TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 08, 2018

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

FORM 10-Q
(Mark One)
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2018

or

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

For the transition period from to_____

COMMISSION FILE NUMBER: 001-33865
Triple-S Management Corporation

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

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

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

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

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

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 |
| Emerging growth company | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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

| Title of each class | Outstanding at September 30, 2018 |
|---|---|
| Common Stock Class A, $1.00 par value | 950,968 |
| Common Stock Class B, $1.00 par value | 21,985,524 |

Triple-S Management Corporation

FORM 10-Q

For the Quarter Ended September 30, 2018

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Part I – Financial Information

Item 1. Financial Statements

Triple-S Management Corporation
Condensed Consolidated Balance Sheets (Unaudited)
(dollar amounts in thousands, except share data)

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Assets | | |
| Investments and cash: | | |
| Fixed maturities available for sale, at fair value | $ 1,224,050 | $ 1,216,788 |
| Fixed maturities held to maturity, at amortized cost | 2,490 | 2,319 |
| Equity investments, at fair value | 306,360 | 342,309 |
| Other invested assets, at net asset value | 73,127 | 34,984 |
| Policy loans | 9,680 | 9,077 |
| Cash and cash equivalents | 107,091 | 198,941 |
| Total investments and cash | 1,722,798 | 1,804,418 |
| Premiums and other receivables, net | 632,897 | 899,327 |
| Deferred policy acquisition costs and value of business acquired | 209,205 | 200,788 |
| Property and equipment, net | 78,445 | 74,716 |
| Deferred tax asset | 83,593 | 65,123 |
| Goodwill | 25,397 | 25,397 |
| Other assets | 66,093 | 46,996 |
| Total assets | $ 2,818,428 | $ 3,116,765 |
| Liabilities and Stockholders' Equity | | |
| Claim liabilities | $ 1,038,114 | $ 1,106,876 |
| Liability for future policy benefits | 355,366 | 339,507 |
| Unearned premiums | 78,544 | 86,349 |
| Policyholder deposits | 174,126 | 176,534 |
| Liability to Federal Employees' Health Benefits and Federal Employees' Programs | 41,880 | 52,287 |
| Accounts payable and accrued liabilities | 246,750 | 354,894 |
| Deferred tax liability | 3,210 | 21,891 |
| Long-term borrowings | 29,681 | 32,073 |
| Liability for pension benefits | 30,919 | 33,672 |
| Total liabilities | 1,998,590 | 2,204,083 |
| 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 September 30, 2018 and December 31, 2017, respectively | 951 | 951 |
| Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 21,985,524 and 22,627,077 shares at September 30, 2018 and December 31, 2017, respectively | 21,986 | 22,627 |
| Additional paid-in capital | 34,231 | 53,142 |
| Retained earnings | 772,872 | 785,390 |
| Accumulated other comprehensive (loss) income | (9,531 ) | 51,254 |

| | | |
|---|---|---|
| Total Triple-S Management Corporation stockholders' equity | 820,509 | 913,364 |
| Non-controlling interest in consolidated subsidiary | (671) | (682) |
| Total stockholders' equity | 819,838 | 912,682 |
| Total liabilities and stockholders' equity | $ 2,818,428 | $ 3,116,765 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Three months ended September 30, 2018 | Three months ended September 30, 2017 | Nine months ended September 30, 2018 | Nine months ended September 30, 2017 |
|---|---|---|---|---|
| Revenues: | | | | |
| Premiums earned, net | $ 742,445 | $ 714,325 | $ 2,236,249 | $ 2,139,489 |
| Administrative service fees | 3,802 | 3,391 | 11,216 | 12,318 |
| Net investment income | 16,168 | 12,395 | 45,630 | 37,109 |
| Other operating revenues | 1,575 | 941 | 4,234 | 3,027 |
| Total operating revenues | 763,990 | 731,052 | 2,297,329 | 2,191,943 |
| Net realized investment (losses) gains | (956) | 3,753 | 1,065 | 8,143 |
| Net unrealized investment gains (losses) on equity investments | 5,632 | - | (11,343) | - |
| Other income, net | 1,943 | 3,409 | 3,600 | 6,521 |
| Total revenues | 770,609 | 738,214 | 2,290,651 | 2,206,607 |
| Benefits and expenses: | | | | |
| Claims incurred | 648,580 | 583,625 | 1,959,707 | 1,815,785 |
| Operating expenses | 141,026 | 119,145 | 408,772 | 348,811 |
| Total operating costs | 789,606 | 702,770 | 2,368,479 | 2,164,596 |
| Interest expense | 2,000 | 1,709 | 5,515 | 5,116 |
| Total benefits and expenses | 791,606 | 704,479 | 2,373,994 | 2,169,712 |
| (Loss) income before taxes | (20,997) | 33,735 | (83,343) | 36,895 |
| Income tax (benefit) expense | (3,430) | 11,824 | (30,944) | 6,622 |
| Net (loss) income | (17,567) | 21,911 | (52,399) | 30,273 |
| Net (loss) income attributable to non-controlling interest | - | (1) | 1 | (2) |
| Net (loss) income attributable to Triple-S Management Corporation | $ (17,567) | $ 21,912 | $ (52,400) | $ 30,275 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation

Condensed Consolidated Statements of Comprehensive (Loss) Income (Unaudited)

(dollar amounts in thousands)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Net (loss) income | $ (17,567) | $ 21,911 | $ (52,399) | $ 30,273 |
| Other comprehensive (loss) income, net of tax: | | | | |
| Net unrealized change in fair value of available for sale securities, net of taxes | (6,216) | 1,851 | (21,312) | 14,719 |
| Defined benefit pension plan: | | | | |
| Actuarial loss, net | 147 | 48 | 409 | 154 |
| Total other comprehensive (loss) income, net of tax | (6,069) | 1,899 | (20,903) | 14,873 |
| Comprehensive (loss) income | (23,636) | 23,810 | (73,303) | 45,146 |
| Comprehensive (loss) income attributable to non-controlling interest | - | (1) | 1 | (2) |
| Comprehensive (loss) income attributable to Triple-S Management Corporation | $ (23,636) | $ 23,811 | $ (73,303) | $ 45,148 |

See accompanying notes to unaudited condensed consolidated financial statements.

