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, 2015

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

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, 2015
Common Stock Class A, $1.00 par value	2,377,689
Common Stock Class B, $1.00 par value	22,970,356

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Triple-S Management Corporation

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For the Quarter Ended September 30, 2015

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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 per share data)

	September 30, 2015	December 31, 2014
Assets		
Investments and cash:		
Securities available for sale, at fair value:		
Fixed maturities	$1,114,962	$1,115,899
Equity securities	201,959	197,756
Securities held to maturity, at amortized cost:		
Fixed maturities	2,927	2,944
Policy loans	7,758	7,260
Cash and cash equivalents	194,457	110,037
Total investments and cash	1,522,063	1,433,896
Premiums and other receivables, net	282,758	315,622
Deferred policy acquisition costs and value of business acquired	187,028	184,100
Property and equipment, net	73,849	78,343
Deferred tax asset	70,520	68,695
Goodwill	25,397	25,397
Other assets	53,200	39,683
Total assets	$2,214,815	$2,145,736
Liabilities and Stockholders' Equity		
Claim liabilities	$472,981	$390,086
Liability for future policy benefits	345,703	328,293
Unearned premiums	78,440	82,656
Policyholder deposits	116,588	118,912
Liability to Federal Employees' Health Benefits Program (FEHBP)	23,698	15,666
Accounts payable and accrued liabilities	180,036	162,458
Deferred tax liability	21,561	28,456
Long-term borrowings	62,237	74,467
Liability for pension benefits	82,507	86,716
Total liabilities	1,383,751	1,287,710
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 September 30, 2015 and December 31, 2014, respectively	2,378	2,378
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 22,970,356 and 24,654,497 shares at September 30, 2015 and December 31, 2014, respectively	22,970	24,654
Additional paid-in capital	87,623	121,405
Retained earnings	699,301	661,345
Accumulated other comprehensive income	19,409	48,776

Total Triple-S Management Corporation stockholders' equity	831,681	858,558
Non-controlling interest in consolidated subsididary	(617)	(532)
Total stockholders' equity	831,064	858,026
Total liabilities and stockholders’ equity	$2,214,815	$2,145,736

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,		Nine months ended September 30,	
	2015	2014	2015	2014
Revenues:				
Premiums earned, net	$746,718	$520,766	$2,033,383	$1,606,353
Administrative service fees	6,163	30,253	39,835	89,509
Net investment income	10,618	11,816	32,534	35,314
Other operating revenues	862	939	2,656	3,283
Total operating revenues	764,361	563,774	2,108,408	1,734,459
Net realized investment gains (losses):				
Total other-than-temporary impairment losses on securities	(1,627)	-	(4,489)	(462)
Net realized gains, excluding other-than-temporary impairment losses on securities	66	3,108	19,748	7,624
Total net realized investment gains (losses) on sale of securities	(1,561)	3,108	15,259	7,162
Other income, net	2,289	367	5,131	1,188
Total revenues	765,089	567,249	2,128,798	1,742,809
Benefits and expenses:				
Claims incurred	634,909	433,853	1,705,237	1,311,601
Operating expenses	125,887	121,036	380,086	369,992
Total operating costs	760,796	554,889	2,085,323	1,681,593
Interest expense	1,979	2,273	6,235	6,974
Total benefits and expenses	762,775	557,162	2,091,558	1,688,567
Income before taxes	2,314	10,087	37,240	54,242
Income tax expense (benefit)	(1,850)	5,432	(631)	15,205
Net income	4,164	4,655	37,871	39,037
Less: Net loss attributable to non-controlling interest	30	68	85	117
Net income attributable to Triple-S Management Corporation	$4,194	$4,723	$37,956	$39,154
Earnings per share attributable to Triple-S Management Corporation				
Basic net income per share	$0.17	$0.17	$1.46	$1.44
Diluted net income per share	$0.16	$0.17	$1.46	$1.44

See accompanying notes to unaudited condensed consolidated financial statements.

