TRIPLE-S MANAGEMENT CORP
Form 10-Q
May 06, 2014

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

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

For the quarterly period ended March 31, 2014
or
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

COMMISSION FILE NUMBER: 001-33865

TRIPLE-S MANAGEMENT CORPORATION

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
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). þ 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, 2014
Common Stock Class A, $1.00 par value	2,377,689
Common Stock Class B, $1.00 par value	24,907,272

TRIPLE-S MANAGEMENT CORPORATION

FORM 10-Q

For the Quarter Ended March 31, 2014

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Part I – Financial Information

Item 1. Financial Statements

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

	March 31, 2014	December 31, 2013
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	$1,089,479	$1,055,874
Equity securities	232,728	239,933
Securities held to maturity, at amortized cost:		
Fixed maturities	6,261	6,139
Policy loans	6,734	6,705
Cash and cash equivalents	84,728	74,356
Total investments and cash	1,419,930	1,383,007
Premiums and other receivables, net	304,252	274,939
Deferred policy acquisition costs and value of business acquired	177,066	177,289
Property and equipment, net	87,340	89,086
Deferred tax asset	31,836	33,519
Goodwill	25,397	25,397
Other assets	78,552	64,387
Total assets	$2,124,373	$2,047,624
Liabilities and Stockholders' Equity		
Claim liabilities	$446,710	$420,421
Liability for future policy benefits	311,338	304,363
Unearned premiums	78,730	87,362
Policyholder deposits	115,561	115,923
Liability to Federal Employees' Health Benefits Program (FEHBP)	5,021	8,148
Accounts payable and accrued liabilities	186,426	161,422
Deferred tax liability	23,045	20,783
Long-term borrowings	88,804	89,302
Liability for pension benefits	56,046	54,697
Total liabilities	1,311,681	1,262,421
Stockholders' equity:		
Triple-S Management Corporation stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 2,377,689 at March 31, 2014 and December 31, 2013, respectively	2,378	2,378
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 24,907,272 and 25,091,277 shares at March 31, 2014 and December 31, 2013, respectively	24,907	25,091
Additional paid-in capital	127,909	130,098
Retained earnings	602,640	595,685
Accumulated other comprehensive income	55,062	32,129
Total Triple-S Management Corporation stockholders' equity	812,896	785,381

Non-controlling interest in consolidated subsidiary	(204)	(178)
Total stockholders' equity	812,692	785,203
Total liabilities and stockholders’ equity	$2,124,373	$2,047,624

See accompanying notes to unaudited consolidated financial statements.

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

	Three months ended March 31,	
	2014	2013
Revenues:		
Premiums earned, net	$541,852	$549,961
Administrative service fees	29,750	27,110
Net investment income	11,351	11,367
Other operating revenues	1,494	1,187
Total operating revenues	584,447	589,625
Net realized investment gains	126	1,888
Other income, net	246	481
Total revenues	584,819	591,994
Benefits and expenses:		
Claims incurred	449,107	452,000
Operating expenses	125,367	114,865
Total operating costs	574,474	566,865
Interest expense	2,305	2,384
Total benefits and expenses	576,779	569,249
Income before taxes	8,040	22,745
Income tax expense (benefit):		
Current	1,527	5,463
Deferred	(416)	99
Total income taxes	1,111	5,562
Net income	6,929	17,183
Less: Net loss attributable to non-controlling interest	26	55
Net income attributable to Triple-S Management Corporation	$6,955	$17,238
Earnings per share attributable to Triple-S Management Corporation		
Basic net income per share	$0.26	$0.61
Diluted net income per share	$0.25	$0.61

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,	
	2014	2013
Net income	$6,929	$17,183
Other comprehensive income (loss), net of tax:		
Net unrealized change in fair value of available for sale securities, net of taxes	22,302	6,642
Defined benefit pension plan:		
Actuarial loss, net	705	1,249
Prior service credit, net	(74)	(79)
Total other comprehensive income, net of tax	22,933	7,812
Comprehensive income	29,862	24,995
Comprehensive income attributable to non-controlling interest	26	55
Comprehensive income attributable to Triple-S Management Corporation	$29,888	$25,050

See accompanying notes to unaudited consolidated financial statements.