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Triple-S Management Corporation
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(dollar amounts in thousands)

| | 2018 | 2017 |
|---|---|---|
| Balance at January 1 | $913,364 | $863,163 |
| Share-based compensation | 3,462 | 1,651 |
| Repurchase and retirement of common stock | (23,014 ) | (12,553 ) |
| Comprehensive (loss) income | (73,303 ) | 45,148 |
| Total Triple-S Management Corporation stockholders' equity | 820,509 | 897,409 |
| Non-controlling interest in consolidated subsidiary | (671 ) | (679 ) |
| Balance at September 30 | $819,838 | $896,730 |

See accompanying notes to unaudited condensed consolidated financial statements.

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

| | Nine months ended September 30, | |
|---|---|---|
| | 2018 | 2017 |
| Cash flows from operating activities: | | |
| Net (loss) income | $(52,399) | $30,273 |
| Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 9,933 | 9,835 |
| Net amortization of investments | 3,747 | 7,396 |
| Additions to the allowance for doubtful receivables | 7,085 | 2,043 |
| Deferred tax benefit | (33,006) | (9,993) |
| Net realized investment gain on sale of securities | (1,065) | (8,143) |
| Net unrealized loss on equity investments | 11,343 | - |
| Interest credited to policyholder deposits | 4,288 | 3,151 |
| Share-based compensation | 3,462 | 1,651 |
| Decrease (increase) in assets: | | |
| Premium and other receivables, net | 259,345 | (646,650) |
| Deferred policy acquisition costs and value of business acquired | (5,943) | (7,139) |
| Deferred taxes | 606 | (218) |
| Other assets | (19,657) | 2,976 |
| (Decrease) increase in liabilities: | | |
| Claim liabilities | (68,762) | 620,755 |
| Liability for future policy benefits | 15,859 | 15,286 |
| Unearned premiums | (7,805) | 86,509 |
| Liability to Federal Employees' Health Benefits and Federal Employees' Programs | (10,407) | 12,372 |
| Accounts payable and accrued liabilities | (120,552) | 71,745 |
| Net cash (used in) provided by operating activities | (3,928) | 191,849 |

(Continued)

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| | Nine months ended September 30, 2018 | 2017 |
|---|---|---|
| Cash flows from investing activities: | | |
| Proceeds from investments sold or matured: | | |
| Securities available for sale: | | |
| Fixed maturities sold | $1,042,720 | $287,223 |
| Fixed maturities matured/called | 18,133 | 15,503 |
| Securities held to maturity: | | |
| Fixed maturities matured/called | 2,066 | 1,546 |
| Equity investments sold | 150,024 | 38,318 |
| Other invested assets sold | 2,040 | - |
| Acquisition of investments: | | |
| Securities available for sale: | | |
| Fixed maturities | (1,113,587) | (260,538) |
| Securities held to maturity: | | |
| Fixed maturities | (2,238) | (1,550) |
| Equity investments | (113,108) | (75,507) |
| Other invested assets | (38,501) | - |
| Decrease in other investments | (144) | (2,207) |
| Net change in policy loans | (603) | (696) |
| Net capital expenditures | (12,315) | (15,949) |
| Net cash used in investing activities | (65,513) | (13,857) |
| Cash flows from financing activities: | | |
| Change in outstanding checks in excess of bank balances | 9,104 | 8,371 |
| Repayments of long-term borrowings | (2,427) | (2,028) |
| Repurchase and retirement of common stock | (22,390) | (12,553) |
| Proceeds from policyholder deposits | 14,726 | 12,130 |
| Surrenders of policyholder deposits | (21,422) | (17,398) |
| Net cash used in financing activities | (22,409) | (11,478) |
| Net (decrease) increase in cash and cash equivalents | (91,850) | 166,514 |
| Cash and cash equivalents: | | |
| Beginning of period | 198,941 | 103,428 |
| End of period | $107,091 | $269,942 |

See accompanying notes to unaudited condensed consolidated financial statements.

(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 the information and the footnotes required by accounting principles generally accepted in the United States of America (GAAP or U.S. GAAP) for complete financial statement presentation. 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, 2017.

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 nine months ended September 30, 2018 are not necessarily indicative of the results for the full year ending December 31, 2018.

(2) Significant Accounting Policies

Investments

Fixed maturities and other invested assets

Investment in debt securities at September 30, 2018 and December 31, 2017 consists mainly of obligations of government sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, municipal securities, corporate bonds, residential mortgage-backed securities, and collateralized mortgage obligations. The Company classifies its debt securities in one of two categories: available-for-sale or held-to-maturity. Securities classified as held-to-maturity are those securities in which the Company has the ability and intent to hold until maturity. All other securities not included in held-to-maturity are classified as available-for-sale.

Available-for-sale securities are recorded at fair value. The fair values of debt securities (both available-for-sale and held-to-maturity investments) are based on quoted market prices for those or similar investments at the reporting date. Held-to-maturity debt securities are recorded at amortized cost, adjusted for the amortization or accretion of premiums and discounts, respectively. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized. Realized gains and losses from the sale of available-for-sale securities are included in earnings and are determined on a specific identification basis.

Transfers of securities between categories are recorded at fair value at the date of transfer. Unrealized holding gains or losses associated with transfers of securities from held-to-maturity to available-for-sale are recorded as a separate component of other comprehensive income. The unrealized holding gains or losses included in the separate component of other comprehensive income for securities transferred from available-for-sale to held-to-maturity, are maintained and amortized into earnings over the remaining life of the security as an adjustment to yield in a manner consistent with the amortization or accretion of premium or discount on the associated security.

