | (3,841 )                             | (3,858 )  |
| Policyholder deposits   | 1,685                                | 1,592     |
| Liability to FEHBP  | (3,523 )                             | (7,837 )  |
|   | 28,292                               | 23,142    |

|  |       |        |
|--|-------|--------|
| Accounts payable and<br>accrued liabilities  |       |        |
| Net cash provided by<br>operating activities | 3,009 | 24,283 |

(Continued)

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

|   | Six months ended<br>June 30, |           |
|---|------------------------------|-----------|
|   | 2014                         | 2013      |
| Cash flows from investing activities:                   |                              |           |
| Proceeds from investments sold or matured:              |                              |           |
| Securities available for sale:                          |                              |           |
| Fixed maturities sold                                   | \$95,759                     | \$35,173  |
| Fixed maturities matured/called                         | 17,066                       | 62,494    |
| Equity securities sold                                  | 40,745                       | 76,966    |
| Securities held to maturity:                            |                              |           |
| Fixed maturities matured/called                         | 2,418                        | 520       |
| Acquisition of investments:                             |                              |           |
| Securities available for sale:                          |                              |           |
| Fixed maturities  | (137,783)                    | (100,054) |
| Equity securities                                       | (20,650 )                    | (131,862) |
| Securities held to maturity:                            |                              |           |
| Fixed maturities  | (350 )                       | (500 )    |
| Other investments                                       | (424 )                       | (116 )    |
| Net outflows from policy loans                          | (172 )                       | (176 )    |
| Net capital expenditures                                | (2,791 )                     | (8,639 )  |
| Net cash used in investing activities                   | (6,182 )                     | (66,194 ) |
| Cash flows from financing activities:                   |                              |           |
| Change in outstanding checks in excess of bank balances | (3,593 )                     | 27,786    |
| Net change in short-term borrowings                     | -                            | (1,905 )  |
| Repayments of long-term borrowings                      | (992 )                       | (983 )    |
| Repurchase and retirement of common stock               | (5,995 )                     | (18,250 ) |
| Proceeds from policyholder deposits                     | 3,305                        | 6,580     |
| Surrenders of policyholder deposits                     | (4,559 )                     | (5,060 )  |
| Net cash provided by (used in) financing activities     | (11,834 )                    | 8,168     |
| Net decrease in cash and cash equivalents               | (15,007 )                    | (33,743 ) |
| Cash and cash equivalents:                              |                              |           |
| Beginning of period                                     | 74,356                       | 89,564    |
| End of period   | \$59,349                     | \$55,821  |

See accompanying notes to unaudited consolidated financial statements.

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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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, 2013.

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

(2) Recent Accounting Standards

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer’s portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. We adopted the provisions of this guidance on January 1, 2014 and recorded a liability in the consolidated accounts payable and accrued liabilities in the first quarter of 2014 of approximately \$28,500 representing an estimate of the fee for 2014. A corresponding deferred cost was recorded in the consolidated other assets. The Corporation will update this estimate for any adjustment in subsequent quarters. During the three months and six months ended June 30, 2014, approximately \$6,800 and \$13,900, respectively, of the deferred cost was recognized within the consolidated operating expenses; the remainder will be recognized on a straight-line basis over the balance of 2014. For federal income tax purposes, the fee is treated as an excise tax, for which no deduction is allowed under the Internal Revenue Code.

On July 18, 2013, the FASB issued guidance regarding the presentation in the statement of financial position of an unrecognized tax benefit when a net operating loss carry-forward or a tax credit carry-forward exists. In particular, the guidance provides that an entity's unrecognized tax benefit, or a portion of its unrecognized tax benefit, should be presented in its financial statements as a reduction to a deferred tax asset for a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward, with one exception. That exception states that, to the extent a net operating loss carry-forward, a similar tax loss, or a tax credit carry-forward is not available at the reporting date under the tax law of the applicable jurisdiction to settle any additional income taxes that would result from the disallowance of a tax position, or the tax law of the applicable jurisdiction does not require the entity to use, and the entity does not intend to use, the deferred tax asset for such purpose, the unrecognized tax benefit should be presented in the financial statements as a liability and should not be combined with deferred tax assets. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2013. The Company adopted this guidance on January 1, 2014; there was no significant impact on our financial position or results of operations as a result of the adoption.

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

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

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

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and six months ended June 30, 2014 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

The following tables summarize the operations by reportable segment for the three months and six months ended June 30, 2014 and 2013:

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|  | Three months ended |           | Six months ended |             |
|--|--------------------|-----------|------------------|-------------|
|  | June 30,           |           | June 30,         |             |
|  | 2014               | 2013      | 2014             | 2013        |
| Operating revenues:                          |                    |           |                  |             |
| Managed Care:                                |                    |           |                  |             |
| Premiums earned, net                         | \$485,311          | \$498,942 | \$968,997        | \$992,410   |
| Administrative service fees                  | 29,506             | 28,543    | 59,256           | 55,653      |
| Intersegment premiums /service fees          | 1,504              | 1,366     | 2,841            | 2,773       |
| Net investment income                        | 3,906              | 4,113     | 7,610            | 8,034       |
| Total managed care                           | 520,227            | 532,964   | 1,038,704        | 1,058,870   |
| Life Insurance:                              |                    |           |                  |             |
| Premiums earned, net                         | 34,826             | 31,985    | 69,690           | 63,712      |
| Intersegment premiums                        | 77                 | 104       | 182              | 216         |
| Net investment income                        | 5,997              | 5,719     | 11,651           | 11,014      |
| Total life insurance                         | 40,900             | 37,808    | 81,523           | 74,942      |
| Property and Casualty Insurance:             |                    |           |                  |             |
| Premiums earned, net                         | 23,598             | 25,108    | 46,900           | 49,874      |
| Intersegment premiums                        | 154                | 154       | 307              | 307         |
| Net investment income                        | 2,184              | 2,061     | 4,108            | 4,036       |
| Total property and casualty insurance        | 25,936             | 27,323    | 51,315           | 54,217      |
| Other segments: *                            |                    |           |                  |             |
| Intersegment service revenues                | 2,817              | 2,032     | 4,531            | 5,230       |
| Operating revenues from external sources     | 851                | 1,213     | 2,345            | 2,400       |
| Total other segments                         | 3,668              | 3,245     | 6,876            | 7,630       |
| Total business segments                      | 590,731            | 601,340   | 1,178,418        | 1,195,659   |
| TSM operating revenues from external sources | 28                 | 117       | 67               | 257         |
| Elimination of intersegment premiums         | (1,735 )           | (1,624 )  | (3,330 )         | (3,296 )    |
| Elimination of intersegment service fees     | (2,817 )           | (2,032 )  | (4,531 )         | (5,230 )    |
| Other intersegment eliminations              | 31                 | 8         | 61               | 44          |
| Consolidated operating revenues              | \$586,238          | \$597,809 | \$1,170,685      | \$1,187,434 |

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

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Triple-S Management Corporation

Notes to Consolidated Financial Statements

(Dollar amounts in thousands, except per share data)

(Unaudited)

|  | Three months ended |          | Six months ended |          |
|--|--------------------|----------|------------------|----------|
|  | June 30, 2014      | 2013     | June 30, 2014    | 2013     |
| Operating income:                                  |                    |          |                  |          |
| Managed care                                       | \$27,903           | \$13,396 | \$32,025         | \$33,891 |
| Life insurance                                     | 5,195              | 3,675    | 10,409           | 7,717    |
| Property and casualty insurance                    | 4,524              | 188      | 5,221            | 572      |
| Other segments *                                   | 114                | 20       | (251 )           | (513 )   |
| Total business segments                            | 37,736             | 17,279   | 47,404           | 41,667   |
| TSM operating revenues from external sources       | 28                 | 117      | 67               | 257      |
| TSM unallocated operating expenses                 | (6,184 )           | (2,800 ) | (8,347 )         | (6,767 ) |
| Elimination of TSM intersegment charges            | 2,428              | 2,170    | 4,857            | 4,369    |
| Consolidated operating income                      | 34,008             | 16,766   | 43,981           | 39,526   |
| Consolidated net realized investment gains         | 3,928              | 1,661    | 4,054            | 3,549    |
| Consolidated interest expense                      | (2,396 )           | (2,426 ) | (4,701 )         | (4,810 ) |
| Consolidated other income, net                     | 575                | 366      | 821              | 847      |
| Consolidated income before taxes                   | \$36,115           | \$16,367 | \$44,155         | \$39,112 |
| Depreciation and amortization expense:             |                    |          |                  |          |
| Managed care                                       | \$4,698            | \$5,139  | \$8,983          | \$10,578 |
| Life insurance                                     | 194                | 210      | 417              | 415      |
| Property and casualty insurance                    | 124                | 130      | 247              | 266      |
| Other segments*                                    | 258                | 262      | 516              | 524      |
| Total business segments                            | 5,274              | 5,741    | 10,163           | 11,783   |
| TSM depreciation expense                           | 199                | 214      | 415              | 431      |
| Consolidated depreciation and amortization expense | \$5,473            | \$5,955  | \$10,578         | \$12,214 |

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



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Triple-S Management Corporation

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(Dollar amounts in thousands, except per share data)

(Unaudited)

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|   | June 30,<br>2014 | December<br>31,<br>2013 |
|---|------------------|-------------------------|
| Assets:   |                  |                         |
| Managed care  | \$975,744        | \$934,467               |
| Life insurance  | 737,921          | 698,650                 |
| Property and casualty insurance                         | 362,493          | 346,212                 |
| Other segments *  | 29,693           | 28,407                  |
| Total business segments                                 | 2,105,851        | 2,007,736               |
| Unallocated amounts related to TSM:                     |                  |                         |
| Cash, cash equivalents, and investments                 | 29,287           | 28,316                  |
| Property and equipment, net                             | 20,846           | 21,278                  |
| Other assets  | 25,842           | 26,406                  |
|   | 75,975           | 76,000                  |
| Elimination entries-intersegment receivables and others | (37,158 )        | (36,112 )               |
| Consolidated total assets                               | \$2,144,668      | \$2,047,624             |

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

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## (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 June 30, 2014 and December 31, 2013, were as follows:

|  | June 30, 2014     |                              |                               |                         |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | 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                                  | \$133,395         | \$1,519                      | \$ (5 )                       | \$134,909               |
| U.S. Treasury securities and obligations of U.S. government<br>instrumentalities | 37,532            | 844                          | (4 )                          | 38,372                  |
| Obligations of the Commonwealth of Puerto Rico and its<br>instrumentalities      | 48,257            | 874                          | (1,548 )                      | 47,583                  |
| Municipal securities   | 582,044           | 43,099                       | (346 )                        | 624,797                 |
| Corporate bonds  | 169,272           | 16,741                       | (173 )                        | 185,840                 |
| Residential mortgage-backed securities   | 17,469            | 686                          | (2 )                          | 18,153                  |
| Collateralized mortgage obligations  | 64,512            | 2,674                        | (48 )                         | 67,138                  |
| Total fixed maturities   | 1,052,481         | 66,437                       | (2,126 )                      | 1,116,792               |
| Equity securities - Mutual funds   | 170,607           | 61,554                       | (30 )                         | 232,131                 |
| Total  | \$1,223,088       | \$127,991                    | \$ (2,156 )                   | \$1,348,923             |

