

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

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, 2016</u> |
|--|-------------------------------------|
| Common Stock Class A, \$1.00 par value | 950,968 |
| Common Stock Class B, \$1.00 par value | 23,622,795 |

Triple-S Management Corporation
FORM 10-Q
For the Quarter Ended June 30, 2016

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> | 30 |
| <u>Cautionary Statement Regarding Forward-Looking Information</u> | 30 |
| <u>Overview</u> | 30 |
| <u>Recent Developments</u> | 31 |
| <u>Recent Accounting Standards</u> | 32 |
| <u>Managed Care Membership</u> | 33 |
| <u>Consolidated Operating Results</u> | 33 |
| <u>Managed Care Operating Results</u> | 36 |
| <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> | 44 |
| Item 3. <u>Defaults Upon Senior Securities</u> | 44 |
| Item 4. <u>Mine Safety Disclosures</u> | 44 |
| Item 5. <u>Other Information</u> | 44 |
| 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

Condensed Consolidated Balance Sheets (Unaudited)

(dollar amounts in thousands, except share data)

| | June 30, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Assets | | |
| Investments and cash: | | |
| Securities available for sale, at fair value: | | |
| Fixed maturities | \$ 1,144,588 | \$ 1,133,645 |
| Equity securities | 310,103 | 197,071 |
| Securities held to maturity, at amortized cost: | | |
| Fixed maturities | 2,838 | 2,929 |
| Policy loans | 8,301 | 7,901 |
| Cash and cash equivalents | 96,140 | 197,818 |
| Total investments and cash | 1,561,970 | 1,539,364 |
| Premiums and other receivables, net | 348,204 | 282,646 |
| Deferred policy acquisition costs and value of business acquired | 188,976 | 190,648 |
| Property and equipment, net | 70,356 | 73,953 |
| Deferred tax asset | 46,716 | 52,361 |
| Goodwill | 25,397 | 25,397 |
| Other assets | 73,675 | 41,776 |
| Total assets | \$ 2,315,294 | \$ 2,206,145 |
| Liabilities and Equity | | |
| Claim liabilities | \$ 481,864 | \$ 491,765 |
| Liability for future policy benefits | 309,491 | 289,530 |
| Unearned premiums | 82,051 | 80,260 |
| Policyholder deposits | 182,730 | 179,287 |
| Liability to Federal Employees' Health Benefits Program (FEHBP) | 24,554 | 26,695 |
| Accounts payable and accrued liabilities | 229,860 | 176,910 |
| Deferred tax liability | 24,745 | 15,070 |
| Long-term borrowings | 36,007 | 36,827 |
| Liability for pension benefits | 65,229 | 62,945 |
| Total liabilities | 1,436,531 | 1,359,289 |
| Stockholders' equity: | | |
| Triple-S Management Corporation stockholders' equity | | |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 950,968 at June 30, 2016 and December 31, 2015, respectively | 951 | 951 |
| Common stock Class B, \$1 par value. Authorized 100,000,000 shares; issued and outstanding 23,622,795 and 24,047,755 shares at June 30, 2016 and December 31, 2015, respectively | 23,623 | 24,048 |
| Additional paid-in capital | 71,951 | 83,438 |
| Retained earnings | 720,802 | 713,466 |
| Accumulated other comprehensive income | 62,109 | 25,623 |
| Total Triple-S Management Corporation stockholders' equity | 879,436 | 847,526 |
| Non-controlling interest in consolidated subsidiary | (673) | (670) |

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

| | | |
|------------------------------|-------------|--------------|
| Total stockholders' equity | 878,763 | 846,856 |
| Total liabilities and equity | \$2,315,294 | \$ 2,206,145 |

See accompanying notes to unaudited condensed consolidated financial statements.

3

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Earnings (Unaudited)

(dollar amounts in thousands, except per share data)

| | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|--------------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Revenues: | | | | |
| Premiums earned, net | \$ 729,049 | \$ 754,107 | \$ 1,467,583 | \$ 1,286,665 |
| Administrative service fees | 4,520 | 4,549 | 9,603 | 33,672 |
| Net investment income | 12,875 | 10,998 | 24,233 | 21,916 |
| Other operating revenues | 915 | 641 | 1,727 | 1,794 |
| Total operating revenues | 747,359 | 770,295 | 1,503,146 | 1,344,047 |
| Net realized investment gains (losses): | | | | |
| Total other-than-temporary impairment losses on securities | (1,434) | (1,660) | (1,434) | (2,862) |
| Net realized gains, excluding other-than-temporary impairment losses on securities | 2,954 | 12,267 | 3,012 | 19,682 |
| Total net realized investment gains on sale of securities | 1,520 | 10,607 | 1,578 | 16,820 |
| Other income, net | 3,859 | 1,083 | 4,734 | 2,842 |
| Total revenues | 752,738 | 781,985 | 1,509,458 | 1,363,709 |
| Benefits and expenses: | | | | |
| Claims incurred | 622,087 | 637,898 | 1,248,781 | 1,070,328 |
| Operating expenses | 121,112 | 126,824 | 244,092 | 254,199 |
| Total operating costs | 743,199 | 764,722 | 1,492,873 | 1,324,527 |
| Interest expense | 1,954 | 2,074 | 3,836 | 4,256 |
| Total benefits and expenses | 745,153 | 766,796 | 1,496,709 | 1,328,783 |
| Income before taxes | 7,585 | 15,189 | 12,749 | 34,926 |
| Income tax expense (benefit) | 3,707 | (3,712) | 5,416 | 1,219 |
| Net income | 3,878 | 18,901 | 7,333 | 33,707 |
| Less: Net loss attributable to non-controlling interest | 2 | 25 | 3 | 55 |
| Net income attributable to Triple-S Management Corporation | \$ 3,880 | \$ 18,926 | \$ 7,336 | \$ 33,762 |
| Earnings per share attributable to Triple-S Management Corporation | | | | |
| Basic net income per share | \$ 0.16 | \$ 0.73 | \$ 0.30 | \$ 1.29 |
| Diluted net income per share | \$ 0.16 | \$ 0.73 | \$ 0.30 | \$ 1.28 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Comprehensive Income (Unaudited)

(dollar amounts in thousands)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|------------------|-----------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Net income | \$ 3,878 | \$ 18,901 | \$ 7,333 | \$ 33,707 |
| Other comprehensive income (loss), net of tax: | | | | |
| Net unrealized change in fair value of available for sale securities, net of taxes | 15,830 | (29,044) | 35,407 | (27,250) |
| Defined benefit pension plan: | | | | |
| Actuarial loss, net | 507 | 1,016 | 1,229 | 1,903 |
| Prior service credit, net | (62) | (77) | (150) | (138) |
| Total other comprehensive income (loss), net of tax | 16,275 | (28,105) | 36,486 | (25,485) |
| Comprehensive income (loss) | 20,153 | (9,204) | 43,819 | 8,222 |
| Comprehensive loss attributable to non-controlling interest | 2 | 25 | 3 | 55 |
| Comprehensive income (loss) attributable to Triple-S Management Corporation | \$ 20,155 | \$ (9,179) | \$ 43,822 | \$ 8,277 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Stockholders' Equity (Unaudited)

(dollar amounts in thousands)

| | 2016 | 2015 |
|--|-----------|-----------|
| Balance at January 1 | \$847,526 | \$858,558 |
| Share-based compensation | 2,649 | 3,199 |
| Stock issued upon the exercise of stock options | 55 | 179 |
| Repurchase and retirement of common stock | (14,616) | (26,170) |
| Comprehensive income | 43,822 | 8,277 |
| Total Triple-S Management Corporation stockholders' equity | 879,436 | 844,043 |
| Non-controlling interest in consolidated subsidiary | (673) | (587) |
| Balance at June 30 | \$878,763 | \$843,456 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Condensed Consolidated Statements of Cash Flows (Unaudited)

(dollar amounts in thousands)

| | Six months ended June 30, 2016 | | 2015 | |
|---|--------------------------------------|--|-----------|--|
| Cash flows from operating activities: | | | | |
| Net income | \$ 7,333 | | \$ 33,707 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | |
| Depreciation and amortization | 7,300 | | 8,138 | |
| Net amortization of investments | 3,981 | | 3,187 | |
| (Reduction) additions to the allowance for doubtful receivables | (313) | | 11,626 | |
| Deferred tax expense (benefit) | 4,301 | | (6,423) | |
| Net realized investment gain on sale of securities | (1,578) | | (16,820) | |
| Interest credited to policyholder deposits | 2,436 | | 1,742 | |
| Share-based compensation | 2,313 | | 3,199 | |
| (Increase) decrease in assets: | | | | |
| Premium and other receivables, net | (63,589) | | (56,003) | |
| Deferred policy acquisition costs and value of business acquired | (3,562) | | (2,043) | |
| Deferred taxes | 178 | | (4,876) | |
| Other assets | (31,425) | | (16,596) | |
| Increase (decrease) in liabilities: | | | | |
| Claim liabilities | (9,901) | | 72,100 | |
| Liability for future policy benefits | 19,961 | | 11,414 | |
| Unearned premiums | 1,791 | | (2,464) | |
| Liability to FEHBP | (2,141) | | 823 | |

| | | |
|---|-----------|--------|
| Accounts payable and accrued liabilities | 52,350 | 36,017 |
| Net cash (used in) provided by operating activities | (10,565) | 76,728 |

(Continued)

7

Table of Contents

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

| | Six months ended | |
|---|------------------|------------|
| | June 30, | |
| | 2016 | 2015 |
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | \$ 163,150 | \$ 241,476 |
| Fixed maturities matured/called | 14,301 | 34,906 |
| Equity securities sold | 32,252 | 65,621 |
| Securities held to maturity - fixed maturities matured/called | 700 | 100 |
| Acquisition of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (150,005) | (259,984) |
| Equity securities | (136,104) | (12,165) |
| Securities held to maturity - fixed maturities | (609) | (103) |
| Increase in other investments | (1,383) | (2,522) |
| Net disbursements for policy loans | (400) | (74) |
| Net capital expenditures | (2,716) | (3,003) |
| Net cash (used in) provided by investing activities | (80,814) | 64,252 |
| Cash flows from financing activities: | | |
| Change in outstanding checks in excess of bank balances | 4,074 | 1,028 |
| Repayments of long-term borrowings | (820) | (11,820) |
| Repurchase and retirement of common stock | (14,560) | (25,988) |
| Proceeds from policyholder deposits | 7,942 | 4,538 |
| Surrenders of policyholder deposits | (6,935) | (6,271) |
| Net cash used in financing activities | (10,299) | (38,513) |
| Net (decrease) increase in cash and cash equivalents | (101,678) | 102,467 |
| Cash and cash equivalents: | | |
| Beginning of period | 197,818 | 110,037 |
| End of period | \$ 96,140 | \$ 212,504 |

See accompanying notes to unaudited condensed consolidated financial statements.

