

TRIPLE-S MANAGEMENT CORP

Form 10-Q

November 09, 2010

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
FORM 10-Q**

(Mark One)

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

**For the quarterly period ended September 30, 2010**

**or**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**COMMISSION FILE NUMBER: 001-33865**

**Triple-S Management Corporation**

**Puerto Rico**

(State or other jurisdiction of  
incorporation or organization)

**66-0555678**

(I.R.S. Employer Identification No.)

**1441 F.D. Roosevelt Avenue  
San Juan, Puerto Rico**

(Address of principal executive offices)

**00920**

(Zip code)

**(787) 749-4949**

(Registrant's telephone number, including area code)

**Not applicable**

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting  
company

(Do not check if a smaller  
reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

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

| <b>Title of each class</b>             | <b>Outstanding at October 31, 2010</b> |
|--|--|
| Common Stock Class A, \$1.00 par value | 9,042,809                              |
| Common Stock Class B, \$1.00 par value | 20,101,005                             |

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**Triple-S Management Corporation**  
**FORM 10-Q**  
For the Quarter Ended September 30, 2010  
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**Table of Contents****Part I Financial Information****Item 1. Financial Statements****Triple-S Management Corporation***Consolidated Balance Sheets (Unaudited)**(Dollar amounts in thousands, except per share data)*

|  | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|--|-----------------------------------|----------------------------------|
| <b>Assets</b>  |                                   |                                  |
| Investments and cash:  |                                   |                                  |
| Equity securities held for trading, at fair value  | \$ 46,228                         | \$ 43,909                        |
| Securities available for sale, at fair value:  |                                   |                                  |
| Fixed maturities   | 1,023,469                         | 918,977                          |
| Equity securities  | 73,241                            | 64,689                           |
| Securities held to maturity, at amortized cost:  |                                   |                                  |
| Fixed maturities   | 15,266                            | 15,794                           |
| Policy loans   | 6,064                             | 5,940                            |
| Cash and cash equivalents  | 50,679                            | 40,376                           |
| <br>   |                                   |                                  |
| Total investments and cash   | 1,214,947                         | 1,089,685                        |
| Premiums and other receivables, net  | 315,092                           | 272,932                          |
| Deferred policy acquisition costs and value of business acquired   | 142,444                           | 139,917                          |
| Property and equipment, net  | 74,170                            | 68,803                           |
| Deferred tax asset   | 28,869                            | 37,551                           |
| Other assets   | 30,084                            | 39,816                           |
| <br>   |                                   |                                  |
| Total assets   | \$ 1,805,606                      | \$ 1,648,704                     |
| <br><b>Liabilities and Stockholders Equity</b>   |                                   |                                  |
| Claim liabilities  | 423,819                           | 360,446                          |
| Liability for future policy benefits   | 232,727                           | 222,619                          |
| Unearned premiums  | 92,489                            | 108,342                          |
| Policyholder deposits  | 48,215                            | 47,563                           |
| Liability to Federal Employees Health Benefits Program (FEHBP)   | 16,029                            | 13,002                           |
| Accounts payable and accrued liabilities   | 139,640                           | 139,161                          |
| Deferred tax liability   | 15,215                            | 11,088                           |
| Borrowings   | 166,124                           | 167,667                          |
| Liability for pension benefits   | 36,709                            | 41,044                           |
| <br>   |                                   |                                  |
| Total liabilities  | 1,170,967                         | 1,110,932                        |
| <br>   |                                   |                                  |
| Stockholders equity:   |                                   |                                  |
| Common stock Class A, \$1 par value. Authorized 100,000,000 shares;<br>issued and outstanding 9,042,809 at September 30, 2010 and December 31, | 9,043                             | 9,043                            |

2009

Common stock Class B, \$1 par value. Authorized 100,000,000 shares;  
issued and outstanding 20,101,005 and 20,110,391 shares at September 30,  
2010 and December 31, 2009, respectively

|  |                  |                  |
|--|------------------|------------------|
|  | 20,101           | 20,110           |
| Additional paid-in capital                     | 160,224          | 159,303          |
| Retained earnings                              | 407,629          | 360,892          |
| Accumulated other comprehensive income (loss)  | 37,642           | (11,576)         |
| <br>Total stockholders' equity                 | <br>634,639      | <br>537,772      |
| <br>Total liabilities and stockholders' equity | <br>\$ 1,805,606 | <br>\$ 1,648,704 |

See accompanying notes to unaudited consolidated financial statements.