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

	2014	2013
Balance at January 1	$785,381	$761,907
Share-based compensation	625	678
Repurchase and retirement of common stock	(2,998)	-
Net current period change in comprehensive income	29,888	25,050
Total Triple-S Management Corporation stockholders' equity	812,896	787,635
Non-controlling interest in consolidated subsidiary	(204)	185
Balance at March 31	$812,692	$787,820

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, 2014	2013
Cash flows from operating activities:		
Net income	$6,929	$17,183
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,105	6,259
Net amortization of investments	1,429	1,467
Provision for doubtful receivables, net	1,830	2,772
Deferred tax expense (benefit)	(416)	99
Net realized investment gain on sale of securities	(126)	(1,888)
Share-based compensation	625	678
(Increase) decrease in assets:		
Premium and other receivables, net	(29,463)	(2,578)
Deferred policy acquisition costs and value of business acquired	223	874
Other deferred taxes	57	1
Other assets	(15,844)	1,549
Increase (decrease) in liabilities:		
Claim liabilities	26,289	(2,794)
Liability for future policy benefits	6,975	4,928
Unearned premiums	(8,632)	(9,538)
Policyholder deposits	840	779
Liability to FEHBP	(3,127)	(1,722)
Accounts payable and accrued liabilities	28,775	13,096
Net cash provided by operating activities	21,469	31,165

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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,	
	2014	2013
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$53,701	$15,904
Fixed maturities matured/called	12,758	29,775
Equity securities sold	27,632	9,246
Securities held to maturity:		
Fixed maturities matured/called	124	-
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(80,146)	(31,023)
Equity securities	(17,123)	(76,095)
Securities held to maturity:		
Fixed maturities	(250)	-
Other investments	(128)	(106)
Net outflows from policy loans	(29)	(97)
Net capital expenditures	(1,917)	(6,130)
Net cash used in investing activities	(5,378)	(58,526)
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(1,021)	20,521
Repayments of short-term borrowings	-	(21,500)
Repayments of long-term borrowings	(498)	(493)
Repurchase and retirement of common stock	(2,998)	-
Proceeds from policyholder deposits	1,344	3,020
Surrenders of policyholder deposits	(2,546)	(1,156)
Net cash (used in) provided by financing activities	(5,719)	392
Net increase (decrease) in cash and cash equivalents	10,372	(26,969)
Cash and cash equivalents:		
Beginning of period	74,356	89,564
End of period	$84,728	$62,595

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 Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2013.

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

(2) Recent Accounting Standards

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. We adopted the provisions of this guidance on January 1, 2014 and recorded a liability in the consolidated accounts payable and accrued liabilities in the first quarter of 2014 of approximately $28,500 representing an estimate of the fee for 2014. A corresponding deferred cost was recorded in the consolidated other assets. The Corporation will update this estimate for any adjustment in subsequent quarters. During the three months ended March 31, 2014, approximately $7,100 of the deferred cost was recognized within the consolidated operating expenses; the remainder will be recognized on a straight-line basis over the balance of 2014. For federal income tax purposes, the fee is treated as an excise tax, for which no deduction is allowed under the Internal Revenue Code.

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

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

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months ended March 31, 2014 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Segment Information

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

The following tables summarize the operations by reportable segment for the three months ended March 31, 2014 and 2013:

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(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended March 31,	
	2014	2013
Operating revenues:		
Managed Care:		
Premiums earned, net	$483,686	$493,468
Administrative service fees	29,750	27,110
Intersegment premiums/service fees	1,337	1,407
Net investment income	3,704	3,921
Total managed care	518,477	525,906
Life Insurance:		
Premiums earned, net	34,864	31,727
Intersegment premiums	105	112
Net investment income	5,654	5,295
Total life insurance	40,623	37,134
Property and Casualty Insurance:		
Premiums earned, net	23,302	24,766
Intersegment premiums	153	153
Net investment income	1,924	1,975
Total property and casualty insurance	25,379	26,894
Other segments: *		
Intersegment service revenues	1,714	3,198
Operating revenues from external sources	1,494	1,187
Total other segments	3,208	4,385
Total business segments	587,687	594,319
TSM operating revenues from external sources	39	140
Elimination of intersegment premiums/service fees	(1,595)	(1,672)
Elimination of intersegment service revenues	(1,714)	(3,198)
Other intersegment eliminations	30	36
Consolidated operating revenues	$584,447	$589,625