Table of Contents

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

(1) Basis of Presentation

The accompanying condensed consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the “Corporation”, the “Company”, “TSM”, “we”, “us” and “our” refer to Triple-S Management Corporation and its subsidiaries. The condensed consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 2015.

In the opinion of management, all adjustments, consisting of a normal recurring nature necessary for a fair presentation of such condensed consolidated interim financial statements, have been included. The results of operations for the three months and six months ended June 30, 2016 are not necessarily indicative of the results for the full year ending December 31, 2016.

(2) Recent Accounting Standards

On January 5, 2016, the Financial Accounting Standards Board (FASB) issued guidance to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. Among the many targeted improvements to U.S. GAAP are (1) requiring equity investments, except those accounted for under the equity method of accounting or those that result in consolidation of the investee, to be measured at fair value with changes in fair value recognized in net income; (2) simplifying the impairment assessment of equity investments without readily determinable fair values by requiring a qualitative assessment to identify impairment; (3) eliminating the requirement to disclose the fair value of financial instruments measured at amortized cost for entities that are not public business entities; and (4) clarifying that an entity should evaluate the need for a valuation allowance on a deferred tax asset related to available-for-sale securities in combination with the entity’s other deferred tax assets. This guidance applies to all entities that hold financial assets or owe financial liabilities. For public companies, these amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that the adoption of this guidance may have on the Company’s consolidated financial statements.

On February 25, 2016, the FASB issued guidance to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and by disclosing key information about leasing arrangements. This guidance sets out the principles for the recognition, measurement, presentation and disclosure of leases for both lessors and lessees. It requires lessees to apply a dual approach, classifying leases as either finance or operating leases based on the principle of whether or not the lease is effectively a financed purchase by the lessee. This classification will determine whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease, respectively. A lessee is also required to record a right-of-use asset and a lease liability for all leases with a term greater than 12 months regardless of their classification. Leases with a term of 12 months or less will be accounted for similar to existing guidance for operating leases today. The guidance requires lessors to account for leases using an approach that is substantially equivalent to existing guidance for sales-type leases, direct financing leases and operating leases. This guidance is effective for public companies for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact that the adoption of this guidance may have on the Company’s consolidated financial statements.

On March 30, 2016, the FASB issued guidance to reduce complexity in accounting standards. The areas for simplification involve several aspects of the accounting for share-based payment transactions, including (1) accounting for income taxes, (2) classification of excess tax benefits on the statement of cash flow, (3) forfeitures; (4) minimum statutory tax withholding requirements, (5) classification of employee taxes paid on the statement of cash flows when an employer withholds shares for tax withholding purposes; (6) the practical expedient for estimating the expected term, and (7) intrinsic value. For public companies, these amendments are effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

On May 9, 2016, the FASB issued guidance which affects only the narrow aspects of guidance related to revenue from contracts with customers that include: (1) clarification of the collectibility criterion and the addition of a new criterion to clarify when revenue would be recognized for a contract that fails to meet the criteria in step 1 of the core principle of the guidance (i.e., identifying the contracts with a customer); (2) presentation of sales taxes and similar taxes collected from customers; (3) non-cash consideration; (4) contract modifications at transition; (5) completed contracts at transition; and (6) clarification that an entity that retrospectively applies in the guidance to each prior reporting period is not required to disclose the effect of the accounting change for the period of adoption, but is still required to disclose the effect of the changes on any prior periods retrospectively adjusted. For public companies, these amendments are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

On June 16, 2016, the FASB issued guidance to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current U.S. GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. For public companies, these amendments are effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

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, 2016 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

(3) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at June 30, 2016 and December 31, 2015, were as follows:

| | June 30, 2016 | | | |
|---|---------------|------------|------------|--------------|
| | Amortized | Gross | Gross | Estimated |
| | cost | unrealized | unrealized | fair value |
| | | gains | losses | |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government-sponsored enterprises | \$70,523 | \$ 791 | \$ - | \$ 71,314 |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 95,105 | 1,517 | - | 96,622 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 25,981 | 2,666 | - | 28,647 |
| Municipal securities | 648,892 | 60,786 | (5) | 709,673 |
| Corporate bonds | 197,493 | 20,776 | - | 218,269 |
| Residential mortgage-backed securities | 775 | 47 | - | 822 |
| Collateralized mortgage obligations | 19,104 | 138 | (1) | 19,241 |
| Total fixed maturities | 1,057,873 | 86,721 | (6) | 1,144,588 |
| Equity securities - Mutual funds | 272,948 | 38,044 | (889) | 310,103 |
| Total | \$1,330,821 | \$ 124,765 | \$ (895) | \$ 1,454,691 |

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

| | December 31, 2015 | | Gross unrealized losses | Estimated fair value |
|--|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized cost | Gross unrealized gains | | |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government-sponsored enterprises | \$ 115,965 | \$ 301 | \$ (26 |) \$ 116,240 |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 163,322 | 234 | (286 |) 163,270 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 25,302 | 317 | - | 25,619 |
| Municipal securities | 612,225 | 35,418 | (197 |) 647,446 |
| Corporate bonds | 148,198 | 9,782 | (572 |) 157,408 |
| Residential mortgage-backed securities | 883 | 54 | - | 937 |
| Collateralized mortgage obligations | 22,363 | 368 | (6 |) 22,725 |
| Total fixed maturities | 1,088,258 | 46,474 | (1,087 |) 1,133,645 |
| Equity securities - Mutual funds | 169,593 | 27,851 | (373 |) 197,071 |
| Total | \$ 1,257,851 | \$ 74,325 | \$ (1,460 |) \$ 1,330,716 |
| | | | | |
| | June 30, 2016 | | Gross unrealized losses | Estimated fair value |
| | Amortized cost | Gross unrealized gains | | |
| Securities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | \$ 620 | \$ 238 | \$ - | \$ 858 |
| Residential mortgage-backed securities | 191 | 20 | - | 211 |
| Certificates of deposit | 2,027 | - | - | 2,027 |
| Total | \$ 2,838 | \$ 258 | \$ - | \$ 3,096 |

Table of Contents

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

| | December 31, 2015 | | | |
|---|-------------------|------------------------|-------------------------|----------------------|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Securities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | \$620 | \$ 178 | \$ - | \$ 798 |
| Residential mortgage-backed securities | 191 | 17 | - | 208 |
| Certificates of deposit | 2,118 | - | - | 2,118 |
| Total | \$2,929 | \$ 195 | \$ - | \$ 3,124 |

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, 2016 and December 31, 2015 were as follows:

| | June 30, 2016 | | | | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | 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 | | | | | | | | | |
| Municipal securities | \$7,857 | \$ (5) | 1 | \$ - | \$ - | - | \$7,857 | \$ (5) | 1 |
| Collateralized mortgage obligations | 1,117 | (1) | 1 | - | - | - | 1,117 | (1) | 1 |
| Total fixed maturities | 8,974 | (6) | 2 | - | - | - | 8,974 | (6) | 2 |
| Equity securities-Mutual funds | 21,569 | (889) | 6 | - | - | - | 21,569 | (889) | 6 |
| Total for securities available for sale | \$30,543 | \$ (895) | 8 | \$ - | \$ - | - | \$30,543 | \$ (895) | 8 |

| | December 31, 2015 | | | | | | | | |
|---|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|----------------------|
| | 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 | \$18,989 | \$ (26) | 1 | \$ - | \$ - | - | \$18,989 | \$ (26) | 1 |

| | | | | | | | | | |
|---|-----------|-------------|----|------|------|---|-----------|-------------|----|
| U.S. Treasury securities and obligations of U.S. governmental instrumentalities | 130,996 | (286) | 5 | - | - | - | 130,996 | (286) | 5 |
| Municipal securities | 43,937 | (197) | 11 | - | - | - | 43,937 | (197) | 11 |
| Corporate bonds | 35,718 | (572) | 9 | - | - | - | 35,718 | (572) | 9 |
| Collateralized mortgage obligations | 1,448 | (6) | 1 | - | - | - | 1,448 | (6) | 1 |
| Total fixed maturities | 231,088 | (1,087) | 27 | - | - | - | 231,088 | (1,087) | 27 |
| Equity securities-Mutual funds | 9,319 | (373) | 2 | - | - | - | 9,319 | (373) | 2 |
| Total for securities available for sale | \$240,407 | \$ (1,460) | 29 | \$ - | \$ - | - | \$240,407 | \$ (1,460) | 29 |

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

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

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

Collateralized mortgage obligations: The unrealized losses on investments 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, 2016, investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired based on market conditions and the length of time the funds have been in a loss position. During the three and six months ended June 30, 2016, positions with a total fair market value of \$11,582 were impaired by \$1,434. There were no impairment on mutual funds during the 2015 period.

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 \$16,426 and a gross unrealized gain of \$55, and (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of \$12,221 and a gross unrealized gain of \$2,611.

Besides holdings in escrowed bonds, which are backed by US Government securities and therefore have an implicit AA+/Aaa rating, our exposure is in senior lien bonds issued by Cofina.

There was no impairment on Cofina during the three months and six months ended June 30, 2016. During the three and six months ended June 30, 2015, we recorded an other-than-temporary impairment related to these positions amounting to \$1,660 and \$2,862, respectively.