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

|  | <b>Three months ended<br/>September 30,</b> |               | <b>Nine months ended<br/>September 30,</b> |               |
|--|---|---------------|--|---------------|
|  | <b>2010</b>                                 | <b>2009</b>   | <b>2010</b>                                | <b>2009</b>   |
| <b>Revenues:</b>   |   |               |  |               |
| Premiums earned, net   | \$ 496,511                                  | \$ 476,269    | \$ 1,493,449                               | \$ 1,390,778  |
| Administrative service fees  | 10,195                                      | 9,797         | 34,859                                     | 29,982        |
| Net investment income  | 12,794                                      | 12,955        | 37,888                                     | 38,856        |
| <br>Total operating revenues   | <br>519,500                                 | <br>499,021   | <br>1,566,196                              | <br>1,459,616 |
| Net realized investment gains (losses):  |   |               |  |               |
| Total other-than-temporary impairment losses on securities                         | (316)                                       | (240)         | (2,932)                                    | (5,953)       |
| Net realized gains, excluding other-than-temporary impairment losses on securities | 3   | 2,390         | 2,673                                      | 4,751         |
| <br>Total net realized investment gains (losses)                                   | <br>(313)                                   | <br>2,150     | <br>(259)                                  | <br>(1,202)   |
| Net unrealized investment gain on trading securities                               | 4,611                                       | 4,860         | 631  | 8,036         |
| Other income, net  | 576   | 67            | 404  | 392           |
| <br>Total revenues   | <br>524,374                                 | <br>506,098   | <br>1,566,972                              | <br>1,466,842 |
| <br><b>Benefits and expenses:</b>  |   |               |  |               |
| Claims incurred  | 421,514                                     | 412,392       | 1,272,180                                  | 1,201,148     |
| Operating expenses   | 74,111                                      | 71,205        | 227,702                                    | 208,060       |
| <br>Total operating costs  | <br>495,625                                 | <br>483,597   | <br>1,499,882                              | <br>1,409,208 |
| Interest expense   | 3,026                                       | 3,338         | 9,626                                      | 9,959         |
| <br>Total benefits and expenses  | <br>498,651                                 | <br>486,935   | <br>1,509,508                              | <br>1,419,167 |
| <br>Income before taxes  | <br>25,723                                  | <br>19,163    | <br>57,464                                 | <br>47,675    |
| <br><b>Income tax expense (benefit):</b>   |   |               |  |               |
| Current  | 6,040                                       | 2,096         | 14,461                                     | 11,637        |
| Deferred   | (805)                                       | (1,017)       | (3,734)                                    | (4,638)       |
| <br>Total income taxes   | <br>5,235                                   | <br>1,079     | <br>10,727                                 | <br>6,999     |
| <br>Net income   | <br>\$ 20,488                               | <br>\$ 18,084 | <br>\$ 46,737                              | <br>\$ 40,676 |

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|                              |         |         |         |         |
|------------------------------|---------|---------|---------|---------|
| Basic net income per share   | \$ 0.70 | \$ 0.62 | \$ 1.61 | \$ 1.37 |
| Diluted net income per share | \$ 0.70 | \$ 0.62 | \$ 1.60 | \$ 1.37 |

See accompanying notes to unaudited consolidated financial statements.

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**Table of Contents****Triple-S Management Corporation***Consolidated Statements of Stockholders' Equity and Comprehensive Income (Loss) (Unaudited)**(Dollar amounts in thousands, except per share data)*

|  | <b>2010</b>       | <b>2009</b>       |
|--|-------------------|-------------------|
| <b>Balance at January 1</b>  | \$ 537,772        | \$ 485,099        |
| Share-based compensation   | 1,301             | 3,231             |
| Grant of restricted Class B common stock   | 15                | 27                |
| Repurchase and retirement of common stock  | (404)             | (22,034)          |
| Comprehensive income (loss):   |                   |                   |
| Net income   | 46,737            | 40,676            |
| Net unrealized change in fair value of available for sale securities, net of taxes | 48,332            | 20,299            |
| Defined benefit pension plan:  |                   |                   |
| Actuarial loss, net  | 1,089             | 1,103             |
| Prior service credit, net  | (203)             | (207)             |
| <b>Total comprehensive income</b>  | <b>95,955</b>     | <b>61,871</b>     |
| <b>Balance at September 30</b>   | <b>\$ 634,639</b> | <b>\$ 528,194</b> |

See accompanying notes to unaudited consolidated financial statements.

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

|   | <b>Nine months ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2010</b>                                | <b>2009</b> |
| <b>Cash flows from operating activities:</b>                                      |  |             |
| Net income  | \$ 46,737                                  | \$ 40,676   |
| Adjustments to reconcile net income to net cash provided by operating activities: |  |             |
| Depreciation and amortization   | 10,605                                     | 6,358       |
| Net amortization of investments   | 2,399                                      | 544         |
| Provision for doubtful receivables  | 6,721                                      | 10,070      |
| Deferred tax benefit  | (3,734)                                    | (4,638)     |
| Net realized investment loss on sale of securities                                | 259  | 1,202       |
| Net unrealized gain on trading securities   | (631)                                      | (8,036)     |
| Share-based compensation  | 1,316                                      | 3,258       |
| Proceeds from trading securities sold:  |  |             |
| Equity securities   | 3,441                                      | 2,923       |
| Acquisition of securities in trading portfolio:                                   |  |             |
| Equity securities   | (4,931)                                    | (3,206)     |
| (Increase) decrease in assets:  |  |             |
| Premium and other receivables, net  | (42,574)                                   | (25,214)    |
| Deferred policy acquisition costs and value of business acquired                  | (2,527)                                    | (7,952)     |
| Other deferred taxes  | 7,347                                      | (11,150)    |
| Other assets  | 3,673                                      | 7,904       |
| Increase (decrease) in liabilities:   |  |             |
| Claim liabilities   | 63,373                                     | 54,087      |
| Liability for future policy benefits  | 10,108                                     | 11,747      |
| Unearned premiums   | (15,853)                                   | (14,148)    |
| Policyholder deposits   | 487  | 568         |
| Liability to FEHBP  | 3,027                                      | 2,858       |
| Accounts payable and accrued liabilities  | (2,223)                                    | (1,197)     |
| Net cash provided by operating activities   | 87,020                                     | 66,654      |

