TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 10, 2012

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from ____to ____

COMMISSION FILE NUMBER: 001-33865

Triple-S Management Corporation

Puerto Rico (State or other jurisdiction of incorporation or organization)	66-0555678 (I.R.S. Employer Identification No.)
1441 F.D. Roosevelt Avenue San Juan, Puerto Rico (Address of principal executive offices)	00920 (Zip code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes ¨ No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). ¨ Yes ¨ No

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

Large accelerated filer ¨	Accelerated filer þ
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 þ No

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

Title of each class	Outstanding at March 31, 2012
Common Stock Class A, $1.00 par value	9,042,809
Common Stock Class B, $1.00 par value	19,389,661

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended March 31, 2012

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Part I – Financial Information

Item 1. Financial Statements
Triple-S Management Corporation
Consolidated Balance Sheets (Unaudited)
(Dollar amounts in thousands, except per share data)

	March 31, 2012	December 31, 2011
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	$999,242	$ 988,894
Equity securities	174,970	144,408
Securities held to maturity, at amortized cost:		
Fixed maturities	14,081	13,684
Policy loans	6,238	6,307
Cash and cash equivalents	135,561	71,834
Total investments and cash	1,330,092	1,225,127
Premiums and other receivables, net	307,463	287,184
Deferred policy acquisition costs and value of business acquired	158,166	155,788
Property and equipment, net	97,924	81,872
Deferred tax asset	29,446	28,707
Goodwill	25,397	25,397
Other assets	81,094	76,502
Total assets	$2,029,582	$ 1,880,577
Liabilities and Stockholders' Equity		
Claim liabilities	403,562	391,259
Liability for future policy benefits	259,041	254,194
Unearned premiums	167,083	94,772
Policyholder deposits	81,989	76,753
Liability to Federal Employees' Health Benefits Program (FEHBP)	17,066	19,051
Accounts payable and accrued liabilities	166,713	151,052
Deferred tax liability	26,298	24,603
Long-term borrowings	127,736	114,387
Liability for pension benefits	79,421	77,547
Total liabilities	1,328,909	1,203,618
Stockholders' equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at March 31, 2012 and December 31, 2011	9,043	9,043
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 19,389,661 and 19,321,524 shares at March 31, 2012 and December 31, 2011, respectively	19,390	19,322

Additional paid-in capital	145,452	144,302
Retained earnings	493,243	485,729
Accumulated other comprehensive income	33,187	18,563
Total Triple-S Management Corporation stockholders' equity	700,315	676,959
Noncontrolling interest in consolidated subsididary	358	-
Total stockholders' equity	700,673	676,959
Total liabilities and stockholders' equity	$2,029,582	$ 1,880,577

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31, 2012	Three months ended March 31, 2011
Revenues		
Premiums earned, net	$547,304	$485,271
Administrative service fees	27,524	6,595
Net investment income	11,192	11,798
Other operating revenues	1,047	-
Total operating revenues	587,067	503,664
Net realized investment gains	1,678	5,893
Net unrealized investment loss on trading securities	-	(1,141)
Other income, net	1,070	14
Total revenues	589,815	508,430
Benefits and expenses		
Claims incurred	475,644	402,573
Operating expenses	102,506	82,711
Total operating costs	578,150	485,284
Interest expense	2,558	3,127
Total benefits and expenses	580,708	488,411
Income before taxes	9,107	20,019
Income tax expense (benefit)		
Current	3,028	(153)
Deferred	(1,421)	9,802
Total income taxes	1,607	9,649
Net income	7,500	10,370
Less: Net loss attributable to the noncontrolling interest	14	-
Net income attributable to Triple-S Management Corporation	$7,514	$10,370
Earnings per share attributable to Triple-S Management Corporation		
Basic	$0.27	$0.36
Diluted	$0.26	$0.36

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31,	
	2012	2011
Net income	$7,500	$10,370
Other comprehensive income (loss), net of tax:		
Net unrealized change in fair value of available for sale securities, net of taxes	13,686	(1,641)
Defined benefit pension plan:		
Actuarial loss, net	1,012	622
Prior service credit, net	(74)	(89)
Total other comprehensive income (loss), net of tax	14,624	(1,108)
Comprehensive income	22,124	9,262
Comprehensive income attributable to noncontrolling interest	14	-
Comprehensive income attributable to Triple-S Management Corporation	$22,138	$9,262

See accompanying notes to unaudited consolidated financial statements.