If a fixed maturity security is in an unrealized loss position and the Company has the intent to sell the fixed maturity security, or it is more likely than not that the Company will have to sell the fixed maturity security before recovery of its amortized cost basis, the decline in value is deemed to be other-than-temporary and is recorded to other-than-temporary impairment losses recognized in earnings in the Company's consolidated statements of earnings. For impaired fixed maturity securities that the Company does not intend to sell or it is more likely than not that such securities will not have to be sold, but the Company expects not to fully recover the amortized cost basis, the credit component of the other-than-temporary impairment is recognized in other-than-temporary impairment losses recognized in earnings in the Company's consolidated statements of earnings and the non-credit component of the other-than-temporary impairment is recognized in other comprehensive income. Furthermore, unrealized losses entirely caused by non-credit related factors related to fixed maturity securities for which the Company expects to fully recover the amortized cost basis continue to be recognized in accumulated other comprehensive income.

The credit component of an other-than-temporary impairment is determined by comparing the net present value of projected future cash flows with the amortized cost basis of the fixed maturity security. The net present value is calculated by discounting the Company's best estimate of projected future cash flows at the effective interest rate implicit in the fixed maturity security at the date of acquisition.

A decline in the fair value of any available-for-sale or held-to-maturity security below cost that is deemed to be other-than-temporary results in an impairment to reduce the carrying amount to fair value. The impairment is charged to earnings and a new cost basis for the security is established. To determine whether an impairment is other-than-temporary, the Company considers whether it has the ability and intent to hold the investment until a market price recovery and considers whether evidence indicating the cost of the investment is recoverable outweighs evidence to the contrary. Evidence considered in this assessment includes the reasons for the impairment, the severity and duration of the impairment, market conditions, changes in value subsequent to year-end, forecasted performance of the investee, and the general market condition in the geographic area or industry the investee operates in.

Premiums and discounts are amortized or accreted over the life of the related held-to-maturity or available-for-sale security as an adjustment to yield using the effective interest method. Dividend and interest income are recognized when earned.

The Company regularly invests in mortgaged-backed securities and other securities subject to prepayment and call risk. Significant changes in prevailing interest rates may adversely affect the timing and amount of cash flows on such securities. In addition, the amortization of market premium and accretion of market discount for mortgaged-backed securities is based on historical experience and estimates of future payment speeds on the underlying mortgage loans. Actual prepayment speeds may differ from original estimates and may result in material adjustments to amortization or accretion recorded in future periods.

Other invested assets at September 30, 2018 and December 31, 2017 consist mainly of alternative investments in partnerships which invest in several private debt and private equity funds. Portfolios are diversified by vintage year, stage, geography, business sectors and number of investments. These investments are not redeemable with the funds. Distributions from each fund are received as the underlying investments of the funds are liquidated. It is estimated that the underlying assets of the funds will be liquidated in the next 5 to 12 years. The fair values of the investments in this class have been estimated using the net asset value (NAV) of the Company's ownership interest in the partnerships. Total unfunded capital commitments for these positions as of September 30, 2018 amounted to $88,691. The remaining average commitments period is approximately three years.

Equity investments

Investment in equity securities at September 30, 2018 and December 31, 2017 consists of mutual funds whose underlying assets are comprised of domestic equity securities, international equity securities and higher risk fixed income instruments. Equity investments are recorded at fair value. The fair values of equity investments are based on quoted market prices. Unrealized holding gains and losses, on equity investments are included in earnings. Realized gains and losses from the sale of equity investments are included in earnings and are determined on a specific identification basis.

Recent Accounting Standards

On August 29, 2018, the Financial Accounting Standard Board (FASB) issued guidance for Intangibles – Goodwill and Other – Internal-Use Software. Guidance addresses customer's accounting for implemented costs incurred in a cloud computing arrangement that is a service contract and aims to reduce complexity in the accounting for costs of implementing a cloud computing service arrangement. The amendments require a customer in a hosting arrangement that is a service contract to determine which implementation costs to capitalize as an asset related to service contract and which costs to expense. Additionally, it requires the customer to expense the capitalized implementation costs over the term of the hosting arrangement. For public companies, these amendments, will be applied on a prospective basis, for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The adoption of this guidance should not have a material impact on the presentation of the Company's consolidated result of operations.

On August 28, 2018, the FASB issued guidance for Compensation – Retirement Benefits – Defined Benefit Plans – General which addresses changes to the disclosure requirement for defined benefit plans. The amendments in this guidance modify the disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. Specifically certain disclosure requirements are removed (i.e. the amounts of accumulated other comprehensive income expected to be recognized as components of net periodic benefit cost over the next fiscal year, related party disclosures concerning the amount of future annual benefits covered by an insurance and annuity contracts and significant transactions between the employer and related parties and the plan) while certain other disclosures are added (i.e. the weighted-average interest crediting rates for cash balance plans and other plans with promised interest crediting rates, an explanation for the reasons for significant gains and losses related to changes in the benefit obligation for the period). For public companies, these amendments, will be applied for fiscal years beginning after December 15, 2020. The adoption of this guidance should not have a material impact on the presentation of the Company's consolidated result of operations.

On August 27, 2018, the FASB issued guidance for Fair Value Measurement – Disclosure Framework – Changes to the Disclosure Requirement for Fair Value Measurement. This update focuses on improving the effectiveness of disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP that is most important to users of each entity's financial statements. Specifically certain disclosure requirements are removed (the amount of, and reasons for, transfer between Level 1 and Level 2 of the fair value hierarchy; the policy for timing of transfers between levels; the valuation processes for Level 3 fair value measurements) while it modifies and adds certain other disclosures (the changes in unrealized gains and losses for the period included in other comprehensive income for recurring Level 3 fair value measurements held at the end of the reporting period, and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements). The amendments regarding changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent period in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. For public companies, these amendments will be applied for fiscal years beginning after December 15, 2019. The adoption of this guidance should not have a material impact on the presentation of the Company's consolidated result of operations.