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

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

	Three months ended March 31,	
	2014	2013
Operating income:		
Managed care	$4,122	$20,495
Life insurance	5,214	4,042
Property and casualty insurance	697	384
Other segments *	(365)	(533)
Total business segments	9,668	24,388
TSM operating revenues from external sources	39	140
TSM unallocated operating expenses	(2,163)	(3,967)
Elimination of TSM intersegment charges	2,429	2,199
Consolidated operating income	9,973	22,760
Consolidated net realized investment gains	126	1,888
Consolidated interest expense	(2,305)	(2,384)
Consolidated other income, net	246	481
Consolidated income before taxes	$8,040	$22,745
Depreciation and amortization expense:		
Managed care	$4,285	$5,439
Life insurance	223	205
Property and casualty insurance	123	136
Other segments*	258	262
Total business segments	4,889	6,042
TSM depreciation expense	216	217
Consolidated depreciation and amortization expense	$5,105	$6,259

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

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(Unaudited)

	March 31, 2014	December 31, 2013
Assets:		
Managed care	$985,450	$934,467
Life insurance	718,240	698,650
Property and casualty insurance	348,091	346,212
Other segments *	27,389	28,407
Total business segments	2,079,170	2,007,736
Unallocated amounts related to TSM:		
Cash, cash equivalents, and investments	28,347	28,316
Property and equipment, net	21,062	21,278
Other assets	26,026	26,406
	75,435	76,000
Elimination entries-intersegment receivables and others	(30,232)	(36,112)
Consolidated total assets	$2,124,373	$2,047,624

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

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(Dollar amounts in thousands, except per share data)

(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, 2014 and December 31, 2013, were as follows:

	March 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government- sponsored enterprises	$ 123,439	$ 1,328	$ (303)	$ 124,464
U.S. Treasury securities and obligations of U.S. government instrumentalities	38,047	946	-	38,993
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	48,686	563	(2,216)	47,033
Municipal securities	574,272	32,334	(1,001)	605,605
Corporate bonds	168,536	13,912	(631)	181,817
Residential mortgage-backed securities	6,766	346	-	7,112
Collateralized mortgage obligations	81,584	2,979	(108)	84,455
Total fixed maturities	1,041,330	52,408	(4,259)	1,089,479
Equity securities-Mutual funds	177,496	55,282	(50)	232,728
Total	$ 1,218,826	$ 107,690	$ (4,309)	$ 1,322,207

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(Dollar amounts in thousands, except per share data)
(Unaudited)

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

	March 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Obligations of government-sponsored enterprises	$1,793	$ 8	$ -	$ 1,801
U.S. Treasury securities and obligations of U.S. government instrumentalities	622	145	-	767
Residential mortgage-backed securities	217	19	-	236
Certificates of deposit	3,629	-	-	3,629
Total	$6,261	$ 172	$ -	$ 6,433

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

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

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

	March 31, 2014								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Obligations of government-sponsored enterprises	$69,932	$(303)	5	$-	$-	-	$69,932	$(303)	5
Obligations of government-Commonwealth of Puerto Rico and its instrumentalities	17,219	(2,216)	9	-	-	-	17,219	(2,216)	9
Municipal securities	87,700	(1,001)	21	-	-	-	87,700	(1,001)	21
Corporate bonds	59,492	(497)	18	5,810	(134)	1	65,302	(631)	19
Collateralized mortgage obligations	2,913	(4)	1	8,784	(104)	3	11,697	(108)	4
Total fixed maturities	237,256	(4,021)	54	14,594	(238)	4	251,850	(4,259)	58
Equity securities-Mutual funds	5,450	(50)	1	-	-	-	5,450	(50)	1
Total for securities available for sale	$242,706	$(4,071)	55	$14,594	$(238)	4	$257,300	$(4,309)	59

(Dollar amounts in thousands, except per share data)

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

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

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

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

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

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

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

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

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

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

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of $22,166 and an unrealized gain of $224, (2) Cofina bonds with a fair value of $22,251 and an unrealized gain and loss of $304 and $2,080, respectively, and (3) bonds of various other Puerto Rico issuers with a fair value of $2,616 and an unrealized gain and loss of $35 and $136, respectively. Escrowed bonds are backed by U.S. Government securities and therefore have an implicit AA+/Aaa rating. Cofina bonds, issued by the Sales Tax Financing Corporation, are senior lien and are rated AA-/Baa1. Other Puerto Rico holdings with a total fair value of $1,804 are rated below investment grade.