(Continued)

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

|   | <b>Nine months ended<br/>September 30,</b> |             |
|---|--|-------------|
|   | <b>2010</b>                                | <b>2009</b> |
| <b>Cash flows from investing activities:</b>            |  |             |
| Proceeds from investments sold or matured:              |  |             |
| Securities available for sale:                          |  |             |
| Fixed maturities sold                                   | \$ 48,193                                  | \$ 125,951  |
| Fixed maturities matured/called                         | 97,067                                     | 151,898     |
| Equity securities                                       | 16,791                                     | 6,849       |
| Securities held to maturity:                            |  |             |
| Fixed maturities matured/called                         | 1,852                                      | 6,893       |
| Acquisition of investments:                             |  |             |
| Securities available for sale:                          |  |             |
| Fixed maturities  | (199,809)                                  | (294,628)   |
| Equity securities                                       | (22,436)                                   | (3,209)     |
| Fixed maturity securities held to maturity              | (1,050)                                    | (577)       |
| Net outflows for policy loans                           | (124)                                      | (285)       |
| Net capital expenditures                                | (13,678)                                   | (14,555)    |
| Net cash used in investing activities                   | (73,194)                                   | (21,663)    |
| <b>Cash flows from financing activities:</b>            |  |             |
| Change in outstanding checks in excess of bank balances | (2,458)                                    | (11,903)    |
| Repayments of long-term borrowings                      | (1,230)                                    | (1,230)     |
| Repurchase and retirement of common stock               |  | (22,034)    |
| Proceeds from policyholder deposits                     | 7,740                                      | 3,708       |
| Surrenders of policyholder deposits                     | (7,575)                                    | (4,929)     |
| Net cash used in financing activities                   | (3,523)                                    | (36,388)    |
| Net increase in cash and cash equivalents               | 10,303                                     | 8,603       |
| <b>Cash and cash equivalents:</b>                       |  |             |
| Beginning of period                                     | 40,376                                     | 46,095      |
| End of period   | \$ 50,679                                  | \$ 54,698   |

See accompanying notes to unaudited consolidated financial statements.

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

(Unaudited)

**(1) Basis of Presentation**

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation and its subsidiaries are unaudited. In this filing, the Corporation, the Company, TSM, we, us and our refer to Triple-S Management Corporation and its subsidiaries. The consolidated interim financial statements do not include all of the information and the footnotes required by accounting principles generally accepted in the U.S. (GAAP) for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation's Annual Report on Form 10-K for the year ended December 31, 2009.

Certain amounts in the 2009 consolidated statement of earnings were reclassified to conform to the 2010 presentation.

In the opinion of management, all adjustments, consisting of normal recurring adjustments necessary for a fair statement of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2010 are not necessarily indicative of the results for the full year.

**(2) Recent Accounting Standards**

In April 2010, the FASB issued guidance to address the classification of an employee share-based payment award with an exercise price denominated in the currency of a market in which the underlying equity security trades. The guidance clarifies that a share-based payment award with an exercise price denominated in the currency of a market in which a substantial portion of the entity's equity securities trades should not be considered to contain a condition that is not a market, performance, or service condition. Therefore, such an award should not be classified as a liability if it otherwise qualifies as equity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2010. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

In October 2010, the FASB issued guidance to address diversity in practice regarding the interpretation of which costs relating to the acquisition of new or renewal insurance contracts qualify for deferral. This guidance specifies that the following costs incurred in the acquisition of new and renewal contracts should be capitalized: (1) Incremental direct costs of contract acquisition. Incremental direct costs are those costs that result directly from and are essential to the contract transaction and would not have been incurred by the insurance entity had the contract transaction not occurred. (2) Certain costs related directly to the following acquisition activities performed by the insurer for the contract: a. Underwriting, b. Policy issuance and processing, c. Medical and inspection, and c. Sales force contract selling. Advertising costs should be included in deferred acquisition costs only if the capitalization criteria in the direct-response advertising guidance in *Subtopic 340-20, Other Assets and Deferred Costs - Capitalized Advertising Costs*, are met. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. We do not expect the adoption of this guidance to have a significant impact on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued during the nine months ended September 30, 2010 that could have a material impact on the Corporation's financial position, operating results or financials statement disclosures.

**(3) Segment Information**

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

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

(Unaudited)

Our Managed Care segment is engaged in the sale of managed care products to the Commercial, Medicare and Medicaid market sectors. Through the Medicaid market sector, the government of Puerto Rico (the government) provides health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the Commonwealth of Puerto Rico. Up to September 30, 2010, our Managed Care subsidiary, Triple-S Salud, Inc. ( TSS ) provided managed care services to Medicaid members in the North and Southwest regions on a fully-insured basis and in the Metro-North region on an Administrative Service Only (ASO) basis. The current contracts between the Government and Triple-S for the provision of services to the Medicaid population of Puerto Rico expired by their own terms on September 30, 2010, thus effective October 1<sup>st</sup>, 2010 we no longer provide services to these members.