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

	2012	2011
Balance at January 1	$676,959	$617,272
Share-based compensation	905	793
Cash settlement of options granted under share-based compensation plan	-	(1,259)
Stock issued upon the exercise of stock options	606	94
Repurchase and retirement of common stock	(293)	(1,557)
Net current period change in comprehensive income	22,138	9,262
Total Triple-S Management Corporation stockholders' equity	$700,315	$624,605
Noncontrolling interest in consolidated subsididary	358	-
Balance at March 31	$700,673	$624,605

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31, 2012	2011
Cash flows from operating activities:		
Net income	$7,500	$10,370
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,893	5,188
Net amortization of investments	1,132	1,041
Provision for doubtful receivables	333	410
Deferred tax expense (benefit)	(1,421)	9,802
Net realized investment gain on sale of securities	(1,678)	(5,893)
Net unrealized loss on trading securities	-	1,141
Share-based compensation	905	793
Proceeds from trading securities sold:		
Equity securities	-	20,804
Acquisition of securities in trading portfolio:		
Equity securities	-	(187)
(Increase) decrease in assets:		
Premium and other receivables, net	(17,854)	56,690
Deferred policy acquisition costs and value of business acquired	(2,378)	701
Other deferred taxes	220	92
Other assets	(5,730)	1,403
Increase (decrease) in liabilities:		
Claim liabilities	12,303	12,339
Liability for future policy benefits	4,847	3,296
Unearned premiums	72,311	(8,015)
Policyholder deposits	471	270
Liability to FEHBP	(1,985)	(2,399)
Accounts payable and accrued liabilities	(708)	(6,459)
Net cash provided by operating activities	74,161	101,387

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

	Three months ended March 31, 2012	2011
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$29,843	$14,986
Fixed maturities matured/called	35,482	33,964
Equity securities	22,649	9,458
Securities held to maturity:		
Fixed maturities matured/called	300	181
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(62,487)	(32,224)
Equity securities	(40,652)	(29,134)
Securities held to maturity:		
Fixed maturities	(300)	-
Net inflows (outflows) for policy loans	69	(11)
Acquisition of business, net of cash acquired of $816 and $29,370 in the three months ended March 31, 2012 and 2011, respectively	(2,685)	(54,058)
Net capital expenditures	(2,783)	(3,977)
Net cash used in investing activities	(20,564)	(60,815)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	5,539	3,454
Repayments of short-term borrowings	-	(15,575)
Repayments of long-term borrowings	(490)	(410)
Repurchase and retirement of common stock	-	(1,557)
Cash settlements of stock options	-	(1,259)
Proceeds from exercise of stock options	316	94
Proceeds from policyholder deposits	6,492	1,824
Surrenders of policyholder deposits	(1,727)	(1,776)
Net cash provided by (used in) financing activities	10,130	(15,205)
Net increase in cash and cash equivalents	63,727	25,367
Cash and cash equivalents:		
Beginning of period	71,834	45,021
End of period	$135,561	$70,388

See accompanying notes to unaudited consolidated financial statements.

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

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the "Corporation", the "Company", "TSM", "we", "us" and "our" refer to Tri Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months ended March 31, 2012 are not necessarily indicative of the results for the full year.