The Cofina or sales tax bonds are secured by a 7% sales tax levied on the island, of which 1.5% goes to municipalities. Of the remaining 5.5%, the larger of 3.50% or a base amount is pledged to the sales tax bonds. The percentage pledged to the sales tax bonds was increased in October 2013 from 2.75% to 3.50%. Both senior lien and subordinated sales tax bonds are outstanding; our positions are senior lien bonds. In terms of flow of funds, the 5.5% remaining revenue is first used for debt service on the senior lien bonds, then for debt service on the subordinated bonds and the excess flows into the General Fund.

Cofina senior bonds are rated AA- by Standard & Poor's. S&P revised its outlook from stable to negative on September 30, 2013, based on declining economic and population trends. S&P notes that debt service coverage remains strong in the short term, particularly after the recent legislated expansion of the sales tax base. However, growth in sales tax revenues is still needed to maintain high annual debt service coverage for first-lien bonds. This links the credit quality of the sales tax bonds to the financial and economic condition of the Commonwealth of Puerto Rico ("Commonwealth") as a whole.

Moody's downgraded Cofina senior bonds to Baa1 on February 7, 2014 and maintained a negative outlook. The downgrade reflects the weak economy of the Commonwealth and limited growth in sales tax revenues. Moody's notes that measures have been taken to stabilize the fiscal situation, but economic recovery prospects remain weak. The current four notch rating differential between General Obligation bonds (Ba2) and Cofina Senior bonds (Baa1) reflects Moody's view of a strong legal separation between the two credits.

The bonds of various other Puerto Rico issuers, which are mentioned above, consist of Cofina subordinated lien (A+ negative outlook, Baa2 negative outlook), General Obligation bonds insured by National Public Finance Guarantee (A stable outlook, Baa1 positive outlook), Government Development Bank notes (BB negative watch, Ba2 negative outlook) and PREPA notes (BBB negative outlook, Ba2 negative outlook).

The Corporation does not consider these positions other-than-temporarily impaired because the Corporation does not have the intent to sell these investments, and it is not more likely than not that the Corporation will be required to sell the investments before recovery of its amortized cost bases (which may be maturity); because the positions have been at an unrealized loss for a short period of time (less than 6 months); because the unrealized loss is partially due to market conditions; because most positions have an investment grade rating; and because the Corporation expects to collect all contractual cash flows.

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

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

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

Mutual Funds: As of March 31, 2014, investments in mutual funds with unrealized losses are not considered other-than-temporarily impaired because the funds have been in an unrealized loss position for less than six months.

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Maturities of investment securities classified as available for sale and held to maturity at March 31, 2014 were as follows:

	March 31, 2014	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$57,470	$58,066
Due after one year through five years	308,160	314,248
Due after five years through ten years	106,689	112,097
Due after ten years	480,661	513,501
Residential mortgage-backed securities	6,766	7,112
Collateralized mortgage obligations	81,584	84,455
	$1,041,330	$1,089,479
Securities held to maturity:		
Due in one year or less	$3,629	$3,629
Due after five years through ten years	1,793	1,801
Due after ten years	622	767
Residential mortgage-backed securities	217	236
	$6,261	$6,433

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

Information regarding realized and unrealized gains and losses from investments for the three months ended March 31, 2014 and 2013 is as follows:

	Three months ended March 31,	
	2014	2013
Realized gains (losses):		
Fixed maturity securities:		
Securities available for sale:		
Gross gains from sales	$1,323	$994
Gross losses from sales	(1,845)	(185)
Total debt securities	(522)	809
Securities available for sale:		
Gross gains from sales	1,919	1,100
Gross losses from sales	(1,271)	(21)
Total equity securities	648	1,079
Net realized gains on securities	$126	$1,888

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	Three months ended March 31,	
	2014	2013
Changes in net unrealized gains (losses):		
Recognized in accumulated other comprehensive income:		
Fixed maturities – available for sale	$23,755	$(4,212)
Equity securities – available for sale	2,655	12,024
	$26,410	$7,812
Not recognized in the consolidated financial statements:		
Fixed maturities – held to maturity	$2	$(30)

The deferred tax liability on unrealized gains change recognized in accumulated other comprehensive income during the three months ended March 31, 2014 and 2013 was $4,108 and $1,170, respectively.