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

|  | June 30, 2014     |                              |                               | Estimated<br>fair value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
|  | Amortized<br>cost | Gross<br>unrealized<br>gains | Gross<br>unrealized<br>losses |                         |
| Securities held to maturity:   |                   |                              |                               |                         |
| U.S. Treasury securities and obligations of U.S. government<br>instrumentalities | \$ 622            | \$ 163                       | \$ -                          | \$ 785                  |
| Residential mortgage-backed securities   | 217               | 20                           | -                             | 237                     |
| Certificates of deposit  | 3,229             | -                            | -                             | 3,229                   |
| Total  | \$ 4,068          | \$ 183                       | \$ -                          | \$ 4,251                |

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

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2014 and December 31, 2013 were as follows:

|   | June 30, 2014        |                       |                      |                      |                       |                      |                      |                       |                      |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
|   | Less than 12 months  |                       |                      | 12 months or longer  |                       |                      | Total                |                       |                      |
|   | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities |
| Securities available for sale:  |                      |                       |                      |                      |                       |                      |                      |                       |                      |
| Fixed maturities:   |                      |                       |                      |                      |                       |                      |                      |                       |                      |
| Obligations of government-sponsored enterprises                             | \$43,138             | \$(5 )                | 2                    | \$-                  | \$ -                  | -                    | \$43,138             | \$(5 )                | 2                    |
| US Treasury securities and obligations of US governmental instrumentalities | 27,562               | (4 )                  | 1                    | -                    | -                     | -                    | 27,562               | (4 )                  | 1                    |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities    | 13,710               | (1,548 )              | 5                    | -                    | -                     | -                    | 13,710               | (1,548 )              | 5                    |
| Municipal securities  | 5,527                | (13 )                 | 2                    | 37,449               | (333 )                | 9                    | 42,976               | (346 )                | 11                   |
| Corporate bonds   | 2,975                | (1 )                  | 1                    | 31,202               | (172 )                | 9                    | 34,177               | (173 )                | 10                   |
| Residential mortgage-backed securities                                      | 2,285                | (2 )                  | 1                    | -                    | -                     | -                    | 2,285                | (2 )                  | 1                    |
| Collateralized mortgage obligations   | -                    | -                     | -                    | 6,488                | (48 )                 | 2                    | 6,488                | (48 )                 | 2                    |
| Total fixed maturities  | 95,197               | (1,573 )              | 12                   | 75,139               | (553 )                | 20                   | 170,336              | (2,126 )              | 32                   |
| Equity securities:  |                      |                       |                      |                      |                       |                      |                      |                       |                      |
| Mutual funds  | -                    | -                     | -                    | 5,470                | (30 )                 | 1                    | 5,470                | (30 )                 | 1                    |
| Total for securities available for sale                                     | \$95,197             | \$(1,573 )            | 12                   | \$80,609             | \$(583 )              | 21                   | \$175,806            | \$(2,156 )            | 33                   |



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|   | December 31, 2013    |                       |                      | December 31, 2012    |                       |                      | December 31, 2011    |                       |                      |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
|   | Less than 12 months  | 12 months or longer   | Total                | Less than 12 months  | 12 months or longer   | Total                | Less than 12 months  | 12 months or longer   | Total                |
|   | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities | Estimated Fair Value | Gross Unrealized Loss | Number of Securities |
| Securities available for sale:  |                      |                       |                      |                      |                       |                      |                      |                       |                      |
| Fixed maturities:   |                      |                       |                      |                      |                       |                      |                      |                       |                      |
| Obligations of government-sponsored enterprises                                 | \$46,797             | \$(380 )              | 4                    | \$-                  | \$-                   | -                    | \$46,797             | \$(380 )              | 4                    |
| Obligations of government-Commonwealth of Puerto Rico and its instrumentalities | 22,285               | (4,814 )              | 13                   | -                    | -                     | -                    | 22,285               | (4,814 )              | 13                   |
| Municipal securities  | 234,594              | (5,145 )              | 51                   | 4,646                | (37 )                 | 1                    | 239,240              | (5,182 )              | 52                   |
| Corporate bonds   | 45,203               | (879 )                | 19                   | -                    | -                     | -                    | 45,203               | (879 )                | 19                   |
| Residential mortgage-backed securities  | 24                   | (9 )                  | 6                    | -                    | -                     | -                    | 24                   | (9 )                  | 6                    |
| Collateralized mortgage obligations   | 1,106                | (6 )                  | 3                    | 9,469                | (127 )                | 3                    | 10,575               | (133 )                | 6                    |
| Total fixed maturities  | 350,009              | (11,233 )             | 96                   | 14,115               | (164 )                | 4                    | 364,124              | (11,397 )             | 100                  |
| Equity securities - Mutual funds  | 25,231               | (436 )                | 7                    | -                    | -                     | -                    | 25,231               | (436 )                | 7                    |
| Total for securities available for sale   | \$375,240            | \$(11,669 )           | 103                  | \$14,115             | \$(164 )              | 4                    | \$389,355            | \$(11,833 )           | 107                  |

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

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

If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other-than-temporary, the carrying amount of

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

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

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

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

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• 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.

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

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

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

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of \$22,290 and an unrealized gain of \$220, (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of \$22,959 and a net unrealized loss of \$965, composed of a gross unrealized loss of \$1,548 offset in part by a gross unrealized gain of \$583, and (3) bonds of various other Puerto Rico issuers with a fair value of \$2,334 and an unrealized gain and loss of \$71.

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

On June 25, 2014, the Puerto Rico Public Corporations Debt Enforcement and Recovery Act ("the Debt Enforcement Act") was filed before and passed by the Legislature, intended to provide a legal framework for restructuring public corporation debt. The Central Government, municipalities and related agencies (including Cofina and GDB) are explicitly not eligible, i.e. these cannot be restructured under this new act. In other words, the Act makes a clear distinction between the central Government and its related entities versus the agencies/public corporations. Both



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

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

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

The bonds of various other Puerto Rico issuers, which are mentioned above, consist of General Obligation bonds insured by National Public Finance Guarantee (AA- stable outlook, A3 negative outlook), Government Development Bank notes (BB-, B3 negative outlook) and PREPA notes (B- negative watch, Caa2 negative watch).

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

The Corporation considered the GDB and PREPA positions other-than-temporarily impaired as of June 30, 2014 because: (a) the dollar price of these positions has been far below par for a considerable amount of time, (b) the weak financial & liquidity condition of both issuers combined with the recent Recovery Act (directly for PREPA and indirectly for GDB) could mean that not all contractual cash flows will be collected. During the three months ended June 30, 2014, these positions, with a total fair value of \$1,701 were impaired by \$462.

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

**Corporate Bonds:** The unrealized losses of these bonds were principally caused by fluctuations in interest rates and general market conditions. All corporate bonds with an unrealized loss have investment grade ratings and have been in an unrealized loss position for less than twelve 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.

**Collateralized mortgage obligations:** The unrealized losses on investments in collateralized mortgage obligations ("CMOs") were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior),

typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Corporation owns. The Corporation does not consider these investments other-than-temporarily impaired because the decline in fair value is attributable to changes in interest rates and not credit quality; the Corporation does not intend to sell the investments and it is more likely than not that the Corporation will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Corporation expects to collect all contractual cash flows.

Mutual Funds: As of June 30, 2014, investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired because the funds have been in an unrealized loss position for less than six months or the unrealized loss is small (less than \$100 and/or 20%).

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

|  | June 30, 2014     |                         |
|--|-------------------|-------------------------|
|  | Amortized<br>cost | Estimated<br>fair value |
| Securities available for sale:         |                   |                         |
| Due in one year or less                | \$27,840          | \$28,242                |
| Due after one year through five years  | 358,019           | 365,775                 |
| Due after five years through ten years | 105,780           | 112,245                 |
| Due after ten years                    | 478,861           | 525,239                 |
| Residential mortgage-backed securities | 17,469            | 18,153                  |
| Collateralized mortgage obligations    | 64,512            | 67,138                  |
|  | \$1,052,481       | \$1,116,792             |
| Securities held to maturity:           |                   |                         |
| Due in one year or less                | \$3,229           | \$3,229                 |
| Due after ten years                    | 622               | 785                     |
| Residential mortgage-backed securities | 217               | 237                     |
|  | \$4,068           | \$4,251                 |

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 six months ended June 30, 2014 and 2013 is as follows:

|   | Three months<br>ended<br>June 30,<br>2014 |         | Six months<br>ended<br>June 30,<br>2013 |         |
|---|---|---------|---|---------|
| Realized gains (losses):                            |   |         |   |         |
| Fixed maturity securities:                          |   |         |   |         |
| Securities available for sale:                      |   |         |   |         |
| Gross gains from sales                              | \$380                                     | \$1,407 | \$1,703                                 | \$2,401 |
| Gross losses from sales                             | (112 )                                    | (463 )  | (1,957)                                 | (648 )  |
| Gross losses from other-than-temporary impairments  | (462 )                                    | -       | (462 )                                  | -       |
| Total debt securities                               | (194 )                                    | 944     | (716 )                                  | 1,753   |
| Equity securities:                                  |   |         |   |         |
| Securities available for sale:                      |   |         |   |         |
| Gross gains from sales                              | 2,697                                     | 1,531   | 4,616                                   | 2,631   |
| Gross losses from sales                             | -   | (814 )  | (1,271)                                 | (835 )  |
| Total equity securities                             | 2,697                                     | 717     | 3,345                                   | 1,796   |
| Net realized gains on securities available for sale | 2,503                                     | 1,661   | 2,629                                   | 3,549   |
| Gross gain from other investment                    | 1,425                                     | -       | 1,425                                   | -       |

|                               |         |         |         |         |
|-------------------------------|---------|---------|---------|---------|
| Net realized investment gains | \$3,928 | \$1,661 | \$4,054 | \$3,549 |
|-------------------------------|---------|---------|---------|---------|

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|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30, 2014      | 2013       | June 30, 2014    | 2013       |
| Changes in net unrealized gains (losses):                |                    |            |                  |            |
| Recognized in accumulated other comprehensive income:    |                    |            |                  |            |
| Fixed maturities – available for sale                    | \$16,162           | \$(43,830) | \$39,917         | \$(48,042) |
| Equity securities – available for sale                   | 6,292              | (4,494 )   | 8,947            | 7,530      |
|  | \$22,454           | \$(48,324) | \$48,864         | \$(40,512) |
| Not recognized in the consolidated financial statements: |                    |            |                  |            |
| Fixed maturities – held to maturity                      | \$11               | \$(88 )    | \$13             | \$(118 )   |

The deferred tax asset (liability) on unrealized gains (losses) change recognized in accumulated other comprehensive income during the six months ended June 30, 2014 and 2013 was \$7,482 and (\$5,990), respectively.