(2) Recent Accounting Standards

In October 2010 the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and d. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in Subtopic 340-20, Other Assets and Deferred Costs— Capitalized Advertising Costs, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The Corporation adopted this guidance in January 1, 2012; there was no significant impact on our financial position or results of operations as a result of the adoption.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB issued updated guidance temporarily eliminating the presentation requirements for reclassification adjustments, while the Board considers certain operational concerns about these requirements after several concerns were raised about undue complexity within the income statement, potentially compromising clarity of financial statements. The Corporation adopted this guidance in January 1, 2012 electing to present the components of comprehensive income in two separate but consecutive financial statements.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards (“IFRS”). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB’s intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. The Corporation adopted this guidance in January 1, 2012, with no significant impact on our financial position or results of operations as a result of the adoption. However, we have added certain disclosures related to fair value measurements in Note 7, "Fair Value Measurements".

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2012 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

As discussed further in note 14, our Managed Care segment includes the results of operations and financial condition of American Health since February 1, 2011.

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Triple-S Management Corporation
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(Unaudited)

The following tables summarize the operations by major operating segment for the three months ended March 31, 2012 and 2011:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Operating revenues:		
Managed Care:		
Premiums earned, net	$495,426	$432,803
Administrative service fees	27,524	6,595
Intersegment premiums /service fees	1,580	1,500
Net investment income	3,831	4,221
Total managed care	528,361	445,119
Life Insurance:		
Premiums earned, net	29,843	26,958
Intersegment premiums	94	86
Net investment income	4,937	4,407
Total life insurance	34,874	31,451
Property and Casualty Insurance:		
Premiums earned, net	22,035	25,510
Intersegment premiums	153	153
Net investment income	2,225	2,210
Total property and casualty insurance	24,413	27,873
Other segments: *		
Intersegment service revenues	3,631	3,848
Operating revenues from external sources	1,048	2
Total other segments	4,679	3,850
Total business segments	592,327	508,293
TSM operating revenues from external sources	163	462
Elimination of intersegment premiums	(1,827)	(1,739)
Elimination of intersegment service fees	(3,631)	(3,848)
Other intersegment eliminations	35	496
Consolidated operating revenues	$587,067	$503,664

* Includes segments that are not required to be reported separately, primarily the data processing services organization, the health clinic as well as the third-party administrator of managed care services.

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	Three months ended March 31, 2012	Three months ended March 31, 2011
Operating income (loss):		
Managed care	$7,368	$12,407
Life insurance	4,381	4,272
Property and casualty insurance	(1,438)	960
Other segments *	(74)	(6)
Total business segments	10,237	17,633
TSM operating revenues from external sources	163	462
TSM unallocated operating expenses	(3,680)	(2,506)
Elimination of TSM intersegment charges	2,197	2,791
Consolidated operating income	8,917	18,380
Consolidated net realized investment gains (losses)	1,678	5,893
Consolidated net unrealized (loss) gain on trading securities	-	(1,141)
Consolidated interest expense	(2,558)	(3,127)
Consolidated other income, net	1,070	14
Consolidated income before taxes	$9,107	$20,019
Depreciation expense:		
Managed care	$5,196	$4,434
Life insurance	158	162
Property and casualty insurance	155	390
Other segments *	174	-
Total business segments	5,683	4,986
TSM depreciation expense	209	202
Consolidated depreciation expense	$5,892	$5,188

* Includes segments that are not required to be reported separately, primarily the data processing services organization, the health clinic as well as the third-party administrator of managed care services.

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	March 31, 2012	December 31, 2011
Assets:		
Managed care	$948,606	$ 832,850
Life insurance	632,804	610,118
Property and casualty insurance	354,972	348,480
Other segments *	35,947	15,846
Total business segments	1,972,329	1,807,294
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	48,459	53,172
Property and equipment, net	22,069	22,269
Other assets	27,946	27,794
	98,474	103,235
Elimination entries-intersegment receivables and others	(41,221)	(29,952)
Consolidated total assets	$2,029,582	$ 1,880,577

* Includes segments that are not required to be reported separately, primarily the data processing services organization, the health clinic as well as the third-party administrator of managed care services.