Table of Contents

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

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

| | June 30, 2016 | |
|--|----------------|----------------------|
| | Amortized cost | Estimated fair value |
| Securities available for sale: | | |
| Due in one year or less | \$43,982 | \$ 44,305 |
| Due after one year through five years | 329,658 | 338,835 |
| Due after five years through ten years | 109,413 | 122,168 |
| Due after ten years | 554,941 | 619,217 |
| Residential mortgage-backed securities | 775 | 822 |
| Collateralized mortgage obligations | 19,104 | 19,241 |
| | \$1,057,873 | \$ 1,144,588 |
| Securities held to maturity: | | |
| Due in one year or less | \$2,027 | \$ 2,027 |
| Due after ten years | 620 | 858 |
| Residential mortgage-backed securities | 191 | 211 |
| | \$2,838 | \$ 3,096 |

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 is as follows:

| | Three months ended | | Six months ended | |
|---|--------------------|-----------|------------------|-----------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Realized gains (losses): | | | | |
| Fixed maturity securities: | | | | |
| Securities available for sale: | | | | |
| Gross gains from sales | \$ 912 | \$ 2,328 | \$ 1,873 | \$ 6,337 |
| Gross losses from sales | (103) | (129) | (1,462) | (404) |
| Gross losses from other-than-temporary impairments | - | (1,660) | - | (2,862) |
| Total fixed maturity securities | 809 | 539 | 411 | 3,071 |
| Equity securities: | | | | |
| Securities available for sale: | | | | |
| Gross gains from sales | 2,525 | 10,138 | 3,112 | 13,874 |
| Gross losses from sales | (380) | (70) | (511) | (125) |
| Gross losses from other-than-temporary impairments | (1,434) | - | (1,434) | - |
| Total equity securities | 711 | 10,068 | 1,167 | 13,749 |
| Net realized gains on securities available for sale | \$ 1,520 | \$ 10,607 | \$ 1,578 | \$ 16,820 |

Table of Contents

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

| | Three months ended | | Six months ended | |
|--|--------------------|--------------|------------------|--------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Changes in net unrealized gains (losses): | | | | |
| Recognized in accumulated other comprehensive income: | | | | |
| Fixed maturities – available for sale | \$ 18,739 | \$ (23,848) | \$ 41,328 | \$ (19,757) |
| Equity securities – available for sale | 2,908 | (11,595) | 9,677 | (12,873) |
| | \$ 21,647 | \$ (35,443) | \$ 51,005 | \$ (32,630) |
| Not recognized in the consolidated financial statements: | | | | |
| Fixed maturities – held to maturity | \$ 27 | \$ (37) | \$ 63 | \$ (20) |

The deferred tax asset (liability) on unrealized gains change recognized in accumulated other comprehensive income during the six months ended June 30, 2016 and 2015 was (\$15,598) and \$5,380, respectively.

As of June 30, 2016 and December 31, 2015, no individual investment in securities exceeded 10% of stockholders' equity.

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net as of June 30, 2016, and December 31, 2015 were as follows:

| | June 30, 2016 | December 31, 2015 |
|--|------------------|----------------------|
| Premium | \$ 137,649 | \$ 92,600 |
| Self-funded group receivables | 66,724 | 73,552 |
| FEHBP | 14,129 | 13,859 |
| Agent balances | 31,934 | 25,424 |
| Accrued interest | 13,102 | 12,624 |
| Reinsurance recoverable | 56,941 | 48,506 |
| Other | 63,928 | 53,325 |
| | 384,407 | 319,890 |
| Less allowance for doubtful receivables: | | |
| Premium | 27,805 | 28,944 |
| Other | 8,398 | 8,300 |
| | 36,203 | 37,244 |
| Total premium and other receivables, net | \$ 348,204 | \$ 282,646 |

As of June 30, 2016 and December 31, 2015, the Company had premiums and other receivables of \$90,670 and \$78,230, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of June 30, 2016 and December 31, 2015 were \$18,315 and \$19,133, respectively.

Table of Contents

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

(5) Fair Value Measurements

Assets recorded at fair value in the condensed 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 Definition: |
|---------|--|
| Level 1 | Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date. |
| Level 2 | Inputs other than quoted prices included in Level 1 that are observable for the asset or liability through corroboration with market data at the measurement date. |
| Level 3 | Unobservable inputs that reflect management's best estimate of what market participants would use in pricing the asset or liability at the measurement date. |

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

The fair value of investment securities is estimated based on quoted market prices for those or similar investments. Additional information pertinent to the estimated fair value of investment in securities is included in note 3.

The following tables summarize fair value measurements by level at June 30, 2016 and December 31, 2015 for assets measured at fair value on a recurring basis:

| | June 30, 2016 | | | Total |
|--|---------------|-----------|---------|-----------|
| | Level 1 | Level 2 | Level 3 | |
| Securities available for sale: | | | | |
| Fixed maturity securities | | | | |
| Obligations of government-sponsored enterprises | \$- | \$71,314 | \$- | \$71,314 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 96,622 | - | - | 96,622 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 28,647 | - | 28,647 |
| Municipal securities | - | 709,673 | - | 709,673 |
| Corporate bonds | - | 218,269 | - | 218,269 |
| Residential agency mortgage-backed securities | - | 822 | - | 822 |
| Collateralized mortgage obligations | - | 19,241 | - | 19,241 |
| Total fixed maturities | 96,622 | 1,047,966 | - | 1,144,588 |
| Equity securities - Mutual funds | 230,610 | 64,624 | 14,869 | 310,103 |

| | | | | |
|-------|-----------|-------------|----------|-------------|
| Total | \$327,232 | \$1,112,590 | \$14,869 | \$1,454,691 |
|-------|-----------|-------------|----------|-------------|

17

Table of Contents

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

| | December 31, 2015 | | | Total |
|--|-------------------|-----------|---------|-------------|
| | Level 1 | Level 2 | Level 3 | |
| Securities available for sale: | | | | |
| Fixed maturity securities | | | | |
| Obligations of government-sponsored enterprises | - | 116,240 | - | 116,240 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 163,270 | - | - | 163,270 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 25,619 | - | 25,619 |
| Municipal securities | - | 647,446 | - | 647,446 |
| Corporate bonds | - | 157,408 | - | 157,408 |
| Residential agency mortgage-backed securities | - | 937 | - | 937 |
| Collateralized mortgage obligations | - | 22,725 | - | 22,725 |
| Total fixed maturities | 163,270 | 970,375 | - | 1,133,645 |
| Equity securities - Mutual funds | 167,082 | 22,031 | 7,958 | 197,071 |
| Total | \$330,352 | \$992,406 | \$7,958 | \$1,330,716 |

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 investments in partnerships 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 these partnerships.

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, 2016 and 2015.

Table of Contents

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

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 is as follows:

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | |
|--|---|-----------|------------------|-----------|
| | Three months ended | | Six months ended | |
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Beginning balance | \$ 6,997 | \$ 10,191 | \$ 7,958 | \$ 13,349 |
| Realized gains | 63 | (700) | 214 | 1,412 |
| Unrealized in other accumulated comprehensive income | (321) | (519) | (969) | (3,302) |
| Purchases | 8,525 | 111 | 8,633 | 189 |
| Capital distributions | (395) | - | (967) | (2,565) |
| Ending balance | \$ 14,869 | \$ 9,083 | \$ 14,869 | \$ 9,083 |

In addition to the preceding disclosures on assets recorded at fair value in the condensed consolidated balance sheets, accounting 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 condensed consolidated balance sheets.

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

The carrying amounts reported in the condensed 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 senior unsecured notes payable was determined using broker quotations.

Table of Contents

Triple-S Management Corporation

Notes to Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our condensed consolidated balance sheets at June 30, 2016 and December 31, 2015 are as follows:

| | June 30, 2016 | | | | |
|-------------------------------------|----------------|------------------|-----------|---------|-----------|
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Policy loans | \$8,301 | \$- | \$8,301 | \$ - | \$8,301 |
| Liabilities: | | | | | |
| Policyholder deposits | \$182,730 | \$- | \$182,730 | \$ - | \$182,730 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 12,007 | - | 12,007 | - | 12,007 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,200 | - | 19,200 |
| Total long-term borrowings | 36,007 | - | 31,207 | - | 31,207 |
| Total liabilities | \$218,737 | \$- | \$213,937 | \$ - | \$213,937 |

| | December 31, 2015 | | | | |
|-------------------------------------|-------------------|------------------|-----------|---------|-----------|
| | Carrying Value | Fair Value Level | | | Total |
| | | 1 | Level 2 | Level 3 | |
| Assets: | | | | | |
| Policy loans | \$7,901 | \$- | \$7,901 | \$ - | \$7,901 |
| Liabilities: | | | | | |
| Policyholder deposits | \$179,287 | \$- | \$179,287 | \$ - | \$179,287 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 12,827 | - | 12,827 | - | 12,827 |
| 6.6% senior unsecured notes payable | 24,000 | - | 19,920 | - | 19,920 |
| Total long-term borrowings | 36,827 | - | 32,747 | - | 32,747 |
| Total liabilities | \$216,114 | \$- | \$212,034 | \$ - | \$212,034 |

Table of Contents

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

(6) Claim Liabilities

The activity in claim liabilities is as follows:

| | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | | June 30, | |
| | 2016 | 2015 | 2016 | 2015 |
| Claim liabilities at beginning of period | \$ 525,066 | \$ 401,642 | \$ 491,765 | \$ 390,086 |
| Reinsurance recoverable on claim liabilities | (39,871) | (39,958) | (40,714) | (40,635) |
| Net claim liabilities at beginning of period | 485,195 | 361,684 | 451,051 | 349,451 |
| Incurred claims and loss-adjustment expenses: | | | | |
| Current period insured events | 622,859 | 628,900 | 1,244,339 | 1,080,137 |
| Prior period insured events | (7,414) | 3,783 | (8,962) | (21,901) |
| Total | 615,445 | 632,683 | 1,235,377 | 1,058,236 |
| Payments of losses and loss-adjustment expenses: | | | | |
| Current period insured events | 599,938 | 539,085 | 970,073 | 783,813 |
| Prior period insured events | 56,947 | 32,252 | 272,600 | 200,844 |
| Total | 656,885 | 571,337 | 1,242,673 | 984,657 |
| Net claim liabilities at end of period | 443,755 | 423,030 | 443,755 | 423,030 |
| Reinsurance recoverable on claim liabilities | 38,109 | 39,156 | 38,109 | 39,156 |
| Claim liabilities at end of period | \$ 481,864 | \$ 462,186 | \$ 481,864 | \$ 462,186 |

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

The favorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for the three months and six months ended June 30, 2016 and for the six months ended June 30, 2015 are due primarily to better than expected utilization trends. The amount in the incurred claims and loss-adjustment expenses for the prior period insured events for the three months ended June 30, 2015 is due primarily to higher than anticipated utilization trends. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to \$6,642 and \$13,404 during the three months and six months ended June 30, 2016, respectively. The change in the liability for future policy benefits during the three months and six months ended June 30, 2015 amounted to \$5,215 and \$12,092, respectively.