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

The components of net investment income were as follows:

|  | Three months ended |          | Six months ended |          |
|--|--------------------|----------|------------------|----------|
|  | June 30, 2014      | 2013     | June 30, 2014    | 2013     |
| Fixed maturities                               | \$9,569            | \$8,907  | \$19,239         | \$18,226 |
| Equity securities                              | 2,270              | 2,801    | 3,616            | 4,519    |
| Policy loans                                   | 133                | 118      | 258              | 232      |
| Cash equivalents and interest-bearing deposits | 14                 | 17       | 26               | 45       |
| Other  | 161                | 176      | 359              | 364      |
| Total  | \$12,147           | \$12,019 | \$23,498         | \$23,386 |

## (5) Premiums and Other Receivables, Net

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

|                                | June 30, 2014 | December 31, 2013 |
|--------------------------------|---------------|-------------------|
| Premiums                       | \$148,346     | \$108,963         |
| Self-insured group receivables | 67,505        | 55,598            |
| FEHBP                          | 12,389        | 11,804            |
| Agent balances                 | 33,638        | 27,655            |
| Accrued interest               | 12,314        | 11,879            |
| Reinsurance recoverable        | 49,294        | 46,116            |

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|   |           |           |
|---|-----------|-----------|
| Unsettled sales                           | 8,925     | -         |
| Other                                     | 43,558    | 34,473    |
|   | 375,969   | 296,488   |
| Less allowance for doubtful receivables:  |           |           |
| Premiums                                  | 21,576    | 14,403    |
| Other                                     | 6,361     | 7,146     |
|   | 27,937    | 21,549    |
| Total premiums and other receivables, net | \$348,032 | \$274,939 |

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## (6) Claim Liabilities

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

|  | Three months ended |           | Six months ended |           |
|--|--------------------|-----------|------------------|-----------|
|  | June 30,<br>2014   | 2013      | June 30,<br>2014 | 2013      |
| Claim liabilities at beginning of period         | \$446,710          | \$414,124 | \$420,421        | \$416,918 |
| Reinsurance recoverable on claim liabilities     | (40,615 )          | (37,756 ) | (37,557 )        | (39,051 ) |
| Net claim liabilities at beginning of period     | 406,095            | 376,368   | 382,864          | 377,867   |
| Incurred claims and loss-adjustment expenses:    |                    |           |                  |           |
| Current period insured events                    | 431,328            | 456,981   | 901,699          | 929,037   |
| Prior period insured events                      | (8,764 )           | (2,493 )  | (35,283 )        | (27,554 ) |
| Total  | 422,564            | 454,488   | 866,416          | 901,483   |
| Payments of losses and loss-adjustment expenses: |                    |           |                  |           |
| Current period insured events                    | 416,046            | 418,433   | 657,917          | 636,251   |
| Prior period insured events                      | 37,737             | 35,673    | 216,487          | 266,349   |
| Total  | 453,783            | 454,106   | 874,404          | 902,600   |
| Net claim liabilities at end of period           | 374,876            | 376,750   | 374,876          | 376,750   |
| Reinsurance recoverable on claim liabilities     | 39,832             | 36,521    | 39,832           | 36,521    |
| Claim liabilities at end of period               | \$414,708          | \$413,271 | \$414,708        | \$413,271 |

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

The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and six months ended June 30, 2014 and 2013 is due primarily to better than expected cost and utilization trends. Reinsurance recoverable on unpaid claims is reported within the premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to \$6,077 and \$11,332 during the three months and six months ended June 30, 2014, respectively. The change in the liability for future policy benefits during the three and six months ended June 30, 2013 amounted to \$6,330 and \$11,335.

## (7) Fair Value Measurements

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

Level Input: Input Definition:  
Level 1



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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.

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The Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results.

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

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

|  | June 30, 2014     |              |           |              |
|--|-------------------|--------------|-----------|--------------|
|  | Level 1           | Level 2      | Level 3   | Total        |
| Securities available for sale:   |                   |              |           |              |
| Fixed maturity securities  |                   |              |           |              |
| Obligations of government-sponsored enterprises                              | \$-               | \$ 134,909   | \$-       | \$ 134,909   |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 38,372            | -            | -         | 38,372       |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities     | -                 | 47,583       | -         | 47,583       |
| Municipal securities   | -                 | 624,797      | -         | 624,797      |
| Corporate bonds  | -                 | 185,840      | -         | 185,840      |
| Residential agency mortgage-backed securities                                | -                 | 18,153       | -         | 18,153       |
| Collateralized mortgage obligations  | -                 | 67,138       | -         | 67,138       |
| Total fixed maturities   | 38,372            | 1,078,420    | -         | 1,116,792    |
| Equity securities  |                   |              |           |              |
| Mutual funds   | 169,379           | 45,893       | 16,859    | 232,131      |
| Total equity securities  | 169,379           | 45,893       | 16,859    | 232,131      |
| Total  | \$207,751         | \$ 1,124,313 | \$ 16,859 | \$ 1,348,923 |
|  |                   |              |           |              |
|  | December 31, 2013 |              |           |              |
|  | Level 1           | Level 2      | Level 3   | Total        |
| Securities available for sale:   |                   |              |           |              |
| Fixed maturity securities  |                   |              |           |              |
| Obligations of government-sponsored enterprises                              | \$-               | \$ 105,791   | \$-       | \$ 105,791   |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 39,199            | -            | -         | 39,199       |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities     | -                 | 45,005       | -         | 45,005       |
| Municipal securities   | -                 | 611,443      | -         | 611,443      |
| Corporate bonds  | -                 | 155,940      | -         | 155,940      |
| Residential agency mortgage-backed securities                                | -                 | 7,703        | -         | 7,703        |

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|                                     |            |              |           |              |
|-------------------------------------|------------|--------------|-----------|--------------|
| Collateralized mortgage obligations | -          | 90,793       | -         | 90,793       |
| Total fixed maturities              | 39,199     | 1,016,675    | -         | 1,055,874    |
| Equity securities                   |            |              |           |              |
| Mutual funds                        | 158,281    | 63,742       | 17,910    | 239,933      |
| Total equity securities             | 158,281    | 63,742       | 17,910    | 239,933      |
| Total                               | \$ 197,480 | \$ 1,080,417 | \$ 17,910 | \$ 1,295,807 |

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in and/or out of Level 3 and between Levels 1 and 2 during the three months and six months ended June 30, 2014 and 2013.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months and six months ended June 30, 2014 and 2013 is as follows:

|  | Three months ended |           | June 30, 2013 |           |
|--|--------------------|-----------|---------------|-----------|
|  | June 30, 2014      |           | June 30, 2013 |           |
|  | Fixed              |           | Fixed         |           |
|  | Maturity           |           | Maturity      |           |
|  | Securities         | Total     | Securities    | Total     |
| Beginning balance  | \$-                | \$ 18,868 | \$-           | \$ 14,783 |
| Unrealized gain (loss) in other accumulated comprehensive income | -                  | (353 )    | -             | 1,062     |
| Capital distributions  | -                  | (2,001 )  | -             | -         |
| Capital calls  | -                  | 345       | -             | 509       |
| Ending balance   | \$-                | \$ 16,859 | \$-           | \$ 16,354 |

|   | Six months ended |           | June 30, 2013 |           |
|---|------------------|-----------|---------------|-----------|
|   | June 30, 2014    |           | June 30, 2013 |           |
|   | Fixed            |           | Fixed         |           |
|   | Maturity         |           | Maturity      |           |
|   | Securities       | Total     | Securities    | Total     |
| Beginning balance   | \$-              | \$ 17,910 | \$-           | \$ 12,822 |
| Unrealized gain in other accumulated comprehensive income | -                | 605       | -             | 2,024     |
| Capital distributions                                     | -                | (2,001 )  | -             | -         |
| Capital calls   | -                | 345       | -             | 1,508     |

Ending balance \$- \$ 16,859 \$16,859 \$- \$ 16,354 \$16,354

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.

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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 June 30, 2014 and December 31, 2013 are as follows:

|                                  | June 30, 2014  |            |           |         |           |
|----------------------------------|----------------|------------|-----------|---------|-----------|
|                                  | Carrying Value | Fair Value |           |         | Total     |
|                                  |                | Level 1    | Level 2   | Level 3 |           |
| Assets:                          |                |            |           |         |           |
| Policy loans                     | \$6,877        | \$-        | \$6,877   | \$ -    | \$6,877   |
| Liabilities:                     |                |            |           |         |           |
| Policyholder deposits            | \$116,354      | \$-        | \$116,354 | \$ -    | \$116,354 |
| Long-term borrowings:            |                |            |           |         |           |
| Loans payable to bank - variable | 15,287         | -          | 15,287    | -       | 15,287    |
| Loans payable to bank - fixed    | 13,023         | -          | 13,023    | -       | 13,023    |

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|                                     |           |     |           |     |           |
|-------------------------------------|-----------|-----|-----------|-----|-----------|
| 6.6% senior unsecured notes payable | 35,000    | -   | 33,688    | -   | 33,688    |
| Repurchase agreement                | 25,000    | -   | 25,509    | -   | 25,509    |
| Total long-term borrowings          | 88,310    | -   | 87,507    | -   | 87,507    |
| Total liabilities                   | \$204,664 | \$- | \$203,861 | \$- | \$203,861 |

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(Unaudited)

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

## (8) Share-Based Compensation

Share-based compensation expense recorded during the three months and six months ended June 30, 2014 was \$596 and \$1,221. Share-based compensation expense recorded during the three months and six months ended June 30, 2013 was \$485 and \$1,163, respectively. There was no cash received from stock options exercises six months ended June 30, 2014 and 2013. During the six months ended June 30, 2014 and 2013, 174,090 and 14,095 shares, respectively, were repurchased and retired as a result of non-cash exercises of stock options.

## (9) Comprehensive Income

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

|  | Net unrealized gain on securities | Liability for pension benefits | Accumulated other comprehensive income |
|--|-----------------------------------|--------------------------------|--|
| Balance at January 1, 2014                                       | \$ 65,584                         | \$(33,455)                     | \$ 32,129                              |
| Other comprehensive income before reclassifications              | 44,828                            | -                              | 44,828                                 |
| Amounts reclassified from accumulated other comprehensive income | (3,446)                           | 1,210                          | (2,236)                                |
| Net current period change  | 41,382                            | 1,210                          | 42,592                                 |
| Balance at June 30, 2014   | \$ 106,966                        | \$(32,245)                     | \$ 74,721                              |

## (10) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of June



30, 2014, tax years 2009 through 2013 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

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

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

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

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the 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, 2013 is estimated at \$56,000. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

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

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

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

On July 1, 2014, the Governor of Puerto Rico signed into law Act No. 77 including multiple amendments to the Puerto Rico tax code that will have a direct impact on the tax liabilities of individual and corporate taxpayers. The amendments to the Puerto Rico tax code include, among others, changes to the corporate tax over long-term capital gains, which was increased from 15% to 20% for all transactions occurring after June 30, 2014. The effect of this change in tax legislation is not reflected in our financial results for the six-months ended June 30, 2014 since the enactment date is July 1, 2014. During the three months ending September 30, 2014, the Company expects to

recognize a one-time charge to operations of approximately \$6,300 as a consequence of this change in the enacted rate.