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(4) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at March 31, 2012 and December 31, 2011, were as follows:

	March 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$62,030	$4,573	$-	$66,603
U.S. Treasury securities and obligations of U.S.government instrumentalities	39,501	2,013	-	41,514
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	78,263	1,634	(13)	79,884
Municipal securities	410,411	46,368	(39)	456,740
Corporate bonds	109,014	17,396	-	126,410
Residential mortgage-backed securities	23,599	723	(44)	24,278
Collateralized mortgage obligations	199,245	4,945	(377)	203,813
Total fixed maturities	922,063	77,652	(473)	999,242
Equity securities:				
Common stocks	66	3,823	-	3,889
Mutual funds	155,556	16,030	(505)	171,081
Total equity securities	155,622	19,853	(505)	174,970
Total	$1,077,685	$97,505	$(978)	$1,174,212

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(Unaudited)

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$75,429	$5,392	$-	$80,821
U.S. Treasury securities and obligations of U.S.government instrumentalities	39,544	2,311	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	83,685	2,584	(10)	86,259
Municipal securities	394,201	40,094	(116)	434,179
Corporate bonds	109,024	20,268	(148)	129,144
Residential mortgage-backed securities	8,367	748	-	9,115
Collateralized mortgage obligations	203,305	4,586	(370)	207,521
Total fixed maturities	913,555	75,983	(644)	988,894
Equity securities:				
Common stocks	66	3,257	-	3,323
Perpetual preferred stocks	1,000	-	(101)	899
Mutual funds	137,101	5,453	(2,368)	140,186
Total equity securities	138,167	8,710	(2,469)	144,408
Total	$1,051,722	$84,693	$(3,113)	$1,133,302

	March 31, 2012			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$1,793	$155	$-	$1,948
U.S. Treasury securities and obligations of U.S.government instrumentalities	624	179	-	803
Corporate bonds	9,940	56	-	9,996
Residential mortgage-backed securities	475	44	-	519
Certificates of deposit	1,249	-	-	1,249
Total	$14,081	$434	$-	$14,515

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

	December 31, 2011			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$1,793	$173	$-	$1,966
U.S. Treasury securities and obligations of U.S.government instrumentalities	624	223	-	847
Corporate bonds	9,839	130	-	9,969
Residential mortgage-backed securities	479	42	-	521
Certificates of deposit	949	-	-	949
Total	$13,684	$568	$-	$14,252

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	$ 3,589	$ (13)	2	$ -	$ -	-	$ 3,589	$ (13)	2
Municipal securities	11,492	(39)	5	-	-	-	11,492	(39)	5
Residential mortgage-backed securities	10,737	(44)	3	-	-	-	10,737	(44)	3
Collateralized mortgage obligations	14,641	(128)	4	15,688	(249)	3	30,329	(377)	7
Total fixed maturities	40,459	(224)	14	15,688	(249)	3	56,147	(473)	17
Equity securities:									
Mutual funds	7,681	(385)	3	2,142	(120)	1	9,823	(505)	4

Total equity securities	7,681	(385)	3	2,142	(120)	1	9,823	(505)	4
Total for securities available for sale	$ 48,140	$ (609)	17	$ 17,830	$ (369)	4	$ 65,970	$ (978)	21

	December 31, 2011								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	$ 6,073	$ (10)	3	$ -	$ -	-	$ 6,073	$ (10)	3
Municipal securities	16,726	(116)	5	-	-	-	16,726	(116)	5
Corporate bonds	3,790	(85)	3	800	(63)	1	4,590	(148)	4
Collateralized mortgage obligations	29,813	(274)	7	1,611	(96)	1	31,424	(370)	8
Total fixed maturities	56,402	(485)	18	2,411	(159)	2	58,813	(644)	20
Equity securities:									
Perpetual preferred stocks	-	-	-	899	(101)	1	899	(101)	1
Mutual funds	37,943	(2,270)	18	1,917	(98)	1	39,860	(2,368)	19
Total equity securities	37,943	(2,270)	18	2,816	(199)	2	40,759	(2,469)	20
Total for securities available for sale	$ 94,345	$ (2,755)	36	$ 5,227	$ (358)	4	$ 99,572	$ (3,113)	40

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

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

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

Identification and evaluation of securities that have possible indications of other-than-temporary impairment, which includes an analysis of all investments with gross unrealized investment losses that represent 20% or more of their cost and all investments with an unrealized loss greater than $50.

