Genpact LTD
Form 8-K
May 05, 2014

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

Pursuant to Section 13 or 15(d)

of the Securities Exchange Act of 1934

Date of Report (Date of earliest event reported): May 5, 2014

GENPACT LIMITED

(Exact name of registrant as specified in its charter)

Bermuda	**001-33626**	**98-0533350**
(State or other jurisdiction of incorporation)	**(Commission File Number)**	**(I.R.S. Employer Identification No.)**

Canon s Court, 22 Victoria Street

Hamilton HM 12, Bermuda

(Address of Principal Executive Offices) (Zip Code)

Registrant s telephone number, including area code: (441) 295-2244

Not Applicable

(Former name or former address, if changed since last report)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

¨ Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

¨ Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

¨ Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

¨ Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition.

On May 5, 2014, Genpact Limited (the Company) issued a press release announcing its financial results for the three months ended March 31, 2014. The Company is furnishing this Form 8-K pursuant to Item 2.02, Results of Operations and Financial Condition. A copy of the press release, attached hereto as Exhibit 99.1, and a slide presentation to be presented during the conference call to discuss the Company s financial results for the three months ended March 31, 2014, attached hereto as Exhibit 99.2, are incorporated herein by reference.

The information in this report (including Exhibits 99.1 and 99.2) is being furnished pursuant to Item 2.02 and shall not be deemed to be filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended (the Exchange Act), or otherwise subject to the liability of that section, and shall not be incorporated by reference into any registration statement or other document filed under the Securities Act of 1933, as amended, or the Exchange Act, except as shall be expressly set forth by specific reference in such filing.

The Company is making reference to non-GAAP financial information in the press release and slide presentation and on the conference call. A reconciliation of the non-GAAP financial measures to the comparable GAAP financial measures is contained in the attached press release and slide presentation.

Item 9.01. Financial Statements and Exhibits.

(d) Exhibits:

Exhibit 99.1	Press release dated May 5, 2014
Exhibit 99.2	Slide presentation to be presented during the conference call to discuss the Company s financial results for the three months ended March 31, 2014

Signature

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

GENPACT LIMITED

Date: May 5, 2014	By:	/s/ Heather White
	Name:	Heather White
	Title:	Senior Vice President

EXHIBIT INDEX

Exhibit	Description
99.1	Press release dated May 5, 2014
99.2	Slide presentation to be presented during the conference call to discuss the Company s financial results for the three months ended March 31, 2014

style="TEXT-ALIGN: left; BACKGROUND-COLOR: #cceeff; WIDTH: 1%; VERTICAL-ALIGN: bottom" valign="bottom" nowrap="nowrap">
Municipal securities

-

683,803

-

683,803

Corporate Bonds

-

274,872

-

274,872

Residential agency mortgage-backed securities

-

718

-

718

Collaterized mortgage obligations

-

44,885

-

44,885

Total fixed maturities

85,800

1,065,843

-

1,151,643

Equity securities - Mutual funds

166,595

76,222

27,532

270,349

$
252,395

$
1,142,065

$
27,532

$
1,421,992

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

$330,352	$992,406	$7,958	$1,330,716

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(dollar amounts in thousands, except per share and 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 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 between Levels 1 and 2 during the years ended December 31, 2016 and 2015.

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 years ended December 31 is as follows:

	Fair Value Measurements Using Significant Unobservable Inputs (Level 3)		
	2016	2015	2014
Balance as of January 1,	$ 7,958	$ 13,349	$ 17,910
Realized gains	324	1,538	2,552
Unrealized in other accumulated comprehensive income	(1,458)	(4,207)	(2,937)
Purchases	23,991	1,207	501
Sales	-	-	-
Capital Distributions	(3,283)	(3,929)	(4,677)
Balance as of December 31,	$ 27,532	$ 7,958	$ 13,349

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

(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.

(dollar amounts in thousands, except per share and share data)

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

	2016 Carrying Value	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Policy loans	$8,564	$-	$8,564	$ -	$8,564
Liabilities:					
Policyholder deposits	$179,382	$-	$179,382	$ -	$179,382
Long-term borrowings:					
Loans payable to bank - variable	11,187	-	11,187	-	11,187
6.6% senior unsecured notes payable	24,000	-	24,000	-	24,000
Total long-term borrowings	35,187	-	35,187	-	35,187
Total liabilities	$214,569	$-	$214,569	$ -	$214,569

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

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(dollar amounts in thousands, except per share and share data)

10. Claim Liabilities and Claim Adjustment Expenses

A reconciliation of the beginning and ending balances of claim liabilities in 2016, 2015 and 2014 is as follows:

	2016		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	$ 348,297	$ 143,468	$ 491,765
Reinsurance recoverable on claim liabilities	-	(40,714)	(40,714)
Net claim liabilities at beginning of year	348,297	102,754	451,051
Claims incurred			
Current period insured events	2,356,594	103,049	2,459,643
Prior period insured events	(9,047)	(7,157)	(16,204)
Total	2,347,547	95,892	2,443,439
Payments of losses and loss-adjustment expenses			
Current period insured events	2,083,552	58,091	2,141,643
Prior period insured events	263,245	40,657	303,902
Total	2,346,797	98,748	2,445,545
Net claim liabilities at end of year	349,047	99,898	448,945
Reinsurance recoverable on claim liabilities	-	38,998	38,998
Claim liabilities at end of year	$ 349,047	$ 138,896	$ 487,943

	2015		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	$ 249,330	$ 140,756	$ 390,086
Reinsurance recoverable on claim liabilities	-	(40,635)	(40,635)
Net claim liabilities at beginning of year	249,330	100,121	349,451
Claims incurred			
Current period insured events	2,216,330	98,279	2,314,609
Prior period insured events	(19,637)	(1,211)	(20,848)
Total	2,196,693	97,068	2,293,761
Payments of losses and loss-adjustment expenses			
Current period insured events	1,868,607	52,369	1,920,976
Prior period insured events	229,119	42,066	271,185
Total	2,097,726	94,435	2,192,161
Net claim liabilities at end of year	348,297	102,754	451,051
Reinsurance recoverable on claim liabilities	-	40,714	40,714

Claim liabilities at end of year	$348,297	$ 143,468	$ 491,765

	2014		
	Managed Care	Other Business Segments *	Consolidated
Claim liabilities at beginning of year	$283,615	$ 136,806	$ 420,421
Reinsurance recoverable on claim liabilities	-	(37,557)	(37,557)
Net claim liabilities at beginning of year	283,615	99,249	382,864
Claims incurred			
Current period insured events	1,665,255	95,944	1,761,199
Prior period insured events	(36,160)	(1,251)	(37,411)
Total	1,629,095	94,693	1,723,788
Payments of losses and loss-adjustment expenses			
Current period insured events	1,449,224	50,422	1,499,646
Prior period insured events	214,156	43,399	257,555
Total	1,663,380	93,821	1,757,201
Net claim liabilities at end of year	249,330	100,121	349,451
Reinsurance recoverable on claim liabilities	-	40,635	40,635
Claim liabilities at end of year	$249,330	$ 140,756	$ 390,086

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

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

The favorable developments in the claims incurred and loss-adjustment expenses for prior period insured events for 2016, 2015 and 2014 are due primarily to better than expected utilization trends mostly in the Managed Care segment. Reinsurance recoverable on unpaid claims is reported as premium and other receivables, net in the accompanying consolidated financial statements.

The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $28,752, $24,954, and $23,807 that is included within the consolidated claims incurred during the years ended December 31, 2016, 2015 and 2014, respectively.

The following is information about incurred and paid claims development, net of reinsurance, as of December 31, 2016, as well as cumulative claim frequency. Additional information presented includes total incurred- but- not-reported liabilities plus expected development on reported claims is included within the net incurred claims amounts.

The information about incurred and paid claims development for the year ended December 31, 2015 and previous years are presented as supplementary information and unaudited where indicated.

Managed Care

The Company estimates its liabilities for unpaid claims following a detailed actuarial process that entails using both historical claim payment patterns as well as emerging medical cost trends to project a best estimate of claim liabilities. This process includes comparing the historical claims incurred dates to the actual dates on claims payment. Completion factors are applied to claims paid through the financial statements date to estimate the claim expense incurred for the current period. The liability for claim adjustment expenses consists of adjustments made by our actuaries based on their knowledge and their estimate of emerging impacts to benefit costs and payment speed.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance			As of December 31, 2016	
	Incurred amount			(in thousands)
Incurred Year	(unaudited) 2015	2016	Total of IBNR Liabilities Plus Expected Development on Reported Claims	Cumulative Number of Reported Claims
2015	$ 2,216,330	2,207,283	75,431	17,830
2016		2,356,592	273,040	16,633
	Total	$ 4,563,875		

Cumulative Paid Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

	(unaudited)	
Incurred Year	2015	2016
2015	$ 1,868,607	2,131,852
2016		2,083,552
	Total	$ 4,215,404
All outstanding liabilities before 2015, net of reinsurance		576
Liabilities for claims and claim adjustment expenses, net of reinsurance		$ 349,047

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Property and Casualty

Claims liability for property and casualty represents individual case estimates for reported claims and estimates for unreported losses, net of any salvage and subrogation based on past experience modified for current trends and estimates of expense for investigating and setting claims.

Incurred Claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Incurred Year	Incurred amount										As of Decem 31, 2016 Total of IBNR Plus Expected Development on Reported Claims	Cu Nu of rep cla
	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)			
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016		
2007	$51,531	$49,555	$47,673	$45,836	$45,380	$45,654	$45,534	$45,534	$45,515	$45,604	$27	15
2008		49,095	48,812	46,443	45,941	45,541	47,658	45,909	45,535	45,571	142	16
2009			51,778	51,760	50,848	51,298	51,564	51,315	51,485	51,293	177	18
2010				54,226	54,090	55,266	56,400	57,115	57,386	57,242	482	20
2011					51,315	50,287	51,105	50,776	51,895	52,099	656	20
2012						49,040	49,856	48,900	49,817	48,945	1,565	22
2013							52,343	51,030	49,606	49,168	2,274	22
2014								48,430	45,410	43,707	3,377	20
2015									45,067	40,175	6,160	18
2016										48,127	16,806	19
									Total	$481,931		

Cumulative Paid claims and Allocated Claim Adjustment Expenses, Net of Reinsurance

Incurred Year	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	(unaudited)	
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
2007	$20,912	$31,298	$36,287	$39,477	$41,918	$43,203	$44,007	$44,470	$44,835	$45,133
2008		23,715	32,834	37,420	40,332	41,847	43,787	44,426	44,703	44,867
2009			23,843	35,327	41,810	45,838	48,637	49,709	50,196	50,371
2010				27,118	38,964	45,409	49,808	52,890	54,027	54,996
2011					24,534	34,835	41,606	44,996	47,908	49,598
2012						22,677	33,620	40,406	43,663	45,607
2013							21,376	33,249	38,979	42,840
2014								18,752	28,657	33,809
2015									17,063	24,935

2016	20,099
	$412,255
All Outstanding liabilities before 2007, net of reinsurance	1,415
Liabilities for claims and claims adjustment expenses, net of reinsurance	$71,091

At December 31, 2016 the amounts of unpaid claims and claim adjustment expenses in the accompanying financial statements are $481,931 and $412,255, respectively.