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

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

## (11) Pension Plan

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

|  | Three months ended |         | Six months ended |         |
|--|--------------------|---------|------------------|---------|
|  | June 30, 2014      | 2013    | June 30, 2014    | 2013    |
| Components of net periodic benefit cost: |                    |         |                  |         |
| Service cost                             | \$923              | \$1,023 | \$1,950          | \$2,046 |
| Interest cost                            | 2,132              | 1,952   | 4,393            | 3,904   |
| Expected return on assets                | (1,928)            | (1,696) | (4,001)          | (3,392) |
| Amortization of prior service benefit    | (116 )             | (113 )  | (237 )           | (226 )  |
| Amortization of actuarial loss           | 1,064              | 1,784   | 2,220            | 3,568   |
| Net periodic benefit cost                | \$2,075            | \$2,950 | \$4,325          | \$5,900 |

Employer contributions: The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2013 that it expected to contribute \$8,000 to its pension program in 2014. As of June 30, 2014, the Corporation has not made contributions to the pension program.

## (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 six months ended June 30, 2014 and 2013:

|  | Three months ended |            | Six months ended |            |
|--|--------------------|------------|------------------|------------|
|  | June 30, 2014      | 2013       | June 30, 2014    | 2013       |
| Numerator for earnings per share:                        |                    |            |                  |            |
| Net income attributable to TSM available to stockholders | \$27,476           | \$20,142   | \$34,431         | \$37,380   |
| Denominator for basic earnings per share:                |                    |            |                  |            |
| Weighted average of common shares                        | 27,081,655         | 27,825,150 | 27,174,306       | 28,054,362 |
| Effect of dilutive securities                            | 65,610             | 101,451    | 83,045           | 94,409     |
| Denominator for diluted earnings per share               | 27,147,265         | 27,926,601 | 27,257,351       | 28,148,771 |

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|  |        |        |        |        |
|--|--------|--------|--------|--------|
| Basic net income per share attributable to TSM   | \$1.01 | \$0.72 | \$1.27 | \$1.33 |
| Diluted net income per share attributable to TSM | \$1.01 | \$0.72 | \$1.26 | \$1.33 |

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(13)Contingencies

Our business is subject to numerous laws and regulations promulgated by Federal and Puerto Rico governmental authorities. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. The Commissioner of Insurance of Puerto Rico, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with such laws and regulations. Penalties associated with violations of these laws and regulations may include significant fines and exclusion from participating in certain publicly funded programs.

As of June 30, 2014, we are involved in various legal actions arising in the ordinary course of business. We are also defendants in various other litigations and proceedings, some of which are described below. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. Although we believe our estimates of such losses are reasonable, these estimates could change as a result of further developments in these matters. In other cases, it is at least reasonably possible that the Company may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Company is unable to estimate the range of possible losses which may be ultimately realized, either individually or in the aggregate, upon their resolution. The outcome of legal proceedings is inherently uncertain and pending matters for which accruals have not been established have not progressed sufficiently to enable us to estimate a range of possible losses, if any. Given the inherent unpredictability of these matters, it is possible that an adverse outcome in one or more of these matters could have a material adverse effect on the consolidated financial condition, operating results and/or cash flows of the Company.

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

Claims by Heirs of Former Shareholders

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

In one of these cases, entitled Vera Sánchez, et al, v. Triple-S, the plaintiffs argued that the redemption of shares was fraudulent and was not subject to the two-year statute of limitations contained in the local securities law. The Court of First Instance determined that the plaintiffs' claims were time barred under the local securities law. The plaintiffs appealed, and in January 2012, the Puerto Rico Court of Appeals upheld the dismissal, holding that even if the plaintiffs could have survived the securities law's two-year statute of limitations, their complaint was time-barred under the 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, holding that the two-year statute of limitations contained in the local securities law did not apply based on the facts of this case and returning it to the Court of First Instance. Continuance of hearings is set for September 23, 2014.

In the second case, entitled Olivella Zalduondo, et al, v. Seguros de Servicios de Salud, et al, the Puerto Rico Court of First Instance granted the Company's motion to dismiss on grounds that the complaint was time-barred under the two-year statute of limitations of the 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.

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In the third case, entitled Heirs of Dr. Juan Acevedo, et al, v. Triple-S Management Corporation, et al, the court of First Instance denied our motion for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Court of First Instance. Our request for reconsideration was denied in December 2011. Trial is set to begin December 2, 2014.

The fourth case, entitled Montilla López, et al, v. Seguros de Servicios de Salud, et al, was filed on November 29, 2011. The Company filed a motion to dismiss on the grounds that the claim is time barred under the local securities laws. 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, entitled Cebollero Santamaría v. Triple-S Salud, Inc., et al, was filed on March 26, 2013, and the Company filed its response on May 16, 2013. On October 29, 2013, the Company filed a motion for summary judgment on the grounds that the claim is time barred under the fifteen-year period of the Puerto Rico Civil Code for collection of monies and, in the alternative, that plaintiff failed to state a claim for which relief can be granted. The court allowed plaintiff to conduct limited discovery in connection with plaintiff's opposition to our motion for summary judgment, which is currently ongoing.

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

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

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, some of these claims will likely be litigated on their merits.

Joint Underwriting Association Litigations



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

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(Dollar amounts in thousands, except per share data)

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

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

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

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

Dentists Association Litigation

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

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of \$150,000. In addition, the complaint claims that the Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists. 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. On February 8, 2011, the federal district court in Puerto Rico decided to retain jurisdiction. The defendants filed a joint motion to dismiss the case on the merits. On August 31, 2011, the District Court dismissed all of plaintiffs' claims except for its breach of contract

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

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In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the BCBSA in a multi-district class action litigation filed on July 24, 2012 that alleges that the exclusive service area (“ESA”) requirements of the Primary License Agreements with Plans violate antitrust law, and the plaintiffs in these suits seek monetary awards and in some instances, injunctive relief barring ESAs. Those cases have been centralized in the United States District Court for the Northern District of Alabama. Prior to centralization, motions have been filed to dismiss some of the cases and are pending the court’s decision. Plaintiffs opposed TSS’ motion to dismiss. On April 9, 2014, the court held an argumentative hearing to discuss the motions to dismiss. During the hearing, the Court did not issue a ruling on the motions to dismiss thus, decision on said motions are still pending. On June 18, 2014, the court denied TSS’ motion to dismiss. Discovery 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 defendant in several claims for collection of monies in connection with the provision of health care services. Among them are individual complaints filed before the Puerto Rico Health Insurance Administration by six community health centers alleging TSS’ breached their contracts with respect to certain capitation payments and other monetary claims. Such claims have an aggregate of approximately \$9,600. Discovery has not yet commenced, and given their early stage, the Company cannot assess the probability of an adverse outcome or the reasonable financial impact that any such outcome may have on the Company. TSS believes these complaints are time-barred and intends to vigorously defend them on these and other grounds.

Also, on June 5, 2014, ASES initiated an administrative hearing against TSS moved by a primary medical group for alleged outstanding claims related to services provided to Medicaid beneficiaries from 2005 to 2010, totaling approximately \$3,000. On June 19, 2014, TSS filed its response and intends to vigorously defend this claim.

Intrusions into TCI’s Internet IPA Database

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

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

Unauthorized Disclosure of Protected Health Information

On September 20, 2013, TSS mailed to our approximately 70,000 Medicare Advantage beneficiaries a pamphlet that inadvertently displayed the receiving beneficiary's Medicare Health Insurance Claim Number ("HICN"). The HICN is the unique number assigned by the Social Security Administration to each Medicare beneficiary and is considered protected health information under HIPAA. TSS conducted an investigation and reported the incident to the appropriate Puerto Rico and federal government agencies. It then received and complied with requests for information from ASES and OCR concerning this matter. TSS issued a breach notification through the local media and notified the situation to all affected beneficiaries by mail. TSS also provided a toll-free number for inquiries and complaints from the individuals to whom notice was provided, and is offering them 12 months of free credit monitoring and identity protection through an independent provider.

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On February 11, 2014, ASES notified TSS of its intention to impose a civil monetary penalty of \$6,778 and other administrative sanctions with respect to the breach described above involving 13,336 of our dual eligible Medicare beneficiaries. The sanctions include the suspension of all new enrollments of dual eligible Medicare beneficiaries and the obligation to notify affected individuals of their right to disenroll. In its letter, ASES alleged TSS has failed to take all required steps in response to the breach. ASES subsequently informed TSS that it expected TSS to cease such enrollment immediately and TSS complied. On February 20, 2014, TSS submitted a corrective action plan and, on February 21, 2014, ASES requested TSS to provide additional information in connection with the corrective action plan. On February 26, 2014, ASES temporarily lifted the sanctions related to the enrollment of dual eligible Medicare beneficiaries subject to the approval of the corrective action plan. On March 6, 2014, ASES confirmed its determination regarding the lift of the enrollment sanction and notified its intention to provide TSS a corrective action plan. On March 11, 2014, TSS filed an answer challenging the monetary civil penalty and requesting an administrative hearing and simultaneously filed a notice of removal in the federal District Court for the District of Puerto Rico. TSS alleges that the administrative proceeding should be dismissed on several grounds, including lack of jurisdiction. On April 10, 2014, ASES filed a motion to remand, and, on April 24, 2014 TSS filed its opposition.

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

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

ASES Audits

On July 2, 2014, ASES requested TSS to reimburse \$4,800 corresponding to payments made to TSS pursuant to prior contracts with ASES for the provision of services under the government health plan as a result of audits conducted by ASES covering several periods from October 2005 to September 2013. TSS contends that ASES request for reimbursement has no merits on several grounds, including a 2011 settlement between both parties covering the majority of the amount claimed by ASES. TSS intends to vigorously challenge this claim and defend the validity of the settlement agreement signed by the parties in 2011.

(14) Business Combination

Effective November 7, 2013, the Company's subsidiary Triple-S Vida, Inc. ("TSV") completed the acquisition of 100% of the outstanding capital stock of Atlantic Southern Insurance Company ("ASICO"), an insurer dedicated to the sale of

individual life and cancer insurance in Puerto Rico, as well as individual and group health insurance in the U.S. Virgin Islands, British Virgin Islands, Anguilla and Costa Rica. After this acquisition the Company expects to solidify its position in the life insurance business in Puerto Rico. The Company accounted for this acquisition in accordance with the provisions of Accounting Standard Codification Topic 805, Business Combinations. The results of operations and financial condition of Atlantic Southern Insurance Company are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity was \$9,413. Direct costs related to the acquisition amounted to \$435.