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

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

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

The Corporation continually reviews its investment portfolios under the Corporation's impairment review policy. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods.

Obligations of the Commonwealth of Puerto Rico and its instrumentalities and Municipal securities: The unrealized losses of these securities were principally caused by fluctuations in interest rates and general market conditions. The Corporation does not consider these investments other-than-temporarily impaired because the decline in estimated fair value is principally attributable to changes in interest rates, the Corporation does not intend to sell the investments and its 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.

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Residential mortgage-backed securities and Collateralized mortgage obligations: The unrealized losses on investments in residential mortgage-backed securities and collateralized mortgage obligations ("CMOs") were mostly caused by fluctuations in interest rates and credit spreads. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. The amortized cost and fair value of the Corporation's investments in private CMOs as of March 31, 2012 amounted to $4,706 and $4,605, respectively. 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: The unrealized loss of the security included in the twelve months or longer category has remained consistent to the unrealized loss as of December 31, 2011. All other funds have been in an unrealized loss position for less than twelve months. These positions are not considered other-than-temporarily impaired because the Corporation does not have the intent to sell these investments, and the Corporation has the ability to hold the investments until a market price recovery.

Maturities of investment securities classified as available for sale and held to maturity at March 31, 2012 were as follows:

	March 31, 2012	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$11,322	$11,426
Due after one year through five years	166,819	175,402
Due after five years through ten years	130,371	145,491
Due after ten years	390,707	438,832
Residential mortgage-backed securities	23,599	24,278
Collateralized mortgage obligations	199,245	203,813
	$922,063	$999,242
Securities held to maturity:		
Due in one year or less	$11,189	$11,245
Due after one year through five years	-	-
Due after ten years	2,417	2,751
Residential mortgage-backed securities	475	519
	$14,081	$14,515

Expected maturities may differ from contractual maturities because some issuers have the right to call or prepay obligations with or without call or prepayment penalties.

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Information regarding realized and unrealized gains and losses from investments for the three months ended March 31, 2012 and 2011 is as follows:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Realized gains (losses):		
Fixed maturity securities:		
Securities available for sale:		
Gross gains from sales	$1,074	$221
Gross losses from sales	(113)	(151)
Total debt securities	961	70
Equity securities:		
Trading securities:		
Gross gains from sales	-	3,790
Gross losses from sales	-	(364)
	-	3,426
Securities available for sale:		
Gross gains from sales	1,238	2,492
Gross losses from sales	(521)	(95)
	717	2,397
Total equity securities	717	5,823
Net realized gain on securities	$1,678	$5,893

	Three months ended March 31, 2012	Three months ended March 31, 2011
Changes in net unrealized gains (losses):		
Recognized in income:		
Equity securities – trading	$-	$(1,141)
Recognized in accumulated other comprehensive income:		
Fixed maturities – available for sale	1,840	(1,977)
Equity securities – available for sale	13,107	8
	$14,947	$(1,969)
Not recognized in the consolidated financial statements:		
Fixed maturities – held to maturity	$(134)	$(122)

The deferred tax liability related to unrealized gains and losses, respectively, recognized in accumulated other comprehensive income during the three months ended March 31, 2012 and 2011 was $1,261 and $328, respectively.

As of March 31, 2012 and December 31, 2011, no individual investment in securities exceeded 10% of stockholders' equity.