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

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Net income	$4,164	$4,655	$37,871	$39,037
Other comprehensive income (loss), net of tax:				
Net unrealized change in fair value of available for sale securities, net of taxes	(4,821)	(6,789)	(32,071)	34,593
Defined benefit pension plan:				
Actuarial loss, net	1,016	622	2,919	1,976
Prior service credit, net	(77)	(68)	(215)	(212)
Total other comprehensive income (loss), net of tax	(3,882)	(6,235)	(29,367)	36,357
Comprehensive income (loss)	282	(1,580)	8,504	75,394
Comprehensive loss attributable to non-controlling interest	30	68	85	117
Comprehensive income (loss) attributable to Triple-S Management Corporation	$312	$(1,512)	$8,589	$75,511

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)

	2015	2014
Balance at January 1	$858,558	$785,381
Share-based compensation	5,520	1,617
Stock issued upon the exercise of stock options	179	2,885
Repurchase and retirement of common stock	(41,165)	(9,044)
Comprehensive income	8,589	75,511
Total Triple-S Management Corporation stockholders' equity	831,681	856,350
Non-controlling interest in consolidated subsididary	(617)	(295)
Balance at September 30	$831,064	$856,055

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, 2015	Nine months ended September 30, 2014
Cash flows from operating activities:		
Net income	$37,871	$39,037
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	12,031	15,974
Net amortization of investments	4,956	4,597
Additions to the allowance for doubtful receivables	11,425	5,968
Deferred tax benefit	(5,140)	676
Net realized investment gain on sale of securities	(15,259)	(7,162)
Share-based compensation	5,520	1,617
(Increase) decrease in assets:		
Premium and other receivables, net	10,983	(4,400)
Deferred policy acquisition costs and value of business acquired	(2,928)	(3,272)
Deferred taxes	869	390
Other assets	(13,602)	5,830
Increase (decrease) in liabilities:		
Claim liabilities	82,895	(20,614)
Liability for future policy benefits	17,410	17,893
Unearned premiums	(4,216)	(5,618)
Policyholder deposits	2,557	2,621
Liability to FEHBP	8,032	5,720
Accounts payable and accrued liabilities	18,066	1,548
Net cash provided by operating activities	171,470	60,805

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

	Nine months ended September 30, 2015	2014
Cash flows from investing activities:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$ 307,545	$ 150,049
Fixed maturities matured/called	38,323	27,892
Equity securities sold	81,176	70,803
Securities held to maturity - fixed maturities matured/called	639	2,929
Other investments	-	8,925
Acquisition of investments:		
Securities available for sale:		
Fixed maturities	(360,588)	(211,129)
Equity securities	(81,901)	(23,731)
Securities held to maturity - fixed maturities	(623)	(865)
Other investments	(2,139)	(583)
Net outflows from policy loans	(498)	(352)
Net capital expenditures	(5,628)	(3,801)
Net cash used in (provided by) investing activities	(23,694)	20,137
Cash flows from financing activities:		
Change in outstanding checks in excess of bank balances	(5,262)	(6,754)
Repayments of long-term borrowings	(12,230)	(1,486)
Repurchase and retirement of common stock	(40,983)	(5,995)
Proceeds from policyholder deposits	5,587	6,413
Surrenders of policyholder deposits	(10,468)	(6,436)
Net cash used in financing activities	(63,356)	(14,258)
Net increase in cash and cash equivalents	84,420	66,684
Cash and cash equivalents:		
Beginning of period	110,037	74,356
End of period	$ 194,457	$ 141,040

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 of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These condensed consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2014.

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, 2015 are not necessarily indicative of the results for the full year ending December 31, 2015.