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(Unaudited)

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

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

On October 31, 2013, we recognized a VOBA asset of \$4,499, resulting from the ASICO transaction in the consolidated balance sheet. During the three months and six months ended June 30, 2014, we recognized \$143 and \$308, respectively, of amortization expense related to the VOBA asset.

The consolidated statements of earnings for the three months ended June 30, 2014 include \$1,932 in operating revenues and a \$250 net gain related to ASICO. The consolidated statements of earnings for the six months ended June 30, 2014 include \$3,989 in operating revenues and a \$557 net gain related to ASICO. The following unaudited pro forma financial information presents the combined results of operations of the Company and ASICO as if the acquisition had occurred at the beginning of 2013. The unaudited pro forma financial information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations.

|                    | Three<br>months<br>and<br>June 30,<br>2013 | Six months<br>ended<br>June 30,<br>2013 |
|--------------------|--|---|
| Operating revenues | \$600,055                                  | \$1,191,926                             |



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|                              |          |          |
|------------------------------|----------|----------|
| Net Income                   | \$19,898 | \$36,892 |
| Basic net income per share   | \$0.71   | \$1.32   |
| Diluted net income per share | \$0.71   | \$1.31   |

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The above unaudited pro forma operating revenues and net income considers an estimated acquisition adjustment related to the VOBA asset, including an amortization expense of \$115 and \$230 for the three months and six months ended June 30, 2013, respectively.

(15) Subsequent Events

The Company evaluated subsequent events through the date that these consolidated interim financial statements were issued. No other events have occurred that require disclosure or adjustments.

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

In this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"), the "Corporation", the "Company", "TSM", "we", "us" and "our" refers to Triple-S Management Corporation and its subsidiaries. MD&A included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and six months ended June 30, 2014. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2013 and the MD&A included therein, and our unaudited consolidated financial statements and accompanying notes as of and for the three months and six months ended June 30, 2014 included in this Quarterly Report on Form 10-Q.

Cautionary Statement Regarding Forward-Looking Information

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

Overview

We are one of the most significant players in the managed care industry in Puerto Rico and have over 50 years of experience in this industry. We offer a broad portfolio of managed care and related products in the Commercial and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan ("PDP")) markets. In the Commercial market we offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. We also participate in the Government of Puerto Rico Health Reform (a government of Puerto Rico-funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S.) ("Medicaid"), by administering the provision of the physical health component in designated service regions in Puerto Rico. For the six months ended June 30, 2014, operating income generated under the Medicaid program represented 18% of our consolidated operating income, compared to 34% for the same period in 2013. See details of the Medicaid contract in Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013 under the sub-caption "We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business."

We have the exclusive right to use the BCBS name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands and Anguilla. As of December 31, 2013, we served approximately 2,188,000 members across all regions of Puerto Rico. For the six months ended June 30, 2014, our managed care segment represented approximately 89% of our total consolidated premiums earned, net and approximately 73% of our operating income. We also have significant positions in the life insurance and property and casualty insurance markets in Puerto Rico. Our life insurance segment had a market share of approximately 12% (in terms of direct premiums) during the year ended December 31, 2013. Our property and casualty segment had a market share of

approximately 8% (in terms of direct premiums) during the year ended December 31, 2013.

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

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We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. (“TSP”), each one representing approximately 6% and 4%, respectively, of our consolidated premiums earned, net for the six months ended June 30, 2014.

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

| (Dollar amounts in millions)             | Three months ended |         | Six months ended |           |
|--|--------------------|---------|------------------|-----------|
|  | June 30, 2014      | 2013    | June 30, 2014    | 2013      |
| Premiums earned, net:                    |                    |         |                  |           |
| Managed care                             | \$485.6            | \$499.3 | \$969.7          | \$993.2   |
| Life insurance                           | 34.9               | 32.1    | 69.9             | 63.9      |
| Property and casualty insurance          | 23.7               | 25.3    | 47.2             | 50.2      |
| Intersegment premiums earned             | (0.5 )             | (0.7 )  | (1.2 )           | (1.3 )    |
| Consolidated premiums earned, net        | \$543.7            | \$556.0 | \$1,085.6        | \$1,106.0 |
| Administrative service fees:             |                    |         |                  |           |
| Managed care                             | \$30.7             | \$29.6  | \$61.4           | \$57.7    |
| Intersegment administrative service fees | (1.2 )             | (1.0 )  | (2.1 )           | (2.0 )    |
| Consolidated administrative service fees | \$29.5             | \$28.6  | \$59.3           | \$55.7    |
| Operating income:                        |                    |         |                  |           |
| Managed care                             | \$27.9             | \$13.4  | \$32.0           | \$33.9    |
| Life insurance                           | 5.2                | 3.7     | 10.4             | 7.7       |
| Property and casualty insurance          | 4.5                | 0.2     | 5.2              | 0.6       |
| Intersegment and other                   | (3.6 )             | (0.5 )  | (3.6 )           | (2.7 )    |
| Consolidated operating income            | \$34.0             | \$16.8  | \$44.0           | \$39.5    |

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. Operating expenses of 2014 includes the estimated Health Insurance Providers Fee payable under the Affordable Care Act (ACA).

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

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Recent Developments

Puerto Rico's Economy

History and Description

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

Puerto Rico's economy is currently in a recession that began in the fourth quarter of government 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 1.7% respectively. For fiscal year 2012 and 2013 Puerto Rico's gross national product grew by 0.9% (revised) and 0.3% (preliminary), respectively. In June 2014, the Puerto Rico Planning Board (the "Planning Board") released its revised gross national product forecast for fiscal years 2014 and 2015. The gross national product forecast for fiscal year 2014 and 2015 is a projected growth of 0.1% and 0.2%, respectively.

Personal income, both aggregate and per capita, has shown a positive average growth rate from 1947 to 2010. In fiscal year 2012, aggregate personal income was \$62.4 billion (revised) and personal income per capita was \$16,611. According to the Puerto Rico Department of Labor and Human Resources Household Employment Survey, known as the "Household Survey", the number of persons employed in Puerto Rico during the fiscal year 2013 averaged 1,029,019, a decrease of 0.6% compared to the previous fiscal year. During the first five month of fiscal years 2014 total employment averaged 1,016,000, a 2.0% reduction with respect to the same period of the prior year. The unemployment rate for fiscal year 2013 and for the first six months of fiscal year 2014 was 14.0% and 14.5%, respectively.

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

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

Recurring budget deficits have substantially increased the amount of public sector debt. The total outstanding public sector debt amounted to \$70.0 billion as of June 30, 2013.

#### Recent Measures

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



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On June 30, 2013 the Governor of Puerto Rico signed into law significant changes to the Puerto Rico Internal Revenue Code of 2011, as amended (“the 2011 Code”). Relevant amendments to the 2011 Code impacting income taxes include the expansion of the corporate alternative minimum tax and individual alternative basic tax in lieu of the proposed "National Gross Receipts Tax", a moratorium on tax credits, modified excise taxes, sales and use taxes, and taxes on insurance premiums. These changes, as applicable, have been considered and recorded in the Corporation’s financial statements as of and for the six months ended June 30, 2014. 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.

In October 2013, a bill to expand the role of the Sales Tax Financing Corporation, also known as Cofina, that allows this entity issue additional bonds, was signed into law. The amendments increase the Sales and Use Tax percentage allocated to Cofina from 2.75% to 3.50%, and allows the use of these funds for financings related to the budgets of fiscal years 2012, 2013 and 2014. In December 2013 a bill to reform the Teachers’ Retirement System was signed into law. However, on April 11, 2014, the Supreme Court of Puerto Rico ruled that amendments to the Teacher’s retirement systems are applicable only to those beneficiaries entering the retirement systems after the enactment of the reform.

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

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

On June 28, 2014, the Commonwealth enacted Act 71-2014, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the “Recovery Act”). Prior to the enactment of the Recovery Act, there was no Commonwealth statute providing an orderly recovery regime for public corporations experiencing financial difficulties. At the same time, Chapters 9 and 11 of the United States Bankruptcy Code are generally inapplicable to public corporations that are governmental instrumentalities of the Commonwealth. Thus, the Recovery Act is intended to fill this statutory gap and provide for an orderly legal process governing the enforcement and restructuring of the debts and other obligations of certain public corporations of the Commonwealth. The purpose of the Recovery Act is to create a legal framework that: (1) allows certain public corporations to adjust their debts in a manner that protects the interests of all affected creditors; (2) provides procedures for the orderly enforcement and restructuring of the debts and obligations of eligible public corporations in a manner that is consistent with the United States and Commonwealth Constitution; and (3) maximizes the return to such public corporation’s stakeholders.



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

## Rating Agencies and Markets

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

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

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

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

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

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



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Managed Care – Medicaid Business

On May 9, 2014, the government of Puerto Rico cancelled the Request for Proposal (RFP) process, initiated on February 5, 2014, for the selection of the managed care organizations that would manage the delivery of all covered physical and behavioral health services under a capitated risk-bearing contract for all regions in the Puerto Rico Government Health Plan, and, on June 30, 2014, TSS and the Puerto Rico Health Insurance Administration ("ASES" by its Spanish acronym) amended the contract by which TSS currently administers the provision of the physical health component of the program in all of the service regions in the Commonwealth of Puerto Rico to extend the term for an additional nine-month period through March 31, 2015. On June 25, 2014, the government of Puerto Rico issued a new RFP. Under this new RFP process, companies may submit proposals until August 11, 2014. We have not concluded whether or not we will participate in the bid process to retain the Medicaid business. Should we decide to participate in the bid process, there is no guarantee that we will be selected to continue providing services under the managed care organization model or that if selected, we will retain all the service regions we currently administer.

On June 30, 2014, TSS executed a second amendment to the agreement with ASES. The amended agreement, originally executed in July 1, 2013, extends for an additional nine-month period 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 through March 31, 2015. 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 this agreement, TSS is a third-party administrator responsible for the provision of administrative services to Medicaid enrollees in all the Puerto Rico regions: West, North, Metro North, San Juan, Northeast, Virtual (which covers services provided throughout Puerto Rico to children in foster care and certain victims of domestic violence), Southwest, Southeast and East. The administrative services provided include case, disease and utilization management, network management and credentialing, enrollment and enrollee services and claims administration, among others. The claims related to the administration of the Medicaid business are paid from a bank account owned and funded by the government of Puerto Rico.

Affordable Care Act

On July 16, 2014, the Department of Health and Human Services (the "HHS") sent a letter to the insurance commissioners of the U.S. territories, including the Commissioner of Insurance of Puerto Rico, in which notified that the term "state," as used in the Public Health Service Act ("PHS Act") does not include the territories of the United States, therefore, several market reform provisions under ACA will not be applicable to Puerto Rico and other U.S. territories. On June 16, 2014, the Commissioner of Insurance of Puerto Rico issued a press release indicating that most requirements of ACA had been adopted through the Insurance Code of Puerto Rico or normative letters. There is uncertainty as to the impact this new interpretation made by the HHS would have in the local legislation and regulation implementing ACA, or how any other new related legislation or regulation will affect our business.