On August 15, 2018, the FASB issued guidance for Financial Services – Insurance: Targeted Improvements to the Accounting for Long-Duration Contracts which provides meaningful improvements to the existing revenue recognition, measurement, presentation, and disclosure requirements for long-duration contracts issued by an insurance entity. The amendments improve the timeliness of recognizing changes in the liability for future policy benefits and modify rate used to discount future cash flows, simplify and improve the accounting for certain market-based options or guarantees associated with deposit contracts, simplify the amortization of deferred acquisition costs, and improves the effectiveness of the required disclosures. Specifically, this guidance requires an insurance entity to review and update, if needed, the assumptions used to measure cash flows and discount rate at each reporting date, measure all market risk benefits associated with deposit and disclose liability rollforwards and information about significant inputs, judgments, assumptions, and methods used in measurement, including changes thereto and the effect of those changes on measurement. Additionally, the amendment simplifies the amortization of deferred acquisition costs and other balances amortized in proportion to premiums, gross profits, or gross margins, and requires that those balances be amortized on a constant level basis over the expected term of the related contracts. For public companies, these amendments will be applied for fiscal years beginning after December 15, 2020. We are currently evaluating the impact the adoption of this guidance may have on the Company’s consolidated financial statements.

On July 30, 2018 and July 18, 2018, the FASB issued the following guidance Leases – Targeted Improvement and Codification Improvement to Leases, respectively, to assist in the implementation of leases and address certain technical corrections and improvement to the recently issued lease standard. Leases – Targeted Improvement provides entities with an additional and optional transition method to adopt the new lease standard under which an entity initially applies the new leases standard at the adoption date and recognizes a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. It also provides lessors with a practical expedient, by class of underlying asset, to not separate non-lease components for the associated lease component. Codification: Improvement Leases addresses the following areas of correction or improvement (1) residual value guarantees, (2) rate implicit in the lease, (3) lessee reassessment of lease classification, (4) lessor reassessment of lease term and purchase option, (5) variable lease payments that depend on an index or a rate, (6) investment tax credits, (7) lease term and purchase option, (8) transition guidance for amounts previously recognized in business combinations, (9) certain transition adjustments, (10) transition guidance for leases previously classified as capital leases, (11) transition guidance for modification to leases previously classified as direct financing or sales-type leases, (12) transition guidance for sales and leaseback transactions; (13) impairment of net investment in the lease, (14) unguaranteed residual assets, (15) effect of initial direct costs on the rate implicit in the lease, and (16) failed sale and leaseback transactions. For public companies, these amendments will be applied for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. We expect the standard to have a significant impact on our consolidated balance sheet, but not in our consolidated statement of earnings. The most significant impact will be the recognition of right-of-use assets and lease liabilities for operating leases. The Company will adopt the standard in the first quarter of 2019 and is currently compiling an inventory of arrangements containing a lease and accumulating the lease data necessary to apply the amended guidance. In addition, the Company will implement updates to its control processes and procedures, as necessary, based on changes resulting from the new standard.

On July 16, 2018, the FASB issued guidance Codification Improvements which represents changes to clarify, correct errors in, or make minor improvements to the Codification. The change addresses conflicts or unclear intent in the following areas: (1) Comprehensive Income – Overall, (2) Debt – Modifications and Extinguishments, (3) Distinguishing Liabilities from Equity – Overall, (3) Compensation – Stock Compensation – Income Taxes, (4) Derivatives and Hedging – Overall – Other Presentation Matters, (5) Fair Value Measurement – Overall and (6) Financial Services – Brokers and Dealers – Liabilities and Financial Services – Depository and Lending. Some of the amendments in this update do not require transition guidance and are effective immediately. However, many of the amendments do have transition guidance, effective for public companies for annual periods beginning after December 15, 2018. We are currently evaluating the impact the adoption of this guidance may have on the Company's consolidated financial statements.

Recently Adopted Accounting Standards

On February 28, 2018, the FASB issued guidance for Technical Corrections and Improvement to Financial Instruments – Overall: Recognition and Measurement of Financial Assets and Financial Liabilities. Areas for correction or improvement include (1) equity securities without a readily determinable fair value—discontinuation, (2) equity securities without a readily determinable fair value—adjustments, (3) forward contracts and purchased options, (4) presentation requirements for certain fair value option liabilities, (5) fair value option liabilities denominated in a foreign currency, and (6) transition guidance for equity securities without a readily determinable fair value. For public companies, these amendments, became effective on a prospective basis, for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. Public entities with fiscal years beginning between December 15, 2017 and June 15, 2018 are not required to adopt these amendments until the interim period beginning after June 15, 2018. The Company adopted this guidance effective June 30, 2018. The adoption of this guidance did not have a material impact on the presentation of the Company's consolidated result of operations.

On January 5, 2016, the 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. The Company also adopted guidance issued by FASB on March 9, 2018 that removes the previous guidance for Other Than Temporary Impairment of Certain Investments in Equity Securities as required by SEC Staff Accounting Bulletin (SAB) No. 117 and SEC Release No. 33-9273, since it is no longer applicable. For public companies, these amendments became effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The Company adopted this guidance for equity securities effective January 1, 2018. A cumulative-effect adjustment of $39,882 was made from accumulated other comprehensive income to the beginning retained earnings at the implementation date.

Other than the accounting pronouncements disclosed above, there were no other new accounting pronouncements issued during the three months and nine months ended September 30, 2018 that could have a material impact on the

Corporation's financial position, operating results or financials statement disclosures.

(Dollar amounts in thousands, except per share data)

(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 the Company's investments in securities by major security type and class of security at September 30, 2018 and December 31, 2017, were as follows:

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Fixed maturities available for sale: | | | | |
| Obligations of government-sponsored enterprises | $ 11,460 | $ - | $ (130 ) | $ 11,330 |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 225,968 | 11 | (1,488 ) | 224,491 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 8,234 | - | (5 ) | 8,229 |
| Municipal securities | 679,796 | 13,967 | (4,521 ) | 689,242 |
| Corporate bonds | 213,048 | 9,525 | (1,007 ) | 221,566 |
| Residential mortgage-backed securities | 59,483 | - | (987 ) | 58,496 |
| Collateralized mortgage obligations | 11,054 | - | (358 ) | 10,696 |
| Total fixed maturities available for sale | $ 1,209,043 | $ 23,503 | $ (8,496 ) | $ 1,224,050 |

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Fixed maturities held to maturity: | | | | |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | $ 617 | $ 107 | $ - | $ 724 |
| Residential mortgage-backed securities | 190 | 3 | - | 193 |
| Certificates of deposit | 1,683 | - | - | 1,683 |
| Total | $ 2,490 | $ 110 | $ - | $ 2,600 |