The following table includes the annual percentage payout of incurred claims by age, net of reinsurance, for property and casualty segment as supplementary information as of December 31, 2016:

	(unaudited) 2007	(unaudited) 2008	(unaudited) 2009	(unaudited) 2010	(unaudited) 2011	(unaudited) 2012	(unaudited) 2013	(unaudited) 2014	(unaudited) 2015	(unaudited) 2016
Average	45.6 %	21.6 %	11.9 %	7.1 %	4.8 %	2.9 %	1.5 %	0.7 %	0.6 %	0.7 %

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(dollar amounts in thousands, except per share and share data)

The reconciliation of the net incurred and paid claims development tables, by segment, to the liability for claims and claim adjustment expenses in the consolidated balance sheets is as follows:

	As of December 31, 2016
Net outstanding liabilities	
Managed Care	$ 349,047
Property and Casualty	71,091
Other short-duration insurance lines	102
Liabilities for unpaid claims and claim adjustment expenses, net of reinsurance	420,240
Reinsurance recoverable on unpaid claims - Property and Casualty	25,885
Insurance lines other than short-duration	42,757
Intersegment Elimination	(939)
Total gross liability for unpaid claims and claim adjustment expense	$ 487,943

11. Federal Employees' Health Benefits (FEHBP) and Federal Employees' (FEP) Programs

FEHBP

In prior years, TSS entered into a contract, renewable annually, with the Office of Personnel Management (OPM) as authorized by the Federal Employees' Health Benefits Act of 1959, as amended, to provide health benefits under the FEHBP. The FEHBP covers postal and federal employees residing in the Commonwealth of Puerto Rico and the United States Virgin Islands as well as retirees and eligible dependents. The FEHBP is financed through a negotiated contribution made by the federal government and employees' payroll deductions.

The accounting policies for the FEHBP are the same as those described in the Company's summary of significant accounting policies. Premium rates are determined annually by TSS and approved by the federal government. Claims are paid to providers based on the guidelines determined by the federal government. Operating expenses are allocated from TSS's operations to the FEHBP based on applicable allocation guidelines (such as, the number of claims processed for each program) and are subject to contractual expense limitations.

The operations of the FEHBP do not result in any excess or deficiency of revenue or expense as this program has a special account available to compensate any excess or deficiency on its operations to the benefit or detriment of the federal government. Any transfer to/from the special account necessary to cover any excess or deficiency in the operations of the FEHBP is recorded as a reduction/increment to the premiums earned. The contract with OPM provides that the cumulative excess of the FEHBP earned income over health benefits charges and expenses represents a restricted fund balance denoted as the special account. Upon termination of the contract and satisfaction of all the FEHBP's obligations, any unused remainder of the special reserve would revert to the Federal Employees Health Benefit Fund. In the event that the contract terminates and the special reserve is not sufficient to meet the FEHBP's obligations, the FEHBP contingency reserve will be used to meet such obligations. If the contingency reserve is not sufficient to meet such obligations, the Company is at risk for the amount not covered by the contingency reserve.

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The contract with OPM allows for the payment to the Company of service fees as negotiated between TSS and OPM.

The Company also has funds available related to the FEHBP amounting to $50,789 and $42,572 as of December 31, 2016 and 2015, respectively and are included within the cash and cash equivalents in the accompanying consolidated balance sheets. Such funds are used to cover health benefits charges, administrative expenses and service charges required by the FEHBP.

A contingency reserve is maintained by the OPM at the U.S. Treasury, and is available to the Company under certain conditions as specified in government regulations. Accordingly, such reserve is not reflected in the consolidated balance sheets. The balance of such reserve as of December 31, 2016 and 2015 was $26,180 and $28,417, respectively. The Company received $6,687, $4,763, and $12,766, of payments made from the contingency reserve fund of OPM during 2016, 2015, and 2014, respectively.

The claim payments and operating expenses charged to the FEHBP are subject to audit by the U.S. government. Management is of the opinion that an adjustment, if any, resulting from such audits will not have a significant effect on the accompanying financial statements. The claim payments and operating expenses reimbursed in connection with the FEHBP have been audited through 2011 by OPM.

FEP

In prior years, TSS entered into a contract with the BCBSA as per Contract No. C.S. 1039 with OPM to provide health benefits under one Government-wide Service Benefit Plan as contemplated in Title 5, Chapter 89, United States Code. The FEP covers employees and annuitants residing in the Commonwealth of Puerto Rico and the United States Virgin Islands as well as eligible dependents. The FEP is financed through a negotiated contribution made by the federal government and employees' payroll deductions. The accounting methodology and operations of the FEP are similar to those of the FEHBP as described before.

The Company also has funds overdraft related to the FEP amounting to $1,812 at December 31, 2016 and are included within the cash and cash equivalents in the accompanying balance sheets.

The claims payments and operating expenses charged to the FEP are subject to audit by the BCBSA. Management is of the opinion that the adjustments, if any, resulting from such audits will not have a significant effect in the accompanying financial statements. Operating expenses reimbursed in connection with the FEP have been audited through 2015 by BCBSA.

(dollar amounts in thousands, except per share and share data)

12. Long-Term Borrowings

A summary of the borrowings entered by the Company as of December 31 is as follows:

	2016	2015
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	$24,000	$24,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.23% at December 31, 2015.)	-	12,827
Secured loan payable of $11,187, payable in monthly installments of $137 through October 1, 2023, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.77% at December 31, 2016.)	11,187	-
Total borrowings	35,187	36,827
Less unamortized debt issuance costs	102	-
	$35,085	$36,827

Aggregate maturities of the Company's borrowings as of December 31, 2016 are summarized as follows:

Year ending December 31	
2017	1,640
2018	1,640
2019	1,640
2020	25,640
2021	1,640
Thereafter	2,987
	$35,187

All of the Company's senior notes may be prepaid at par, in total or partially, five years after issuance as determined by the Company. The Company's senior unsecured notes contain certain non-financial covenants with which the Company has complied at December 31, 2016.

On December 28, 2016, TSM entered into a $35,500 credit agreement with a commercial bank in Puerto Rico. The agreement consists of three term loans: (i) Term Loan A in the principal amount of $11,187, (ii) Term Loan B in the principal amount of $20,150 and (iii) Term Loan C in the principal amount of $4,116. Term Loan A matures in October 2023 while the Term Loans B and C mature in January 2024. Term Loan A was used to refinance the previous $41,000 secured loan payable with the same commercial bank in Puerto Rico. Proceeds from Term Loans B and C were received on January 11, 2017 and were used to prepay the outstanding principal amount plus accrued interest of the 6.6% Senior Unsecured Notes due January 2021 ($24,000), and fund a portion of a debt service reserve for the Loan (approximately $200). Pursuant to the credit agreement, interest is payable on the outstanding balance of the Loan at the following annual rate: (1) 1% over LIBOR for Term Loan A, (ii) 2.75% over LIBOR for Term Loan B, and (iii) 3.25% over LIBOR for Term Loan C. Interest shall be payable commencing on January 1, 2017, in the case of Term Loan A, and on February 1, 2017, in the case of Term Loan B and Term Loan C. The Credit Agreement includes certain financial and non-financial covenants, including negative covenants imposing certain restrictions on the Corporation's business. The Company was in compliance with all these covenants as of December 31, 2016.

The credit agreement is guaranteed by a first mortgage held by the bank on the Company's land, building, and substantially all leasehold improvements, as collateral for the term of the loan under a continuing general security agreement. This credit agreement contains certain non-financial covenants, which are customary for this type of facility, including but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control and dividends.

The Company may, at its option, upon notice, as specified in the credit agreement, redeem and prepay prior to maturity, all or any part of the Loan and from time to time upon the payment of a penalty fee of 3% during the first year, 2% during the second year and 1% during the third year, and thereafter, at par, as specified in the credit agreement, together with accrued and unpaid interest, if any, to the date of redemption specified by the Company.

Interest expense on the above borrowings amounted to $1,763, $2,435, and $3,639, for the years ended December 31, 2016, 2015, and 2014, respectively.

(dollar amounts in thousands, except per share and share data)

13. Reinsurance Activity

The effect of reinsurance on premiums earned and claims incurred is as follows:

	Premiums Earned			Claims Incurred[(1)]		
	2016	2015	2014	2016	2015	2014
Gross	$2,949,673	$2,847,288	$2,199,351	$2,458,447	$2,313,191	$1,748,972
Ceded	(59,032)	(64,134)	(70,785)	(15,008)	(19,430)	(25,184)
Net	$2,890,641	$2,783,154	$2,128,566	$2,443,439	$2,293,761	$1,723,788

(1) The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $28,752, $24,954, and $23,806 that is included within the consolidated claims incurred during the years ended December 31, 2016, 2015 and 2014, respectively.

TSS, TSP and TSV, in accordance with general industry practices, annually purchase reinsurance to protect them from the impact of large unforeseen losses and prevent sudden and unpredictable changes in net income and stockholders' equity of the Company. Reinsurance contracts do not relieve any of the subsidiaries from their obligations to policyholders. In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the subsidiaries would be liable for such defaulted amounts. During 2016, 2015, and 2014 TSP placed 13.16%, 14.06%, and 13.26% of its reinsurance business with one reinsurance company.

TSS has excess of loss reinsurance treaties whereby it cedes a portion of its premiums to third parties. Reinsurance contracts are primarily for periods of one year, and are subject to modifications and negotiations in each renewal date. Premiums ceded under these contracts amounted to $3,148, $3,678, and $4,901 in 2016, 2015 and 2014, respectively. Claims ceded amounted to $1,700, $2,665, and $5,487, in 2016, 2015 and 2014, respectively. Principal reinsurance agreements include an organ transplant excess of loss treaty, which covers:

- For group policies, 80% of the claims up to a maximum of $800 (80% of $1,000), per person, per life. For other group policies with other options, the agreement covers 80% of the claims up to a maximum of $400 (80% of $500), per person, per life, or 80% of the claims up to a maximum of $200 (80% of $250), per person, per life.

- For policies provided to the active and retired employees of the Commonwealth of Puerto Rico and its instrumentalities, the treaty covers 100% of the claims up to a maximum of $500 per person, per life with a basic coverage, and $1,000 per person, per life with Major medical coverage.

- For policies provided to the municipalities of Puerto Rico, the treaty covers 100% of the claims up to a maximum of $250 with plans with lifetime limits and all other plans 100% of the claims up to a maximum of $1,000.

- For U.S. Virgin Islands policies, the treaty covers 100% of the claims up to a maximum of $2,000 per person, per life. The first $200 are retained by Triple-S and the excess up to $800 are reinsured.

TSP has a number of pro rata and excess of loss reinsurance treaties whereby the subsidiary retains for its own account all loss payments for each occurrence that does not exceed the stated amount in the agreements and a catastrophe cover, whereby it protects itself from a loss or disaster of a catastrophic nature. Under these treaties, TSP ceded premiums of $45,957, $48,676, and $52,058, in 2016, 2015, and 2014, respectively.

Reinsurance cessions are made on excess of loss and on a proportional basis. Principal reinsurance agreements are as follows:

- Property quota share treaty covering for a maximum of $30,000 for any one risk. Under this treaty 30% of the risk is ceded to reinsurers. The remaining exposure is covered by a property per risk excess of loss treaty that provides reinsurance in excess of $500 up to a maximum of $21,000, or the remaining 70% for any one risk. In addition, TSP has an additional property catastrophe excess of loss contract that provides protection for losses in excess of $8,000 resulting from any catastrophe, subject to a maximum loss of $15,000.

- Personal property catastrophe excess of loss. This treaty provides protection for losses in excess of $5,000 resulting from any catastrophe, subject to a maximum loss of $80,000.

- Commercial property catastrophe excess of loss. This treaty provides protection for losses in excess of $10,000 resulting from any catastrophe, subject to a maximum loss of $135,000.

- Property catastrophe excess of loss. This treaty provides a $235,000 protection in excess of $80,000 and $135,000 with respect to personal and commercial lines, respectively, resulting from any catastrophe, subject to a maximum loss of $175,000 in respect of the ceded portion of the Commercial Lines Quota Share.

- Reinstatement premium protection. This treaty provides a maximum limit of approximately $3,400 for personal lines and $10,000 in commercial lines to cover the necessity of reinstating the catastrophe program in the event it is activated.

- Casualty excess of loss treaty. This treaty provides reinsurance for losses in excess of $225 up to a maximum of $12,000.

- Medical malpractice excess of loss. This treaty provides reinsurance in excess of $150 up to a maximum of $3,000 per incident.