The following tables summarize the operations by major operating segment for the three months and nine months ended September 30, 2010 and 2009:

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |              |
|---|---------------------------|-------------|--------------------------|--------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |              |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b>  |
| <b>Operating revenues:</b>                            |                           |             |                          |              |
| Managed Care:   |                           |             |                          |              |
| Premiums earned, net                                  | <b>\$ 445,514</b>         | \$ 427,332  | <b>\$ 1,340,261</b>      | \$ 1,244,033 |
| Administrative service fees                           | <b>10,195</b>             | 9,798       | <b>34,859</b>            | 29,983       |
| Intersegment premiums /service fees                   | <b>1,649</b>              | 1,533       | <b>4,717</b>             | 4,481        |
| Net investment income                                 | <b>5,225</b>              | 5,435       | <b>15,262</b>            | 15,953       |
| <b>Total managed care</b>                             | <b>462,583</b>            | 444,098     | <b>1,395,099</b>         | 1,294,450    |
| Life Insurance:                                       |                           |             |                          |              |
| Premiums earned, net                                  | <b>26,606</b>             | 24,645      | <b>78,410</b>            | 74,198       |
| Intersegment premiums                                 | <b>99</b>                 | 108         | <b>293</b>               | 293          |
| Net investment income                                 | <b>4,467</b>              | 4,093       | <b>12,913</b>            | 12,480       |
| <b>Total life insurance</b>                           | <b>31,172</b>             | 28,846      | <b>91,616</b>            | 86,971       |
| Property and Casualty Insurance:                      |                           |             |                          |              |
| Premiums earned, net                                  | <b>24,391</b>             | 24,293      | <b>74,778</b>            | 72,547       |
| Intersegment premiums                                 | <b>153</b>                | 153         | <b>460</b>               | 460          |
| Net investment income                                 | <b>2,594</b>              | 2,998       | <b>8,197</b>             | 8,783        |
| <b>Total property and casualty insurance</b>          | <b>27,138</b>             | 27,444      | <b>83,435</b>            | 81,790       |
| <b>Other segments intersegment service revenues *</b> | <b>12,452</b>             | 13,889      | <b>40,127</b>            | 39,003       |
| <b>Total business segments</b>                        | <b>533,345</b>            | 514,277     | <b>1,610,277</b>         | 1,502,214    |
| TSM operating revenues from external sources          | <b>508</b>                | 427         | <b>1,516</b>             | 1,639        |
| Elimination of intersegment premiums                  | <b>(1,901)</b>            | (1,794)     | <b>(5,470)</b>           | (5,234)      |
| Elimination of intersegment service fees              | <b>(12,452)</b>           | (13,889)    | <b>(40,127)</b>          | (39,003)     |
| <b>Consolidated operating revenues</b>                | <b>\$ 519,500</b>         | \$ 499,021  | <b>\$ 1,566,196</b>      | \$ 1,459,616 |

- \* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

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

(Unaudited)

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| <b>Operating income:</b>                               |                           |             |                          |             |
| Managed care   | <b>\$ 16,417</b>          | 10,098      | <b>\$ 47,532</b>         | 32,080      |
| Life insurance   | <b>4,529</b>              | 3,992       | <b>13,055</b>            | 10,938      |
| Property and casualty insurance                        | <b>2,242</b>              | 245         | <b>3,311</b>             | 4,394       |
| Other segments *                                       | <b>476</b>                | 451         | <b>974</b>               | 813         |
| <br>   |                           |             |                          |             |
| Total business segments                                | <b>23,664</b>             | 14,786      | <b>64,872</b>            | 48,225      |
| TSM operating revenues from external sources           | <b>508</b>                | 427         | <b>1,516</b>             | 1,638       |
| TSM unallocated operating expenses                     | <b>(2,678)</b>            | (2,178)     | <b>(7,102)</b>           | (6,648)     |
| Elimination of TSM intersegment charges                | <b>2,381</b>              | 2,389       | <b>7,028</b>             | 7,193       |
| <br>   |                           |             |                          |             |
| Consolidated operating income                          | <b>23,875</b>             | 15,424      | <b>66,314</b>            | 50,408      |
| Consolidated net realized investment gains (losses)    | <b>(313)</b>              | 2,150       | <b>(259)</b>             | (1,202)     |
| Consolidated net unrealized gain on trading securities | <b>4,611</b>              | 4,860       | <b>631</b>               | 8,036       |
| Consolidated interest expense                          | <b>(3,026)</b>            | (3,338)     | <b>(9,626)</b>           | (9,959)     |
| Consolidated other income, net                         | <b>576</b>                | 67          | <b>404</b>               | 392         |
| <br>   |                           |             |                          |             |
| Consolidated income before taxes                       | <b>\$ 25,723</b>          | 19,163      | <b>\$ 57,464</b>         | 47,675      |
| <br>   |                           |             |                          |             |
| <b>Depreciation expense:</b>                           |                           |             |                          |             |
| Managed care   | <b>2,767</b>              | 1,364       | <b>8,157</b>             | 4,092       |
| Life insurance   | <b>173</b>                | 181         | <b>510</b>               | 491         |
| Property and casualty insurance                        | <b>485</b>                | 378         | <b>1,290</b>             | 1,128       |
| <br>   |                           |             |                          |             |
| Total business segments                                | <b>3,425</b>              | 1,923       | <b>9,957</b>             | 5,711       |
| TSM depreciation expense                               | <b>216</b>                | 216         | <b>648</b>               | 647         |
| <br>   |                           |             |                          |             |
| Consolidated depreciation expense                      | <b>\$ 3,641</b>           | 2,139       | <b>\$ 10,605</b>         | 6,358       |

\* Includes segments that are not required to be reported separately. These segments include the data processing services organization as

well as the  
third-party  
administrator of  
managed care  
services.