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Equity investments - Mutual funds | $ 267,852 | $ 39,518 | $ (1,010 ) | $ 306,360 |

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| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Amortized cost | Gross unrealized gains | Gross unrealized losses | Estimated fair value |
| Other invested assets - Alternative investments | $71,479 | $ 1,950 | $ (302 ) | $ 73,127 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| Securities available for sale: | | | | |
| Fixed maturities: | | | | |
| Obligations of government-sponsored enterprises | $1,431 | $ 13 | $ - | $1,444 |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 118,858 | 41 | (550 ) | 118,349 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 8,059 | 34 | - | 8,093 |
| Municipal securities | 771,789 | 30,468 | (1,467 ) | 800,790 |
| Corporate bonds | 217,046 | 17,767 | (489 ) | 234,324 |
| Residential mortgage-backed securities | 32,465 | 2 | (355 ) | 32,112 |
| Collateralized mortgage obligations | 22,003 | 10 | (337 ) | 21,676 |
| Total fixed maturities | 1,171,651 | 48,335 | (3,198 ) | 1,216,788 |
| Equity securities: | | | | |
| Mutual funds | 292,460 | 50,072 | (223 ) | 342,309 |
| Alternative investments | 34,669 | 559 | (244 ) | 34,984 |
| Total equity securities | 327,129 | 50,631 | (467 ) | 377,293 |
| Total | $1,498,780 | $ 98,966 | $ (3,665 ) | $1,594,081 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | 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 | $617 | $ 154 | $ - | $ 771 |
| Residential mortgage-backed securities | 191 | 2 | - | 193 |
| Certificates of deposit | 1,511 | - | - | 1,511 |
| Total | $2,319 | $ 156 | $ - | $ 2,475 |

(Dollar amounts in thousands, except per share data)

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2018 and December 31, 2017 were as follows:

| | September 30, 2018 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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 |
| Fixed maturities available for sale: | | | | | | | | | |
| Obligations of government-sponsored enterprises | $11,330 | $(130) | 2 | $- | $- | - | $11,330 | $(130) | 2 |
| U.S. Treasury securities and obligations of U.S. governmental instrumentalities | 196,342 | (1,488) | 21 | - | - | - | 196,342 | (1,488) | 21 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 7,485 | (5) | 4 | - | - | - | 7,485 | (5) | 4 |
| Municipal securities | 306,834 | (3,727) | 56 | 23,631 | (794) | 2 | 330,465 | (4,521) | 58 |
| Corporate bonds | 128,028 | (1,007) | 44 | - | - | - | 128,028 | (1,007) | 44 |
| Residential mortgage-backed securities | 53,395 | (741) | 21 | 5,100 | (246) | 4 | 58,495 | (987) | 25 |
| Collateralized mortgage obligations | 6,333 | (148) | 2 | 4,115 | (210) | 1 | 10,448 | (358) | 3 |
| Total fixed maturities | $709,747 | $(7,246) | 150 | $32,846 | $(1,250) | 7 | $742,593 | $(8,496) | 157 |
| Other invested assets - Alternative investments | $13,460 | $(224) | 5 | $8,817 | $(78) | 2 | $22,277 | $(302) | 7 |

| | December 31, 2017 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 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: | | | | | | | | | |
| U.S. Treasury securities and obligations of U.S. | $96,617 | $(550) | 7 | $- | $- | - | $96,617 | $(550) | 7 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| governmental instrumentalities | | | | | | | | | |
| Municipal securities | 162,731 | (1,467 ) | 27 | - | - | - | 162,731 | (1,467 ) | 27 |
| Corporate bonds | 80,374 | (489 ) | 16 | - | - | - | 80,374 | (489 ) | 16 |
| Residential mortgage-backed securities | 31,736 | (355 ) | 19 | - | - | - | 31,736 | (355 ) | 19 |
| Collateralized mortgage obligations | 13,630 | (239 ) | 3 | 7,294 | (98 ) | 2 | 20,924 | (337 ) | 5 |
| Total fixed maturities | 385,088 | (3,100 ) | 72 | 7,294 | (98 ) | 2 | 392,382 | (3,198 ) | 74 |
| Equity securities: | | | | | | | | | |
| Mutual funds | 42,983 | (223 ) | 6 | - | - | - | 42,983 | (223 ) | 6 |
| Alternative investments | 9,986 | (212 ) | 5 | 3,162 | (32 ) | 1 | 13,148 | (244 ) | 6 |
| Total equity securities | 52,969 | (435 ) | 11 | 3,162 | (32 ) | 1 | 56,131 | (467 ) | 12 |
| Total for securities available for sale | $438,057 | $ (3,535 ) | 83 | $10,456 | $ (130 ) | 3 | $448,513 | $ (3,665 ) | 86 |

The Company reviews the available for sale and other invested assets portfolios under the Company’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 Company from time to time may sell investments as part of its asset/liability management process or to reposition its investment portfolio based on current and expected market conditions.

Obligations of Government-Sponsored Enterprises, U.S. Treasury Securities and Obligations of U.S. Government Instrumentalities, and Municipal Securities: The unrealized losses of these 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 Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

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

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

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: As of September 30, 2018, our holdings in Puerto Rico municipals consist of escrowed bonds. The Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows.

Alternative Investments: As of September 30, 2018, alternative investments 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. There were no impaired positions for the nine-month period ending September 30, 2018.

(Dollar amounts in thousands, except per share data)

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

| | September 30, 2018 | |
|---|---|---|
| | Amortized cost | Estimated fair value |
| Fixed maturities available for sale | | |
| Due in one year or less | $11,238 | $11,263 |
| Due after one year through five years | 400,523 | 398,067 |
| Due after five years through ten years | 419,705 | 418,411 |
| Due after ten years | 307,040 | 327,117 |
| Residential mortgage-backed securities | 59,483 | 58,496 |
| Collateralized mortgage obligations | 11,054 | 10,696 |
| | $1,209,043 | $1,224,050 |
| Fixed maturities held to maturity | | |
| Due in one year or less | 1,683 | 1,683 |
| Due after ten years | 617 | 724 |
| Residential mortgage-backed securities | 190 | 193 |
| | $2,490 | $2,600 |

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.