(2) Recent Accounting Standards

On April 7, 2015, the Financial Accounting Standards Board (FASB) issued guidance addressing the different balance sheet presentation requirements for debt issuance costs and debt discount and premiums. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The recognition and measurement guidance for debt issuance costs is not significantly affected. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

On May 1, 2015, the FASB issued guidance addressing the current diversity in practice regarding the manner in which certain investments measured at net asset value with redemption dates in the future, including periodic redemption dates, are categorized within the fair value hierarchy. This guidance eliminates the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient. Additionally, it eliminates the requirement to make certain disclosures for all investments that are eligible to be measured at fair value using the net asset value practical expedient. This guidance is effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2015. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

On May 21, 2015, the FASB issued guidance to make targeted improvements to short-duration insurance contracts requiring insurance entities to disclose for annual reporting periods, among other information about the liability for unpaid claims and claim adjustment expenses, (1) incurred and paid claims development information by accident year, on a net basis after risk mitigation through reinsurance, for the number of years for which claims incurred typically remain outstanding (that need not exceed 10 years, including the most recent reporting period presented in the statement of financial position). Each period presented in the disclosure about claims development that precedes the current reporting period is considered to be supplementary information; and (2) for each accident year presented of incurred claims development information, quantitative information about claim frequency (unless it is impracticable to do so) accompanied by a qualitative description of methodologies used for determining claim frequency information (as well as any changes to these methodologies). On August 12, 2015, the FASB issued guidance deferring the effective date of the above described amendments. This guidance is now effective for public companies for fiscal years and interim periods within such years beginning after December 15, 2017. We are currently evaluating the impact, if any, the adoption of this guidance may have on our financial position or results of operations.

(Dollar amounts in thousands, except per share data)

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the three months and nine months ended September 30, 2015 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

(3) Investment in Securities

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for available-for-sale and held-to-maturity securities by major security type and class of security at September 30, 2015 and December 31, 2014, were as follows:

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$115,932	$ 1,123	$ -	$117,055
U.S. Treasury securities and obligations of U.S. government instrumentalities	171,488	1,616	-	173,104
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	25,235	270	-	25,505
Municipal securities	598,659	40,984	(94)	639,549
Corporate bonds	119,541	12,549	-	132,090
Residential mortgage-backed securities	948	61	-	1,009
Collateralized mortgage obligations	25,923	729	(2)	26,650
Total fixed maturities	1,057,726	57,332	(96)	1,114,962
Equity securities - mutual funds	179,893	23,081	(1,015)	201,959
Total	$1,237,619	$ 80,413	$ (1,111)	$1,316,921

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

	December 31, 2014			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities:				
Obligations of government-sponsored enterprises	$129,649	$1,014	$(19)	$130,644
U.S. Treasury securities and obligations of U.S. government instrumentalities	94,480	648	(28)	95,100
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	35,115	138	-	35,253
Municipal securities	585,088	49,181	(50)	634,219
Corporate bonds	147,224	17,744	(134)	164,834
Residential mortgage-backed securities	6,808	311	-	7,119
Collateralized mortgage obligations	46,921	1,809	-	48,730
Total fixed maturities	1,045,285	70,845	(231)	1,115,899
Equity securities - mutual funds	150,799	47,049	(92)	197,756
Total	$1,196,084	$117,894	$(323)	$1,313,655

	September 30, 2015			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
U.S. Treasury securities and obligations of U.S. government instrumentalities	$621	$ 197	$ -	$ 818
Residential mortgage-backed securities	191	17	-	208
Certificates of deposit	2,115	-	-	2,115
Total	$2,927	$ 214	$ -	$ 3,141

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

	December 31, 2014			
	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	$622	$ 198	$ -	$ 820
Residential mortgage-backed securities	217	21	-	238
Certificates of deposit	2,105	-	-	2,105
Total	$2,944	$ 219	$ -	$ 3,163

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, 2015 and December 31, 2014 were as follows:

	September 30, 2015								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale:									
Fixed maturities:									
Municipal securities	$23,340	$ (94)	4	$-	$ -	-	$23,340	$ (94)	4
Collateralized mortgage obligations	1,621	(2)	1	-	-	-	1,621	(2)	1
Total fixed maturities	24,961	(96)	5	-	-	-	24,961	(96)	5
Equity securities - mutual funds	40,286	(1,015)	8	-	-	-	40,286	(1,015)	8
Total for securities available for sale	$65,247	$ (1,111)	13	$-	$ -	-	$65,247	$ (1,111)	13

