

TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 03, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2013

or

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

For the transition period from _____ to _____

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

Puerto Rico
(State or other jurisdiction of incorporation or organization)

66-0555678
(I.R.S. Employer Identification No.)

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

00920
(Zip code)

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

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

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

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

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

(§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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

Title of each class	Outstanding at March 31, 2013
Common Stock Class A, \$1.00 par value	9,042,809
Common Stock Class B, \$1.00 par value	19,398,839

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended March 31, 2013

Table of Contents

<u>Part I – Financial Information</u>	3
Item 1. <u>Financial Statements</u>	3
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	32
<u>Cautionary Statement Regarding Forward-Looking Information</u>	32
<u>Overview</u>	32
<u>Recent Developments</u>	34
<u>Recent Accounting Standards</u>	35
<u>Managed Care Membership</u>	35
<u>Consolidated Operating Results</u>	36
<u>Managed Care Operating Results</u>	37
<u>Life Insurance Operating Results</u>	39
<u>Property and Casualty Insurance Operating Results</u>	40
<u>Liquidity and Capital Resources</u>	41
Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>	42
Item 4. <u>Controls and Procedures</u>	43
<u>Part II – Other Information</u>	43
Item 1. <u>Legal Proceedings</u>	43
Item 1A. <u>Risk Factors</u>	43
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	43
Item 3. <u>Defaults Upon Senior Securities</u>	43
Item 4. <u>Mine Safety Disclosures</u>	43
Item 5. <u>Other Information</u>	43
Item 6. <u>Exhibits</u>	44
<u>SIGNATURES</u>	45

Table of Contents

Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation

Consolidated Balance Sheets (Unaudited)

(Dollar amounts in thousands, except per share data)

	March 31, 2013	December 31, 2012
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	\$1,040,241	\$ 1,059,761
Equity securities	289,675	209,722
Securities held to maturity, at amortized cost:		
Fixed maturities	5,000	5,000
Policy loans	6,258	6,161
Cash and cash equivalents	62,595	89,564
Total investments and cash	1,403,769	1,370,208
Premiums and other receivables, net	292,003	292,197
Deferred policy acquisition costs and value of business acquired	167,783	168,657
Property and equipment, net	94,781	92,423
Deferred tax asset	31,613	33,548
Goodwill	27,766	27,766
Other assets	70,615	74,545
Total assets	\$2,088,330	\$ 2,059,344
Liabilities and Stockholders' Equity		
Claim liabilities	\$414,124	\$ 416,918
Liability for future policy benefits	281,498	276,570
Unearned premiums	86,322	95,860
Policyholder deposits	114,335	111,692
Liability to Federal Employees' Health Benefits Program (FEHBP)	19,631	21,353
Accounts payable and accrued liabilities	159,152	128,580
Deferred tax liability	32,778	32,934
Short-term borrowings	8,500	30,000
Long-term borrowings	100,778	101,271
Liability for pension benefits	83,392	82,019
Total liabilities	1,300,510	1,297,197
Stockholders' equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at March 31, 2013 and December 31, 2012	9,043	9,043
Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 19,398,839 and 19,321,944 shares at March 31, 2013 and December 31, 2012, respectively	19,399	19,322
Additional paid-in capital	145,278	144,677
Retained earnings	556,999	539,761
Accumulated other comprehensive income	56,916	49,104

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

Total Triple-S Management Corporation stockholders' equity	787,635	761,907
Non-controlling interest in consolidated subsidiary	185	240
Total stockholders' equity	787,820	762,147
Total liabilities and stockholders' equity	\$2,088,330	\$ 2,059,344

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Revenues:		
Premiums earned, net	\$549,961	\$547,304
Administrative service fees	27,110	27,524
Net investment income	11,367	11,192
Other operating revenues	1,187	1,047
Total operating revenues	589,625	587,067
Net realized investment gains	1,888	1,678
Other income, net	481	1,070
Total revenues	591,994	589,815
Benefits and expenses:		
Claims incurred	452,000	475,644
Operating expenses	114,865	102,506
Total operating costs	566,865	578,150
Interest expense	2,384	2,558
Total benefits and expenses	569,249	580,708
Income before taxes	22,745	9,107
Income tax expense (benefit):		
Current	5,463	3,028
Deferred	99	(1,421)
Total income taxes	5,562	1,607
Net income	17,183	7,500
Less: Net loss attributable to non-controlling interest	55	14
Net income attributable to Triple-S Management Corporation	\$17,238	\$7,514
Earnings per share attributable to Triple-S Management Corporation		
Basic net income per share	\$0.61	\$0.27
Diluted net income per share	\$0.61	\$0.26

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Net income	\$17,183	\$7,500
Other comprehensive income (loss), net of tax:		
Net unrealized change in fair value of available for sale securities, net of taxes	6,642	13,686
Defined benefit pension plan:		
Actuarial loss, net	1,249	1,012
Prior service credit, net	(79)	(74)
Total other comprehensive income, net of tax	7,812	14,624
Comprehensive income	24,995	22,124
Comprehensive income attributable to non-controlling interest	55	14
Comprehensive income attributable to Triple-S Management Corporation	\$25,050	\$22,138