Credentialing

On May 29, 2014, ASES notified TSS that it had complied with the corrective action plan related to the credentialing of TSS' provider network for its Medicaid business. Based on TSS compliance, ASES closed the corrective action plan.

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

Managed Care Membership

|   | As of June 30, |           |
|---|----------------|-----------|
|   | 2014           | 2013      |
| Managed care enrollment:                          |                |           |
| Commercial <sup>1</sup>                           | 619,537        | 678,544   |
| Medicare <sup>2</sup>                             | 119,830        | 113,984   |
| Medicaid <sup>3</sup>                             | 1,408,804      | 898,180   |
| Total   | 2,148,171      | 1,690,708 |
| Managed care enrollment by insurance arrangement: |                |           |
| Fully-insured                                     | 537,349        | 576,525   |
| Self-insured                                      | 1,610,822      | 1,114,183 |
| Total   | 2,148,171      | 1,690,708 |

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

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

(3) All are self-insured members.

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 |         | Six months ended |           |
|---|--------------------|---------|------------------|-----------|
|   | June 30, 2014      | 2013    | June 30, 2014    | 2013      |
| Revenues:   |                    |         |                  |           |
| Premiums earned, net                                    | \$543.7            | \$556.0 | \$1,085.6        | \$1,106.0 |
| Administrative service fees                             | 29.5               | 28.6    | 59.3             | 55.7      |
| Net investment income                                   | 12.1               | 12.0    | 23.5             | 23.4      |
| Other operating revenues                                | 0.9                | 1.2     | 2.3              | 2.3       |
| Total operating revenues                                | 586.2              | 597.8   | 1,170.7          | 1,187.4   |
| Net realized investment gains                           | 3.9                | 1.7     | 4.1              | 3.6       |
| Other income, net                                       | 0.6                | 0.3     | 0.8              | 0.8       |
| Total revenues  | 590.7              | 599.8   | 1,175.6          | 1,191.8   |
| Benefits and expenses:                                  |                    |         |                  |           |
| Claims incurred   | 428.6              | 460.8   | 877.7            | 912.8     |
| Operating expenses                                      | 123.6              | 120.2   | 249.0            | 235.1     |
| Total operating expenses                                | 552.2              | 581.0   | 1,126.7          | 1,147.9   |
| Interest expense  | 2.4                | 2.5     | 4.7              | 4.8       |
| Total benefits and expenses                             | 554.6              | 583.5   | 1,131.4          | 1,152.7   |
| Income before taxes                                     | 36.1               | 16.3    | 44.2             | 39.1      |
| Income tax expense (benefit)                            | 8.7                | (3.7 )  | 9.8              | 1.8       |
| Net income  | 27.4               | 20.0    | 34.4             | 37.3      |
| Less: net loss attributable to non-controlling interest | -                  | 0.1     | -                | 0.1       |
| Net income attributable to TSM                          | \$27.4             | \$20.1  | \$34.4           | \$37.4    |

## Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

## Operating Revenues

Consolidated premiums earned, net for the three months ended June 30, 2014 decreased by \$12.3 million, or 2.2%, to \$543.7 million when compared to the three months ended June 30, 2013. This decrease primarily reflects a lower fully-insured membership in the Commercial sector of our Managed Care segment. The premiums of the Property and Casualty Insurance segment also presented a decrease during this quarter. Life Insurance premiums increased during the three months ended June 30, 2014 primarily reflecting the acquisition of Atlantic Southern Insurance Company ("ASICO") effective November 2013.

The consolidated administrative service fees of \$29.5 million increased by \$0.9 million, or 3.1%, when compared to prior period, mostly as a result of the three regions added to the Medicaid contract on October 1, 2013, partially offset by lower fees per member per month negotiated effective July 1, 2013.

## Net Realized Investment Gains

Consolidated net realized investment gains of \$3.9 million during the 2014 period are mainly the result of sales of equity securities.

Claims Incurred

Consolidated claims incurred decreased by \$32.2 million, or 7.0%, to \$428.6 million during the three months ended June 30, 2014 when compared to the claims incurred during the three months ended June 30, 2013, mostly in the Medicare and Commercial businesses of the Managed Care segment. Medical claims incurred in Managed Care decreased mostly as a result of favorable prior period reserve developments and lower member month enrollment in the 2014 period. Property and Casualty Insurance claims also experienced a decrease during this quarter, reflecting a favorable loss experience, mostly in the Commercial Multi-peril line of business. The consolidated loss ratio decreased by 410 basis points to 78.8%.



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Operating Expenses

Consolidated operating expenses during the three months ended June 30, 2014 increased by \$3.4 million, or 2.8%, to \$123.6 million as compared to the operating expenses during the three months ended June 30, 2013. For the three months ended June 30, 2014, the consolidated operating expense ratio increased 100 basis points to 21.6%. The higher operating expenses and operating expenses ratio are mainly related to \$6.8 million of Health Insurance Providers Fee that became effective January 1, 2014, \$2.4 million of premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed since the beginning of the year.

Income Tax Expense

Consolidated income tax expense during the three months ended June 30, 2014 increased by \$12.4 million, to \$8.7 million, as compared to the income tax expense for the three months ended June 30, 2013. The effective tax rate increased from a benefit of 22.7% in 2013 to an expense of 24.1% in 2014. The change in the effective tax rate reflects a one-time \$7.7 million positive adjustment increasing the consolidated net deferred tax assets after the June 30, 2013 enactment of Puerto Rico tax legislation that increased the maximum corporate tax rate from 30% to 39% effective January 1, 2013. The effective tax rate for the three months ended June 30, 2013 excluding the effect of this deferred tax adjustment is 24.5%, which is 40 basis points higher than the effective tax rate for the quarter ended June 30, 2014.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Operating Revenues

Consolidated premiums earned, net for the six months ended June 30, 2014 decreased by \$20.4 million, or 1.8%, to \$1,085.6 million when compared to the six months ended June 30, 2013. This decrease primarily reflects a lower fully-insured Managed Care member month enrollment, particularly in the Commercial sector. Property and Casualty Insurance premiums also presented a decrease during the six months ended June 30, 2014. Life Insurance premiums increased during the 2014 period primarily reflecting the ASICO acquisition.

The consolidated administrative service fees of \$59.3 million increased by \$3.6 million, or 6.5%, when compared to prior period, triggered by the addition of three new regions in the Medicaid program effective October 1, 2013.

Net Realized Investment Gains

Consolidated net realized investment gains of \$4.1 million during the 2014 period are mainly the result of sales of equity securities.

Claims Incurred

Consolidated claims incurred decreased by \$35.1 million, or 3.8%, to \$877.7 million during the six months ended June 30, 2014, mostly in the Medicare and Commercial businesses of the Managed Care segment. Medical claims incurred in Managed Care decreased mostly as a result of lower member month enrollment in the 2014 period and favorable prior period reserve developments. Property and Casualty claims also decreased during the six months ended June 30, 2014, reflecting a favorable loss experience, particularly in the Commercial Multi-peril and Medical Malpractice lines of business. The consolidated loss ratio decreased by 170 basis points to 80.8%.

Operating Expenses

Consolidated operating expenses for the six months ended June 30, 2014 increased by \$13.5 million, or 5.9%, to \$249.0 million as compared to the operating expenses for the six months ended June 30, 2013. The consolidated operating expense ratio increased by 150 basis points to 21.7%. The higher operating expenses and operating expenses ratio are mainly related to \$13.9 million of Health Insurance Providers Fee that became effective January 1, 2014, \$4.8 million of premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed during the 2014 period.

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## Income Tax Expense

Consolidated income tax expense for the six months ended June 30, 2014 increased by \$8.0 million, to \$9.8 million, as compared to the income tax expense for the six months ended June 30, 2013. The effective tax rate increased from 4.6% in 2013 to 22.2% in 2014. The change in the effective tax rate reflects a one-time \$7.7 million adjustment increasing the consolidated net deferred tax assets after the June 30, 2013 enactment of Puerto Rico tax legislation that increased the maximum corporate tax rate from 30% to 39% effective January 1, 2013. The 2013 effective tax rate excluding the effect of this deferred tax adjustment is 24.3%, which is 210 basis points higher than the 2014 effective tax rate reflecting a higher proportion of taxable income from the Managed Care segment, which operates at a higher effective tax rate.

Managed Care Operating Results

| (Dollar amounts in millions)         | Three months ended |           | Six months ended |            |
|--------------------------------------|--------------------|-----------|------------------|------------|
|                                      | June 30,<br>2014   | 2013      | June 30,<br>2014 | 2013       |
| Operating revenues:                  |                    |           |                  |            |
| Medical premiums earned, net:        |                    |           |                  |            |
| Commercial                           | \$223.0            | \$238.7   | \$452.8          | \$472.3    |
| Medicare                             | 262.6              | 260.6     | 516.9            | 520.9      |
| Medical premiums earned, net         | 485.6              | 499.3     | 969.7            | 993.2      |
| Administrative service fees          | 30.7               | 29.6      | 61.4             | 57.7       |
| Net investment income                | 3.9                | 4.1       | 7.6              | 8.0        |
| Total operating revenues             | 520.2              | 533.0     | 1,038.7          | 1,058.9    |
| Medical operating costs:             |                    |           |                  |            |
| Medical claims incurred              | 400.2              | 428.6     | 819.5            | 851.8      |
| Medical operating expenses           | 92.1               | 91.0      | 187.2            | 173.2      |
| Total medical operating costs        | 492.3              | 519.6     | 1,006.7          | 1,025.0    |
| Medical operating income             | \$27.9             | \$13.4    | \$32.0           | \$33.9     |
| Additional data:                     |                    |           |                  |            |
| Member months enrollment:            |                    |           |                  |            |
| Commercial:                          |                    |           |                  |            |
| Fully-insured                        | 1,273,324          | 1,388,125 | 2,592,736        | 2,783,148  |
| Self-funded                          | 608,880            | 656,408   | 1,236,286        | 1,323,584  |
| Total Commercial member months       | 1,882,204          | 2,044,533 | 3,829,022        | 4,106,732  |
| Medicare:                            |                    |           |                  |            |
| Medicare Advantage                   | 318,227            | 315,656   | 637,516          | 638,414    |
| Stand-alone PDP                      | 41,148             | 24,365    | 82,745           | 48,438     |
| Total Medicare member months         | 359,375            | 340,021   | 720,261          | 686,852    |
| Medicaid member months - Self-funded | 4,204,323          | 2,670,314 | 8,394,782        | 5,320,932  |
| Total member months                  | 6,445,902          | 5,054,868 | 12,944,065       | 10,114,516 |
| Medical loss ratio                   | 82.4               | % 85.8    | % 84.5           | % 85.8     |
| Operating expense ratio              | 17.8               | % 17.2    | % 18.2           | % 16.5     |

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

Medical Operating Revenues

Medical premiums earned for the three months ended June 30, 2014 decreased by \$13.7 million, or 2.7%, to \$485.6 million when compared to the medical premiums earned during the three months ended June 30, 2013. This decrease is principally the result of the following:

Medical premiums generated by the Commercial business decreased by \$15.7 million, or 6.6%, to \$223.0 million during the three months ended June 30, 2014. This fluctuation is primarily the result of a decrease in fully-insured member month enrollment by 114,801, or 8.3%, mainly in our rated groups and individual accounts products and reflecting pricing sensitivity, cancellation of several commercial accounts and attrition in existing accounts as a result of the island's challenging economic situation. The effect of the lower membership is partially offset by a 1.8% year over year increase in average premium rates. Excluding the effect of the Health Insurance Providers Fee recovered from customers, average premium rates increased by 0.5% during the three months ended June 30, 2014. The Health Insurance Providers Fee became effective January 1, 2014.