- Builders' risk quota share and first surplus covering contractors' risk. This treaty provides protection on a 20/80 quota share basis for the initial $2,500 and a first surplus of $12,500 for a maximum of $14,500 for any one risk.

- Surety quota share treaty covering contract and miscellaneous surety bond business. This treaty provides reinsurance of up to $5,000 for contract surety bonds, subject to an aggregate of $10,000 per contractor and $3,000 per miscellaneous surety bond.

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Facultative reinsurance is obtained when coverage per risk is required. All principal reinsurance contracts are for a period of one year, on a calendar basis, and are subject to modifications and negotiations in each renewal.

The ceded unearned reinsurance premiums on TSP arising from these reinsurance transactions amounted to $9,202 and $10,291 at December 31, 2016 and 2015, respectively, and are reported as other assets in the accompanying consolidated balance sheets.

TSV also cedes insurance with various reinsurance companies under a number of pro rata, excess of loss and catastrophe treaties. Under these treaties, TSV ceded premiums of $8,838, $9,596, and $10,328, in 2016, 2015, and 2014, respectively. Principal reinsurance agreements are as follows:

- Group life insurance facultative agreement, reinsuring risk in excess of $25 of certain group life policies and a combined pro rata and excess of loss agreement effective July 1, 2008, reinsuring 50% of the risk up to $200 and ceding the excess.

- Facultative pro rata agreements for the long term disability insurance, reinsuring 65% of the risk.

- Several reinsurance agreements, mostly on an excess of loss basis up to a maximum retention of $50. For certain new life products that have been issued after 1999, the retention limit is $175, and for others issued after January 1, 2015, the retention limit is $200.

- A quota share agreement for group major medical and an excess of loss agreements for group and individual major medical, where TSV cedes 40% of all claims up to a maximum retention of $100 and 70% of all claims over $100 up to a maximum of $2,000.

- Excess of loss agreement for the Major Medical Business in Costa Rica reinsuring 100% of all claims over $25.

TSV participates in various retrocession reinsurance agreements since early 2014. The retrocessions are based on group life and health reinsurance business pools for which TSV has participations ranging from 6.7% to 15% of the total reinsurance facility. TSV share of the reinsurer's gross liability is limited to a maximum that ranges depending on the agreement from $50 to $500 per covered life. The agreements cover new and renewal business for a period of twelve months and may be cancelled subject to ninety days written notice at any anniversary date.

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14. Income Taxes

The Company and its subsidiaries are subject to Puerto Rico income taxes. Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries. The Company's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. The Company is potentially subject to income tax audits in the Commonwealth of Puerto Rico for the taxable year 2015, until the applicable statute of limitations expire. Tax audits by their nature are often complex and can require several years to complete.

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. The corporations are also 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 up to a limit of 25% of the excess.

The Company, 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. Internal Revenue Code. The branch operations in the 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.

Federal income taxes recognized by the Company's insurance subsidiaries amounted to approximately $733, $574, and $451, in 2016, 2015, and 2014, respectively.

All other corporations within the group are subject to Puerto Rico income taxes as regular corporations, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the TSA 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 TSA and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2016 and 2015 is estimated at $26,000 and $59,000, respectively. 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 practical to determine the U.S. federal income tax liability if such outside basis difference was reversed.

On July 1, 2014, the Governor of Puerto Rico signed into law Act No. 77 including multiple amendments to the Puerto Rico tax code that had a direct impact on the tax liabilities of individual and corporate taxpayers. The amendments to the Puerto Rico tax code include, among others, changes to the corporate tax rate on long-term capital gains, which was increased from 15% to 20% for all transactions occurring after June 30, 2014. During the year ended December 31, 2014, the Company recognized a one-time charge to operations of approximately $6,300 as a consequence of this change in the enacted rate to account for the effect of the increase in rate in the unrealized gain on its investment portfolio.

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Act No. 77 also allowed corporations to elect, during the period running from July 1, 2014 to October 31, 2014, to prepay at a reduced income tax rate of 12% the increase in value of long-term capital assets. On December 22, 2014 and March 30, 2015, the Governor of Puerto Rico signed into law Act No. 238 and Act No. 44, respectively, providing further amendments to the provisions set forth by Act No.77, extending the period to prepay at the reduced tax rate of 12% on the increase in value of long-term capital assets until April 30, 2015. In connection with this law, on April 15, 2015 and December 31, 2014, the group of corporations that comprise TSM entered into Closing Agreements with the Puerto Rico Department of Treasury. The Closing Agreements, among other matters, were related with the payment of the preferential tax rate on the increase in value of some of its long-term capital assets, as permitted by Act No. 238 of 2014 and Act No. 44 of 2015. The agreements also covered certain tax attributes of the Corporation. As a result of the aforementioned tax laws and the Closing Agreements, the Company: (1) obtained a benefit from the lower tax rate provided under these statutes, (2) reassessed the realizability of some of its deferred taxes and (3) recorded a tax benefit of $2,524 for the year ended December 31, 2015.

The components of income tax (benefit) expense consisted of the following:

	2016	2015	2014
Current income tax expense	$1,981	$10,169	$22,551
Deferred income tax benefit	(8,326)	(5,070)	(21,806)
Total income tax (benefit) expense	$(6,345)	$5,099	$745

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The income tax (benefit) expense differs from the amount computed by applying the Puerto Rico statutory income tax rate to the income before income taxes as a result of the following:

	2016	2015	2014
Income before taxes	$11,086	$57,131	$66,051
Statutory tax rate	39.00 %	39.00 %	39.00 %
Income tax expense at statutory rate	4,324	22,281	25,760
Increase (decrease) in taxes resulting from			
Exempt interest income, net	(5,158)	(6,041)	(7,139)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(5,033)	(4,936)	(5,572)
Effect of taxing capital gains at a preferential rate	(3,799)	(7,432)	(14,248)
Dividends received deduction	-	270	173
Adjustment to deferred tax assets and liabilities for changes in effective tax rates	1,669	(1,576)	5,466
Other adjustments to deferred tax assets and liabilities	2,852	(58)	(707)
Effect of extraordinary dividend distribution from the Association - reported net of taxes in other income	(151)	(875)	-
Tax credit benefit	(709)	(537)	(1,482)
Tax returns to provision true up	(181)	(1,084)	-
Effect of reassessment of unused credits for alternative minimum taxes paid	-	-	(6,486)
Subtotal	(10,510)	(22,269)	(29,995)
Other permanent disallowances, net:			
Disallowed resolution agreements expense	-	1,716	-
Disallowance of expenses related to exempt interest income	58	-	46
Disallowed dividend received deduction	-	3,598	4,815
Disallowed interest expense	8	12	21
Other	-	61	282
Total other permanent differences	66	5,387	5,164
Other adjustments	(225)	(300)	(184)
Total income tax (benefit) expense	$(6,345)	$5,099	$745

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Deferred income taxes reflect the tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The net deferred tax asset at December 31, 2016 and 2015 of the Company and its subsidiaries is composed of the following:

	2016	2015
Deferred tax assets		
Allowance for doubtful receivables	$10,070	$13,434
Liability for pension benefits	10,624	21,416
Employee benefits plan	1,580	3,177
Postretirement benefits	772	1,252
Deferred compensation	2,041	1,818
Accumulated depreciation	1,137	1,240
Impairment loss on investments	2,035	1,749
Contingency reserves	-	30
Share-based compensation	4,393	4,875
Alternative minimum income tax credit	1,991	2,066
Purchased tax credits	6,062	931
Net operating loss	33,081	12,721
Difference in tax basis of investments portfolio	3,049	6,843
Accrued liabilities	2,133	2,402
Other	772	591
Gross deferred tax assets	79,740	74,545
Less: valuation allowance	(8,016)	(7,839)
Deferred tax assets	71,724	66,706
Deferred tax liabilities		
Deferred policy acquisition costs	(6,621)	(3,673)
Catastrophe loss reserve	(8,020)	(7,664)
Unrealized gain on securities available for sale	(15,804)	(15,021)
Unamortized debt issue costs	(152)	(29)
Intangible asset	(2,195)	(3,013)
Accumulated depreciation	(14)	(15)
Gross deferred tax liabilities	(32,806)	(29,415)
Net deferred tax asset	$38,918	$37,291

The net deferred tax asset shown in the table above at December 31, 2016 and 2015 is reflected in the consolidated balance sheets as $57,768 and $52,361, respectively, in deferred tax assets and $18,850 and $15,070, in deferred tax liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences. The valuation allowance is mostly related with the net operating losses generated by the Company's U.S. Virgin Islands and health clinic's operations that based on the available evidence are not considered to be realizable at the reporting dates.

At December 31, 2016, the Company and its subsidiaries has net operating loss carry-forwards for Puerto Rico income tax purposes of approximately $75,000, which are available to offset future taxable income for up to December 2026. Except for the valuation allowance described in the previous paragraph, the corporation concluded that as of December 31, 2016, it is more likely than not that the entities that have these net operating loss carry-forwards will generate sufficient taxable income within the applicable net operating loss carry-forward periods to realize its deferred tax asset. This conclusion is based on the historical results of each entity, adjusted to exclude non-recurring conditions, and the forecast of future profitability. Management will continue to evaluate, on a quarterly basis, if there are any significant events that will affect the corporation's ability to utilize these deferred tax assets.

15. Pension Plans

Noncontributory Defined Benefit Pension Plan

The Company sponsors a noncontributory defined-benefit pension plan for its employees and for the employees of certain subsidiaries. Pension benefits begin to vest after five years of vesting service, as defined, and are based on years of service and final average salary, as defined. The funding policy is to contribute to the plan as necessary to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended, plus such additional amounts as the Company may determine to be appropriate from time to time. The measurement date used to determine pension benefit for the pension plan is December 31.

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The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status as of December 31, 2016 and 2015, accordingly:

	2016	2015
Change in benefit obligation		
Benefit obligation at beginning of year	$184,782	$205,254
Service cost	3,640	4,137
Interest cost	8,749	8,281
Benefit payments	(12,911)	(7,591)
Actuarial (gain) loss	14,709	(25,299)
Liability gain due to curtailment	(35,092)	-
Benefit obligation at end of year	$163,877	$184,782
Accumulated benefit obligation at end of year	$163,877	$152,851
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$130,061	$128,108
Actual return on assets	13,248	1,544
Employer contributions	10,000	8,000
Benefit payments	(12,911)	(7,591)
Fair value of plan assets at end of year	$140,398	$130,061
Funded status at end of year	$(23,479)	$(54,721)
Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic pension cost		
Development of prior service credit		
Balance at beginning of year	$(2,223)	$(2,673)
Amortization	450	450
Curtailment/Settlement	1,773	-
Net prior service credit	-	(2,223)
Development of actuarial loss		
Balance at beginning of year	55,716	80,118
Amortization	(4,028)	(5,939)
(Gain)/Loss arising during the year	10,464	(18,463)
Curtailment/Settlement gain during the year	(35,092)	-
Actuarial net loss	27,060	55,716
Sum of deferrals	$27,060	$53,493
Net amount recognized	$3,581	$(1,228)

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The following assumptions were used on a weighted average basis to determine benefits obligations of the plan as of December 31, 2016 and 2015.

	2016	2015
Discount rate	4.50%	4.75%
Rate of compensation increase	N/A	Graded; 3.50% to 8.00%

The assumed discount rate of 4.50% at December 31, 2016 reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants on that date. The Company determined the discount rate based on a range of factors, including a yield curve comprised of the rates of return on high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations.

The amounts recognized in the balance sheets as of December 31, 2016 and 2015 consist of the following:

	2016	2015
Pension liability	$23,479	$54,721
Accumulated other comprehensive loss, net of a deferred tax of $7,191 and $17,500 in 2016 and 2015, respectively	19,869	35,993

The components of net periodic benefit cost for 2016, 2015, and 2014 were as follows:

	2016	2015	2014
Components of net periodic benefit cost			
Service cost	$3,640	$4,137	$3,589
Interest cost	8,749	8,281	8,287
Expected return on plan assets	(9,003)	(8,380)	(7,496)
Prior service benefit	(450)	(450)	(450)
Actuarial loss	4,028	5,939	4,134
Net periodic benefit cost	$6,964	$9,527	$8,064

Net periodic benefit cost may include settlement charges as a result of retirees selecting lump-sum distributions. Settlement charges may increase in the future if the number of eligible participants deciding to receive distributions and the amount of their benefits increases. There were no settlement charges during the years ended December 31, 2016, 2015 and 2014.