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

(Unaudited)

|   | <b>September<br/>30,<br/>2010</b> | <b>December<br/>31,<br/>2009</b> |
|---|-----------------------------------|----------------------------------|
| <b>Assets:</b>  |                                   |                                  |
| Managed care  | \$ 850,114                        | \$ 746,674                       |
| Life insurance  | 538,427                           | 487,290                          |
| Property and casualty insurance                         | 353,416                           | 351,793                          |
| Other segments *  | 12,594                            | 14,193                           |
| <br>  |                                   |                                  |
| Total business segments                                 | <b>1,754,551</b>                  | 1,599,950                        |
| <br>  |                                   |                                  |
| Unallocated amounts related to TSM:                     |                                   |                                  |
| Cash, cash equivalents, and investments                 | 55,817                            | 39,029                           |
| Property and equipment, net                             | 20,929                            | 21,577                           |
| Other assets  | 16,170                            | 4,780                            |
|   | <b>92,916</b>                     | 65,386                           |
| <br>  |                                   |                                  |
| Elimination entries-intersegment receivables and others | <b>(41,861)</b>                   | (16,632)                         |
| <br>  |                                   |                                  |
| Consolidated total assets                               | <b>\$ 1,805,606</b>               | \$ 1,648,704                     |

\* Includes segments that are not required to be reported separately. These segments include the data processing services organization as well as the third-party administrator of managed care services.

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

(Unaudited)

**(4) Investment in Securities**

The amortized cost for debt securities and cost for equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at September 30, 2010 and December 31, 2009, were as follows:

|  |                           | <b>September 30, 2010</b>             |  |                                 |
|--|---------------------------|---------------------------------------|--|---------------------------------|
|  | <b>Cost</b>               | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Trading securities:  |                           |                                       |  |                                 |
| Equity securities  | \$ 43,763                 | \$ 7,844                              | \$ (5,379)                             | \$ 46,228                       |
|  |                           |                                       |  |                                 |
|  |                           | <b>December 31, 2009</b>              |  |                                 |
|  | <b>Cost</b>               | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Trading securities:  |                           |                                       |  |                                 |
| Equity securities  | \$ 42,075                 | \$ 7,064                              | \$ (5,230)                             | \$ 43,909                       |
|  |                           |                                       |  |                                 |
|  |                           | <b>September 30, 2010</b>             |  |                                 |
|  | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Securities available for sale:   |                           |                                       |  |                                 |
| Fixed maturities:  |                           |                                       |  |                                 |
| Obligations of government- sponsored enterprises                                 | \$ 188,641                | \$ 13,087                             | \$                                     | \$ 201,728                      |
| U.S. Treasury securities and obligations of U.S.<br>government instrumentalities | 47,621                    | 8,345                                 |  | 55,966                          |
| Obligations of the Commonwealth of Puerto Rico<br>and its instrumentalities      | 160,529                   | 4,926                                 | (164)                                  | 165,291                         |
| Municipal securities   | 200,290                   | 13,541                                | (62)                                   | 213,769                         |
| Corporate bonds  | 102,925                   | 13,701                                |  | 116,626                         |
| Residential mortgage-backed securities   | 13,912                    | 843                                   | (2)                                    | 14,753                          |
| Collateralized mortgage obligations  | 248,036                   | 7,574                                 | (274)                                  | 255,336                         |
| Total fixed maturities   | 961,954                   | 62,017                                | (502)                                  | 1,023,469                       |
| Equity securities:   |                           |                                       |  |                                 |
| Common stocks  | 900                       | 2,786                                 |  | 3,686                           |
| Preferred stocks   | 4,298                     | 73                                    | (526)                                  | 3,845                           |
| Perpetual preferred stocks   | 1,000                     |                                       | (79)                                   | 921                             |
| Mutual funds   | 60,819                    | 5,114                                 | (1,144)                                | 64,789                          |
| Total equity securities  | 67,017                    | 7,973                                 | (1,749)                                | 73,241                          |
| Total  | \$ 1,028,971              | \$ 69,990                             | \$ (2,251)                             | \$ 1,096,710                    |