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

The components of net investment income were as follows:

	Three months ended March 31,	
	2014	2013
Fixed maturities	$9,670	$9,319
Equity securities	1,346	1,718
Policy loans	125	114
Cash equivalents and interest-bearing deposits	12	28
Other	198	188
Total	$11,351	$11,367

(5) Premiums and Other Receivables, Net

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

	March 31, 2014	December 31, 2013
Premiums	$123,999	$108,963
Self-funded group receivables	63,162	55,598
FEHBP	12,486	11,804
Agent balances	26,105	27,655
Accrued interest	10,512	11,879

Reinsurance recoverable	52,186	46,116
Other	39,181	34,473
	327,631	296,488
Less allowance for doubtful receivables:		
Premiums	16,265	14,403
Other	7,114	7,146
	23,379	21,549
Total premiums and other receivables, net	$304,252	$274,939

(Dollar amounts in thousands, except per share data)

(6) Claim Liabilities

The activity in the total claim liabilities for the three months ended March 31, 2014 and 2013 is as follows:

	Three months ended March 31,	
	2014	2013
Claim liabilities at beginning of period	$420,421	$416,918
Reinsurance recoverable on claim liabilities	(37,557)	(39,051)
Net claim liabilities at beginning of period	382,864	377,867
Incurred claims and loss-adjustment expenses:		
Current period insured events	470,371	472,056
Prior period insured events	(26,519)	(25,061)
Total	443,852	446,995
Payments of losses and loss-adjustment expenses:		
Current period insured events	241,871	217,818
Prior period insured events	178,750	230,676
Total	420,621	448,494
Net claim liabilities at end of period	406,095	376,368
Reinsurance recoverable on claim liabilities	40,615	37,756
Claim liabilities at end of period	$446,710	$414,124

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

The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the three months ended March 31, 2014 and 2013 is due primarily to better than expected cost and utilization trends. Reinsurance recoverable on unpaid claims is reported within the premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits expense, which amounted to $5,255 and $5,005 during the three months ended March 31, 2014 and 2013, 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 Corporation uses observable inputs when available. Fair value is based upon quoted market prices when available. The Corporation limits valuation adjustments to those deemed necessary to ensure that the security's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results.

(Dollar amounts in thousands, except per share data)

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

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

	March 31, 2014			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$124,464	$-	$124,464
U.S. Treasury securities and obligations of U.S government instrumentalities	38,993	-	-	38,993
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	47,033	-	47,033
Municipal securities	-	605,605	-	605,605
Corporate bonds	-	181,817	-	181,817
Residential agency mortgage-backed securities	-	7,112	-	7,112
Collateralized mortgage obligations	-	84,455	-	84,455
Total fixed maturities	38,993	1,050,486	-	1,089,479
Equity securities				
Mutual funds	161,015	52,845	18,868	232,728
Total equity securities	161,015	52,845	18,868	232,728
Total	$200,008	$1,103,331	$18,868	$1,322,207

	December 31, 2013			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$105,791	$-	$105,791
U.S. Treasury securities and obligations of U.S government instrumentalities	39,199	-	-	39,199
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	45,005	-	45,005
Municipal securities	-	611,443	-	611,443
Corporate bonds	-	155,940	-	155,940
Residential agency mortgage-backed securities	-	7,703	-	7,703
Collateralized mortgage obligations	-	90,793	-	90,793
Total fixed maturities	39,199	1,016,675	-	1,055,874
Equity securities				
Mutual funds	158,281	63,742	17,910	239,933
Total equity securities	158,281	63,742	17,910	239,933
Total	$197,480	$1,080,417	$17,910	$1,295,807

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(Dollar amounts in thousands, except per share data)

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company's best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in and/or out of Level 3 and between Levels 1 and 2 during the three months ended March 31, 2014 and 2013.