	December 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	$43,105	$ (19)	2	$-	$ -	-	$43,105	$ (19)	2
U.S. Treasury securities and obligations of U.S. governmental instrumentalities	39,966	(28)	2	-	-	-	39,966	(28)	2

Municipal securities	6,749	(24)	3	6,693	(26)	3	13,442	(50)	6
Corporate bonds	17,053	(50)	4	20,405	(84)	4	37,458	(134)	8
Total fixed maturities	106,873	(121)	11	27,098	(110)	7	133,971	(231)	18
Equity securities - mutual funds	7,773	(92)	2	-	-	-	7,773	(92)	2
Total for securities available for sale	$114,646	$ (213)	13	$27,098	$ (110)	7	$141,744	$ (323)	20

The Corporation regularly monitors and evaluates the difference between the amortized cost and estimated fair value of investments. For investments with a fair value below amortized 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 impair a security if it had access to additional information about the investee. Additionally, it is possible that the investee's ability to meet future contractual obligations may be different than what the Corporation determined during its analysis, which may lead to a different impairment conclusion in future periods.

If after monitoring and analyzing impaired securities, the Corporation determines that a decline in the estimated fair value of any available-for-sale 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.

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

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

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

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

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

Equity securities - mutual funds: Investments in mutual funds with an unrealized loss as of September 30, 2015 are not considered other-than-temporarily impaired because the funds have been in an unrealized loss position for less than six months or the unrealized loss is small (less than $100 and/or 20%). During the three months and nine months ended September 30, 2015, we recorded an other-than-temporary impairment for a total amount of $479 on positions which were at an unrealized loss for a period longer than six months.

Obligations of the Commonwealth of Puerto Rico and its Instrumentalities: Our holdings in Puerto Rico municipals can be divided in (1) escrowed bonds with a fair value of $16,088 and a gross unrealized gain of $45, and (2) bonds issued by the Puerto Rico Sales Tax Financing Corporation (Cofina) with a fair value of $9,417 and a gross unrealized gain of $225 after the other-than-temporary impairment on some of the Cofina holdings.

Besides holdings in escrowed bonds, which are backed by US Government securities and therefore have an implicit AA+/Aaa rating, our exposure is in senior lien bonds issued by Cofina. Below we will discuss the Cofina structure and security, recent events and our impairment conclusion.

Cofina bonds are backed by a sales tax levied on the island, which effective July 1, 2015 was increased to 11.5% from an original rate of 7%. The revenue of the incremental rate of 450 basis points flows directly into the General Fund of the Commonwealth. The revenue of the original rate of 7% follows the flow of funds as described below. Effective October 1, 2015, a 4% sales tax on services provided between businesses and on professional services was introduced.

Of the original 7% tax rate, 1.5% is a separated revenue stream for municipalities. Of the remaining 5.5%, the larger of 2.75% or a base amount is pledged to the sales tax bonds. In terms of flow of funds, the 5.5% remaining revenue is first used for debt service on senior lien bonds, then for debt service on subordinate bonds and the excess flows into the General Fund. Effective for government fiscal year 2015-16, the flow of funds has been somewhat revised to benefit Cofina. The municipality portion of 0.5% is first directed to Cofina in order to satisfy the above mentioned base amount. Once this base amount is reached, the municipality portion catches up by receiving the amounts which were previously diverted towards Cofina.

Sales tax revenues are dependent on the Puerto Rico economic situation and the sales tax base amount mentioned above would need to grow over time to cover debt service, especially to cover the longer maturities. However, the Company mostly owns shorter duration Cofina senior bonds, for which debt service coverage based on current revenues is ample.