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

(Unaudited)

|  |                           | <b>December 31, 2009</b>              |  |                                 |
|--|---------------------------|---------------------------------------|--|---------------------------------|
|  | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Securities available for sale:   |                           |                                       |  |                                 |
| Fixed maturities:  |                           |                                       |  |                                 |
| Obligations of government- sponsored enterprises                                 | \$ 252,513                | \$ 2,240                              | \$ (3,325)                             | \$ 251,428                      |
| U.S. Treasury securities and obligations of U.S.<br>government instrumentalities | 48,190                    | 3,148                                 |  | 51,338                          |
| Obligations of the Commonwealth of Puerto Rico<br>and its instrumentalities      | 154,754                   | 3,113                                 | (1,919)                                | 155,948                         |
| Municipal securities   | 107,441                   | 1,117                                 | (1,851)                                | 106,707                         |
| Corporate bonds  | 102,547                   | 3,546                                 | (728)                                  | 105,365                         |
| Residential mortgage-backed securities   | 16,605                    | 677                                   | (1)                                    | 17,281                          |
| Collateralized mortgage obligations  | 229,312                   | 4,237                                 | (2,639)                                | 230,910                         |
| <b>Total fixed maturities</b>  | <b>911,362</b>            | <b>18,078</b>                         | <b>(10,463)</b>                        | <b>918,977</b>                  |
| Equity securities:   |                           |                                       |  |                                 |
| Common stocks  | 4,074                     | 3,435                                 |  | 7,509                           |
| Preferred stocks   | 4,000                     |                                       | (1,325)                                | 2,675                           |
| Perpetual preferred stocks   | 2,849                     |                                       | (270)                                  | 2,579                           |
| Mutual funds   | 50,608                    | 4,150                                 | (2,832)                                | 51,926                          |
| <b>Total equity securities</b>   | <b>61,531</b>             | <b>7,585</b>                          | <b>(4,427)</b>                         | <b>64,689</b>                   |
| <b>Total</b>   | <b>\$ 972,893</b>         | <b>\$ 25,663</b>                      | <b>\$ (14,890)</b>                     | <b>\$ 983,666</b>               |

|  |                           | <b>September 30, 2010</b>             |  |                                 |
|--|---------------------------|---------------------------------------|--|---------------------------------|
|  | <b>Amortized<br/>cost</b> | <b>Gross<br/>unrealized<br/>gains</b> | <b>Gross<br/>unrealized<br/>losses</b> | <b>Estimated<br/>fair value</b> |
| Securities held to maturity:   |                           |                                       |  |                                 |
| Obligations of government- sponsored enterprises                                 | \$ 2,303                  | \$ 219                                | \$                                     | \$ 2,522                        |
| U.S. Treasury securities and obligations of U.S.<br>government instrumentalities | 1,479                     | 348                                   |  | 1,827                           |
| Corporate bonds  | 9,347                     | 532                                   |  | 9,879                           |
| Residential mortgage-backed securities   | 897                       | 39                                    |  | 936                             |
| Certificates of deposit  | 1,240                     |                                       |  | 1,240                           |
| <b>Total</b>   | <b>\$ 15,266</b>          | <b>\$ 1,138</b>                       | <b>\$</b>                              | <b>\$ 16,404</b>                |

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

(Unaudited)

|   | <b>December 31, 2009</b> |                   |                   |                   |
|---|--------------------------|-------------------|-------------------|-------------------|
|   | <b>Amortized</b>         | <b>Gross</b>      | <b>Gross</b>      | <b>Estimated</b>  |
|   | <b>cost</b>              | <b>unrealized</b> | <b>unrealized</b> | <b>fair value</b> |
|   |                          | <b>gains</b>      | <b>losses</b>     |                   |
| Securities held to maturity:  |                          |                   |                   |                   |
| Obligations of government- sponsored enterprises                              | \$ 925                   | \$ 6              | \$                | \$ 931            |
| U.S. Treasury securities and obligations of U.S. government instrumentalities | 3,786                    | 132               |                   | 3,918             |
| Corporate bonds   | 9,063                    | 534               |                   | 9,597             |
| Residential mortgage-backed securities  | 1,256                    | 25                | (1)               | 1,280             |
| Certificates of deposit   | 764                      |                   |                   | 764               |
| <b>Total</b>  | <b>\$ 15,794</b>         | <b>\$ 697</b>     | <b>\$ (1)</b>     | <b>\$ 16,490</b>  |

Gross unrealized losses on investment securities and the estimated fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2010 and December 31, 2009 were as follows:

|  | <b>September 30, 2010</b>  |                   |                            | <b>September 30, 2010</b> |                  |                   | <b>Total</b>     |                   |                   |
|--|----------------------------|-------------------|----------------------------|---------------------------|------------------|-------------------|------------------|-------------------|-------------------|
|  | <b>Less than 12 months</b> |                   | <b>12 months or longer</b> |                           | <b>Total</b>     |                   | <b>Gross</b>     |                   | <b>Number</b>     |
|  | <b>Gross</b>               |                   | <b>Gross</b>               |                           | <b>Gross</b>     |                   | <b>Gross</b>     |                   | <b>Number</b>     |
|  | <b>Estimated</b>           | <b>Unrealized</b> | <b>Estimated</b>           | <b>Unrealized</b>         | <b>Estimated</b> | <b>Unrealized</b> | <b>Estimated</b> | <b>Unrealized</b> | <b>of</b>         |
|  | <b>Fair</b>                | <b>Loss</b>       | <b>Fair</b>                | <b>Loss</b>               | <b>Fair</b>      | <b>Loss</b>       | <b>Fair</b>      | <b>Loss</b>       | <b>of</b>         |
|  | <b>Value</b>               | <b>Loss</b>       | <b>Value</b>               | <b>Loss</b>               | <b>Value</b>     | <b>Loss</b>       | <b>Value</b>     | <b>Loss</b>       | <b>of</b>         |
|  |                            |                   |                            |                           |                  |                   |                  |                   | <b>Securities</b> |
| Securities available for sale:   |                            |                   |                            |                           |                  |                   |                  |                   |                   |
| Fixed maturities:  |                            |                   |                            |                           |                  |                   |                  |                   |                   |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | \$ 8,811                   | \$ (20)           | 4                          | \$ 3,709                  | \$ (144)         | 3                 | \$ 12,520        | \$ (164)          | 7                 |
| Municipal securities   | 776                        | (62)              | 1                          |                           |                  |                   | 776              | (62)              | 1                 |
| Residential mortgage-backed securities                                   | 12                         | (1)               | 1                          | 36                        | (1)              | 1                 | 48               | (2)               | 2                 |
| Collateralized mortgage obligations                                      | 24,159                     | (249)             | 5                          | 1,947                     | (25)             | 1                 | 26,106           | (274)             | 6                 |
| <b>Total fixed maturities</b>  | <b>33,758</b>              | <b>(332)</b>      | <b>11</b>                  | <b>5,692</b>              | <b>(170)</b>     | <b>5</b>          | <b>39,450</b>    | <b>(502)</b>      | <b>16</b>         |
| Equity securities:   |                            |                   |                            |                           |                  |                   |                  |                   |                   |