(7) Long-Term Borrowings

On March 11, 2016, Triple-S Salud, Inc. (TSS) entered into a \$30,000 revolving loan agreement with a commercial bank in Puerto Rico. This line of credit, unused as of June 30, 2016, has an interest rate of LIBOR plus 220 basis points, matures on March 11, 2017, and contains certain financial and non-financial covenants that are customary for this type of facility.

Table of Contents

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

(8) Income Taxes

In connection with the Puerto Rico tax code, as amended, on April 15, 2015, the group of corporations that comprise TSM entered into a Closing Agreement with the Puerto Rico Department of Treasury. The Closing Agreement, among other matters, was related with the payment of the preferential tax rate on the increase in value of some of its long-term capital assets, as permitted by Act No. 238 of 2014 and Act No. 44 of 2015. The agreement also covered certain tax attributes of the Corporation. During the three months ended June 30, 2015, as a result of the aforementioned tax laws and the Closing Agreement, the Company: (1) obtained a benefit from the lower tax rate provided under these statutes, (2) reassessed the realizability of some of its deferred taxes and (3) recorded a tax benefit of \$3,129.

During the three months ended June 30, 2016, our Property and Casualty subsidiary, Triple-S Propiedad, Inc. (TSP), reassessed the tax rate used to measure several temporary differences, from 20% to 39%, which resulted in an increase in the deferred tax expense of approximately \$2,633.

(9) Pension Plan

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

| | Three months ended | | Six months ended | |
|--|--------------------|----------|------------------|----------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Components of net periodic benefit cost: | | | | |
| Service cost | \$ 878 | \$ 1,160 | \$ 2,128 | \$ 2,057 |
| Interest cost | 1,939 | 2,322 | 4,701 | 4,222 |
| Expected return on assets | (2,054) | (2,350) | (4,980) | (4,214) |
| Amortization of prior service benefit | (102) | (126) | (246) | (226) |
| Amortization of actuarial loss | 831 | 1,665 | 2,014 | 3,119 |
| Net periodic benefit cost | \$ 1,492 | \$ 2,671 | \$ 3,617 | \$ 4,958 |

Employer Contributions: The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2015 that it expected to contribute \$8,000 to the pension program in 2016. As of June 30, 2016, the Corporation has not made contributions to the pension program.

(10) Stock Repurchase Program

The Company repurchases shares through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended, under repurchase programs authorized by the Board of Directors.

In November 2015 the Company's Board of Directors authorized a \$25,000 repurchase program of its Class B common stock. During the three months ended June 30, 2016, the Company repurchased and retired under this program 284,846 shares at an average per share price of \$23.09, for an aggregate cost of \$6,533. During the six months ended June 30, 2016, the Company repurchased and retired under this program 651,947 shares at an average

per share price of \$22.50, for an aggregate cost of \$14,560.

22

Table of Contents

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

(11) Comprehensive Income

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

| | Net Unrealized Gain on Securities | | | |
|--|--|------------|------------------|------------|
| | Three months ended | | Six months ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$82,055 | \$103,261 | \$62,478 | \$101,467 |
| Other comprehensive income before reclassifications | 18,193 | (12,336) | 37,817 | (11,504) |
| Amounts reclassified from accumulated other comprehensive income | (2,363) | (16,708) | (2,410) | (15,746) |
| Net current period change | 15,830 | (29,044) | 35,407 | (27,250) |
| Ending Balance | \$97,885 | \$74,217 | \$97,885 | \$74,217 |
| | Liability for Pension Benefits | | | |
| | Three months ended | | Six months ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$(36,221) | \$(51,865) | \$(36,855) | \$(52,691) |
| Other comprehensive income before reclassifications | - | - | - | - |
| Amounts reclassified from accumulated other comprehensive income | 445 | 939 | 1,079 | 1,765 |
| Net current period change | 445 | 939 | 1,079 | 1,765 |
| Ending Balance | \$(35,776) | \$(50,926) | \$(35,776) | \$(50,926) |
| | Accumulated Other Comprehensive Income | | | |
| | Three months ended | | Six months ended | |
| | June 30, | June 30, | June 30, | June 30, |
| | 2016 | 2015 | 2016 | 2015 |
| Beginning Balance | \$45,834 | \$51,396 | \$25,623 | \$48,776 |
| Other comprehensive income before reclassifications | 18,193 | (12,336) | 37,817 | (11,504) |
| Amounts reclassified from accumulated other comprehensive income | (1,918) | (15,769) | (1,331) | (13,981) |
| Net current period change | 16,275 | (28,105) | 36,486 | (25,485) |
| Ending Balance | \$62,109 | \$23,291 | \$62,109 | \$23,291 |

Table of Contents

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

(12) Share-Based Compensation

Share-based compensation expense recorded during the three months and six months ended June 30, 2016 was \$1,228 and \$2,313, respectively. Share-based compensation expense recorded during the three months and six months ended June 30, 2015 was \$1,316 and \$3,199, respectively. There was no cash received from stock option exercises during the six months ended June 30, 2016 and 2015. During the six months ended June 30, 2016 and 2015, 2,290 and 7,235 shares, respectively, were repurchased and retired as a result of non-cash exercises of stock options.

(13) 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 and six months ended June 30:

| | Three months ended | | Six months ended | |
|--|--------------------|------------|------------------|------------|
| | June 30, | 2015 | June 30, | 2015 |
| | 2016 | | 2016 | 2015 |
| Numerator for earnings per share: | | | | |
| Net income attributable to TSM available to stockholders | \$ 3,880 | \$ 18,926 | \$ 7,336 | \$ 33,762 |
| Denominator for basic earnings per share: | | | | |
| Weighted average of common shares | 24,624,070 | 25,922,680 | 24,609,749 | 26,208,573 |
| Effect of dilutive securities | 45,364 | 74,984 | 58,892 | 86,793 |
| Denominator for diluted earnings per share | 24,669,434 | 25,997,664 | 24,668,641 | 26,295,366 |
| Basic net income per share attributable to TSM | \$ 0.16 | \$ 0.73 | \$ 0.30 | \$ 1.29 |
| Diluted net income per share attributable to TSM | \$ 0.16 | \$ 0.73 | \$ 0.30 | \$ 1.28 |

(14) Contingencies

The following information supplements and amends, as applicable, the disclosures in Note 24 to the Consolidated Financial Statements of the Company's 2015 Annual Report on Form 10-K. Our business is subject to numerous laws and regulations promulgated by Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla governmental authorities. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. The Commissioner of Insurance of Puerto Rico, as well as other Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with such laws and regulations. Penalties associated with violations of these laws and regulations may include significant fines and exclusion from participating in certain publicly funded programs and may require the Company to comply with corrective action plans or changes in our practices.

We are involved in various legal actions arising in the ordinary course of business. We are also defendants in various other litigations and proceedings, some of which are described below. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. Although we believe our estimates of such losses are reasonable, these estimates could change as a result of further developments in these matters. In other cases, it is at least reasonably possible that the Company may incur a loss related to one or more of the mentioned pending lawsuits

or investigations, but the Company is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution. The outcome of legal proceedings is inherently uncertain and pending matters for which accruals have not been established have not progressed sufficiently to enable us to estimate a range of possible loss, if any. Given the inherent unpredictability of these matters, it is possible that an adverse outcome in one or more of these matters could have a material adverse effect on the consolidated financial condition, operating results and/or cash flows of the Company.

Table of Contents

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

Additionally, we may face various potential litigation claims that have not been asserted to date, including claims from persons purporting to have rights to acquire shares of the Company on favorable terms pursuant to agreements previously entered by our predecessor managed care subsidiary, Seguros de Servicios de Salud de Puerto Rico, Inc. (SSS), with physicians or dentists who joined our provider network to sell such new provider shares of SSS at a future date (Share Acquisition Agreements) or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Claims by Heirs of Former Shareholders

In the 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 statute of limitations 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, which was denied by the court. On November 2, 2015, the Company filed a petition of Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on March 8, 2016. On March 23, 2016, the Company filed a request for reconsideration to its petition of Writ of Certiorari with the Puerto Rico Court of Appeals, which the plaintiff opposed. The Court of Appeals denied reconsideration on April 28, 2016. The Company filed a Writ of Certiorari before the Supreme Court on May 31, 2016. The same has been opposed by the plaintiff.

In the case entitled *Gallardo Mendez, et al, v. Triple-S Management Corporation*, which was filed on December 30, 2014, the Company filed a motion to dismiss on March 13, 2015. After an extension of time granted by the court, plaintiff did not file an opposition. Therefore, on June 16, 2015, the court deemed our motion to dismiss unopposed. On March 18, 2016, the court dismissed the complaint with prejudice. Since plaintiff did not file within 30 days an appeal brief opposing the trial court's determination, the dismissal of the case is final.

Claims Relating to the Provision of Health Care Services

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. On June 25, 2014, the hearing officer ordered the parties to file a joint working plan and schedule. In the process of executing said plan and after discovery was completed, this matter was settled for \$316 on June 6, 2016.