(Dollar amounts in thousands, except per share data)

Information regarding realized and unrealized gains and losses from investments is as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Realized gains (losses) | | | | |
| Fixed maturity securities: | | | | |
| Securities available for sale: | | | | |
| Gross gains | $ 587 | $ 933 | 2,099 | $ 1,334 |
| Gross losses | (2,892 ) | (194 ) | (13,695 ) | (830 ) |
| Total fixed securities | (2,305 ) | 739 | (11,596 ) | 504 |
| Equity investments: | | | | |
| Gross gains | 1,218 | 3,014 | 9,972 | 7,641 |
| Gross losses | (67 ) | - | (1,091 ) | (2 ) |
| Total equity investments | 1,151 | 3,014 | 8,881 | 7,639 |
| Other invested assets: | | | | |
| Gross gains | 311 | - | 4,104 | - |
| Gross losses | (113 ) | - | (324 ) | - |
| Total other invested assets | 198 | - | 3,780 | - |
| Net realized investment (losses) gains | $ (956 ) | $ 3,753 | $ 1,065 | $ 8,143 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Changes in net unrealized (losses) gains: | | | | |
| Recognized in accumulated other comprehensive (loss) income: | | | | |
| Fixed maturities – available for sale | $ (8,873 ) | $ (1,199 ) | $ (30,130 ) | $ 1,614 |
| Other invested assets | 894 | 3,605 | 1,333 | 17,516 |
| | $ (7,979 ) | $ 2,406 | $ (28,797 ) | $ 19,130 |
| Not recognized in the consolidated financial statements: | | | | |
| Fixed maturities – held to maturity | $ (13 ) | $ (2 ) | $ (46 ) | $ (10 ) |

The change in deferred tax liability on unrealized gains recognized in accumulated other comprehensive (loss) income during the nine months ended September 30, 2018 and 2017 was $7,980 and $4,503, respectively.

As of September 30, 2018 and December 31, 2017, no individual investment in securities exceeded 10% of stockholders' equity.

(Dollar amounts in thousands, except per share data)

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net were as follows:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Premium | $ 73,624 | $ 103,027 |
| Self-funded group receivables | 34,851 | 39,859 |
| FEHBP | 13,670 | 13,346 |
| Agent balances | 26,076 | 32,818 |
| Accrued interest | 12,243 | 14,331 |
| Reinsurance recoverable | 428,298 | 661,679 |
| Other | 84,460 | 70,150 |
| | 673,222 | 935,210 |
| Less allowance for doubtful receivables: | | |
| Premium | 31,379 | 26,490 |
| Other | 8,946 | 9,393 |
| | 40,325 | 35,883 |
| Total premium and other receivables, net | $ 632,897 | $ 899,327 |

As of September 30, 2018 and December 31, 2017, the Company had premiums and other receivables of $52,170 and $81,838, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of September 30, 2018 and December 31, 2017 were $19,614 and $16,436, respectively.

(Dollar amounts in thousands, except per share data)

(5) Fair Value Measurements

Our condensed consolidated balance sheets include the following financial instruments: securities available for sale, equity investments, policy loans, policyholder deposits, and long-term borrowings. We consider the carrying amounts of policy loans, policyholder deposits, and long-term borrowings to approximate their fair value due to the short period of time between the origination of these instruments and the expected realization or payment. Certain assets are measured at fair value on a recurring basis and are disclosed below. These assets are classified into one of three levels of a hierarchy defined by GAAP. For a description of the methods and assumptions that are used to estimate the fair value and determine the fair value hierarchy classification of each class of financial instrument, see the consolidated financial statements and notes thereto included in our 2017 Annual Report on Form 10-K.

The following tables summarize fair value measurements by level for assets measured at fair value on a recurring basis:

| | September 30, 2018 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Fixed maturity securities available for sale: | | | | |
| Obligations of government-sponsored enterprises | $- | $11,330 | $ - | $11,330 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 224,491 | - | - | 224,491 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 8,229 | - | 8,229 |
| Municipal securities | - | 689,242 | - | 689,242 |
| Corporate bonds | - | 221,566 | - | 221,566 |
| Residential agency mortgage-backed securities | - | 58,496 | - | 58,496 |
| Collateralized mortgage obligations | - | 10,696 | - | 10,696 |
| Total fixed maturities | 224,491 | 999,559 | - | 1,224,050 |
| Equity investments | $143,638 | $162,722 | $ - | $306,360 |

| | December 31, 2017 | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| Securities available for sale: | | | | |
| Fixed maturity securities: | | | | |
| Obligations of government-sponsored enterprises | $- | $1,444 | $ - | $1,444 |
| U.S. Treasury securities and obligations of U.S government instrumentalities | 118,349 | - | - | 118,349 |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | - | 8,093 | - | 8,093 |
| Municipal securities | - | 800,790 | - | 800,790 |
| Corporate bonds | - | 234,324 | - | 234,324 |

| | | | | |
|---|---|---|---|---|
| Residential agency mortgage-backed securities | - | 32,112 | - | 32,112 |
| Collateralized mortgage obligations | - | 21,676 | - | 21,676 |
| Total fixed maturities | 118,349 | 1,098,439 | - | 1,216,788 |
| Equity securities - Mutual funds | 193,160 | 149,149 | - | 342,309 |
| Alternative investments - measured at net asset value | - | - | - | 34,984 |
| Total equity securities | 193,160 | 149,149 | - | 377,293 |
| Total | $311,509 | $1,247,588 | $ - | $1,594,081 |

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Triple-S Management Corporation
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There were no transfers between Levels 1 and 2 during the three months and nine months ended September 30, 2018 and 2017.