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|  |           |          |    |           |            |    |           |            |    |
|--|-----------|----------|----|-----------|------------|----|-----------|------------|----|
| Preferred stocks                           |           |          |    | 3,474     | (526)      | 1  | 3,474     | (526)      | 1  |
| Perpetual preferred<br>stocks              |           |          |    | 920       | (79)       | 1  | 920       | (79)       | 1  |
| Mutual funds                               | 8,521     | (491)    | 5  | 9,825     | (653)      | 7  | 18,346    | (1,144)    | 12 |
| Total equity<br>securities                 | 8,521     | (491)    | 5  | 14,219    | (1,258)    | 9  | 22,740    | (1,749)    | 14 |
| Total for securities<br>available for sale | \$ 42,279 | \$ (823) | 16 | \$ 19,911 | \$ (1,428) | 14 | \$ 62,190 | \$ (2,251) | 30 |

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

(Unaudited)

|  | Less than 12 months  |                 |               | December 31, 2009    |                 |               | Total                |                 |               |
|--|----------------------|-----------------|---------------|----------------------|-----------------|---------------|----------------------|-----------------|---------------|
|  | Gross                |                 | Number        | Gross                |                 | Number        | Gross                |                 | Number        |
|  | Estimated Fair Value | Unrealized Loss | of Securities | Estimated Fair Value | Unrealized Loss | of Securities | Estimated Fair Value | Unrealized Loss | of Securities |
| Securites available for sale:  |                      |                 |               |                      |                 |               |                      |                 |               |
| Fixed maturities:  |                      |                 |               |                      |                 |               |                      |                 |               |
| Obligations of government-sponsored enterprises                          | \$ 110,602           | \$ (2,264)      | 21            | \$ 25,468            | \$ (1,061)      | 5             | \$ 136,070           | \$ (3,325)      | 26            |
| Obligations of the Commonwealth of Puerto Rico and its instrumentalities | 12,944               | (201)           | 10            | 58,866               | (1,718)         | 22            | 71,810               | (1,919)         | 32            |
| Municipal securities   | 62,292               | (1,841)         | 39            | 173                  | (10)            | 1             | 62,465               | (1,851)         | 40            |
| Corporate bonds  | 10,997               | (215)           | 4             | 7,975                | (513)           | 6             | 18,972               | (728)           | 10            |
| Residential mortgage-backed securities                                   |                      |                 |               | 36                   | (1)             | 1             | 36                   | (1)             | 1             |
| Collateralized mortgage obligations                                      | 101,265              | (1,732)         | 21            | 7,171                | (907)           | 10            | 108,436              | (2,639)         | 31            |
| Total fixed maturities   | 298,100              | (6,253)         | 95            | 99,689               | (4,210)         | 45            | 397,789              | (10,463)        | 140           |
| Equity securities:   |                      |                 |               |                      |                 |               |                      |                 |               |
| Preferred stocks   |                      |                 |               | 2,675                | (1,325)         | 1             | 2,675                | (1,325)         | 1             |
| Perpetual preferred stocks   |                      |                 |               | 730                  | (270)           | 1             | 730                  | (270)           | 1             |
| Mutual funds   | 9,994                | (907)           | 4             | 21,667               | (1,925)         | 15            | 31,661               | (2,832)         | 19            |
| Total equity securities  | 9,994                | (907)           | 4             | 25,072               | (3,520)         | 17            | 35,066               | (4,427)         | 21            |
| Total for securities available for sale                                  | \$ 308,094           | \$ (7,160)      | 99            | \$ 124,761           | \$ (7,730)      | 62            | \$ 432,855           | \$ (14,890)     | 161           |
| Securities held to maturity:   |                      |                 |               |                      |                 |               |                      |                 |               |

|  |    |    |    |    |    |     |   |    |    |    |     |   |
|--|----|----|----|----|----|-----|---|----|----|----|-----|---|
| Residential<br>mortgage-backed<br>securities | \$ | \$ | \$ | 55 | \$ | (1) | 1 | \$ | 55 | \$ | (1) | 1 |
|--|----|----|----|----|----|-----|---|----|----|----|-----|---|

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

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

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



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**Triple-S Management Corporation**

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

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

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

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

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

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

*Preferred Stocks:* This particular instrument has a specified maturity, the issuer's capital ratios are above regulatory levels, the issuer has continued dividend payments on this instrument and interest payments on all of its outstanding debt instruments, the issuer does not have the ability to call the security at a price lower than its stated value, the Corporation expects to collect all contractual cash flows, the estimated fair value of this security has improved significantly during the nine months ended September 30, 2010, the Corporation does not have the intent to sell the investment, and it is not more likely than not that the Corporation will be required to sell the investment before market price recovery or maturity, this investment is not considered other-than-temporarily impaired.