(15) 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 Managed Care segment participates in the Commonwealth of Puerto Rico Health Insurance Plan (similar to Medicaid) (Medicaid) program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by

the laws of the government of Puerto Rico, by administering the provision of the physical health component in designated service regions in Puerto Rico. We served all eight service regions on an administrative service only basis (ASO) until March 31, 2015. Administrative service fees during the six months ended June 30, 2015 amounted to \$24,238. Effective April 1, 2015, we started to provide healthcare services to only two regions of the Medicaid program on a risk based model.

25

Table of Contents

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

The following tables summarize the operations by reportable segment for the three and six months ended June 30, 2016 and 2015:

| | Three months ended | | Six months ended | |
|---|--------------------|------------|------------------|--------------|
| | June 30, | 2015 | June 30, | 2015 |
| | 2016 | | 2016 | |
| Operating revenues: | | | | |
| Managed Care: | | | | |
| Premiums earned, net | \$ 668,932 | \$ 695,517 | \$ 1,347,312 | \$ 1,167,684 |
| Administrative service fees | 4,520 | 4,549 | 9,603 | 33,672 |
| Intersegment premiums/service fees | 1,652 | 3,312 | 3,137 | 4,505 |
| Net investment income | 4,107 | 2,719 | 7,587 | 5,717 |
| Total managed care | 679,211 | 706,097 | 1,367,639 | 1,211,578 |
| Life Insurance: | | | | |
| Premiums earned, net | 38,591 | 36,245 | 77,557 | 74,025 |
| Intersegment premiums | 202 | 70 | 339 | 131 |
| Net investment income | 6,412 | 6,103 | 12,326 | 11,884 |
| Total life insurance | 45,205 | 42,418 | 90,222 | 86,040 |
| Property and Casualty Insurance: | | | | |
| Premiums earned, net | 21,526 | 22,345 | 42,714 | 44,956 |
| Intersegment premiums | 154 | 154 | 307 | 307 |
| Net investment income | 2,325 | 2,131 | 4,254 | 4,221 |
| Total property and casualty insurance | 24,005 | 24,630 | 47,275 | 49,484 |
| Other segments: * | | | | |
| Intersegment service revenues | 2,617 | 2,779 | 5,162 | 5,162 |
| Operating revenues from external sources | 959 | 680 | 1,815 | 1,863 |
| Total other segments | 3,576 | 3,459 | 6,977 | 7,025 |
| Total business segments | 751,997 | 776,604 | 1,512,113 | 1,354,127 |
| TSM operating revenues from external sources | 1 | 16 | 5 | 30 |
| Elimination of intersegment premiums/service fees | (2,008) | (3,536) | (3,783) | (4,943) |
| Elimination of intersegment service revenues | 2,518 | (2,779) | (27) | (5,162) |
| Other intersegment eliminations | (5,149) | (10) | (5,162) | (5) |
| Consolidated operating revenues | \$ 747,359 | \$ 770,295 | \$ 1,503,146 | \$ 1,344,047 |

* 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 Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

| | Three months ended | | Six months ended | |
|--|--------------------|-------------|------------------|-----------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Operating (loss) income: | | | | |
| Managed care | \$ (3,780) | \$ (2,515) | \$ (4,421) | \$ 8,457 |
| Life insurance | 5,054 | 5,286 | 10,652 | 10,102 |
| Property and casualty insurance | 3,388 | 2,454 | 5,499 | 3,960 |
| Other segments * | (182) | (121) | (361) | (284) |
| Total business segments | 4,480 | 5,104 | 11,369 | 22,235 |
| TSM operating revenues from external sources | 1 | 16 | 5 | 30 |
| TSM unallocated operating expenses | (2,707) | (1,937) | (5,874) | (7,540) |
| Elimination of TSM intersegment charges | 2,386 | 2,390 | 4,773 | 4,795 |
| Consolidated operating income | 4,160 | 5,573 | 10,273 | 19,520 |
| Consolidated net realized investment gains | 1,520 | 10,607 | 1,578 | 16,820 |
| Consolidated interest expense | (1,954) | (2,074) | (3,836) | (4,256) |
| Consolidated other income, net | 3,859 | 1,083 | 4,734 | 2,842 |
| Consolidated income before taxes | \$ 7,585 | \$ 15,189 | \$ 12,749 | \$ 34,926 |
| Depreciation and amortization expense: | | | | |
| Managed care | \$ 2,839 | \$ 3,281 | \$ 5,773 | \$ 6,760 |
| Life insurance | 249 | 279 | 504 | 549 |
| Property and casualty insurance | 150 | 88 | 311 | 190 |
| Other segments* | 166 | 119 | 319 | 245 |
| Total business segments | 3,404 | 3,767 | 6,907 | 7,744 |
| TSM depreciation expense | 196 | 197 | 393 | 394 |
| Consolidated depreciation and amortization expense | \$ 3,600 | \$ 3,964 | \$ 7,300 | \$ 8,138 |

* 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 Condensed Consolidated Financial Statements
 (dollar amounts in thousands, except per share data)
 (unaudited)

| | June 30, 2016 | December 31, 2015 |
|---|------------------|----------------------|
| Assets: | | |
| Managed care | \$ 1,126,240 | \$ 1,034,725 |
| Life insurance | 820,789 | 770,721 |
| Property and casualty insurance | 364,565 | 350,514 |
| Other segments * | 26,091 | 25,629 |
| Total business segments | 2,337,685 | 2,181,589 |
| Unallocated amounts related to TSM: | | |
| Cash, cash equivalents, and investments | 1,487 | 12,304 |
| Property and equipment, net | 22,859 | 23,219 |
| Other assets | 30,909 | 31,732 |
| | 55,255 | 67,255 |
| Elimination entries-intersegment receivables and others | (77,646) | (42,699) |
| Consolidated total assets | \$ 2,315,294 | \$ 2,206,145 |

* 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 Condensed Consolidated Financial Statements

(dollar amounts in thousands, except per share data)

(unaudited)

(16) Subsequent Events

The Company evaluated subsequent events through the date the financial statements were issued. No events, other than those described in these notes, have occurred that require adjustment or disclosure pursuant to current Accounting Standards Codification.

29

Table of Contents

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

In this Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A), the "Corporation", the "Company", "TSM", "we", "us" and "our" refers to Triple-S Management Corporation and its subsidiaries. MD&A included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and six months ended June 30, 2016. 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, 2015 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, 2016 included in this Quarterly Report on Form 10-Q.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q 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, Medicaid and Medicare Advantage 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 Insurance Plan (a government of Puerto Rico and U.S. Federal Government 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. We served all eight regions on an administrative service only basis (ASO) until March 31, 2015. Effective April 1, 2015, the government changed the Medicaid delivery model from ASO to a risk-based model that includes the physical and mental health components. We elected to participate in this sector as a fully-insured provider in only two regions of Puerto Rico. 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, 2015 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 Blue Cross Blue Shield (BCBS) name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, the British Virgin Islands and Anguilla. As of June 30, 2016, we served approximately 1,048,000 members across all regions of Puerto Rico. For the six months ended June 30, 2016 and 2015, our managed care segment represented approximately 92% and 91%, respectively, of our total consolidated premiums earned. We also have significant positions in the life insurance and property and casualty insurance markets.

We participate in the managed care market through our subsidiaries, Triple-S Salud, Inc. (TSS) and Triple-S Advantage, Inc. (TSA). TSS, TSA and Triple-S Blue, Inc. (TSB) are Blue Cross Blue Shield Association (BCBSA) BCBSA licensees, which provides us with exclusive use of the Blue Cross and Blue Shield name and mark throughout Puerto Rico, the U.S. Virgin Islands, Costa Rica, British Virgin Islands, and Anguilla.

30

Table of Contents

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).

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. See note 15 of the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q.

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 and the Government of Puerto Rico Health Insurance Plan. Premiums are derived from insurance contracts. 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 also includes the Health Insurance Providers Fee paid 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.

Recent Developments

Puerto Rico Economy Update

During recent years, Puerto Rico has been facing economic and fiscal challenges and its economy has been contracting.

On April 6, 2016, the Governor of Puerto Rico signed into law Act 21-2016, known as the "Puerto Rico Emergency Moratorium and Financial Rehabilitation Act" (as amended pursuant to Act 41-2016, Act 21). Act 21 allows the Governor to declare a moratorium on debt service payments and to stay related creditor remedies for a temporary period for the Commonwealth of Puerto Rico (Commonwealth) and certain government instrumentalities in order to protect the health, safety and welfare of the residents of the Commonwealth. The temporary period set forth in Act 21 lasts until January 31, 2017, with a possible two-month extension at the Governor's discretion. Pursuant to Act 21, the Governor signed several executive orders declaring GDB and other government instrumentalities in a state of emergency and has invoked a local debt moratorium resulting in payment defaults.

On April 6, 2016, the Governor of Puerto Rico signed into law Act. No. 71-2004, known as the Puerto Rico Public Corporation Debt Enforcement and Recovery Act (the Recovery Act), was challenged by certain private investors in

Federal court and was declared unconstitutional by the United States District Court for the District of Puerto Rico on February 6, 2015. The District Court's decision was upheld by the United States Courts of Appeals for the First Circuit and subsequently upheld by the United States Supreme Court on June 13, 2016.

Table of Contents

On June 30, 2016, the President of the United States signed the Puerto Rico Oversight, Management, and Economic Stability Act (PROMESA), which grants the Commonwealth and its component units, access to an orderly mechanism to restructure their debts in exchange for significant federal oversight over the Commonwealth's finances. In general, PROMESA seeks to provide Puerto Rico with fiscal and economic discipline through the creation of a control board, relief from creditor lawsuits through the enactment of a temporary stay on litigation, and two alternative methods to adjust unsustainable debt.

If the liquidity of the Government of Puerto Rico, its agencies, municipalities and public corporations becomes significantly affected as a result of their inability to raise funding in the market or generate enough revenues, we may face credit losses in our premium and fees receivables from these and other government related entities. As of June 30, 2016, the Company had premiums and other receivables of \$90.7 million from the Government of Puerto Rico, including its agencies, municipalities and public corporations with a related allowance for doubtful receivables of \$18.3 million.