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 September 30, 2018 and December 31, 2017 are as follows:

| | September 30, 2018 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value | | | |
| | Value | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Policy loans | $9,680 | $- | $9,680 | $ - | $9,680 |
| | | | | | |
| Liabilities: | | | | | |
| Policyholder deposits | $174,126 | $- | $174,126 | $ - | $174,126 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 29,924 | - | 29,924 | - | 29,924 |
| Total liabilities | $204,050 | $- | $204,050 | $ - | $204,050 |

| | December 31, 2017 | | | | |
|---|---|---|---|---|---|
| | Carrying | Fair Value | | | |
| | Value | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | | |
| Policy loans | $9,077 | $- | $9,077 | $ - | $9,077 |
| | | | | | |
| Liabilities: | | | | | |
| Policyholder deposits | $176,534 | $- | $176,534 | $ - | $176,534 |
| Long-term borrowings: | | | | | |
| Loans payable to bank - variable | 32,350 | - | 32,350 | - | 32,350 |
| Total liabilities | $208,884 | $- | $208,884 | $ - | $208,884 |

(Dollar amounts in thousands, except per share data)

(6) Claim Liabilities

A reconciliation of the beginning and ending balances of claim liabilities is as follows:

| | Nine months ended September 30, 2018 | | |
|---|---|---|---|
| | Managed Care | Other Business Segments * | Consolidated |
| Claim liabilities at beginning of period | $ 367,357 | $ 739,519 | $ 1,106,876 |
| Reinsurance recoverable on claim liabilities | - | (633,099 ) | (633,099 ) |
| Net claim liabilities at beginning of period | 367,357 | 106,420 | 473,777 |
| Claims incurred: | | | |
| Current period insured events | 1,764,038 | 80,774 | 1,844,812 |
| Prior period insured events | (30,404 ) | 122,951 | 92,547 |
| Total | 1,733,634 | 203,725 | 1,937,359 |
| Payments of losses and loss-adjustment expenses: | | | |
| Current period insured events | 1,438,611 | 40,317 | 1,478,928 |
| Prior period insured events | 249,073 | 40,621 | 289,694 |
| Total | 1,687,684 | 80,938 | 1,768,622 |
| Net claim liabilities at end of period | 413,307 | 229,207 | 642,514 |
| Reinsurance recoverable on claim liabilities | - | 395,600 | 395,600 |
| Claim liabilities at end of period | $ 413,307 | $ 624,807 | $ 1,038,114 |

* Other Business Segments include the Life Insurance and Property and Casualty segments, as well as intersegment eliminations.

(Dollar amounts in thousands, except per share data)

| | Nine months ended September 30, 2017 | | |
|---|---|---|---|
| | Managed Care | Other Business Segments * | Consolidated |
| Claim liabilities at beginning of period | $ 349,047 | $ 138,896 | $ 487,943 |
| Reinsurance recoverable on claim liabilities | - | (38,998 ) | (38,998 ) |
| Net claim liabilities at beginning of period | 349,047 | 99,898 | 448,945 |
| Claims incurred: | | | |
| Current period insured events | 1,724,890 | 95,227 | 1,820,117 |
| Prior period insured events | (19,158 ) | (5,920 ) | (25,078 ) |
| Total | 1,705,732 | 89,307 | 1,795,039 |
| Payments of losses and loss-adjustment expenses: | | | |
| Current period insured events | 1,456,098 | 38,222 | 1,494,320 |
| Prior period insured events | 242,384 | 35,325 | 277,709 |
| Total | 1,698,482 | 73,547 | 1,772,029 |
| Net claim liabilities at end of period | 356,297 | 115,658 | 471,955 |
| Reinsurance recoverable on claim liabilities | - | 636,743 | 636,743 |
| Claim liabilities at end of period | $ 356,297 | $ 752,401 | $ 1,108,698 |

* Other Business Segments include the Life Insurance and Property and Casualty segments, as well as intersegment eliminations.

The actual amounts of claims incurred in connection with insured events occurring in a prior period typically differ from estimates of such claims made in the prior period. Amounts included as incurred claims for prior period insured events reflect the aggregate net amount of these differences.

The unfavorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2018 is driven by an adverse development of approximately $128,707, in losses related to Hurricane Maria, offset by better than expected utilization trends in the Managed Care segment. The favorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2017 are due primarily to better than expected utilization trends in the Managed Care segment. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying condensed consolidated financial statements. Claim liabilities as of September 30, 2018 include approximately $488,180 related to the impact of Hurricane María, which made landfall in Puerto Rico in September 2017.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to $22,348 during the nine months ended September 30, 2018. The change in the liability for future policy benefits during the nine months ended September 30, 2017 amounted to $20,746.

(Dollar amounts in thousands, except per share data)

The following is information about total incurred but not reported (IBNR) liabilities plus expected development on reported claims included in the liability for unpaid claims adjustment expenses for the Managed Care segment as of September 30, 2018.

| Incurred Year | Total of IBNR Liabilities Plus Expected Development on Reported Claims |
|---|---|
| 2017 | $ 11,965 |
| 2018 | 325,427 |

(7) Pension Plan

The components of net periodic benefit cost were as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Components of net periodic benefit cost: | | | | |
| Interest cost | $ 1,713 | $ 1,652 | $ 5,099 | $ 5,248 |
| Expected return on assets | (2,255) | (2,021) | (6,817) | (6,419) |
| Amortization of actuarial loss | 240 | 79 | 670 | 251 |
| Settlement loss | 395 | 580 | 1,045 | 1,211 |
| Net periodic benefit cost | $ 93 | $ 290 | $ (3) | $ 291 |

Employer Contributions: The Company disclosed in its audited consolidated financial statements for the year ended December 31, 2017 that it expected to contribute $2,000 to the pension program in 2018. As of September 30, 2018, the Company has contributed $2,000 to the pension program.

(8) Reinsurance

Triple-S Propiedad, Inc. (TSP) uses facultative reinsurance, pro rata, and excess of loss reinsurance treaties to manage its exposure to losses, including those from catastrophe events. TSP has geographic exposure to catastrophe losses from hurricanes and earthquakes. The incidence and severity of catastrophes are inherently unpredictable. Under these treaties, TSP ceded premiums written were $12,658 and $13,370 for the three months ended September 30, 2018 and 2017, respectively, and $40,124 and $40,091 for the nine months ended September 30, 2018, and 2017, respectively. During the nine months ended September 30, 2018 and 2017, TSP ceded claims incurred amounting to $153,707 and $603,893, respectively, related to losses caused by Hurricanes Irma and Maria.