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2014 and 2013 is as follows:

	Three months ended					
	March 31, 2014			March 31, 2013		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	$-	$ 17,910	$17,910	$-	$ 12,822	$12,822
Unrealized gain in other accumulated comprehensive income	-	958	958	-	961	961
Purchases	-	-	-	-	1,000	1,000
Ending balance	$-	$ 18,868	$18,868	$-	$ 14,783	$14,783

In addition to the preceding disclosures on assets recorded at fair value in the consolidated balance sheets, FASB guidance also requires the disclosure of fair values for certain other financial instruments for which it is practicable to estimate fair value, whether or not such values are recognized in the consolidated balance sheets.

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

The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents, receivables, accounts payable and accrued liabilities, and short-term borrowings approximate fair value because of the short term nature of these items. These assets and liabilities are not listed in the table below.

The following methods, assumptions and inputs were used to estimate the fair value of each class of financial instrument:

(i) Policy Loans

Policy loans have no stated maturity dates and are part of the related insurance contract. The carrying amount of policy loans approximates fair value because their interest rate is reset periodically in accordance with current market rates.

(Dollar amounts in thousands, except per share data)

(ii) Policyholder Deposits

The fair value of policyholder deposits is the amount payable on demand at the reporting date, and accordingly, the carrying value amount approximates fair value.

(iii) Long-term Borrowings

The carrying amount of the loans payable to bank – variable approximates fair value due to its floating interest-rate structure. The fair value of the loans payable to bank – fixed and senior unsecured notes payable was determined using broker quotations.

(iv) Repurchase Agreement

The value of the repurchase agreement with a long term maturity is based on the discontinued value of the contractual cash flows using current estimated market discount rates for instruments with similar terms.

A summary of the carrying value and fair value by level of financial instruments not recorded at fair value on our consolidated balance sheet at March 31, 2014 and December 31, 2013 are as follows:

	March 31, 2014				
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$6,734	$-	$6,734	$ -	$6,734
Liabilities:					
Policyholder deposits	$115,561	$-	$115,561	$ -	$115,561
Long-term borrowings:					
Loans payable to bank - variable	15,697	-	15,697	-	15,697
Loans payable to bank - fixed	13,107	-	13,107	-	13,107
6.6% senior unsecured notes payable	35,000	-	33,688	-	33,688
Repurchase agreement	25,000	-	25,575	-	25,575
Total long-term borrowings	88,804	-	88,067	-	88,067
Total liabilities	$204,365	$-	$203,628	$ -	$203,628

	December 31, 2013				
	Carrying	Fair Value			
	Value	Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$6,705	$-	$6,705	$ -	$6,705
Liabilities:					

Policyholder deposits	$115,923	$-	$115,923	$ -	$115,923
Long-term borrowings:					
Loans payable to bank - variable	16,107	-	16,107	-	16,107
Loans payable to bank - fixed	13,195	-	13,195	-	13,195
6.6% senior unsecured notes payable	35,000	-	33,775	-	33,775
Repurchase agreement	25,000	-	25,638	-	25,638
Total long-term borrowings	89,302	-	88,715	-	88,715
Total liabilities	$205,225	$-	$204,638	$ -	$204,638

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(Dollar amounts in thousands, except per share data)

(8) Share-Based Compensation

Share-based compensation expense recorded during the three months ended March 31, 2014 and 2013 was $625 and $678, respectively. There were no stock option exercises during the three months ended March 31, 2014 and 2013. No non-cash exercises of stock options were done during the three months ended March 31, 2014 and 2013.