According to the Government Development Bank, legal opinions from the Puerto Rico's Secretary of Justice, Bond Counsel and Underwriters' Counsel, pledged sales tax revenues do not constitute available resources of the Commonwealth. In other words, these revenues are not subject to the so called Puerto Rico general obligations (GO) debt "clawback" under the Commonwealth's constitution, which provides that certain revenues used to support various bond issues are available to be applied first to the payment of GO debt if needed. This suggests that Cofina bonds could be somewhat isolated from the other Puerto Rico credits.

General Obligation bonds and Cofina are generally considered to have the strongest legal protections. However, it seems that the Puerto Rico government is moving towards a consolidated debt restructuring across all issuers (see below). Cofina could either be directly included in this restructuring or the GO bond holders could challenge the separation of the sales tax revenue stream.

Despite various initiatives to improve its fiscal situation, more recently the Puerto Rico Government has changed its historical position and indicated that it is unable to support its debt burden. A study of the financial situation by former officials at the International Monetary Fund and the World Bank, published in June 2015, concluded that the debt load is unsustainable and that a debt restructuring can no longer be avoided. Subsequently, Puerto Rico's Governor said that the debt was "not payable" and that the Puerto Rico Government would probably seek significant concessions from all of the island's creditors, which could include deferring some debt payments for a number of years. The Governor also appointed a working group, which is asked to devise fiscal reforms and work on a debt restructuring.

As a first step towards debt restructuring, the Government held a meeting with creditors on July 14, 2015, but offered no specifics with regards to which obligations might be restructured. Officials acknowledged the need for capital market access, indicated that liquidity would be very tight in the beginning of the new fiscal year and mentioned that certain measures had been taken, including the issuance of $400,000 TRANs to certain Government entities and advances from Puerto Rico's retirement system. Despite these measures, on August 1, 2015, the Puerto Rico Public Finance Corporation failed to remit enough cash to its paying agent to satisfy its entire debt service obligation. This is the first time that Puerto Rico has defaulted on any of its bonded debt obligations, showing its constrained liquidity position.

On September 9, 2015, the working group published its Fiscal and Economic Growth plan, which detailed a $27,800,000 cumulative financing gap over the next 5 fiscal years. The report contains recommendations to reduce this gap to $14,000,000 through revenue increases, expenditure reductions and measures to stimulate economic growth. However, the working group notes that these recommendations are subject to significant political and execution risks. Moreover, the report states that even if projected results are achieved, the Commonwealth cannot meet all of its debt service requirements as currently scheduled due to a lack of liquidity. According to the working group plan, the Commonwealth projects that it will exhaust its liquidity in November 2015.

The report further outlines the need for a broad debt restructuring, which includes General Obligation and Cofina debt. Since this is likely to be difficult, particularly in the absence of a legal framework, the working group recommends the Commonwealth to make a voluntary exchange offer to its creditors. As a reaction to the report, S&P downgraded General Obligation bonds and Cofina to CC, combined with a negative outlook.

The working group report also mentions that even if certain revenues are clawed back from tax-supported debt (i.e. Cofina), available resources may be insufficient to service all principal and interest on debt that has Constitutional priority (i.e. General Obligation bonds). This statement implies that Cofina debt and revenues are treated as that of the Commonwealth. In other words, Cofina revenues would be subject to "clawback", contrary to prior stated opinions.

On September 24, 2015, a document was released by the working group, detailing an overview of the proposed restructuring process and the restructuring principles. In line with previous recommendations, it proposes a voluntary exchange offer and a single comprehensive transaction, including creditors of many entities. Constitutional priority of General Obligation debt is again mentioned.

On October 15, 2015, the Governor and the working group introduced legislation to create the Puerto Rico Fiscal Oversight and Economic Recovery Board (the Oversight Board). It is expected that along with the working group, the Oversight Board will facilitate a return to long-term fiscal sustainability and economic growth and provide Puerto Rico's creditors with assurance that conditions agreed to as part of any comprehensive debt restructuring agreement, as well as compliance with the working group's Fiscal and Economic Growth Plan (FEGP), will be monitored by an independent, non-political body. This Act will require the working group to submit a proposed Commonwealth-wide, consolidated five-year fiscal and economic growth plan to the Oversight Board for approval at the later of the end of the second quarter of 2016 or after all of the members of the Oversight Board have taken office.