In December 2016, the Company announced that effective January 31, 2017, it will freeze the pay and service amounts used to calculate pension benefits for active employees who participated in the pension plan. Therefore, as of the Effective Date, active employees in the pension plan will not accrue additional benefits for future service and eligible compensation received. As a result of these changes, the Company recognized a pre-tax curtailment income of $1,773 during the year ended December 31, 2016.

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The estimated net actuarial loss that will be amortized from accumulated other comprehensive loss into net periodic pension benefits cost during the next twelve months is $345.

The following assumptions were used on a weighted average basis in computing the periodic benefit cost for the years ended December 31, 2016, 2015, and 2014:

	2016		2015		2014	
Discount rate	4.75	%	4.25	%	5.25	%
Expected return on plan assets	7.00	%	7.00	%	7.00	%
Rate of compensation increase	Graded; 3.50	%	Graded; 3.50	%	Graded; 3.50	%
	to 8.00	%	to 8.00	%	to 8.00	%

The basis of the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the assets categories in which the trust invests and the trust's target asset allocation. At December 31, 2016, the assumed target asset allocation for the program is: 44% to 56% in equity securities, 34% to 46% in debt securities, and 6% to 14% in other securities. Using a mean-variance model to project returns over a 30-year horizon under the target asset allocation, the 35 to 65 percentile range of annual rates of return is 5.7% to 7.1%. The Company selected a rate from within this range of 7.00% for 2016 and 2015, which reflects the Company's best estimate for this assumption based on the data described above, information on the historical returns on assets invested in the pension trust, and expected future conditions. This rate is net of both investment related expenses and a 0.15% reduction for other administrative expenses charged to the trust.

Plan Assets

Plan assets recorded at fair value are categorized based upon the level of judgment associated with the inputs used to measure their fair value. For level inputs and input definition, see Note 9.

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The following table summarizes fair value measurements by level at December 31, 2016 and 2015 for assets measured at fair value on a recurring basis:

	2016 Level 1	Level 2	Level 3	Total
Government obligations	$-	$6,276	$-	$6,276
Non-agency backed securities	-	715	-	715
Corporate obligations	-	7,243	-	7,243
Partnership/Joint venture	-	-	932	932
Limited Liability Corporations	-	98,188	-	98,188
Real estate	-	-	6,617	6,617
Registered investments	3,839	1,869	-	5,708
Common/Collective trusts	-	7,334	-	7,334
Hedge funds	-	4,581	-	4,581
Common stocks	1,515	1	-	1,516
Preferred stocks	107	12	-	119
Forward foreign currency contracts	-	(1)	-	(1)
Interest-bearing cash	2,224	-	-	2,224
Derivatives	-	27	-	27
	$7,685	$126,245	$7,549	$141,479

	2015 Level 1	Level 2	Level 3	Total
Government obligations	$-	$9,009	$-	$9,009
Non-agency backed securities	-	745	-	745
Corporate obligations	-	10,865	-	10,865
Partnership/Joint venture	-	-	567	567
Limited Liability Corporations	-	60,417	-	60,417
Real estate	-	-	5,929	5,929
Registered investments	6,224	5,927	-	12,151
Common/Collective trusts	-	16,479	-	16,479
Hedge funds	-	8,284	-	8,284
Common stocks	1,985	-	-	1,985
Preferred stocks	121	-	-	121
Forward foreign currency contracts	-	3	-	3
Interest-bearing cash	550	-	-	550
Derivatives	-	(28)	-	(28)
	$8,880	$111,701	$6,496	$127,077

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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 year ended December 31, 2016 and 2015 is as follows:

	Government Obligations	Corporate Obligations	Partnership/ Joint Venture	Real Estate	Hedge Funds	Total
Beginning balance at December 31, 2014	$.	.	1,097	6,197	-	$7,294
Actual return on program assets:						
Relating to assets still held at the reporting date	-	-	103	384	-	487
Relating to assets sold during the period	-	-	(39)	636	-	597
Purchases, issuances, and settlements	-	-	(594)	(1,288)	-	(1,882)
Transfer in and/or out	-	-	-	-	-	-
Ending balance at December 31, 2015	-	-	567	5,929	-	6,496
Actual return on program assets:						
Relating to assets still held at the reporting date	-	-	19	501	-	520
Relating to assets sold during the period	-	-	1	72	-	73
Purchases, issuances, and settlements	-	-	345	324	-	669
Transfer in and/or out	-	-	-	(209)	-	(209)
Ending balance at December 31, 2016	$ -	$ -	$ 932	$6,617	$ -	$7,549

The Company’s plan assets are invested in the National Retirement Trust. The National Retirement Trust was formed to provide financial and legal resources to help members of the BCBSA offer retirement benefits to their employees.

The investment program for the National Retirement Trust is based on the precepts of capital market theory that are generally accepted and followed by institutional investors, who by definition are long term oriented investors. This philosophy holds that:

- Increasing risk is rewarded with compensating returns over time, and therefore, prudent risk taking is justifiable for long-term investors.
- Risk can be controlled through diversification of asset classes and investment approaches, as well as diversification of individual securities.
- Risk is reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long-term, equity investments have provided and should continue to provide superior returns over other security types. Fixed-income securities can dampen volatility and provide liquidity in periods of depressed economic activity. Lengthening duration of fixed income securities may reduce surplus volatility.
- The strategic or long-term allocation of assets among various asset classes is an important driver of long term returns.
- Relative performance of various asset classes is unpredictable in the short term and attempts to shift tactically between asset classes are unlikely to be rewarded.

Investments will be made for the sole interest of the participants and beneficiaries of the programs participating in the National Retirement Trust. Accordingly, the assets of the National Retirement Trust shall be invested in accordance with these objectives:

- To ensure assets are available to meet current and future obligations of the participating programs when due.

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- To earn the maximum return that can be realistically achieved in the markets over the long term at a specified and controlled level of risk in order to minimize future contributions.

- To invest assets with consideration of the liability characteristics in order to better align assets and liabilities.

- To invest the assets with the care, skill, and diligence that a prudent person acting in a like capacity would undertake. In the process, the Administration of the Trust has the objective of controlling the costs involved with administering and managing the investments of the National Retirement Trust.

Cash Flows

The Company expects to contribute $4,000 to its pension program in 2017.

The following benefit payments, which reflect expected future service, as appropriate, are expected to be paid:

Year ending December 31	
2017	$8,253
2018	8,748
2019	9,047
2020	9,322
2021	9,314
2022 – 2026	49,252

Noncontributory Supplemental Pension Plan

In addition, the Company sponsors a noncontributory supplemental pension plan. This plan covers employees with qualified defined benefit retirement plan benefits limited by the U.S. Internal Revenue Code maximum compensation and benefit limits. At December 31, 2016 and 2015, the Company has recorded a pension liability of $7,413 and $8,224, respectively. The charge to accumulated other comprehensive loss related to the noncontributory pension plan at December 31, 2016 and 2015 amounted to $107 and $862, respectively, net of a deferred tax asset of $73 and $556, respectively.

16. Catastrophe Loss Reserve and Trust Fund

In accordance with Chapter 25 of the Puerto Rico Insurance Code, as amended, TSP is required to record a catastrophe loss reserve. This catastrophe loss reserve is supported by a trust fund for the payment of catastrophe losses. The reserve increases by amounts determined by applying a contribution rate, not in excess of 5%, to catastrophe written premiums as instructed annually by the Commissioner of Insurance, unless the level of the reserve exceeds 8% of catastrophe exposure, as defined. The reserve also increases by an amount equal to the resulting return in the supporting trust fund and decreases by payments on catastrophe losses or authorized withdrawals from the trust fund. Additions to the catastrophe loss reserve are deductible for income tax purposes.

This trust may invest its funds in securities authorized by the Insurance Code, but not in investments whose value may be affected by hazards covered by the catastrophic insurance losses. The interest earned on these investments and any realized gains (loss) on investment transactions are part of the trust fund and are recorded as income (expense) of the Company. An amount equal to the investment returns is recorded as an addition to the trust fund.

The interest earning assets in this fund, which amounted to $47,630 and $46,221 as of December 31, 2016 and 2015, respectively, are to be used solely and exclusively to pay catastrophe losses covered under policies written in Puerto Rico.

TSP is required to contribute to the trust fund, if needed or necessary, on or before January 31 of the following year. Contributions are determined by a rate determined or established by the Commissioner of Insurance for the catastrophe policies written in that year. No contribution was required for 2016 and 2015 since the level of the catastrophe reserve exceeds 8% of the catastrophe exposure.

The amount in the trust fund may be withdrawn or released in the case that TSP ceases to underwrite risks subject to catastrophe losses. Also, authorized withdrawals are allowed when the catastrophe loss reserve exceeds 8% of the catastrophe exposure, as defined.

TSP retained earnings are restricted in the accompanying consolidated balance sheets by the total catastrophe loss reserve balance, which as of December 31, 2016 and 2015 amounted to $44,823 and $43,041, respectively.

17. Stockholders' Equity

a. Common Stock

On November 12, 2015, the Company converted 1,426,721 issued and outstanding Class A shares into Class B common stock purchased pursuant to the provisions of the Articles of incorporation approved by Class A shareholders at the time of the Company's Initial Public Offering.

b. Preferred Stock

Authorized capital stock includes 100,000,000 of preferred stock with a par value of $1.00 per share. As of December 31, 2016 and 2015, there are no issued and outstanding preferred shares.

c. Liquidity Requirements

As members of the BCBSA, the Company, TSS, and TSA are required by membership standards of this association to maintain liquidity as defined by BCBSA. That is, to maintain net worth exceeding the Company Action Level as defined in the National Association of Insurance Commissioners' (NAIC) Risk-Based Capital for Insurers Model Act. The companies are in compliance with this requirement.

d. Dividends

As a holding company, the Company’s most significant assets are the common shares of its subsidiaries. The principal sources of funds available to the Company are rental income and dividends from its subsidiaries, which are used to fund our debt service and operating expenses.

The Company is subject to the provisions of the General Corporation Law of Puerto Rico, which restricts the declaration and payment of dividends by corporations organized pursuant to the laws of Puerto Rico. These provisions provide that Puerto Rico corporations may only declare dividends charged to their retained earnings or, in the absence of retained earnings, net profits of the fiscal year in which the dividend is declared and/or the preceding fiscal year.

The Company’s ability to pay dividends is dependent, among other factors, on its ability to collect cash dividends from its subsidiaries, which are subject to regulatory requirements, which may restrict their ability to declare and pay dividends or distributions. In addition, an outstanding secured term loan restricts our ability to pay dividends in the event of default (see note 11).

The accumulated earnings of TSS, TSA, TSV, TSB and TSP are restricted as to the payment of dividends by statutory limitations applicable to domestic insurance companies. Under Puerto Rico insurance regulations, the regulated subsidiaries are permitted, without requesting prior regulatory approval, to pay dividends as long as the aggregate amount of all such dividends in any calendar year does not exceed the lesser of: (i) 10% of its surplus as of the end of the immediately preceding calendar year; or (ii) its statutory net gain from operations for the immediately preceding calendar year (excluding realized capital gains). Regulated subsidiaries will be permitted to pay dividends in excess of the lesser of such two amounts only if notice of its intent to declare such a dividend and the amount thereof is filed with the Commissioner of Insurance and such dividend is not disapproved within 30 days of its filing. As of December 31, 2016, the dividends permitted to be distributed in 2016 by the regulated subsidiaries without prior regulatory approval from the Commissioner of Insurance amounted to approximately $43,000. This amount excludes any dividend from TSA because as stated in note 14, we do not intend to repatriate earnings from this subsidiary nor do any transaction that would cause a reversal on an outside basis difference created as a result of the business combination of TSA and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested.