(9) Comprehensive Income

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

	Net unrealized gain on securities	Liability for pension benefits	Accumulated other comprehensive income
Balance at January 1, 2014	$ 65,584	$ (33,455)	$ 32,129
Other comprehensive income before reclassifications	22,409	-	22,409
Amounts reclassified from accumulated other comprehensive income	(107)	631	524
Net current period change	22,302	631	22,933
Balance at March 31, 2014	$ 87,886	$ (32,824)	$ 55,062

(10) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of March 31, 2014, tax years 2009 through 2013 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

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

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

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

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the American Health (“AH”) group of companies is a U.S.-based corporation and is subject to U.S. federal income taxes. This U.S.-based corporation within our group has not provided U.S. deferred taxes on an outside basis difference created as a result of the business combination of AH and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2013 is estimated at $56,000. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

(Dollar amounts in thousands, except per share data)

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

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

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

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

(11) Pension Plan

The components of net periodic benefit cost for the three months ended March 31, 2014 and 2013 were as follows:

	Three months ended March 31, 2014	2013
Components of net periodic benefit cost:		
Service cost	$1,027	$1,023
Interest cost	2,261	1,952
Expected return on assets	(2,073)	(1,696)
Amortization of prior service benefit	(121)	(113)
Amortization of actuarial loss	1,156	1,784
Net periodic benefit cost	$2,250	$2,950

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

(Dollar amounts in thousands, except per share data)

(12) Net Income Available to Stockholders and Net Income per Share

The following table sets forth the computation of basic and diluted earnings per share for the three months ended March 31, 2014 and 2013:

	Three months ended March 31,	
	2014	2013
Numerator for earnings per share:		
Net income attributable to TSM available to stockholders	$6,955	$17,238
Denominator for basic earnings per share:		
Weighted average of common shares	27,268,046	28,285,925
Effect of dilutive securities	99,983	84,534
Denominator for diluted earnings per share	27,368,029	28,370,459
Basic net income per share attributable to TSM	$0.26	$0.61
Diluted net income per share attributable to TSM	$0.25	$0.61

(13) Contingencies

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

As of March 31, 2014, we are involved in various legal actions arising in the ordinary course of business. We are also defendants in various other litigations and proceedings, some of which are described below. Where the Company believes that a loss is both probable and estimable, such amounts have been recorded. Although we believe our estimates of such losses are reasonable, these estimates could change as a result of further developments in these matters. In other cases, it is at least reasonably possible that the Company may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Company is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution. The outcome of legal proceedings is inherently uncertain and pending matters for which accruals have not been established have not progressed sufficiently to enable us to estimate a range of possible loss, if any. Given the inherent unpredictability of these matters, it is possible that an adverse outcome in one or more of these matters could have a material adverse effect on the consolidated financial condition, operating results and/or cash flows of the Company.

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

Claims by Heirs of Former Shareholders

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

In one of these cases, entitled Vera Sánchez, et al, v. Triple-S, the plaintiffs argued that the redemption of shares was fraudulent and was not subject to the two-year statute of limitations contained in the local securities law. The Court of First Instance determined that the plaintiffs' claims are time barred under the local securities law. The plaintiffs appealed, and in January 2012, the Puerto Rico Court of Appeals upheld the dismissal, holding that even if the plaintiffs could have survived the securities law's two-year statute of limitations, their complaint was time-barred under the Civil Code's four-year statute of limitations on claims of fraud. On March 28, 2012 the plaintiffs filed a petition for writ of certiorari before the Puerto Rico Supreme Court that was granted on May 31, 2012. We filed our respondent's brief on October 5, 2012. On October 1, 2013, the Supreme Court reversed the dismissal of the case, holding that the two-year statute of limitations contained in the local securities law did not apply based on the facts of this case and returning it to the Court of First Instance for the continuance of the case and pending further proceedings.

In the second case, entitled Olivella Zalduondo, et al, v. Seguros de Servicios de Salud, et al, the Puerto Rico Court of First Instance granted the Company's motion to dismiss on grounds that the complaint was time-barred under the two-year statute of limitations of the securities laws. On appeal, the Court of Appeals affirmed the decision of the lower court. Plaintiffs filed a petition for certiorari before the Puerto Rico Supreme Court which was granted on January 20, 2012. On January 8, 2013, the Supreme Court ruled that the applicable statute of limitations is the fifteen-year period of the Puerto Rico Civil Code for collection of monies. On January 28, 2013, the Company filed a motion for reconsideration which was subsequently denied. On March 26, 2013, Plaintiffs amended the complaint for the second time and the Company answered on April 16, 2013. Discovery is ongoing.

In the third case, entitled Heirs of Dr. Juan Acevedo, et al, v. Tripl