(Dollar amounts in thousands, except per share data)

We considered our investments in Cofina bonds other-than-temporarily impaired as of September 30, 2015, because: (a) the financial position of the Commonwealth has deteriorated further, evidenced by a lack of liquidity and market access, and (b) the Puerto Rico government is moving towards a consolidated debt restructuring, which could include Cofina or could jeopardize the separation of the sales tax revenue stream. As a result, during the three months and nine months ended September 30, 2015, we recorded an other-than-temporary impairment related to these positions amounting to $1,148 and $4,010, respectively.

Maturities of investment securities classified as available for sale and held to maturity at September 30, 2015 were as follows:

	September 30, 2015	
	Amortized cost	Estimated fair value
Securities available for sale:		
Due in one year or less	$39,481	$39,936
Due after one year through five years	342,844	349,685
Due after five years through ten years	131,785	140,820
Due after ten years	516,745	556,862
Residential mortgage-backed securities	948	1,009
Collateralized mortgage obligations	25,923	26,650
	$1,057,726	$1,114,962
Securities held to maturity:		
Due in one year or less	$2,115	$2,115
Due after ten years	621	818
Residential mortgage-backed securities	191	208
	$2,927	$3,141

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 for the three months and nine months ended September 30, 2015 and 2014 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Realized gains (losses):				
Fixed maturity securities:				
Securities available for sale:				
Gross gains from sales	$868	$1,600	$7,205	$3,303
Gross losses from sales	(136)	(1,934)	(540)	(3,891)
Gross losses from other-than-temporary impairments	(1,148)	-	(4,010)	(462)
Total debt securities	(416)	(334)	2,655	(1,050)
Equity securities:				
Securities available for sale:				
Gross gains from sales	126	3,488	14,000	8,104
Gross losses from sales	(792)	(46)	(917)	(1,317)
Gross losses from other-than-temporary impairments	(479)	-	(479)	-
Total equity securities	(1,145)	3,442	12,604	6,787
Net realized gains (losses) on securities available for sale	(1,561)	3,108	15,259	5,737
Gross gain from other investment	-	-	-	1,425
Net realized investment gains (losses)	$(1,561)	$3,108	$15,259	$7,162

The other-than-temporary impairments on fixed maturity securities are attributable to credit losses. The other-than-temporary impairments on equity securities are attributable to broad equity market movement.

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Changes in net unrealized gains (losses):				
Recognized in accumulated other comprehensive income:				
Fixed maturities – available for sale	$6,379	$(2,873)	$(13,378)	$37,044
Equity securities – available for sale	(12,018)	(5,783)	(24,891)	3,164
	$(5,639)	$(8,656)	$(38,269)	$40,208
Not recognized in the consolidated financial statements:				
Fixed maturities – held to maturity	$15	$3	$(5)	$16

The deferred tax asset (liability) on unrealized gains (losses) change recognized in accumulated other comprehensive income during the nine months ended September 30, 2015 and 2014 was $6,198 and ($5,615), respectively.

As of September 30, and December 31, 2014, no individual investment in securities exceeded 10% of stockholders' equity.

(Dollar amounts in thousands, except per share data)

The components of net investment income were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2015	2014	2015	2014
Fixed maturities	$9,012	$9,587	$26,953	$28,826
Equity securities	1,169	1,850	4,293	5,466
Policy loans	146	150	412	408
Cash equivalents and interest-bearing deposits	26	39	89	65
Other	265	190	787	549
Total	$10,618	$11,816	$32,534	$35,314

(4) Premiums and Other Receivables, Net

Premiums and other receivables, net as of September 30, 2015, and December 31, 2014 were as follows:

	September 30, 2015	December 31, 2014
Premiums	$107,097	$131,496
Self-insured group receivables	64,365	62,189
FEHBP	12,303	12,384
Agent balances	22,720	25,300
Accrued interest	10,841	11,737
Reinsurance recoverable	47,360	50,686
Unsettled sales	-	10,456
Other	52,051	47,742
	316,737	351,990
Less allowance for doubtful receivables:		
Premiums	25,364	28,983
Other	8,615	7,385
	33,979	36,368
Total premiums and other receivables, net	$282,758	$315,622

As of September 30, 2015 and December 31, 2014, the Company had premiums and other receivables of $82,412 and $89,904, respectively, from the Government of Puerto Rico, including its agencies, municipalities and public corporations. The related allowance for doubtful receivables as of September 30, 2015 and December 31, 2014 were $18,955 and $11,614, respectively.

(Dollar amounts in thousands, except per share data)

(5) Fair Value Measurements

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

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

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

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

The following tables summarize fair value measurements by level at September 30, 2015 and December 31, 2014 for assets measured at fair value on a recurring basis:

	September 30, 2015			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$117,055	$-	$117,055
U.S. Treasury securities and obligations of U.S government instrumentalities	173,104	-	-	173,104
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	25,505	-	25,505
Municipal securities	-	639,549	-	639,549
Corporate bonds	-	132,090	-	132,090
Residential agency mortgage-backed securities	-	1,009	-	1,009

Collateralized mortgage obligations	-	26,650	-	26,650
Total fixed maturities	173,104	941,858	-	1,114,962
Equity securities - mutual funds	173,778	19,005	9,176	201,959
Total	$346,882	$960,863	$9,176	$1,316,921

(Dollar amounts in thousands, except per share data)

	December 31, 2014			
	Level 1	Level 2	Level 3	Total
Securities available for sale:				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$-	$130,644	$-	$130,644
U.S. Treasury securities and obligations of U.S government instrumentalities	95,100	-	-	95,100
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	35,253	-	35,253
Municipal securities	-	634,219	-	634,219
Corporate bonds	-	164,834	-	164,834
Residential agency mortgage-backed securities	-	7,119	-	7,119
Collateralized mortgage obligations	-	48,730	-	48,730
Total fixed maturities	95,100	1,020,799	-	1,115,899
Equity securities - mutual funds	160,461	23,946	13,349	197,756
Total	$255,561	$1,044,745	$13,349	$1,313,655

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

Transfers into or out of the Level 3 category occur when unobservable inputs, such as the Company’s best estimate of what a market participant would use to determine a current transaction price, become more or less significant to the fair value measurement. Transfers between levels, if any, are recorded as of the actual date of the event or change in circumstance that caused the transfer. There were no transfers in and/or out of Level 3 and between Levels 1 and 2 during the three months and nine months ended September 30, 2015 and 2014.

(Dollar amounts in thousands, except per share data)

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 September 30, 2015 and 2014 is as follows:

	Three months ended					
	September 30, 2015			September 30, 2014		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	$-	$ 9,083	$9,083	$-	$ 16,859	$16,859
Realized gains	-	125	125	-		
Unrealized gain (loss) in other accumulated comprehensive income	-	18	18	-	(962)	(962)
Capital distributions	-	(175)	(175)	-	(2,676)	(2,676)
Purchases	-	125	125	-	233	233
Ending balance	$-	$ 9,176	$9,176	$-	$ 13,454	$13,454

	Nine months ended					
	September 30, 2015			September 30, 2014		
	Fixed Maturity Securities	Equity Securities	Total	Fixed Maturity Securities	Equity Securities	Total
Beginning balance	$-	$ 13,349	$13,349	$-	$ 17,910	$17,910
Realized gains	-	1,537	1,537	-	-	-
Unrealized loss in other accumulated comprehensive income	-	(3,284)	(3,284)	-	(356)	(356)
Capital distributions	-	(2,740)	(2,740)	-	(4,677)	(4,677)
Purchases	-	314	314	-	577	577
Ending balance						