Medical premiums generated by the Medicare business increased during the three months ended June 30, 2014 by \$2.0 million, or 0.8%, to \$262.6 million. The member month enrollment increased by 19,354, or 5.7%, year over year, mostly resulting from higher membership, particularly in stand-alone PDP and non-dual eligible products. The Medicare premiums for the three months ended June 30, 2014 reflect \$12.4 million of additional risk factor revenue related to the 2013 final settlement with CMS and 2014 accrual estimates. The additional risk factor revenue recorded in the 2013 period corresponding to prior periods was \$6.8 million.

Administrative service fees increased by \$1.1 million, or 3.7%, to \$30.7 million during the three months ended June 30, 2014. This increase primarily reflects the higher Medicaid enrollment after the addition of three regions effective October 1, 2013 offset in part by lower per-member per-month fees effective July 1, 2013 combined with a lower self-funded Commercial enrollment in the 2014 period.

Medical Claims Incurred

Medical claims incurred during the three months ended June 30, 2014 decreased by \$28.4 million, or 6.6%, to \$400.2 million when compared to the three months ended June 30, 2013, reflecting lower fully-insured enrollment in 2014 and favorable prior period reserve developments. The medical loss ratio ("MLR") of the segment decreased 340 basis points during the 2014 period, to 82.4%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business decreased by \$23.5 million, or 11.2%, during the 2014 period mostly due to the lower fully-insured member month enrollment. The Commercial MLR was 83.2%, which is 430 basis points lower than the MLR for the prior year primarily due to favorable prior period reserve development in 2014. Excluding the effect of favorable prior period reserve developments in 2014 and 2013 and other related adjustments, the MLR would have increased by 290 basis points. The increase reflects higher cost trends, particularly for pharmacy benefits, surgical procedures, and laboratory and x-ray services.

The medical claims incurred of the Medicare business decreased by \$4.9 million, or 2.2%, during the 2014 period and its MLR decreased by 250 basis points, to 81.6%, primarily resulting from higher risk score revenue and favorable prior period reserve development. Excluding the effect of prior period reserve developments and risk-score adjustments in the 2014 and 2013 periods, the MLR presents an increase of 60 basis points, primarily reflecting higher pharmacy costs.

Medical Operating Expenses

Medical operating expenses for the three months ended June 30, 2014 increased by \$1.1 million, or 1.2%, to \$92.1 million when compared to the three months ended June 30, 2013. The operating expense ratio increased by 60 basis points, from 17.2% in 2013 to 17.8% in 2014. This increase is mainly related to \$6.8 million of Health Insurance Providers Fee that became effective January 1, 2014, \$1.8 million of premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013, which amounted to \$8.0 million. The effect of new taxes and fees and the increased Medicaid enrollment was offset by the impact of cost containment initiatives developed since the beginning of the year.

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Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Medical Operating Revenues

Medical premiums earned for the six months ended June 30, 2014 decreased by \$23.5 million, or 2.4%, to \$969.7 million when compared to the medical premiums earned during the six months ended June 30, 2013. This decrease is principally the result of the following:

Medical premiums generated by the Commercial business decreased by \$19.5 million, or 4.1%, to \$452.8 million during the six months ended June 30, 2014. This fluctuation is primarily the result of a decrease in fully-insured member month enrollment by 190,412, or 6.8%, mainly in our rated groups and individual accounts products and reflecting pricing sensitivity, cancellation of several commercial accounts and attrition in existing accounts as a result of the island's challenging economic situation. The effect of the decreased membership is partially offset by a 2.9% year over year increase in average premium rates. Excluding the effect of the Health Insurance Providers Fee recovered from customers, average premium rates increased by 1.6% during the six months ended June 30, 2014. The Health Insurance Providers Fee became effective January 1, 2014.

Medical premiums generated by the Medicare business decreased during the six months ended June 30, 2014 by \$4.0 million, or 0.8%, to \$516.9 million. The member month enrollment increased by 33,409, or 4.9%, year over year, mostly resulting from a higher stand-alone PDP membership. Medicare Advantage member month enrollment decreased by 898 members during the six months ended June 30, 2014, comprised of a decrease in dual-eligible enrollment by 16,991 and an increase in non-dual enrollment by 16,093. Because Medicare Advantage dual-eligible products have higher average premium rates the effect of the lower member month enrollment in these products more than offsets the membership gain experienced in the non-dual and stand-alone PDP products. The effect of the change in membership mix is offset in part by the additional risk factor revenue when compared to the previous year. The six months ended June 30, 2014 and 2013 include the net effect of approximately \$4.5 million and \$3.1 million, respectively, related to the CMS final risk score adjustments corresponding to prior periods.

Administrative service fees increased by \$3.7 million, or 6.4%, to \$61.4 million during the six months ended June 30, 2014. This increase primarily reflects the higher Medicaid enrollment after the addition of three additional regions effective October 1, 2013 offset in part by lower per-member per-month fees effective July 1, 2013 and the lower Commercial self-insured member month enrollment.

Medical Claims Incurred

Medical claims incurred during the six months ended June 30, 2014 decreased by \$32.3 million, or 3.8%, to \$819.5 million when compared to the six months ended June 30, 2013, reflecting lower fully-insured enrollment in 2014 and favorable prior period reserve developments. The medical loss ratio ("MLR") of the segment decreased 130 basis points during the 2014 period, to 84.5%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business decreased by \$25.4 million, or 6.1%, during the 2014 period mostly due to the lower fully-insured member month enrollment. The Commercial MLR was 86.4%, which is 190 basis points lower than the MLR for the prior year primarily due to favorable prior period reserve development in 2014. Excluding the effect of favorable prior period reserve developments in both periods and other related adjustments, the MLR would have increased by 350 basis points. The increase reflects higher cost trends, particularly for pharmacy benefits, surgical procedures, and laboratory and x-ray services.

The medical claims incurred of the Medicare business decreased by \$7.0 million, or 1.6%, during the 2014 period and its MLR decreased by 70 basis points, to 82.9%. The MLR excluding prior period reserve developments and risk-score adjustments in the 2014 and 2013 periods presents an increase of 190 basis points, primarily reflecting

higher pharmacy costs.

#### Medical Operating Expenses

Medical operating expenses for the six months ended June 30, 2014 increased by \$14.0 million, or 8.1%, to \$187.2 million when compared to the six months ended June 30, 2013. The operating expense ratio increased by 170 basis points, from 16.5% in 2013 to 18.2% in 2014. This increase is mainly related to \$13.9 million of Health Insurance Providers Fee that became effective January 1, 2014, \$3.6 million of premium taxes that became effective July 1, 2013 and incremental expenses related to the administration of the three new service regions of the Medicaid program effective October 1, 2013, which amounted to \$16.0 million. The effect of new taxes and fees and the increased Medicaid enrollment was partially offset by the impact of cost containment initiatives in place during the 2014 period.

Table of ContentsLife Insurance Operating Results

| (Dollar amounts in millions)        | Three months ended |        | Six months ended |        |
|-------------------------------------|--------------------|--------|------------------|--------|
|                                     | June 30, 2014      | 2013   | June 30, 2014    | 2013   |
| Operating revenues:                 |                    |        |                  |        |
| Premiums earned, net:               |                    |        |                  |        |
| Premiums earned                     | \$37.6             | \$34.3 | \$75.2           | \$68.1 |
| Premiums earned ceded               | (2.7)              | (2.2)  | (5.3)            | (4.2)  |
| Premiums earned, net                | 34.9               | 32.1   | 69.9             | 63.9   |
| Net investment income               | 6.0                | 5.7    | 11.6             | 11.0   |
| Total operating revenues            | 40.9               | 37.8   | 81.5             | 74.9   |
| Operating costs:                    |                    |        |                  |        |
| Policy benefits and claims incurred | 18.4               | 17.9   | 36.3             | 34.7   |
| Underwriting and other expenses     | 17.3               | 16.2   | 34.8             | 32.5   |
| Total operating costs               | 35.7               | 34.1   | 71.1             | 67.2   |
| Operating income                    | \$5.2              | \$3.7  | \$10.4           | \$7.7  |
| Additional data:                    |                    |        |                  |        |
| Loss ratio                          | 52.7%              | 55.8%  | 51.9%            | 54.3%  |
| Operating expense ratio             | 49.6%              | 50.5%  | 49.8%            | 50.9%  |

## Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

## Operating Revenues

Premiums earned, net for the three months ended June 30, 2014 increased by \$2.8 million, or 8.7% to \$34.9 million when compared to the three months ended June 30, 2013 mostly reflecting \$1.9 million of additional life, cancer and major medical health premiums brought by the ASICO acquisition effective November 2013. Premiums from the Cancer and Group Life lines of business increased by \$1.0 million year over year.

## Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the three months ended June 30, 2014 increased by \$0.5 million, or 2.8%, to \$18.4 million when compared to the three months ended June 30, 2013. This increase reflects the additional \$1.1 million in claims related to the ASICO business partially offset by a lower growth of actuarial reserves on all other lines of business. The loss ratio for the period decreased from 55.8% in 2013 to 52.7% in 2014, or 310 basis points.

## Underwriting and Other Expenses

Underwriting and other expenses for the three month period ended June 30, 2014 increased \$1.1 million, or 6.8%, to \$17.3 million when compared to the three months ended June 30, 2013. The increase is mostly related to the additional \$0.8 million related to the ASICO business and a lower amount of expenses capitalized as Deferred Policy Acquisition Costs. As a result of the segment's proportionally higher increase in premiums during this period the operating expense ratio decreased by 90 basis points from 50.5% in 2013 to 49.6% in 2014.

## Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

## Operating Revenues



Premiums earned, net for the six months ended June 30, 2014 increased by \$6.0 million, or 9.4% to \$69.9 million when compared to the six months ended June 30, 2013 mostly reflecting \$4.0 million of additional life premiums brought by the ASICO acquisition effective November 2013. Premiums from the Cancer and Group Life lines of business increased by \$2.0 million year over year.

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## Policy Benefits and Claims Incurred

Policy benefits and claims incurred for the six months ended June 30, 2014 increased by \$1.6 million, or 4.6%, to \$36.3 million when compared to the six months ended June 30, 2013. This increase reflects the additional \$2.1 million in claims related to the ASICO business partially offset by a lower growth of actuarial reserves and claims in other lines of business. The loss ratio for the period decreased from 54.3% in 2013 to 51.9% in 2014, or 240 basis points.