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	2013	2012
Balance at January 1	\$761,907	\$676,959
Share-based compensation	678	905
Stock issued upon the exercise of stock options	-	606
Repurchase and retirement of common stock	-	(293)
Net current period change in comprehensive income	25,050	22,138
Total Triple-S Management Corporation stockholders' equity	787,635	700,315
Non-controlling interest in consolidated subsidiary	185	358
Balance at March 31	\$787,820	\$700,673

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$17,183	\$7,500
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	6,259	5,893
Net amortization of investments	1,467	1,132
Provision for doubtful receivables, net	2,772	333
Deferred tax expense (benefit)	99	(1,421)
Net realized investment gain on sale of securities	(1,888)	(1,678)
Share-based compensation	678	905
(Increase) decrease in assets:		
Premium and other receivables, net	(2,578)	(17,854)
Deferred policy acquisition costs and value of business acquired	874	(2,378)
Other deferred taxes	1	220
Other assets	1,549	(5,730)
Increase (decrease) in liabilities:		
Claim liabilities	(2,794)	12,303
Liability for future policy benefits	4,928	4,847
Unearned premiums	(9,538)	72,311
Policyholder deposits	779	471
Liability to FEHBP	(1,722)	(1,985)
Accounts payable and accrued liabilities	13,096	(708)
Net cash provided by operating activities	31,165	74,161

(Continued)

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	\$15,904	\$29,843
Fixed maturities matured/called	29,775	35,482
Equity securities sold	9,246	22,649
Securities held to maturity:		
Fixed maturities matured/called	-	300
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(31,023)	(62,487)
Equity securities	(76,095)	(40,652)
Securities held to maturity:		
Fixed maturities	-	(300)
Other investments	(106)	-
Net inflows (outflows) from policy loans	(97)	69
Acquisition of business, net of cash acquired of \$816 in the three months ended March 31, 2012	-	(2,685)
Net capital expenditures	(6,130)	(2,783)
Net cash used in investing activities	(58,526)	(20,564)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	20,521	5,539
Repayments of short-term borrowings	(21,500)	-
Repayments of long-term borrowings	(493)	(490)
Proceeds from exercise of stock options	-	316
Proceeds from policyholder deposits	3,020	6,492
Surrenders of policyholder deposits	(1,156)	(1,727)
Net cash provided by financing activities	392	10,130
Net (decrease) increase in cash and cash equivalents	(26,969)	63,727
Cash and cash equivalents:		
Beginning of period	89,564	71,834
End of period	\$62,595	\$135,561

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

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

(1) Basis of Presentation

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

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 ended March 31, 2013 are not necessarily indicative of the results for the full year ending December 31, 2013.

(2) Recent Accounting Standards

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

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

Technical corrections and amendments as part of the FASB’s standing agenda to review and improve the Accounting Standards Codification,

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

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

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

Table of Contents

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2013 that could have a material impact on the Corporation's financial position, operating results or financial statement disclosures.

(3) Segment Information

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

Table of Contents

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

The following tables summarize the operations by reportable segment for the three months ended March 31, 2013 and 2012:

	Three months ended March 31,	
	2013	2012
Operating revenues:		
Managed Care:		
Premiums earned, net	\$493,468	\$495,426
Administrative service fees	27,110	27,524
Intersegment premiums /service fees	1,407	1,580
Net investment income	3,921	3,831
Total managed care	525,906	528,361
Life Insurance:		
Premiums earned, net	31,727	29,843
Intersegment premiums	112	94
Net investment income	5,295	4,937
Total life insurance	37,134	34,874
Property and Casualty Insurance:		
Premiums earned, net	24,766	22,035
Intersegment premiums	153	153
Net investment income	1,975	2,225
Total property and casualty insurance	26,894	24,413
Other segments: *		
Intersegment service revenues	3,198	3,631
Operating revenues from external sources	1,187	1,048
Total other segments	4,385	4,679
Total business segments	594,319	592,327
TSM operating revenues from external sources	140	163
Elimination of intersegment premiums	(1,672)	(1,827)
Elimination of intersegment service fees	(3,198)	(3,631)
Other intersegment eliminations	36	35
Consolidated operating revenues	\$589,625	\$587,067

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

Table of Contents

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

	Three months ended March 31,	
	2013	2012
Operating income:		
Managed care	\$20,495	\$7,368
Life insurance	4,042	4,381
Property and casualty insurance	384	(1,438)
Other segments *	(533)	(74)
Total business segments	24,388	10,237
TSM operating revenues from external sources	140	163
TSM unallocated operating expenses	(3,967)	(3,680)
Elimination of TSM intersegment charges	2,199	2,197
Consolidated operating income	22,760	8,917
Consolidated net realized investment gains	1,888	1,678
Consolidated interest expense	(2,384)	(2,558)
Consolidated other income, net	481	1,070
Consolidated income before taxes	\$22,745	\$9,107
Depreciation and amortization expense:		
Managed care	\$5,439	\$5,196
Life insurance	205	158
Property and casualty insurance	136	155
Other segments*	262	174
Total business segments	6,042	5,683
TSM depreciation expense	217	210
Consolidated depreciation and amortization expense	\$6,259	\$5,893