See Item 1A. Risk Factors—Risks Related to Our Business – “Our business is geographically concentrated in Puerto Rico and weakness in the economy and the fiscal health of the government has adversely impacted and may continue to adversely impact us.” and “We are dependent on a small number of government contracts to generate a significant amount of the revenues of our managed care business.” included in our Annual Report on Form 10-K for the year ended December 31, 2015.

Managed Care – Medicare Advantage

On April 4, 2016, CMS published the Final MA Ratebook and Call Letter with the 2017 rates for MA plans. Puerto Rico's MA benchmark rates are estimated to decrease approximately 2.4% compared to 2016 funding levels. We expect our rates to remain flat mostly as a result of changes in the risk score model.

Managed Care – Puerto Rico Health Reform Program (Medicaid)

We have concluded Medicaid rate negotiations for the contract year that began on July 1, 2016 and are awaiting final approval of the agreement from CMS. There will be no changes to the regions that we serve. The new rates for the next year are approximately 4% lower than the existing one, reflecting better than expected utilization over the last 15 months. The contract's profit sharing clause established in the agreement based on certain quality metrics, has been extended into June 30, 2017.

Recent Accounting Standards

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

Table of ContentsManaged Care Membership

| | As of June 30, | |
|---|----------------|-----------|
| | 2016 | 2015 |
| Managed care enrollment: | | |
| Commercial ¹ | 528,902 | 561,440 |
| Medicare | 116,215 | 120,147 |
| Medicaid | 402,661 | 433,093 |
| Total | 1,047,778 | 1,114,680 |
| Managed care enrollment by funding arrangement: | | |
| Fully-insured | 868,157 | 928,323 |
| Self-insured | 179,621 | 186,357 |
| Total | 1,047,778 | 1,114,680 |

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

Consolidated 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, 2016 | 2015 | June 30, 2016 | 2015 |
| Revenues: | | | | |
| Premiums earned, net | \$ 729.1 | \$ 754.1 | \$ 1,467.6 | \$ 1,286.7 |
| Administrative service fees | 4.5 | 4.6 | 9.6 | 33.7 |
| Net investment income | 12.9 | 11.0 | 24.2 | 21.9 |
| Other operating revenues | 0.9 | 0.6 | 1.7 | 1.7 |
| Total operating revenues | 747.4 | 770.3 | 1,503.1 | 1,344.0 |
| Net realized investment gains | 1.5 | 10.6 | 1.6 | 16.8 |
| Other income, net | 3.8 | 1.1 | 4.7 | 2.9 |
| Total revenues | 752.7 | 782.0 | 1,509.4 | 1,363.7 |
| Benefits and expenses: | | | | |
| Claims incurred | 622.1 | 637.9 | 1,248.8 | 1,070.3 |
| Operating expenses | 121.1 | 126.8 | 244.1 | 254.2 |
| Total operating expenses | 743.2 | 764.7 | 1,492.9 | 1,324.5 |
| Interest expense | 1.9 | 2.1 | 3.8 | 4.3 |
| Total benefits and expenses | 745.1 | 766.8 | 1,496.7 | 1,328.8 |
| Income before taxes | 7.6 | 15.2 | 12.7 | 34.9 |
| Income tax expense (benefit) | 3.7 | (3.7) | 5.4 | 1.2 |
| Net income | 3.9 | 18.9 | 7.3 | 33.7 |
| Less: net loss attributable to non-controlling interest | - | - | - | 0.1 |
| Net income attributable to TSM | \$ 3.9 | \$ 18.9 | \$ 7.3 | \$ 33.8 |

Table of Contents

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Operating Revenues

Consolidated premiums earned, net decreased by \$25.0 million, or 3.3%, to \$729.1 million. This decrease primarily reflects lower premiums in the Managed Care segment by \$26.6 million mainly due to lower fully-insured membership across all sectors and a reduction to Medicaid premiums of \$14.6 million recognized as return premiums to the government of Puerto Rico. This return premium accrual is in line with the provisions of the Medicaid at-risk contract. These fluctuations are offset in part by higher premium rates in the Commercial business.

Net investment income increased by \$1.9 million, or 17.1%, to \$12.9 million when compared to the same period in 2015, mostly as a result of higher invested balances.

Other Income, Net

The \$2.7 million increase in consolidated other income reflects the collection of interest charged for late payment related to the current Medicaid contract.

Claims Incurred

Consolidated claims incurred decreased by \$15.8 million, or 2.5%, to \$622.1 million, mostly due to the Managed Care segment's decrease in fully-insured membership, partially offset by increased medical cost as the result of the usual overall cost trend. The consolidated loss ratio increased by 70 basis points to 85.3%. Excluding the impact of prior period reserve developments, as well as moving the mid-year and 2015 final risk score revenue adjustments to its corresponding period, consolidated loss ratio was 85.0%.

Operating Expenses

Consolidated operating expenses decreased by \$5.7 million, or 4.5%, to \$121.1 million. The decrease reflects lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve, from eight regions under an ASO agreement to only two regions when the contract changed to a fully-insured model. The lower operating expenses also reflect a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period. This decrease in the operating expenses was partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter of 2015 and an increase in the Health Insurance Providers Fee, reflecting the Medicaid enrollment after the model change. For the three months ended June 30, 2016, the consolidated operating expense ratio decreased 20 basis points to 16.5%.

Income Taxes

Consolidated income taxes increased by \$7.4 million, from a tax benefit of \$3.7 million to a tax expense of \$3.7 million for the three months ended June 30, 2016. The higher income tax primarily results from the net effect of the following:

The Property and Casualty segment reassessed the tax rate used to measure several temporary differences; as a consequence such rate was increased from 20% to 39%, resulting in an increase to its deferred tax expense of approximately \$2.6 million.

During the 2015 period, the Company executed a Closing Agreement between TSM and its subsidiaries and the Puerto Rico Treasury Department in connection with a local law that provided a temporary preferential tax rate in capital asset transactions. These events allowed the Company to record a \$3.1 million benefit in the 2015 period

resulting from the enacted lower taxable rate and the reassessment of the realizability of some of its deferred taxes.

34

Table of Contents

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Operating Revenues

Consolidated premiums earned, net increased by \$180.9 million, or 14.1%, to \$1.5 billion. This increase primarily reflects higher premiums in the Managed Care segment by \$179.6 million after the change in the Medicaid business model from an ASO agreement to a fully insured model effective April 1, 2015.

The consolidated administrative service fees decreased \$24.1 million, or 71.5%, mostly as a result of the previously mentioned change in the Medicaid contract model. Total administrative fees related to the previous Medicaid ASO agreement during the 2015 period amounted to \$23.6 million.

Net investment income increased by \$2.3 million, or 10.5%, to \$24.2 million mostly as a result of higher invested balances.

Other Income, Net

The \$1.8 million increase in consolidated other income reflects the collection of interest charged for late payment related to the current Medicaid contract.

Claims Incurred

Consolidated claims incurred increased by \$178.5 million, or 16.7%, to \$1.3 billion, mostly due to higher claims in the Managed Care segment. This increase primarily reflects higher claims incurred in the segment's Medicaid business by \$158.0 million after the contract changed to a fully insured model and the impact of Managed Care prior period reserve developments as well as the increased medical cost as the result of usual overall cost trends. The consolidated loss ratio increased by 190 basis points to 85.1%. Excluding the impact of prior period development, as well as moving the mid-year and 2015 final risk score revenue adjustments to its corresponding period, consolidated loss ratio was 85.4%.

Operating Expenses

Consolidated operating expenses decreased by \$10.1 million, or 4.0%, to \$244.1 million. The decrease reflects lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve, from eight regions under an ASO agreement to only two regions when the contract changed to a fully-insured model. The lower operating expenses also reflect a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period. This decrease in the operating expenses was partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter 2015 and an increase in the Health Insurance Providers Fee, reflecting the Medicaid enrollment after the model change. For the six months ended June 30, 2016, the consolidated operating expense ratio decreased 280 basis points to 16.5%.

Income Taxes

Consolidated income taxes increased by \$4.2 million, to \$5.4 million. The higher income tax primarily results from the net effect of the following:

The Property and Casualty segment reassessed the tax rate used to measure several temporary differences; as a consequence such rate was increased from 20% to 39%, resulting in an increase to its deferred tax expense of approximately \$2.6 million.

During the 2015 period, the Company executed a Closing Agreement between TSM and its subsidiaries and the Puerto Rico Treasury Department in connection with a local law that provided a temporary preferential tax rate in capital asset transactions. These events allowed the Company to record a \$3.1 million benefit in the 2015 period resulting from the enacted lower taxable rate and the reassessment of the realizability of some of its deferred taxes.