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The components of net investment income were as follows:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Fixed maturities	$9,899	$11,070
Equity securities	953	310
Policy loans	115	108
Cash equivalents and interest-bearing deposits	27	83
Other	198	227
Total	$11,192	$11,798

(5) Premiums and Other Receivables, Net

Premiums and other receivables, net as of March 31, 2012 and December 31, 2011 were as follows:

	March 31, 2012	December 31, 2011
Premium	$116,489	$ 105,177
Self-funded group receivables	75,266	64,053
FEHBP	13,215	11,062
Agents balances	29,702	37,421
Accrued interest	9,284	10,788
Reinsurance recoverable	48,870	48,828
Other	38,836	33,721
	331,662	311,050
Less allowance for doubtful receivables:		
Premiums	15,390	14,299
Other	8,809	9,567
	24,199	23,866
Total premiums and other receivables	$307,463	$ 287,184

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(6) Claim Liabilities

The activity in the total claim liabilities for the three months ended March 31, 2012 and 2011 is as follows:

	Three months ended March 31, 2012	Three months ended March 31, 2011
Claim liabilities at beginning of period	$391,259	$360,210
Reinsurance recoverable on claim liabilities	(37,234)	(31,449)
Net claim liabilities at beginning of period	354,025	328,761
Claim liabilities acquired from American Health	-	41,666
Incurred claims and loss-adjustment expenses:		
Current period insured events	484,527	412,173
Prior period insured events	(13,864)	(12,520)
Total	470,663	399,653
Payments of losses and loss-adjustment expenses:		
Current period insured events	240,761	201,886
Prior period insured events	216,858	185,237
Total	457,619	387,123
Net claim liabilities at end of period	367,069	382,957
Reinsurance recoverable on claim liabilities	36,493	31,258
Claim liabilities at end of period	$403,562	$414,215

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

The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2012 and 2011 is due primarily to better than expected utilization trends.

Reinsurance recoverable on unpaid claims is reported within the premium and other receivables, net in the accompanying consolidated financial statements. The claims incurred disclosed in this table exclude the change in the liability for future policy benefits expense, which amounted to $4,981 and $2,920 during the three months ended March 31, 2012 and 2011, respectively.

(7) Fair Value Measurements

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

Level Input:	Input Definition:
Level 1	

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

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

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

The following methods, assumptions and inputs were used to determine the fair value of each class of the following assets recorded at fair value in the consolidated balance sheets:

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The Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Corporation employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security or derivative'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 Corporation's results. The fair value measurement levels are not indicative of risk of investment.

The fair value information of financial instruments in the accompanying consolidated financial statements was determined as follows:

(i) Investment in Securities

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

(ii) Derivative Instruments

Current market pricing models were used to estimate fair value of structured note agreements. Fair values were determined using market quotations provided by outside securities consultants or prices provided by market makers using observable inputs.

The following tables summarize fair value measurements by level at March 31, 2012 and December 31, 2011 for assets measured at fair value on a recurring basis:

	March 31, 2012			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$66,603	$-	$66,603
U.S. Treasury securities and obligations of U.S.government instrumentalities	41,514	-	-	41,514
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	79,884	-	79,884
Municipal securities	-	456,740	-	456,740
Corporate Bonds	-	126,410	-	126,410
Residential agency mortgage-backed securities	-	24,278	-	24,278
Collaterized mortgage obligations	-	203,813	-	203,813
Total fixed maturities	41,514	957,728	-	999,242

Equity securities				
Common stocks	3,889	-	-	3,889
Perpetual preferred stocks	-	-	-	-
Mutual funds	112,260	51,509	7,312	171,081
Total equity securities	116,149	51,509	7,312	174,970
Derivatives (reported within other assets in the consolidated balance sheets)	-	7	-	7
	$157,663	$1,009,244	$7,312	$1,174,219

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	December 31, 2011			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$80,821	$-	$80,821
U.S. Treasury securities and obligations of U.S.government instrumentalities	41,855	-	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	86,259	-	86,259
Municipal securities	-	434,179	-	434,179
Corporate Bonds	-	129,144	-	129,144
Residential agency mortgage-backed securities	-	9,115	-	9,115
Collaterized mortgage obligations	-	207,521	-	207,521
Total fixed maturities	41,855	947,039	-	988,894