## Underwriting and Other Expenses

Underwriting and other expenses for the six month period ended June 30, 2014 increased \$2.3 million, or 7.1%, to \$34.8 million when compared to the six months ended June 30, 2013. The increase is mostly the additional \$1.6 million in operating expenses of ASICO business and a lower amount of net expenses capitalized as Deferred Policy Acquisition Costs. As a result of the segment's proportionally higher increase in premiums during this period the operating expense ratio decreased by 110 basis points from 50.9% in 2013 to 49.8% in 2014.

Property and Casualty Insurance Operating Results

| (Dollar amounts in millions)    | Three months ended |         | Six months ended |         |
|---------------------------------|--------------------|---------|------------------|---------|
|                                 | June 30, 2014      | 2013    | June 30, 2014    | 2013    |
| Operating revenues:             |                    |         |                  |         |
| Premiums earned, net:           |                    |         |                  |         |
| Premiums written                | \$41.5             | \$46.2  | \$71.3           | \$77.2  |
| Premiums ceded                  | (14.1)             | (14.9)  | (24.8)           | (28.1)  |
| Change in unearned premiums     | (3.7)              | (6.0)   | 0.7              | 1.1     |
| Premiums earned, net            | 23.7               | 25.3    | 47.2             | 50.2    |
| Net investment income           | 2.2                | 2.0     | 4.1              | 4.0     |
| Total operating revenues        | 25.9               | 27.3    | 51.3             | 54.2    |
| Operating costs:                |                    |         |                  |         |
| Claims incurred                 | 11.1               | 14.9    | 23.3             | 27.6    |
| Underwriting and other expenses | 10.3               | 12.2    | 22.8             | 26.0    |
| Total operating costs           | 21.4               | 27.1    | 46.1             | 53.6    |
| Operating income                | \$4.5              | \$0.2   | \$5.2            | \$0.6   |
| Additional data:                |                    |         |                  |         |
| Loss ratio                      | 46.8 %             | 58.9 %  | 49.4 %           | 55.0 %  |
| Operating expense ratio         | 43.5 %             | 48.2 %  | 48.3 %           | 51.8 %  |
| Combined ratio                  | 90.3 %             | 107.1 % | 97.7 %           | 106.8 % |

## Three Months Ended June 30, 2014 Compared to Three Months Ended June 30, 2013

## Operating Revenues

Total premiums written during the three months ended June 30, 2014 decreased by \$4.7 million, or 10.2%, to \$41.5 million, mostly resulting from lower sales of Commercial products, primarily in the Commercial Liability and Commercial Package insurance products, mostly resulting from the loss of several municipal accounts.

Premiums ceded to reinsurers during the three months ended June 30, 2014 decreased by \$0.8 million, or 5.4%, to \$14.1 million. The ratio of premiums ceded to premiums written increased by 170 basis points, from 32.3% in 2013

to 34.0% in 2014.

The change in unearned premiums presented an increase of \$2.3 million, to \$3.7 million during the three months ended June 30, 2014, primarily as the result of lower premiums written in 2014.

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Claims Incurred

Claims incurred during the three months ended June 30, 2014 decreased by \$3.8 million, or 25.5%, to \$11.1 million. The loss ratio decreased by 1,210 basis points, to 46.8% during this period primarily as a result of a favorable loss experience, mostly in the Commercial Multi-peril line of business.

Underwriting and Other Expenses

Underwriting and other operating expenses for the three months ended June 30, 2014 decreased by \$1.9 million, or 15.6%, to \$10.3 million, primarily due to a lower net commission expense resulting from a decrease in net premium earned. The operating expense ratio decreased by 470 basis points during the same period, to 43.5% in 2014.

Six Months Ended June 30, 2014 Compared to Six Months Ended June 30, 2013

Operating Revenues

Total premiums written during the six months ended June 30, 2014 decreased by \$5.9 million, or 7.6%, to \$71.3 million, mostly resulting from lower sales of Commercial products, primarily in the Commercial Liability and Commercial Package insurance products.

Premiums ceded to reinsurers during the six months ended June 30, 2014 increased by \$3.3 million, or 11.7%, to \$24.8 million. The ratio of premiums ceded to premiums written decreased by 160 basis points, from 36.4% in 2013 to 34.8% in 2014. The lower amount of premiums ceded primarily results from a change in the commercial quota share agreement where the cession was changed from 37% to 30% in 2014.

The change in unearned premiums presented a decrease of \$0.4 million, to \$0.7 million during the six months ended June 30, 2014, primarily as the result of lower premiums written in 2014.

Claims Incurred

Claims incurred during the six months ended June 30, 2014 decreased by \$4.3 million, or 15.6%, to \$23.3 million. The loss ratio decreased by 560 basis points, to 49.4% during this period primarily as a result of a favorable loss experience, mostly in the Commercial Multi-peril and Medical Malpractice lines of business.

Underwriting and Other Expenses

Underwriting and other operating expenses for the six months ended June 30, 2014 decreased by \$3.2 million, or 12.3%, to \$22.8 million, primarily due to a lower net commission expense resulting from the decrease in net premium earned. The operating expense ratio decreased by 350 basis points during the same period, to 48.3% in 2014.

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## 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)              | Six months<br>ended<br>June 30, |          |
|---|---------------------------------|----------|
|   | 2014                            | 2013     |
| Sources of cash:                          |                                 |          |
| Cash provided by operating activities     | \$3.0                           | \$24.3   |
| Proceeds from policyholder deposits       | 3.3                             | 6.6      |
| Other                                     | -                               | 27.7     |
| Total sources of cash                     | 12.0                            | 58.6     |
| Uses of cash:                             |                                 |          |
| Net purchases of investment securities    | (3.2 )                          | (57.4)   |
| Net capital expenditures                  | (2.8 )                          | (8.6 )   |
| Repurchase and retirement of common stock | (6.0 )                          | (18.3)   |
| Repayments of long-term borrowings        | (1.0 )                          | (1.0 )   |
| Repayments of short-term borrowings       | -                               | (1.9 )   |
| Surrenders of policyholder deposits       | (4.5 )                          | (5.1 )   |
| Other                                     | (3.6 )                          | -        |
| Total uses of cash                        | (27.0)                          | (92.3)   |
| Net decrease in cash and cash equivalents | \$(15.0)                        | \$(33.7) |

Cash flow from operating activities decreased by \$21.3 million for the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, principally due to the effect of an increase in cash paid to suppliers and employees by \$33.5 million, and a decrease in premium collections by \$22.4 million, offset in part by lower claims paid by \$29.2 million and lower income taxes paid by \$4.9 million. The decrease in premiums collected is principally the result of lower Managed Care membership enrollment. The decrease in claims mostly results from the lower enrollment in the Managed Care membership.

During the six months ended June 30, 2014 we received \$3.3 million in policyholder deposits, this represents a decrease \$3.3 million when compared to the prior year and is the result of lower sales of annuity products.

The decrease in other sources of cash is attributed to changes in the amount of outstanding checks over bank balances in the 2014 period. Net purchases of investment securities were \$54.2 million lower during the six months ended June 30, 2014 as compared to the six months ended June 30, 2013, primarily resulting from the investment of lower excess cash flows from operations.

Net capital expenditures decreased by \$5.8 million for the six months ended June 30, 2014, as compared to the six months ended June 30, 2013, principally due to special projects initiatives related to information technology during prior year that did not occur during the current period.

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

Net payments of short-term borrowings decreased by \$1.9 million during the six months ended June 30, 2014, addressing timing differences between cash receipts and disbursements.

The increase in other uses of cash is attributed to changes in the amount of outstanding checks over bank balances in the 2014 period.

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Financing and Financing Capacity

We have several short-term facilities available to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of June 30, 2014, we had \$110.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of June 30, 2014.

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

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

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

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

In addition, we are a party to a secured term loan with a commercial bank in Puerto Rico. This secured loan with original principal balance of \$41,000, 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 June 30, 2014, this secured loan had an outstanding balance of \$15.3 million and average annual interest rate of 1.24%.

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 June 30, 2014 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

As part of the acquisition transaction of the controlling stake in a health clinic, we assumed a term loan with balance of \$13.0 million as of June 30, 2014. The loan requires monthly payments of \$81 thousand, including principal and interest, is due on December 23, 2014 with a final payment of \$12.9 million and bears interest at an annual rate of 4.75%. This loan is guaranteed by a first position held by the bank on the health clinic's premises (land and building) and all of the health clinic's assets as collateral for the term of the loan under a continuing general security agreement. This secured loan contains certain financial and non-financial covenants, which are customary for this type of facility, including but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control.

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

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to "Item 7.—Management Discussion and Analysis of Financial Condition and Results of Operations" included in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We have exposure to market risk mostly in our investment activities. For purposes of this disclosure, “market risk” is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in our exposure to financial market risks since December 31, 2013. A discussion of our market risk is incorporated by reference to “Item 7A. Quantitative and Qualitative Disclosures about Market Risk” of our Annual Report on Form 10-K for the year ended December 31, 2013.



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Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

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

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

There were no significant changes in our disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the chief executive officer and chief financial officer completed the evaluation referred to above.

Changes in Internal Controls Over Financial Reporting

No changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended June 30, 2014 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Part II – Other Information

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

For a description of our risk factors see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2013.

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

Purchases of Equity Securities by the Issuer

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

|   | Total<br>Number of<br>Shares<br>Purchased | Average<br>Price<br>Paid per<br>Share | Total<br>Number of<br>Shares<br>Purchased<br>as Part of<br>Publicly<br>Announced<br>Programs <sup>1</sup> | Approximate<br>Dollar Value<br>of Shares<br>that May<br>Yet Be<br>Purchased<br>Under the<br>Programs |
|---|---|---------------------------------------|---|--|
| (Dollar amounts in millions, except per share data) |   |                                       |   |  |
| April 1, 2014 to April 30, 2014                     | 89,900                                    | \$ 16.67                              | 89,900  | \$ 7.0   |
| May 1, 2014 to May 31, 2014                         | 94,000                                    | \$ 15.99                              | 94,000  | 5.5  |
| June 1, 2014 to June 30, 2014                       | -   | -                                     | -   | 5.5  |

<sup>1</sup> In July 2013 the Company's Board of Directors authorized a \$11,500 repurchase program of its Class B common stock.

## Item 3. Defaults Upon Senior Securities

Not applicable.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

Not applicable.

## Item 6. Exhibits

## Exhibits Description

11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and six months ended June 30, 2014 and 2013 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

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

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

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

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

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

\*Filed herein.

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SIGNATURES

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

Triple-S Management Corporation  
Registrant

Date: August 5, 2014 By: /s/ Ramón M. Ruiz-Comas  
Ramón M. Ruiz-Comas  
President and  
Chief Executive Officer

Date: August 5, 2014 By: /s/ Amílcar L. Jordán-Pérez  
Amílcar L. Jordán-Pérez  
Vice President,  
Chief Financial Officer and  
Chief Accounting Officer