Table of ContentsManaged Care Operating Results

| | Three months ended | | Six months ended | |
|---------------------------------|--------------------|-----------|------------------|-----------|
| | June 30, | | June 30, | |
| (dollar amounts in millions) | 2016 | 2015 | 2016 | 2015 |
| Operating revenues: | | | | |
| Medical premiums earned, net: | | | | |
| Commercial | \$ 215.0 | \$ 211.6 | \$ 430.5 | \$ 424.1 |
| Medicare | 273.1 | 278.6 | 534.0 | 538.6 |
| Medicaid | 181.2 | 205.6 | 383.4 | 205.6 |
| Medical premiums earned, net | 669.3 | 695.8 | 1,347.9 | 1,168.3 |
| Administrative service fees | 5.8 | 7.6 | 12.1 | 37.6 |
| Net investment income | 4.1 | 2.7 | 7.6 | 5.7 |
| Total operating revenues | 679.2 | 706.1 | 1,367.6 | 1,211.6 |
| Medical operating costs: | | | | |
| Medical claims incurred | 590.2 | 608.4 | 1,186.5 | 1,008.5 |
| Medical operating expenses | 92.8 | 100.2 | 185.5 | 194.6 |
| Total medical operating costs | 683.0 | 708.6 | 1,372.0 | 1,203.1 |
| Medical operating (loss) income | \$ (3.8) | \$ (2.5) | \$ (4.4) | \$ 8.5 |
| Additional data: | | | | |
| Member months enrollment: | | | | |
| Commercial: | | | | |
| Fully-insured | 1,063,422 | 1,125,363 | 2,159,704 | 2,269,092 |
| Self-funded | 540,221 | 561,220 | 1,083,247 | 1,135,554 |
| Total Commercial member months | 1,603,643 | 1,686,583 | 3,242,951 | 3,404,646 |
| Medicare member months | 351,108 | 355,942 | 715,535 | 703,024 |
| Medicaid: | | | | |
| Fully-insured | 1,206,345 | 1,303,512 | 2,428,237 | 1,303,512 |
| Self-insured | - | - | - | 4,229,082 |
| Total Medicaid member months | 1,206,345 | 1,303,512 | 2,428,237 | 5,532,594 |
| Total member months | 3,161,096 | 3,346,037 | 6,386,723 | 9,640,264 |
| Medical loss ratio | 88.2 % | 87.4 % | 88.0 % | 86.3 % |
| Operating expense ratio | 13.7 % | 14.2 % | 13.6 % | 16.1 % |

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Medical Operating Revenues

Medical premiums earned for the three months ended June 30, 2016 decreased by \$26.5 million, or 3.8%, to \$669.3 million. This decrease is principally the result of the following:

Medicaid premiums decreased by \$24.4 million, or 11.9% primarily as the result of a decrease in member month enrollment by 97,167, or 7.5%, reflecting the population decline in Puerto Rico. This decrease also includes, as a reduction to Medicaid premiums, the accrual of \$14.6 million of excess profit (return premiums) due to a better loss experience that resulted in profits over the allowable 2.5% margin threshold.

Medicare premiums decrease of \$5.5 million, or 2.0% primarily results from lower enrollment by 4,834 member month when compared to 2015 combined with a 2.5% average reduction in 2016 Medicare reimbursement rates.

Table of Contents

Commercial premiums increase of \$3.4 million, or 1.6%, primarily results from the approximately 7% year over year increase in average premium rates, partially offset by a decrease in fully insured member month enrollment by 61,941, or 5.5%.

Administrative service fees decreased by \$1.8 million, or 23.7%, to \$5.8 million mainly due to a decrease in the Commercial self-funded member month enrollment during the 2016 period.

Medical Claims Incurred

Medical claims incurred decreased by \$18.2 million, or 3.0%, to \$590.2 million. The medical loss ratio (MLR) of the segment increased 80 basis points during the 2016 period, to 88.2%. This fluctuation is primarily attributed to the net effect of the following:

The medical claims incurred of the Medicaid business decreased by \$24.3 million during the 2016 period primarily reflecting a favorable prior period reserve development due to lower utilization trends and the previously described lower member month enrollment. The favorable prior period reserve developments was in part, responsible for generating a profit for this program in excess of the allowable 2.5% maximum margin which made it necessary for us to record the previously discussed return premium. The Medicaid MLR was 89.3%, 120 basis points lower than last year.

The medical claims incurred of the Medicare business decreased by \$5.0 million, or 2.1%, during the 2016 period reflecting the previously mentioned decrease in membership and lower benefits in the 2016 products as compared to 2015 as the result of the decrease in reimbursement rates. Adjusting for the effect of prior period reserve developments, and moving the mid-year and 2015 final risk score revenue adjustments to their corresponding periods, our Medicare MLR would have been approximately 88.7% this quarter, about 280 basis points higher than last year, mostly driven by increased Part B drug costs, mainly related to cancer and rheumatoid arthritis.

The medical claims incurred of the Commercial business increased by \$11.0 million, or 6.1%, during the 2016 period. The Commercial MLR was 89.2%, which is 380 basis points higher than the MLR for the prior year. These increases reflect the impact of unfavorable prior period reserve development. Excluding the effect of prior period reserve developments in 2016 and 2015, the MLR would have decreased by 100 basis points to 85.7%.

Medical Operating Expenses

Medical operating expenses decreased by \$7.4 million, or 7.4%, to \$92.8 million. The decrease reflects lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve from eight regions under an ASO agreement to only two regions when the contract was changed to a fully-insured model. The lower operating expenses also reflect a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period. This decrease in the operating expenses was partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter 2015 and an increase in the Health Insurance Providers Fee, reflecting the Medicaid enrollment after the model change. For the three months ended June 30, 2016, the operating expense ratio decreased 50 basis points, to 13.7%.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Medical Operating Revenues

Medical premiums earned increased by \$179.6 million, or 15.4%, to \$1.3 billion. This increase is principally the result of the following:

Medical premiums generated by the Medicaid business increased by \$177.8 million to \$383.4 million during the six months ended June 30, 2016. This fluctuation is primarily the result of the change in the Medicaid service model, from an ASO agreement to a fully insured model effective April 1, 2015. This decrease also includes, as a reduction to Medicaid premiums, the accrual of \$10.9 million of excess profit (return premiums) due to a better loss experience that resulted in profits over the allowable 2.5% margin threshold.

Medical premiums generated by the Commercial business increased by \$6.4 million, or 1.5%, to \$430.5 million. This fluctuation is primarily the result of approximately 7% year over year increase in average premium rates, partially offset by a decrease in fully insured member month enrollment.

Table of Contents

Medical premiums generated by the Medicare business decreased by \$4.6 million, or 0.9%, to \$534.0 million. This fluctuation primarily results from lower risk score revenue as compared with 2015 and a reduction in 2016 Medicare reimbursement rates, offset in part by higher member month enrollment.

Administrative service fees decreased by \$25.5 million, or 67.8%, to \$12.1 million mainly due to the previously mentioned change in the Medicaid contract effective April 1, 2015.

Medical Claims Incurred

Medical claims incurred increased by \$178.0 million, or 17.6%, to \$1.2 billion. The MLR of the segment increased 170 basis points during the 2016 period, to 88.0%. These fluctuations are primarily attributed to the net effect of the following:

The medical claims incurred of the Medicaid business increased by \$157.9 million during the 2016 period reflecting the previously mentioned change in the Medicaid contract effective April 1, 2015. The Medicaid MLR was 89.7%, 80 basis points lower than last year, primarily reflecting lower utilization.

The medical claims incurred of the Commercial business increased by \$12.8 million, or 3.6%, during the 2016 period mostly reflecting the impact of prior period reserve development. The Commercial MLR was 86.0%, which is 170 basis points higher than the MLR for the prior year. Excluding the effect of prior period reserve developments in 2016 and 2015, the MLR would have decreased by 240 basis points, reflecting the continuity of our underwriting discipline and premium trends higher than claims trends.

The medical claims incurred of the Medicare business increased by \$7.3 million, or 1.6%, during the 2016 period and its MLR was 88.3%, which is 210 basis points higher than the MLR for the prior period. Adjusting for the effect of prior period reserve developments, and moving the 2015 final risk score revenue adjustment to its corresponding period, our Medicare MLR would have been 90.4%, about 270 basis points higher than last year. The higher MLR primarily reflects, a higher number of HRAs completed in 2016 compared to last year and higher Part B drug costs, mainly related to cancer and rheumatoid arthritis.

Medical Operating Expenses

Medical operating expenses decreased by \$9.0 million, or 4.6%, to \$185.6 million. The decrease mostly reflects lower expenses related to the change in the Medicaid membership after we elected to decrease the number of regions we serve from eight regions under an ASO agreement to only two regions when the contract was changed to a fully-insured model. The lower operating expenses also reflect a decrease in the provision for doubtful accounts, mostly due to the strengthening of the allowance for doubtful receivables in the 2015 period. This decrease in the operating expenses was partially offset by a new business-to-business tax implemented in Puerto Rico during the third quarter 2015 and an increase in the Health Insurance Providers Fee, reflecting the Medicaid enrollment after the model change. The operating expense ratio decreased 250 basis points to 13.6% in 2016 as a result of the increase in premiums revenue and lower expenses.

Table of ContentsLife Insurance Operating Results

| (dollar amounts in millions) | Three months ended | | Six months ended | |
|-------------------------------------|--------------------|---------|------------------|---------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Operating revenues: | | | | |
| Premiums earned, net: | | | | |
| Premiums earned | \$ 39.7 | \$ 38.1 | \$ 79.5 | \$ 76.8 |
| Assumed earned premiums | 1.2 | 0.6 | 2.7 | 2.2 |
| Ceded premiums earned | (2.1) | (2.4) | (4.3) | (4.9) |
| Premiums earned, net | 38.8 | 36.3 | 77.9 | 74.1 |
| Net investment income | 6.4 | 6.1 | 12.3 | 11.9 |
| Total operating revenues | 45.2 | 42.4 | 90.2 | 86.0 |
| Operating costs: | | | | |
| Policy benefits and claims incurred | 21.9 | 19.2 | 43.4 | 40.7 |
| Underwriting and other expenses | 18.2 | 17.9 | 36.2 | 35.2 |
| Total operating costs | 40.1 | 37.1 | 79.6 | 75.9 |
| Operating income | \$ 5.1 | \$ 5.3 | \$ 10.6 | \$ 10.1 |
| Additional data: | | | | |
| Loss ratio | 56.4 % | 52.9 % | 55.7 % | 54.9 % |
| Operating expense ratio | 46.9 % | 49.3 % | 46.5 % | 47.5 % |

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Operating Revenues

Premiums earned, net increased by \$2.5 million, or 6.9% to \$38.8 million as the result of premium growth in the segment's Individual Life and Cancer lines of business as well as in the premiums assumed on reinsurance agreements.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$2.7 million, or 14.1%, to \$21.9 million, mostly reflecting a higher volume of business during the year, particularly in the Cancer business and in claims assumed under reinsurance retrocession agreements, which carry a high loss ratio, and an increase in actuarial reserves. The loss ratio for the period increased from 52.9% in 2015 to 56.4% in 2016, or 350 basis points.