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

Table of Contents

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

	March 31, 2013	December 31, 2012
Assets:		
Managed care	\$949,376	\$ 916,712
Life insurance	702,827	691,425
Property and casualty insurance	350,980	356,161
Other segments *	31,268	31,480
Total business segments	2,034,451	1,995,778
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	40,175	41,334
Property and equipment, net	21,214	21,430
Other assets	29,706	29,858
	91,095	92,622
Elimination entries-intersegment receivables and others	(37,216)	(29,056)
Consolidated total assets	\$2,088,330	\$ 2,059,344

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

Table of Contents

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

(4) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at March 31, 2013 and December 31, 2012, were as follows:

		March 31, 2013		
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	\$46,726	\$4,490	\$-	\$51,216
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,319	1,685	-	41,004
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	57,146	1,062	-	58,208
Municipal securities	536,373	59,371	(106)	595,638
Corporate bonds	125,399	20,184	-	145,583
Residential mortgage-backed securities	14,586	520	(9)	15,097
Collateralized mortgage obligations	128,606	5,013	(124)	133,495
Total fixed maturities	948,155	92,325	(239)	1,040,241
Equity securities				
Mutual funds	253,443	36,272	(40)	289,675
Total equity securities	253,443	36,272	(40)	289,675
Total	\$1,201,598	\$128,597	\$(279)	\$1,329,916

Table of Contents

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

		December 31, 2012		
	Amortized	Gross	Gross	Estimated
	cost	unrealized	unrealized	fair value
		gains	losses	
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	\$56,758	\$4,876	\$-	\$61,634
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,365	1,848	-	41,213
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	63,470	2,277	(2)	65,745
Municipal securities	529,822	59,106	(165)	588,763
Corporate bonds	106,968	22,899	-	129,867
Residential mortgage-backed securities	20,009	551	(52)	20,508
Collateralized mortgage obligations	147,071	5,129	(169)	152,031
Total fixed maturities	963,463	96,686	(388)	1,059,761
Equity securities:				
Common stock	16	993	-	1,009
Mutual funds	185,498	23,256	(41)	208,713
Total equity securities	185,514	24,249	(41)	209,722
Total	\$1,148,977	\$120,935	\$(429)	\$1,269,483
		March 31, 2013		
	Amortized	Gross	Gross	Estimated
	cost	unrealized	unrealized	fair value
		gains	losses	
Securities held to maturity:				
Obligations of government-sponsored enterprises	\$1,793	\$97	\$-	\$1,890
U.S. Treasury securities and obligations of U.S. government instrumentalities	623	209	-	832
Residential mortgage-backed securities	450	41	-	491
Certificates of deposit	2,134	-	-	2,134
Total	\$5,000	\$347	\$-	\$5,347

Table of Contents

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

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

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2013 and December 31, 2012 were as follows:

	Less than 12 months			March 31, 2013 12 months or longer			Total		
	Gross		Number	Gross		Number	Gross		Number
	Estimated Fair Value	Unrealized Loss	of Securities	Estimated Fair Value	Unrealized Loss	of Securities	Estimated Fair Value	Unrealized Loss	of Securities
Securities available for sale:									
Fixed maturities:									
Municipal securities	\$19,555	\$ (106)	4	\$-	\$ -	-	\$19,555	\$ (106)	4
Residential mortgage-backed securities	2,162	(9)	1	-	-	-	2,162	(9)	1
Collateralized mortgage obligations	14,280	(124)	4	-	-	-	14,280	(124)	4
Total fixed maturities	35,997	(239)	9	-	-	-	35,997	(239)	9
Equity securities:									
Mutual funds	14,960	(40)	3	-	-	-	14,960	(40)	3
Total equity securities	14,960	(40)	3	-	-	-	14,960	(40)	3
Total for securities available for sale	\$50,957	\$ (279)	12	\$-	\$ -	-	\$50,957	\$ (279)	12

Edgar Filing: TRIPLE-S MANAGEMENT CORP - Form 10-Q

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

Table of Contents

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

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

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

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

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

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

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

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.

Municipal Securities: 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 rate 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, most of 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.

Table of Contents

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

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

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

Maturities of investment securities classified as available for sale and held to maturity at March 31, 2013 were as follows:

	March 31, 2013	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	\$31,267	\$31,675
Due after one year through five years	199,643	209,235
Due after five years through ten years	159,054	176,599
Due after ten years	414,999	474,140
Residential mortgage-backed securities	14,586	15,097
Collateralized mortgage obligations	128,606	133,495
	\$948,155	\$1,040,241
Securities held to maturity:		