18. Stock Repurchase Programs

The Company repurchases shares through open market transactions, in accordance with Rule 10b-18 of the Securities Exchange Act of 1934, as amended, under repurchase programs authorized by the Board of Directors. Shares purchased under share repurchase programs are retired and returned to authorized and unissued status.

A summary of share repurchase programs in place during the three-year-period ended December 31, 2016 is as follows:

- In July 2013 the Company’s Board of Directors authorized a $11,500 repurchase program (2013 $11,500 stock repurchase program) of its Class B common stock. This program was discontinued on October 28, 2014.

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- In October 2014 the Company's Board of Directors authorized a $50,000 repurchase program (2014 $50,000 share repurchase program) of its Class B common stock. This program was completed on October 7, 2015.

- In November 2015 the Company's Board of Directors authorized a $25,000 repurchase program (2015 $25,000 share repurchase program) of its Class B common stock. This program was completed on September 14, 2016.

The stock repurchase activity under stock repurchase programs for the years ended December 31, 2016, 2015, and 2014 is summarized as follows:

	2016			2015			2014		
	Shares Repurchased	Average Share Price	Amount Repurchased	Shares Repurchased	Average Share Price	Amount Repurchased	Shares Repurchased	Average Share Price	Amount Repurchased
2015 $25,000 program	951,831	$ 22.54	$ 21,370	154,554	$ 23.72	$ 3,629	-	$ -	$ -
2014 $50,000 program	-	-	-	2,086,532	21.69	44,658	228,525	23.55	5,341
2013 $11,500 program	-	-	-	-	-	-	367,700	16.32	5,995
Total	951,831	$ 22.54	$ 21,370	2,241,086	$ 21.87	$ 48,287	596,225	$ 20.28	$ 11,336

19. Comprehensive Income

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

	Unrealized Gains on securities	Liability for Pension Benefits	Accumulated Other Comprehensive Income
Beginning balance at December 31, 2015	$ 62,478	$ (36,855)	$ 25,623
Net current period change	14,761	15,728	30,489
Reclassification adjustments for gains and losses reclassified in income	(14,868)	1,151	(13,717)
Ending balance at December 31, 2016	$ 62,371	$ (19,976)	$ 42,395

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The related deferred tax effects allocated to each component of other comprehensive income in the accompanying consolidated statements of stockholders' equity and comprehensive income in 2016, 2015 and 2014 are as follows:

	2016		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$18,357	$ (3,596)	$ 14,761
Less reclassification adjustment for gains and losses realized in income	(17,379)	2,511	(14,868)
Net change in unrealized gain	978	(1,085)	(107)
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	1,888	(737)	1,151
Net change arising from assumptions and plan changes and experience	25,783	(10,055)	15,728
Net change in liability for pension benefits	27,671	(10,792)	16,879
Net current period change	$28,649	$ (11,877)	$ 16,772

	2015		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$(25,765)	$ 3,153	$ (22,612)
Less reclassification adjustment for gains and losses realized in income	(18,941)	2,564	(16,377)
Net change in unrealized gain	(44,706)	5,717	(38,989)
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	6,020	(2,348)	3,672
Net change arising from assumptions and plan changes and experience	19,940	(7,776)	12,164
Net change in liability for pension benefits	25,960	(10,124)	15,836
Net current period change	$(18,746)	$ (4,407)	$ (23,153)

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	2014		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$58,831	$ (8,161)	$ 50,670
Less reclassification adjustment for gains and losses realized in income	(18,231)	3,444	(14,787)
Net change in unrealized gain	40,600	(4,717)	35,883
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	3,737	(1,457)	2,280
Net change arising from assumptions and plan changes and experience	(35,271)	13,755	(21,516)
Net change in liability for pension benefits	(31,534)	12,298	(19,236)
Net current period change	$9,066	$ 7,581	$ 16,647

20. Share-Based Compensation

In December 2007 the Company adopted the 2007 Incentive Plan (the Plan), which permits the Board to grant stock options, restricted stock awards and performance awards to eligible officers, directors and employees. The Plan authorizes the granting of up to 4,700,000 of Class B common shares of authorized but unissued stock. At December 31, 2016 and 2015, there were 1,333,093 and 1,677,395 shares available for the Company to grant under the Plan, respectively. Stock options can be granted with an exercise price at least equal to the stock's fair market value at the grant date. The stock option awards vest in equal annual installments over 3 years and their expiration date cannot exceed 7 years. The restricted stock and performance awards are issued at the fair value of the stock on the grant date with vesting periods ranging from one to three years. Restricted stock awards vest in installments, as stipulated in each restricted stock agreement. Performance awards vest on the last day of the performance period, provided that at least minimum performance standards are achieved.

The fair value of each option award is estimated on the grant date using the Black Scholes option-pricing model that uses the weighted average assumptions in the following table. In absence of adequate historical data, the Company estimates the expected life of the option using the simplified method allowed by Staff Accounting Bulletin (SAB) No. 107. Since the Company was a newly public entity, expected volatility was computed based on the average historical volatility of similar entities with publicly traded shares. The risk-free rate for the expected term of the option was based on the U.S. Treasury zero-coupon bonds yield curve in effect at the time of grant.

(dollar amounts in thousands, except per share and share data)

Stock option activity during the year ended December 31, 2016 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding balance at January 1, 2016	4,440	$ 12.49		
Exercised during the year	(4,440)	$ 12.49		
Outstanding balance at December 31, 2016	-	$ -	N/A	$ -
Exercisable at December 31, 2016	-	$ -	N/A	$ -

No options were granted during the three years ended December 31 2016, 2015 and 2014. There were 4,440, 12,913, and 199,002 exercised options during 2016, 2015 and 2014, respectively. No cash was received from stock options exercises during the years ended December 31, 2016 and 2015. During the years ended December 31, 2016, 2015 and 2014, 2,290, 7,235, and 174,090 shares, respectively, were repurchased and retired as a result of non-cash exercise of stock options.

A summary of the status of the Company's nonvested restricted and performance shares as of December 31, 2016, and changes during the year ended December 31, 2016, are presented below:

	Restricted Awards		Performance Awards	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price
Outstanding balance at January 1, 2016	156,331	$ 19.45	495,005	$ 17.84
Granted	110,181	23.78	234,121	23.85
Lapsed	(99,276)	20.14	(89,171)	16.17
Forfeited (due to termination)	(5,412)	20.27	(60,218)	16.67
Forfeited (due to performance payout less than 100%)	-	-	(121,542)	18.61
Outstanding balance at December 31, 2016	161,824	$ 21.94	458,195	$ 21.44

The weighted average grant date fair value of restricted shares granted during the year 2016, 2015 and 2014 were $23.78, $20.33, and $16.46, respectively. Total fair value of restricted stock vested during the year ended December 31, 2016, 2015 and 2014 was $2,335, $3,608 and $1,146, respectively.

At December 31, 2016 there was $6,785 of total unrecognized compensation cost related to nonvested share based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.02 years. The Company currently uses authorized and unissued Class B common shares to satisfy share award exercises.

(dollar amounts in thousands, except per share and share data)

21. Net Income Available to Stockholders and Basic Net Income per Share

The following table sets forth the computation of basic and diluted earnings per share for the three-year period ended December 31:

	2016	2015	2014
Numerator for earnings per share			
Net income attributable to TSM available to stockholders	$17,438	$52,121	$65,660
Denominator for basic earnings per share –			
Weighted average of common shares	24,454,435	25,674,079	27,102,127
Effect of dilutive securities	56,658	87,662	86,705
Denominator for diluted earnings per share	24,511,093	25,761,741	27,188,832
Basic net income per share attributable to TSM	$0.71	$2.03	$2.42
Diluted net income per share attributable to TSM	$0.71	$2.02	$2.41

22. Commitments

The Company leases its regional offices, certain equipment, and warehouse facilities under non-cancelable operating leases. Minimum annual rental commitments at December 31, 2016 under existing agreements are summarized as follows:

Year ending December 31	
2017	$4,213
2018	3,936
2019	3,565
2020	2,345
2021	3,777
Total	$17,836

Rental expense for 2016, 2015, and 2014 was $7,613, $7,730, and $8,738 respectively.

Pursuant to the provisions of the Puerto Rico Insurance Code and Regulations, TSP is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (the Association). As a participant, TSP shares the risk, proportionately with other members, based on a formula established by the Puerto Rico Insurance Code, of the results and financial condition of the Association, and accordingly, may be subject to assessments to cover obligations of the Association or may receive refund distributions for good experience. In December 2015, the Association declared an extraordinary dividend to its members for $21,000 subject to a special tax rate of 15% as allowed by Act No. 201 of December 7, 2015. The dividend was received net of tax in three installments in 2016. During the year ended December 31, 2015, TSP recorded a special distribution of $1,672, net of tax, which is included as other income in the accompanying consolidated statements of earnings.

23. Contingencies

The Company’s business is subject to numerous laws and regulations promulgated by Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla governmental authorities. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. The Commissioner of Insurance of Puerto Rico, as well as other Federal, Puerto Rico, USVI, Costa Rica, BVI, and Anguilla government authorities, regularly make inquiries and conduct audits concerning the Company's compliance with such laws and regulations. Penalties associated with violations of these laws and regulations may include significant fines and exclusion from participating in certain publicly funded programs and may require the Company to comply with corrective action plans or changes in our practices.

As of December 31, 2016, the Company is involved in various legal actions arising in the ordinary course of business. The Company is also defendant 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 the Company believes the 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 rights to acquire shares of the Company on favorable terms pursuant to agreements previously entered by our predecessor managed care subsidiary, Seguros de Servicios de Salud de Puerto Rico, Inc. (SSS), with physicians or dentists who joined our provider network to sell such new provider shares of SSS at a future date (Share Acquisition Agreements) or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

Claims by Heirs of Former Shareholders

The Company and Triple-S Salud, Inc. (TSS) are defending eight individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 113 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, filed on July 31, 2008, 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 Puerto Rico Court of First Instance dismissed the claim and determined it was time barred under the local securities law. On January 27, 2012, the Puerto Rico Court of Appeals upheld the dismissal. On October 1, 2013, the Puerto Rico Supreme Court reversed the dismissal, holding that the two-year statute of limitations contained in the local securities law did not apply and returning the case to the Court of First Instance. On December 16, 2015, the Company filed a motion for summary judgement and on November 29, 2016, the Court of First Instance held that plaintiff's opposition to Triple-S' motion for summary judgment did not comply with the Rules of Civil Procedures. Triple-S has requested the Court to consider its motion for summary judgment as unopposed. The parties are awaiting further proceedings.

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In the second case, entitled Olivella Zalduondo, et al, v. Seguros de Servicios de Salud, et al, filed on September 21, 2010, the Puerto Rico's 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 local securities laws. On appeal, the Court of Appeals affirmed the decision of the lower court. On January 8, 2013, the Puerto Rico Supreme Court ruled that the applicable statute of limitations is the fifteen-year period for collection of monies of the Puerto Rico Civil Code. On January 28, 2013, the Company filed a motion for reconsideration which was subsequently denied. On March 26, 2013, plaintiffs amended their complaint, which was answered by the Company on April 16, 2013. Discovery is ongoing.

In the third case, entitled Heirs of Dr. Juan Acevedo, et al, v. Triple-S Management Corporation, et al, filed on March 27, 2008, the Puerto Rico Court of First Instance denied our motion for summary judgment based on its determination that there are material issues of fact in controversy. In response to our appeal, the Puerto Rico Court of Appeals confirmed the decision of the Puerto Rico Court of First Instance and denied a subsequent plea for reconsideration. Both parties have filed motions for summary judgment and, consequently, their respective oppositions. The parties are awaiting the court's decision on their respective motions for summary judgment.