Underwriting and Other Expenses

Increase in underwriting and other expenses mostly reflects higher development and marketing expenses related to the development of the Costa Rica operations. The segment's operating expense ratio decreased 240 basis points from 49.3% in 2015 to 46.9% in 2016, reflecting the increase in premiums during the period.

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Operating Revenues

Premiums earned, net increased by \$3.8 million, or 5.1% to \$77.9 million as the result of premium growth in the segment's Individual Life and Cancer lines of business as well as in the premiums assumed on reinsurance agreements.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by \$2.7 million, or 6.6%, to \$43.4 million, mostly reflecting a higher volume of business during the year, particularly in the Cancer business which has a higher loss ratio, and an increase in the actuarial reserves. The loss ratio for the period increased from 54.9% in 2015 to 55.7% in 2016, or 80 basis points.

39

Table of Contents

Underwriting and Other Expenses

Underwriting and other expenses increased by \$1.0 million, or 2.8%, primarily reflecting higher development and marketing expenses related to the development of the Costa Rica operations. The segment's operating expense ratio decreased 100 basis points from 47.5% in 2015 to 46.5% in 2016, reflecting the increase in premiums during the period.

Property and Casualty Insurance Operating Results

| (Dollar amounts in millions) | Three months ended | | Six months ended | |
|---------------------------------|--------------------|---------|------------------|---------|
| | June 30, 2016 | 2015 | June 30, 2016 | 2015 |
| Operating revenues: | | | | |
| Premiums earned, net: | | | | |
| Premiums written | \$ 40.9 | \$ 39.1 | \$ 68.5 | \$ 67.0 |
| Premiums ceded | (13.1) | (12.5) | (23.5) | (23.3) |
| Change in unearned premiums | (6.1) | (4.1) | (2.0) | 1.6 |
| Premiums earned, net | 21.7 | 22.5 | 43.0 | 45.3 |
| Net investment income | 2.3 | 2.1 | 4.3 | 4.2 |
| Total operating revenues | 24.0 | 24.6 | 47.3 | 49.5 |
| Operating costs: | | | | |
| Claims incurred | 10.8 | 11.4 | 20.6 | 22.7 |
| Underwriting and other expenses | 9.8 | 10.7 | 21.2 | 22.8 |
| Total operating costs | 20.6 | 22.1 | 41.8 | 45.5 |
| Operating income | \$ 3.4 | \$ 2.5 | \$ 5.5 | \$ 4.0 |
| Additional data: | | | | |
| Loss ratio | 49.8 % | 50.7 % | 47.9 % | 50.1 % |
| Operating expense ratio | 45.2 % | 47.6 % | 49.3 % | 50.3 % |
| Combined ratio | 95.0 % | 98.3 % | 97.2 % | 100.4 % |

Three Months Ended June 30, 2016 Compared to Three Months Ended June 30, 2015

Operating Revenues

Total premiums written increased by \$1.8 million, or 4.6%, to \$40.9 million, mostly resulting from higher sales of Commercial and Compulsory Vehicle Liability insurance products.

The change in unearned premiums presents an increase of \$2.0 million mostly resulting from the segment's higher volume of premiums written in 2016.

Claims Incurred

Claims incurred decreased by \$0.6 million, or 5.3%, to \$10.8 million. The loss ratio decreased by 90 basis points, to 49.8% during this period, primarily as a result of favorable loss experience in the General Liability and Surety business.

Underwriting and Other Expenses

Underwriting and other operating expenses decreased by \$0.9 million, or 8.4%, to \$9.8 million primarily due to the receipt of a refund distribution from the Joint Underwriting Association (JUA) during the 2016 period.

Table of Contents

Six Months Ended June 30, 2016 Compared to Six Months Ended June 30, 2015

Operating Revenues

Total premiums written increased by \$1.5 million, or 2.2%, to \$68.5 million, mostly reflecting higher sales of Compulsory Vehicle Liability and Commercial insurance products.

The change in unearned premiums presents a decrease of \$3.6 million mostly reflecting the segments higher volume of premiums written in 2016.

Claims Incurred

Claims incurred decreased by \$2.1 million, or 9.3%, to \$20.6 million. The loss ratio decreased by 220 basis points, to 47.9% during this period, primarily as a result of favorable loss experience in the Commercial Auto line of business.

Underwriting and Other Expenses

Underwriting and other operating expenses decreased by \$1.6 million, or 7.0%, to \$21.2 million mostly due to lower net commission expenses driven by a decrease in net premiums earned, and the receipt of the refund distribution from JUA during the 2016 period.

Liquidity and Capital Resources

Cash Flows

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

| (dollar amounts in millions) | Six months ended | |
|--|------------------|----------|
| | June 30, 2016 | 2015 |
| Sources (uses) of cash: | | |
| Cash (used in) provided by operating activities | \$ (10.6) | \$ 76.7 |
| Net (purchases) proceeds of investment securities | (76.3) | 69.9 |
| Net capital expenditures | (2.7) | (3.0) |
| Payments of long-term borrowings | (0.8) | (11.8) |
| Proceeds from policyholder deposits | 7.9 | 4.5 |
| Surrenders of policyholder deposits | (6.9) | (6.3) |
| Repurchase and retirement of common stock | (14.6) | (26.0) |
| Other | 2.3 | (1.5) |
| Net (decrease) increase in cash and cash equivalents | \$ (101.7) | \$ 102.5 |

Cash flow from operating activities decreased as a result of higher claims paid by \$262.7 million, offset in part by an increase in premium collections of \$160.3 million, and a decrease in cash paid to suppliers and employees of \$11.1 million. The increase in claims paid and premiums collected is principally the result of the change in the Medicaid delivery model from an ASO agreement to a fully insured model effective April 1, 2015.

During 2016, we increased the amount of investments in securities as part of our asset/liability management strategy using cash on hand.

Payments of long-term borrowings decreased by \$11.0 million during the six months ended June 30, 2016, primarily due to an \$11.0 million repayment of certain senior unsecured notes principal during the 2015 period.

Table of Contents

In November 2015 the Company's Board of Directors authorized a \$25.0 million repurchase program of our Class B common stock. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During the six months ended June 30, 2016, the Company repurchased and retired 651,947 shares of our Class B Common Stock at an average per share price of \$22.50, for an aggregate cost of \$14.6 million.

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, 2016, we had \$60.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of June 30, 2016.

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 and May 14, 2015 we repaid \$25.0 million and \$11.0 million, respectively, of the principal of these senior unsecured notes. Amount currently outstanding is \$24.0 million. The 6.6% notes contain certain non-financial covenants with which we are in compliance at June 30, 2016.

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 \$41.0 million, 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, 2016, this secured loan had an outstanding balance of \$12.0 million and average annual interest rate of 1.41%. 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, 2016 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the outstanding balance.

On November 4, 2015, TSS entered into a \$50.0 million revolving loan agreement with a commercial bank in Puerto Rico. This unused line of credit has an interest rate of LIBOR plus 250 basis points, matures on November 4, 2016, and contains certain financial and non-financial covenants that are customary for this type of facility. The agreement stipulates that any unused balance would become unavailable should TSS stop collecting payments under the Medicaid contract for four consecutive weeks.

On March 11, 2016, TSS entered into a \$30.0 million revolving loan agreement with a commercial bank in Puerto Rico. This line of credit, unused as of June 30, 2016, has an interest rate of LIBOR plus 220 basis points, matures on March 11, 2017, and contains certain financial and non-financial covenants that are customary for this type of facility.

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, 2015.

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, 2015. 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, 2015.

In 2016 we have increased our market risk exposure to equity instruments to include certain mutual funds, whose underlying assets are mostly comprised of US and international equities, debt instruments and loan participations, and a smaller amount of private investments. We hold these positions in our available-for-sale portfolio. The mutual funds invest primarily in equity and debt securities issued or guaranteed by corporations and financial institutions that are either unrated or have non-investment grade ratings from either Standard & Poor’s or Moody’s. The private investments are comprised of private equity style closed end funds, which make direct equity and debt investments. Our additional investments increase our exposure to equity price risk and credit risk. We manage this indirect exposure to credit risk by closely monitoring the performance of these mutual funds. Assuming an immediate decrease of 10% in the market value of our investments in equity securities as of June 30, 2016 and December 31, 2015, the hypothetical loss in the fair value of these investments would have been approximately \$31.0 million and \$19.7 million, respectively. See note 3 to consolidated financial statements included in Item 1 of this Quarterly Report on Form 10-Q.

Table of Contents

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Based on an evaluation of the effectiveness of the Corporation's disclosure controls and procedures conducted under the supervision and with the participation of management, the chief executive officer (CEO) and the chief financial officer (CFO) concluded that, as of June 30, 2016, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to ensure that information required to be disclosed by the Corporation in the report that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and is accumulated and communicated to management, including the CEO and CFO, as appropriate to allow timely decisions regarding required disclosures.

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 CEO and CFO 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, 2016 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 that have experienced significant developments during this quarter, see note 14 to the unaudited condensed 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, 2015.

Table of Contents

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:

| (Dollar amounts in millions, except per share data) | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Programs ¹ | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs |
|---|----------------------------------|------------------------------|--|---|
| April 1, 2016 to April 30, 2016 | - | \$ - | - | \$ 13.3 |
| May 1, 2016 to May 31, 2016 | 177,678 | 22.42 | 177,678 | 9.3 |
| June 1, 2016 to June 30, 2016 | 107,168 | 23.75 | 107,168 | 6.8 |

¹ In November 2015 the Company's Board of Directors authorized a \$25.0 million Share 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 and six months ended June 30, 2016 and 2015 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 Executive Vice President and Chief Financial 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 Executive Vice President and Chief Financial 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.

44

Table of Contents

SIGNATURES

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

Triple-S Management Corporation
Registrant

Date: August 5, 2016 By: /s/ Roberto García-Rodríguez
Roberto García-Rodríguez
President and Chief Executive Officer

Date: August 5, 2016 By: /s/ Juan J. Román-Jiménez
Juan J. Román-Jiménez
Executive Vice President and Chief Financial Officer