Principal reinsurance agreements are as follows:

- Casualty excess of loss treaty provides reinsurance for losses up to $12,000, subject to a retention of $225.

· Medical malpractice excess of loss treaty provides reinsurance for losses up to $3,000, subject to a retention of $150.

· Property reinsurance treaty includes proportional cessions and a per risk excess of loss contract limiting losses to $350 in $30,000 risks.

· Catastrophe protection is purchased limiting losses to $10,000 per event with losses up to approximately $915,000.

(Dollar amounts in thousands, except per share data)

All principal reinsurance contracts are for a period of one year and are subject to modifications and negotiations in each renewal. TSP's current property and catastrophe reinsurance program was renewed effective April 1, 2018 for a twelve months period ending March 31, 2019. Other contracts were renewed as expiring on January 1, 2018.

(9) Income Taxes

The net deferred tax asset at September 30, 2018 and December 31, 2017 of the Company and its subsidiaries is composed of the following:

| | September 30, 2018 | December 31, 2017 |
|---|---|---|
| Deferred tax assets | | |
| Gross deferred tax assets | $ 127,563 | $ 87,058 |
| Less: valuation allowance | (12,696) | (8,283) |
| Deferred tax assets | 114,867 | 78,775 |
| | | |
| Deferred tax liabilities | | |
| Gross deferred tax liabilities | (34,485) | (35,543) |
| Net deferred tax asset | $ 80,382 | $ 43,232 |

The net deferred tax asset shown in the table above at September 30, 2018 and December 31, 2017 is reflected in the consolidated balance sheets as $83,593 and $65,123, respectively, in deferred tax assets and $3,210 and $21,891, in deferred tax liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company, because under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries.

At September 30, 2018, the Company and its subsidiaries have net operating loss carry-forwards for Puerto Rico income tax purposes of approximately $169,000, which are available to offset future taxable income for up to December 2028. The carryforwards generally expire in 2026 through 2028. The valuation allowance is mostly related to the net operating losses generated by the Company's U.S. Virgin Islands (USVI), the health's clinic's operations, and the Property and Casualty segment losses related to hurricane Maria that based on the available evidence are not considered to be realizable at the reporting dates. Except for the valuation allowance, the Company concluded that as of September 30, 2018, it is more likely than not that the entities that have these net operating loss carry-forwards will generate sufficient taxable income within the applicable net operating loss carry-forward periods to realize its deferred tax asset. This conclusion is based on the historical results of each entity, adjusted to exclude non-recurring conditions, and the forecast of future profitability. Management will continue to evaluate, on a quarterly basis, if there are any significant events that will affect the Company's ability to utilize these deferred tax assets.

(Dollar amounts in thousands, except per share data)

(10) Comprehensive Income (Loss)

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

| | Three months ended September 30, 2018 | 2017 | Nine months ended September 30, 2018 | 2017 |
|---|---|---|---|---|
| Net Unrealized Gain on Securities Beginning Balance | $ 21,260 | $ 75,239 | $ 76,238 | $ 62,371 |
| Unrealized loss reclassified to beginning retained earnings as a result of implementation new accounting pronouncement | - | - | (39,882) | - |
| Other comprehensive (loss) income before reclassifications | (6,981) | 4,853 | (20,460) | 21,233 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 765 | (3,002) | (852) | (6,514) |
| Net current period change | (6,216) | 1,851 | (21,312) | 14,719 |
| Ending Balance | 15,044 | 77,090 | 15,044 | 77,090 |
| Liability for Pension Benefits Beginning Balance | (24,722) | (19,870) | (24,984) | (19,976) |
| Amounts reclassified from accumulated other comprehensive income | 147 | 48 | 409 | 154 |
| Ending Balance | (24,575) | (19,822) | (24,575) | (19,822) |
| Accumulated Other Comprehensive (Loss) Income Beginning Balance | (3,462) | 55,369 | 51,254 | 42,395 |
| Unrealized loss reclassified to beginning retained earnings as the result of implementing new accounting pronouncement | - | - | (39,882) | - |
| Other comprehensive (loss) income before reclassifications | (6,981) | 4,853 | (20,460) | 21,233 |
| Amounts reclassified from accumulated other comprehensive income (loss) | 912 | (2,954) | (443) | (6,360) |
| Net current period change | (6,069) | 1,899 | (20,903) | 14,873 |
| Ending Balance | $ (9,531) | $ 57,268 | $ (9,531) | $ 57,268 |

(11) 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 August 2017, the Company’s Board of Directors authorized a $30,000 repurchase program of its Class B common stock, and in February 2018 the Company’s Board of Directors authorized a $25,000 expansion of this program. During the three months ended September 30, 2018, the Company repurchased and retired under this program 259,925 shares at an average per share price of $23.06, for an aggregate cost of $5,995. During the nine months ended September 30, 2018, the Company repurchased and retired under this program 903,888 shares at an average per share price of $24.76, for an aggregate cost of $22,390.

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**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 ended September 30, 2018 and 2017 was $919 and $1,481, respectively. Share-based compensation expense recorded during the nine months ended September 30, 2018 and 2017 was $3,462 and $1,651, respectively. During the nine months ended September 30, 2018, 24,796 shares were repurchased and retired as the result of non-cash tax withholdings upon vesting of shares. There were no non-cash tax withholdings during the nine months ended September 30, 2017.

(13) Net (Loss) Income Available to Stockholders and Net (Loss) Income per Share

The following table sets forth the computation of basic and diluted earnings per share:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| Numerator for earnings per share: | | | | |
| Net (loss) income attributable to TSM available to stockholders | $(17,567) | $21,912 | $(52,400) | $30,275 |
| Denominator for basic earnings per share: | | | | |
| Weighted average of common shares | 22,895,582 | 24,142,192 | 23,058,754 | 24,177,344 |
| Effect of dilutive securities | - | | | |