The fourth case, entitled Montilla López, et al, v. Seguros de Servicios de Salud, et al, was filed on November 29, 2011 in the Puerto Rico Court of First Instance. The Company filed a motion to dismiss on the grounds that the claim is time barred under the local securities laws, which was denied by the court on January 24, 2013. The parties have filed their respective motions for summary judgment and are awaiting further proceedings.

The fifth case, entitled Cebollero Santamaría v. Triple-S Salud, Inc., et al, was filed on March 26, 2013 in the Puerto Rio Court of First Instance. On October 29, 2013, the Company filed a motion for summary judgment on the grounds that the claim is time-barred under the fifteen-year statute of limitations of the Puerto Rico Civil Code for collection of monies and, in the alternative, that plaintiff failed to state a claim for which relief can be granted. Said motion was denied by the court. On November 2, 2015, the Company filed a Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on March 8, 2016. On March 23, 2016, the Company filed a request for reconsideration with the Puerto Rico Court of Appeals, which was denied on April 28, 2016. Accordingly, on May 31, 2016, the Company filed a Writ of Certiorari with the Supreme Court of Puerto Rico. The same was denied on September 23, 2016. The Company filed a motion for reconsideration before the Puerto Rico Supreme Court on October 11, 2016. The Supreme Court denied the reconsideration on December 2, 2016. The Company has filed a second and final reconsideration motion which is still pending adjudication.

The sixth case, entitled Irizarry Antonmattei, et al, v. Seguros de Servicios de Salud, et al, was filed on April 16, 2013 in the Puerto Rico Court of First Instance.. On November 5, 2013, the Company moved to dismiss the first amended complaint and On May 16, 2014, plaintiffs filed a motion for summary judgment, which the Company opposed on May 28, 2014. On June 16, 2014, the court ordered plaintiffs to file a memorandum of law and struck plaintiff's motion for summary judgment. On September 18, 2014, the court denied our motion to dismiss the amended complaint. On September 29, 2014, the Company filed a motion for reconsideration, which was denied by the court on November 4, 2014. On December 4, 2014, the Company filed a petition of Writ of Certiorari with the Puerto Rico Court of Appeals, which was denied on April 1, 2015. A status conference is scheduled for March 16, 2017. Discovery is ongoing.

The seventh case, entitled Allende Santos, et al, v. Triple-S Salud, et al, was filed on March 28, 2014 in the Puerto Rico Court of First Instance. On July 2, 2014, the Company filed its response. Discovery is ongoing.

The eighth case, entitled Ruiz de Porras, et al, v. Triple-S Salud, Inc., was filed on January 7, 2016 in the Puerto Rico Courts of First Instance. On March 28, 2016, the Company filed its response. Plaintiffs and the Company have filed various motions with the court and are awaiting further proceedings.

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Management believes these claims are time barred under one or more statutes of limitations and will vigorously defend them on these grounds; however, as a result of the Puerto Rico Supreme Court's decision to deny the applicability of the statute of limitations contained in the local securities law, some of these claims will likely be litigated on their merits.

Joint Underwriting Association Litigations

On August 19, 2011, plaintiffs, purportedly a class of motor vehicle owners, filed an action in the United States District Court for the District of Puerto Rico against the Puerto Rico Joint Underwriting Association (JUA) and 18 other defendants, including Triple-S Propiedad (TSP), alleging violations under the Puerto Rico Insurance Code, the Puerto Rico Civil Code, the Racketeer Influenced and Corrupt Organizations Act (RICO) and the local statute against organized crime and money laundering. JUA is a private association created by law to administer a compulsory public liability insurance program for motor vehicles in Puerto Rico (CLI). As required by its enabling act, JUA is composed of all the insurers that underwrite private motor vehicle insurance in Puerto Rico and exceed the minimum underwriting percentage established in such act. TSP is a member of JUA.

In this lawsuit, entitled Noemí Torres Ronda, et al v. Joint Underwriting Association, et al., plaintiffs allege that the defendants illegally charged and misappropriated a portion of the CLI premiums paid by motor vehicle owners in violation of the Puerto Rico Insurance Code. Specifically, they claim that because the defendants did not incur in acquisition or administration costs allegedly totaling 12% of the premium dollar, charging for such costs constitutes the illegal traffic of premiums. Plaintiffs also claim that the defendants, as members of JUA, violated RICO through various inappropriate actions designed to defraud motor vehicle owners located in Puerto Rico and embezzle a portion of the CLI premiums for their benefit.

Plaintiffs seek the reimbursement of funds for the class amounting to $406,600 treble damages under RICO, and equitable relief, including a permanent injunction and declaratory judgment barring defendants from their alleged conduct and practices, along with costs and attorneys' fees. Discovery has been completed.

Since 2011, TSP has been defending this claim and, jointly with other defendants, has filed several pleas in connection with the certification of the class and the dismissal of the claim. On December 17, 2015, three defendants filed a joint motion informing the court that said defendants are conducting negotiations to settle the claim and requested a 60-day period in other to continue the negotiations. Subsequently, the term to continue negotiations was extended until April 17, 2016. On April 22, 2016, plaintiff and the negotiating defendants filed a stipulation of settlement and release which is subject to approval of the court. TSP and the non-settling defendants have objected the filed settlement. Procedures are ongoing.

In re Blue Cross Blue Shield Antitrust Litigation

TSS is a co-defendant with multiple Blue Plans and the Blue Cross Blue Shield Association (BCBSA) in a multi-district class action litigation entitled In re Blue Cross Blue Shield Association Antitrust Litigation, filed on July 24, 2012. The plaintiffs allege that the exclusive service area (ESA) requirements of the Primary License Agreements with the Blue Plans violate antitrust laws. The plaintiffs in these suits seek monetary awards and, in some instances, injunctive relief barring ESAs. Those cases have been centralized in the United States District Court for the Northern District of Alabama. Prior to centralization, motions to dismiss were filed by several plans, including TSS. The parties have filed several pleas and presented their position in argumentative hearings before the court in connection with the motion to dismiss, which was ultimately dismissed without prejudice by the court. On April 6, 2015, plaintiffs filed suit in the United States District Court of Puerto Rico, which we believe does not preclude TSS' jurisdictional arguments. The Company has joined BCBSA in vigorously contesting these claims. Discovery is ongoing.

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Claims Relating to the Provision of Health Care Services

TSS is a defendant in several claims for collection of monies in connection with the provision of health care services. Among them are individual complaints filed before ASES by six community health centers alleging TSS breached their contracts with respect to certain capitation payments and other monetary claims. Such claims have an aggregate value of approximately $9,600. Discovery is ongoing, and given the early stage of the cases, the Company cannot assess the probability of an adverse outcome or the reasonable financial impact that any such outcome may have on the Company. TSS believes many of these complaints are time-barred and will continue to conduct a vigorous defense.

On April 17, 2015, ASES notified the Company of a complaint from a medical service provider demanding payment amounting to $5,073. Claimant alleges that TSS did not pay the claims, paid them incorrectly, or recovered payments from the provider for which TSS did not have the right. TSS answered the complaint and counterclaimed. TSS denies any wrongdoing and will continue to defend this matter vigorously.

On January 12, 2015, American Clinical Solutions LLC, a limited liability company that provides clinical laboratory services filed a complaint in Florida state court alleging that Triple-S Management (TSM) and TSS failed to pay certain clinical laboratory services provided to Blue Cross Blue Shield members. TSS and TSM have filed a motion to dismiss alleging lack of jurisdiction. TSM and TSS also requested a transfer of the case to Puerto Rico. Plaintiff has requested jurisdictional discovery, which is ongoing. The claim amounts to $5,000. TSS and TSM will continue to vigorously oppose this claim.

ASES Audits

The Company is subject to numerous audits in connection with the provision of services to private and governmental entities. These audits may include numerous aspects of our business, including claim payment practices, contractual obligations, service delivery, third-party obligations, and business practices, among others. Deficiencies in audits could have a material adverse effect on our reputation and business, including termination of contracts, significant increases in the cost of managing and remediating deficiencies, payment of contractual penal clauses, and others, any of which could have a material and adverse effect on our results of operations, financial position and cash flows.

On July 2, 2014, ASES notified TSS that the results of an audit conducted in connection with the government health plan contract for several periods between October 2005 to September 2013, reflected overpayment of premiums made to TSS pursuant to prior contracts with ASES in the amount of $7,900. The alleged overpayments were related to duplicated payments or payments made for deceased members, and requested the reimbursement of the alleged overpayment. TSS contends that ASES' request for reimbursement has no merits on several grounds, including a 2011 settlement between both parties covering the majority of the amount claimed by ASES, and that ASES, under the terms of the contracts, was responsible for certifying the membership. On March 24, 2015, the court ruled that the scope of the 2011 settlement agreement did not preclude ASES from recovering "future claims" including the alleged improper payments. After the denial of a subsequent motion for reconsideration and a petition for a Writ of Certiorari by the Puerto Rico Court of Appeals, on January 21, 2016, TSS filed a Writ of Certiorari with the Supreme Court of Puerto Rico. TSS also amended its claim to include the Puerto Rico Health Department (PRHD), as it asserts the PRHD is an indispensable party for the resolution of this matter. With this amendment, TSS seeks payment of approximately $5,000, since the premiums paid to TSS should have been higher than what ASES actually paid given the additional risk assumed by TSS. The matter is currently being addressed before a special commissioner assigned by the court. The Company will continue to conduct a vigorous defense of this matter.

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24. Statutory Accounting

TSS, TSA, TSV and TSP (collectively known as the regulated subsidiaries) are regulated by the Commissioner of Insurance. The regulated subsidiaries are required to prepare financial statements using accounting practices prescribed or permitted by the Commissioner of Insurance, which uses a comprehensive basis of accounting other than GAAP. Specifically, the Commissioner of Insurance has adopted the NAIC's Statutory Accounting Principles (NAIC SAP) as the basis of its statutory accounting practices, as long as they do not contravene the provisions of the Puerto Rico Insurance Code, its regulations and the Circular Letters issued by the Commissioner of Insurance. The Commissioner of Insurance may permit other specific practices that may deviate from prescribed practices and NAIC SAP. Statutory accounting principles that are established by state laws and permitted practices mandated by the Commissioner of Insurance may cause the statutory capital and surplus of the regulated subsidiaries to differ from that calculated under the NAIC SAP.

Prescribed statutory accounting practices in Puerto Rico allow TSP to disregard a deferred tax liability resulting from additions to the catastrophe loss reserve trust fund that would otherwise be required under NAIC SAP. The use of prescribed and permitted accounting practices, both individually and in the aggregate, did not change significantly the combined statutory capital and surplus that would have been reported following NAIC SAP, which as of December 31, 2016 and 2015 is approximately 1.3% and 1.1%, respectively, lower than the combined reported statutory capital and surplus.

The regulated subsidiaries are required by the NAIC and the Commissioner of Insurance to submit risk-based capital (RBC) reports following the NAIC's RBC Model Act and accordingly, are subject to certain regulatory actions if their capital levels do not meet minimum specific RBC requirements. RBC is a method developed by the NAIC to determine the minimum amount of statutory capital appropriate for an insurance company to support its overall business operations in consideration of its size and risk profile. The RBC is calculated by applying capital requirement factors to various assets, premiums and reserve items. The factor is higher for those items with greater underlying risk and lower for less risky items. The adequacy of an organization's actual capital can then be measured by a comparison to its RBC as determined by the formula.

The RBC Model Act requires increasing degrees of regulatory oversight and intervention as an organization's risk-based capital declines. The level of regulatory oversight ranges from requiring organizations to inform and obtain approval from the domiciliary insurance commissioner of a comprehensive financial plan for increasing its RBC, to mandatory regulatory intervention requiring an insurance company to be placed under regulatory control, in a rehabilitation or liquidation proceeding.

The Commissioner of Insurance adopted in 2009 an RBC policy that requires that the regulated entities maintain statutory reserves at or above the "Company Action Level," in order to avoid regulatory monitoring and intervention. The Company action level is currently set at 200% of the RBC for the entities within our Managed Care segment and 300% of the RBC for entities within our Property and Casualty and Life Insurance segments. As of December 31, 2016 all regulated subsidiaries comply with minimum statutory reserve requirements, except for TSA for which we expect to remediate and implement corrective actions plans to comply with such requirements. As of December 31, 2015 all regulated subsidiaries comply with minimum statutory reserve requirements.

The following table sets forth the combined net admitted assets, capital and surplus, RBC requirement, which is our statutory capital and surplus requirement, and net income for the regulated subsidiaries at December 31, 2016, 2015 and 2014:

(dollar amounts in millions)	2016	2015	2014
Net admitted assets	$1,829	$1,881	$1,734
Capital and surplus	638	691	659
RBC requirement	278	301	209
Net income	24	73	88

As more fully described in note 16, a portion of the accumulated earnings and admitted assets of TSP are restricted by the catastrophe loss reserve and the trust fund balance as required by the Insurance Code. The total catastrophe loss reserve and trust fund amounted to $44,823 and $47,630 as of December 31, 2016, respectively. The total catastrophe loss reserve and trust fund amounted to $43,041 and $46,221 as of December 31, 2015, respectively. In addition, the admitted assets of the regulated subsidiaries are restricted by the investments deposited with the Commissioner of Insurance to comply with requirements of the Insurance Code (see note 3). Investments with an amortized cost of $5,358 and $5,136 (fair value of $5,788 and $5,276) at December 31, 2016 and 2015, respectively, were deposited with the Commissioner of Insurance. As a result, the combined restricted assets for our regulated subsidiaries were $52,988 and $51,357 as of December 31, 2016 and 2015, respectively.

(dollar amounts in thousands, except per share and share data)

25. Supplementary Information on Cash Flow Activities

	2016	2015	2014
Supplementary information			
Noncash transactions affecting cash flow activities			
Change in net unrealized (gain) loss on securities available for sale, including deferred income tax (asset)/liability of $1,085, $(5,717), and $4,717 in 2016, 2015, and 2014,respectively	$107	$38,989	$(35,883)
Change in liability for pension benefits, and deferred income tax (asset)/liability of $10,792, $10,124, $(12,298), in 2016, 2015, and 2014, respectively	$(16,879)	$(15,836)	$19,236
Repurchase and retirement of common stock	$(56)	$(182)	$(3,049)
Exercise of stock options	$55	$179	$2,885
Unsettled sales	$-	$-	$10,456
Other			
Income taxes paid	$11,549	$6,437	$16,069
Interest paid	$7,635	$4,792	$5,764

26. Segment Information

The operations of the Company are conducted principally through three reportable business segments: Managed Care, Life Insurance, and Property and Casualty Insurance. Reportable business segments were identified according to the type of insurance products offered and consistent with the information provided to the chief operating decision maker. These segments and a description of their respective operations are as follows:

- Managed Care segment – This segment is engaged in the sale of managed care products to the Commercial, Medicare and Medicaid market sectors. The Commercial accounts sector includes corporate accounts, U.S. federal government employees, individual accounts, local government employees, and Medicare supplement. The following represents a description of the major contracts by sector:

- The segment is a qualified contractor to provide health coverage to federal government employees within Puerto Rico. Earned premiums revenue related to this contract amounted to $163,556, $155,821, and $152,659 for the three-year period ended December 31, 2016, 2015, and 2014, respectively (see note 12).

- Under its commercial business, the segment also provides health coverage to certain employees of the Commonwealth of Puerto Rico and its instrumentalities. Earned premium revenue related to such health plans amounted to $29,475, $30,607, and $37,748 for the three-year period ended December 31, 2016, 2015, and 2014, respectively.

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– The segment provides services through its Medicare health plans pursuant to a limited number of contracts with CMS. Earned premium revenue related to the Medicare business amounted to $1,023,904, $1,097,657, and $1,013,746 for the three-year period ended December 31, 2016, 2015, and 2014, respectively.

– The segment also participates in the Medicaid program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the government of Puerto Rico. We served all eight service regions on an administrative service only basis (ASO) until March 31, 2015. Administrative service fees for each of the years in the two-year period ended December 31, 2015, and 2014 amounted to $24,266, and $95,908, respectively. Beginning on April 1, 2015, the segment began providing managed care services on a fully-insured basis, earned premium revenue related to this business amounted to $783,231, and $607,216 for the periods ended December 31, 2016, and 2015.

- Life Insurance segment – This segment offers primarily life and accident and health insurance coverage, and annuity products. The premiums for this segment are mainly subscribed through an internal sales force and a network of independent brokers and agents.

- Property and Casualty Insurance segment –The predominant insurance insurance products of this segment commercial package, commercial auto, and personal package. The premiums for this segment are originated through a network of independent insurance agents and brokers. Agents or general agencies collect the premiums from the insureds, which are subsequently remitted to the segment, net of commissions. Remittances are generally due 60 days after the closing date of the general agent’s account current.

The Company evaluates performance based primarily on the operating revenues and operating income of each segment. Operating revenues include premiums earned (net), administrative service fees and net investment income. Operating costs include claims incurred and operating expenses. The Company calculates operating income or loss as operating revenues less operating costs.

The accounting policies for the segments are the same as those described in the summary of significant accounting policies included in the notes to consolidated financial statements. The financial data of each segment is accounted for separately; therefore no segment allocation is necessary. However, certain operating expenses are centrally managed, therefore requiring an allocation to each segment. Most of these expenses are distributed to each segment based on different parameters, such as payroll hours, processed claims, or square footage, among others. In addition, some depreciable assets are kept by one segment, while allocating the depreciation expense to other segments. The allocation of the depreciation expense is based on the proportion of assets used by each segment. Certain expenses are not allocated to the segments and are kept within TSM’s operations.

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The following tables summarize the operations by operating segment for each of the years in the three year period ended December 31, 2016:

	2016	2015	2014
Operating revenues			
Managed care			
Premiums earned, net	$2,647,169	$2,548,270	$1,894,791
Fee revenue	17,843	44,705	119,302
Intersegment premiums/fee revenue	5,918	5,860	5,681
Net investment income	15,102	11,779	15,010
Total managed care	2,686,032	2,610,614	2,034,784
Life			
Premiums earned, net	156,140	147,864	142,245
Intersegment premiums	716	251	240
Net investment income	24,877	24,457	23,717
Total life	181,733	172,572	166,202
Property and casualty			
Premiums earned, net	87,332	87,020	91,530
Intersegment premiums	613	613	613
Net investment income	8,891	8,706	8,600
Total property and casualty	96,836	96,339	100,743
Other segments*			
Intersegment service revenues	9,907	10,863	9,100
Operating revenues from external sources	3,563	3,875	4,234
Total other segments	13,470	14,738	13,334
Total business segments	2,978,071	2,894,263	2,315,063
TSM operating revenues from external sources	19	53	95
Elimination of intersegment premiums	(7,247)	(6,724)	(6,534)
Elimination of intersegment service revenue	(9,907)	(10,863)	(9,100)
Other intersegment eliminations	(78)	23	116
Consolidated operating revenues	$2,960,858	$2,876,752	$2,299,640

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

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	2016	2015	2014
Operating (loss) income			
Managed care	$(36,777)	$20,514	$31,445
Life	21,458	20,012	22,561
Property and casualty	12,074	8,273	10,044
Other segments*	(1,784)	(301)	(4,440)
Total business segments	(5,029)	48,498	59,610
TSM operating revenues from external sources	19	53	95
TSM unallocated operating expenses	(9,739)	(18,858)	(14,571)
Elimination of TSM charges	9,522	9,623	9,717
Consolidated operating (loss) income	(5,227)	39,316	54,851
Consolidated net realized investment gains	17,379	18,941	18,231
Consolidated interest expense	(7,635)	(8,169)	(9,274)
Consolidated other income, net	6,569	7,043	2,243
Consolidated income before taxes	$11,086	$57,131	$66,051

	2016	2015	2014
Depreciation and amortization expense			
Managed care	$11,114	$13,268	$17,935
Life	1,030	1,094	1,394
Property and casualty	544	673	994
Other segments*	645	556	3,264
Total business segments	13,333	15,591	23,587
TSM depreciation expense	787	788	813
Consolidated depreciation and amortization expense	$14,120	$16,379	$24,400

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

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	2016	2015	2014
Assets			
Managed care	$1,013,872	$1,034,725	$975,999
Life	816,920	770,721	764,268
Property and casualty	349,159	350,514	362,620
Other segments*	26,034	25,629	22,682
Total business segments	2,205,985	2,181,589	2,125,569
Unallocated amounts related to TSM			
Cash, cash equivalents, and investments	17,033	12,304	44,157
Property and equipment, net	22,380	23,219	20,415
Other assets	21,646	31,732	37,851
	61,059	67,255	102,423
Elimination entries – intersegment receivables and others	(48,045)	(42,699)	(82,256)
Consolidated total assets	$2,218,999	$2,206,145	$2,145,736

	2016	2015	2014
Significant noncash items			
Net change in unrealized gain (loss) on securities available for sale			
Managed care	$104	$(15,505)	$6,055
Life	2,659	(13,005)	22,349
Property and casualty	(2,984)	(10,482)	7,789
Other segments*	105	(10)	-
Total business segments	(116)	(39,002)	36,193
Amount related to TSM	9	13	(310)
Consolidated net change in unrealized gain (loss) on securities available for sale	$(107)	$(38,989)	$35,883

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

27. Subsequent Events

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

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Condensed Financial Information of Triple-S Management Corporation
(Registrant)
Balance Sheets
(in thousands)

	As of December 31,	
	2016	2015
Assets:		
Cash and cash equivalents	$14,153	$12,304
Securities available for sale, at fair value:		
Equity Securities (cost of $2,869 in 2016)	2,880	-
Investment in subsidiaries	866,010	866,712
Notes receivable and accrued interest from subsidiaries	47,153	48,858
Due from subsidiaries	5,255	3,730
Deferred tax assets	14,976	26,767
Other assets	29,050	28,138
Total assets	$979,477	$986,509
Liabilities:		
Notes payable and accrued interest to subsidiary	16,475	15,720
Due to subsidiaries	22,661	11,860
Long-term borrowings	35,085	36,827
Liability for pension benefits	30,892	62,945
Other liabilities	11,201	11,631
Total liabilities	116,314	138,983
Stockholders' equity:		
Common stock, class A	951	951
Common stock, class B	23,321	24,048
Additional paid-in-capital	65,592	83,438
Retained earnings	730,904	713,466
Accumulated other comprehensive income, net	42,395	25,623
Total stockholders' equity	863,163	847,526
Total liabilities and stockholders' equity	$979,477	$986,509

The accompanying notes are an integral part of these condensed financial statements

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Triple-S Management Corporation
Statements of Earnings
(in thousands)

	2016	2015	2014
Investment income	$19	$53	$95
Other revenues	11,644	12,015	11,034
Total revenues	11,663	12,068	11,129
Operating expenses:			
General and administrative expenses	9,739	18,858	14,571
Interest expense	1,763	2,435	2,998
Total operating expenses	11,502	21,293	17,569
Income (loss) before income taxes	161	(9,225)	(6,440)
Income tax expense (benefit)	1,183	(1,071)	(162)
Loss of parent company	(1,022)	(8,154)	(6,278)
Equity in net income of subsidiaries	18,460	60,275	71,938
Net income	$17,438	$52,121	$65,660

The accompanying notes are an integral part of these condensed financial statements

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Triple-S Management Corporation
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Condensed Financial Information of Triple-S Management Corporation
(Registrant)
Statements of Cash Flows
(in thousands)

	2016	2015	2014
Net income	$17,438	$52,121	$65,660
Adjustment to reconcile net income to net cash provided by operating activities:			
Equity in net income of subsidiaries	(18,460)	(60,275)	(71,938)
Depreciation and amortization	839	872	863
Shared- based compensation	2,799	8,290	2,371
Deferred income tax expense (benefit)	1,042	(1,227)	(137)
Dividends received from subsidiaries	19,000	47,000	36,600
Other	-	42	34
Changes in assets and liabilities:			
Accrued interest from subsidiaries, net	(646)	(1,046)	(1,614)
Due from subsidiaries	(1,525)	4,869	(2,831)
Other assets	(1,751)	(1,953)	1,004
Due to subsidiaries	10,801	(2,162)	5,654
Other liabilities	(4,812)	4,614	(1,948)
Net cash provided by operating activities	24,725	51,145	33,718
Cash flows from investing activities:			
Acquisition of investment in securities classified as available for sale	(2,869)	-	(27,572)
Proceeds from sale and maturities of investment in securities classified as available for sale	-	27,500	28,016
Collection of note receivable from subsidiary	4,500	9,000	9,250
Issuance of note receivable to subsidiary	(1,394)	(2,369)	(13,131)
Capital contribution to subsidiary	-	-	(908)
Net acquisition of property and equipment	-	(3,676)	-
Net cash provided by (used in) investing activities	237	30,455	(4,345)
Cash flow from financing activities:			
Repayments of long-term borrowings	(1,742)	(37,640)	(1,640)
Repurchase of common stock	(21,371)	(48,287)	(11,337)
Net cash used in financing activities	(23,113)	(85,927)	(12,977)
Net increase (decrease) in cash and cash equivalents	1,849	(4,327)	16,396
Cash and cash equivalents, beginning of year	12,304	16,631	235
Cash and cash equivalents, end of year	$14,153	$12,304	$16,631

The accompanying notes are an integral part of these condensed financial statements

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Triple-S Management Corporation
(Parent Company Only)
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December 31, 2016, 2015 and 2014
(dollar amounts in thousands)

The accompanying notes to the condensed financial statements should be read in conjunction with the consolidated financial statements and the accompanying notes thereto included in Item 15 to the Annual Report on Form 10-K.

(1) For purposes of these condensed financial statements, Triple S Management Corporation's (the Company or TSM) investment in its wholly owned subsidiaries is recorded using the equity method of accounting.

(2) Significant Accounting Policies

The significant accounting policies followed by the Company are set forth in the notes to the consolidated financial statements and the accompanying notes thereto. Refer to Item 15 to the Annual Report on Form 10 K.

(3) Long Term Borrowings

A summary of the long term borrowings entered into by the Company at December 31, 2016 and 2015 follows:

	2016	2015
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	$24,000	$24,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.23% at December 31, 2015.)	-	12,827
Secured loan payable of $11,187, payable in monthly installments of $137 through October 1, 2023, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.77% at December 31, 2016.)	11,187	-
Total borrowings	35,187	36,827
Less unamortized debt issuance costs	102	-
	$35,085	$36,827

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Aggregate maturities of the Company's long term borrowings as of December 31, 2016 are summarized as follows:

Year ending December 31	
2017	$1,640
2018	1,640
2019	1,640
2020	25,640
2021	1,640
Thereafter	2,987
	$35,187

All of the Company's senior notes may be prepaid at par, in total or partially, five years after issuance as determined by the Company. These senior unsecured notes contain certain non-financial covenants with which the Company has complied at December 31, 2016.

On December 28, 2016, TSM entered into a $35,500 credit agreement with a commercial bank in Puerto Rico. The agreement consists of three term loans: (i) Term Loan A in the principal amount of $11,187, (ii) Term Loan B in the principal amount of $20,150 and (iii) Term Loan C in the principal amount of $4,116. Term Loan A matures in October 2023 while the Term Loans B and C mature in January 2024. Term Loan A was used to refinance the previous $41,000 secured loan payable with the same commercial bank in Puerto Rico. Proceeds from Term Loans B and C were received on January 11, 2017 and were used to prepay the outstanding principal amount plus accrued interest of the 6.6% Senior Unsecured Notes due January 2021 ($24,000), and fund a portion of a debt service reserve for the Loan (approximately $200). Pursuant to the credit agreement, interest is payable on the outstanding balance of the Loan at the following annual rate: (1) 1% over LIBOR for Term Loan A, (ii) 2.75% over LIBOR for Term Loan B, and (iii) 3.25% over LIBOR for Term Loan C. Interest shall be payable commencing on January 1, 2017, in the case of Term Loan A, and on February 1, 2017, in the case of Term Loan B and Term Loan C. The Credit Agreement includes certain financial and non-financial covenants, including negative covenants imposing certain restrictions on the Corporation's business. The Company was in compliance with all these covenants as of December 31, 2016.

The credit agreement is guaranteed by a first mortgage held by the bank on the Company's land, building, and substantially all leasehold improvements, as collateral for the term of the loan under a continuing general security agreement. This credit agreement contains certain non-financial covenants, which are customary for this type of facility, including but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control and dividends.

The Company may, at its option, upon notice, as specified in the credit agreement, redeem and prepay prior to maturity, all or any part of the Loan and from time to time upon the payment of a penalty fee of 3% during the first year, 2% during the second year and 1% during the third year, and thereafter, at par, as specified in the credit agreement, together with accrued and unpaid interest, if any, to the date of redemption specified by the Company.

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(4) Transactions with Related Parties

The following are the significant related parties transactions made for the three year period ended December 31, 2016, 2015 and 2014:

	2016	2015	2014
Rent charges to subsidiaries	$7,801	$7,801	$7,801
Interest charged to subsidiaries on notes receivable	2,258	2,758	2,527
Interest charged from subsidiary on note payable	755	720	755

As of December 31, 2016 and 2015 the Company has three notes receivable from subsidiaries amounting to $30,750 and $35,250, respectively, pursuant to the provisions of Article 29.30 of the Puerto Rico Insurance Code. The notes receivable from subsidiaries are due on demand; however, pursuant to the requirements established by the Commissioner of Insurance, the parties agreed that no payment of the total principal nor the interest due on the loans will be made without first obtaining written authorization from the Commissioner of Insurance within at least 60 days prior to the proposed payment date. These notes bear interest at 4.7%. Accrued interest at December 31, 2016 and 2015 amounted to $5,660 and $4,100, respectively.

In addition, as of December 31, 2016 and 2015, the Company has various notes receivable from a subsidiary amounting to $10,645 and $9,460, respectively. Accrued interest at December 31, 2016 and 2015 amounted to $98 and $48, respectively. These notes are due in different years, which due dates range from 2019 to 2020, and bear an average interest of 5.1%.

As of December 31, 2016 and 2015 the Company has a note payable to a subsidiary amounting to $15,000. The note is due on December 31, 2017 and bears interest at 4.7%. Accrued interest at December 31, 2016 and 2015 amounted to $1,475 and $720, respectively.

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Triple-S Management Corporation and Subsidiaries
Schedule III - Supplementary Insurance Information
For the years ended December 31, 2016, 2015 and 2014

(Dollar amounts in thousands) Segment	Deferred Policy Acquisition Costs and Value of Business Acquired	Claim Liabilities	Liability for Future Policy Benefits	Unearned Premiums	Other Policy Claims and Benefits Payable	Premium Revenue	Net Investment Income	Claims Incurred	Amortization of Deferred Policy Acquisition Costs and Value of Business Acquired	Other Operating Expenses	N Pr W
2016											
Managed care	$-	$349,047	$-	$2,889	$-	$2,648,469	$15,102	$2,347,547	$-	$375,262	$2
Life insurance	177,811	42,858	321,232	8,122	-	156,856	24,877	86,924	12,530	60,821	1
Property and casualty insurance	16,976	96,977	-	68,299	-	87,945	8,891	40,766	25,170	18,826	8
Other non-reportable segments, parent company operations and net consolidating entries.	-	(939)	-	-	- -	(2,629)	43	(3,046)	-	1,285	(
Total	$194,787	$487,943	$321,232	$79,310	$-	$2,890,641	$48,913	$2,472,191	$37,700	$456,194	$2
2015											
Managed care	$-	$348,297	$-	$3,489	$-	$2,549,522	$11,779	$2,196,693	$-	$393,407	$2
Life insurance	172,284	44,601	352,370	6,596	-	148,115	24,457	82,561	17,661	52,338	1
Property and casualty insurance	18,364	99,796	-	70,175	-	87,633	8,706	42,600	25,933	19,533	8
Other non-reportable segments, parent company operations and	-	(929)	-	-	-	(2,116)	232	(3,139)	-	9,849	(

net consolidating entries.											
Total	$190,648	$491,765	$352,370	$80,260	$-	$2,783,154	$45,174	$2,318,715	$43,594	$475,127	$2
<u>2014</u>											
Managed care	$-	$249,330	$-	$4,340	$-	$1,896,142	$15,010	$1,629,095	$-	$374,244	$1
Life insurance	164,367	43,670	328,293	5,158	-	142,485	23,717	74,850	18,260	50,531	1
Property and casualty insurance	19,733	97,451	-	73,158	-	92,143	8,600	46,330	25,378	18,991	8
Other non-reportable segments, parent company operations and net consolidating entries.	-	(365)	-	-	-	(2,204)	213	(2,680)	-	9,790	-
Total	$184,100	$390,086	$328,293	$82,656	$-	$2,128,566	$47,540	$1,747,595	$43,638	$453,556	$2

See accompanying independent registered public accounting firm's report and notes to financial statements.

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Triple-S Management Corporation and Subsidiaries
Schedule IV - Reinsurance
For the years ended December 31, 2016, 2015 and 2014

(Dollar amounts in thousands)

	Gross Amount (1)	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net	
2016						
Life insurance in force	$10,178,956			$10,178,956	0.0	%
Premiums:						
Life insurance	$160,628	$ 8,838	$ 4,350	$156,140	2.8	%
Accident and health insurance	2,650,011	3,148	306	2,647,169	0.0	%
Property and casualty insurance	134,378	47,046	-	87,332	0.0	%
Total premiums	$2,945,017	$ 59,032	$ 4,656	$2,890,641	0.2	%
2015						
Life insurance in force	$10,129,123			$10,129,123	0.0	%
Premiums:						
Life insurance	$153,607	$ 9,596	$ 3,853	$147,864	2.6	%
Accident and health insurance	2,552,699	4,778	349	2,548,270	0.0	%
Property and casualty insurance	136,780	49,760	-	87,020	0.0	%
Total premiums	$2,843,086	$ 64,134	$ 4,202	$2,783,154	0.2	%
2014						
Life insurance in force	$9,739,048			$9,739,048	0.0	%
Premiums:						
Life insurance	$152,573	$ 10,328	$ -	$142,245	0.0	%
Accident and health insurance	1,900,556	5,765	-	1,894,791	0.0	%
Property and casualty insurance	146,222	54,692	-	91,530	0.0	%
Total premiums	$2,199,351	$ 70,785	$ -	$2,128,566	0.0	%

(1) Gross premiums amount is presented net of intercompany eliminations of $3,457, $4,402 and $4,354 for the years ended December 31, 2016, 2015, and 2014, respectively.

See accompanying independent registered public accounting firm’s report and notes to financial statements.

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Triple-S Management Corporation and Subsidiaries
Schedule V - Valuation and Qualifying Accounts
For the years ended December 31, 2016, 2015 and 2014

(Dollar amounts in thousands)

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Charged (Reversal) To Other Accounts - Describe (1)	Deductions - Describe (2)	Balance at End of Period
2016					
Allowance for doubtful receivables	$ 37,244	1,295	306	(1,538)	$ 37,307
2015					
Allowance for doubtful receivables	$ 36,368	15,781	340	(15,245)	$ 37,244
2014					
Allowance for doubtful receivables	$ 21,549	12,847	4,227	(2,255)	$ 36,368

(1) Represents premiums adjustment to provide for unresolved reconciliation items with the Government of Puerto Rico and other entities.

(2) Deductions represent the write-off of accounts deemed uncollectible.

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