*Perpetual Preferred Stocks:* This security has experienced a significant improvement in value during the nine months ended September 30, 2010. The issuer's capital ratios are above regulatory levels, analysts' target price is above market price and book value as of June 30, 2010, the Corporation does not have the intent to sell the investment, and the Corporation has the intent and ability to hold the investments until a market price recovery, this investment is not

considered other-than-temporarily impaired.

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*Mutual Funds:* The unrealized losses in the Corporation's investment in mutual funds are in several mutual funds that in turn invested in fixed income securities and in broad market indices securities. We evaluated for other-than-temporary impairment these securities as follows:

**Mutual funds invested in fixed income securities:** The unrealized loss of each position in this category represents 10% or less of its book value. The Corporation evaluated the invested assets that compose the funds, which are mostly fixed income obligations of the Puerto Rico and U.S. government or its agencies. In Puerto Rico these mutual funds are exempt and have a higher dividend yield than investments in other Puerto Rico securities. As these mutual funds are invested in fixed income securities, they are susceptible to fluctuations in interest rates as well as supply and demand. Earlier in the year the mutual funds showed a relative underperformance when compared to the underlying assets because of a decrease in supply and demand, which caused the market price to be closer to the net asset value compared to where this relationship had been historically. Lately, the demand for these mutual funds has increased because of the high yield the funds offer. Because the current valuations are close to the funds' underlying assets, the funds' underlying assets are mostly on investment grade fixed income securities (mostly U.S. and Puerto Rico government and its agencies, which have been affected by general market conditions), and the Corporation has the intent and ability to hold the investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

**Broad market indices securities:** The unrealized loss of each position in this category is less than 3% of its book value and is the result of fluctuations in equity markets. These positions are designed to mirror the behavior of the Standard & Poor's 500 and the Russell 1000 Value indices and have been with an unrealized loss for a period less than six months. Because there has been an improvement in the market price of these positions in the period subsequent to September 30, 2010, these positions have been with an unrealized loss for a short time period, and the Corporation has the intent and ability to hold the investments until a market price recovery, these investments are not considered other-than-temporarily impaired.

Maturities of investment securities classified as available for sale and held to maturity at September 30, 2010 were as follows:

|  | <b>Amortized<br/>cost</b> | <b>Estimated<br/>fair value</b> |
|--|---------------------------|---------------------------------|
| <b>Securities available for sale:</b>  |                           |                                 |
| Due in one year or less                | \$ 10,749                 | \$ 10,892                       |
| Due after one year through five years  | 113,498                   | 118,928                         |
| Due after five years through ten years | 229,039                   | 247,098                         |
| Due after ten years                    | 346,720                   | 376,462                         |
| Residential mortgage-backed securities | 13,912                    | 14,753                          |
| Collateralized mortgage obligations    | 248,036                   | 255,336                         |
|  | <b>\$ 961,954</b>         | <b>\$ 1,023,469</b>             |
| <b>Securities held to maturity:</b>    |                           |                                 |
| Due in one year or less                | \$ 1,240                  | \$ 1,240                        |
| Due after one year through five years  | 9,347                     | 9,879                           |
| Due after five years through ten years | 510                       | 513                             |
| Due after ten years                    | 3,272                     | 3,836                           |
| Residential mortgage-backed securities | 897                       | 936                             |

\$ 15,266      \$ 16,404

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

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(Unaudited)

Information regarding realized and unrealized gains and losses from investments for the three months and nine months ended September 30, 2010 and 2009 is as follows:

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Realized gains (losses):                           |                           |             |                          |             |
| Fixed maturity securities:                         |                           |             |                          |             |
| Securities available for sale:                     |                           |             |                          |             |
| Gross gains from sales                             | \$                        | \$ 65       | \$ 69                    | \$ 3,122    |
| Gross losses from sales                            | (148)                     |             | (272)                    | (3)         |
| Gross losses from other-than-temporary impairments |                           | (240)       | (95)                     | (1,393)     |
| Total debt securities                              | (148)                     | (175)       | (298)                    | 1,726       |
| Equity securities:                                 |                           |             |                          |             |
| Trading securities:                                |                           |             |                          |             |
| Gross gains from sales                             | 110                       | 107         | 935                      | 416         |
| Gross losses from sales                            | (212)                     | (104)       | (741)                    | (823)       |
|  | (102)                     | 3           | 194                      | (407)       |
| Securities available for sale:                     |                           |             |                          |             |
| Gross gains from sales                             | 273                       | 2,322       | 3,259                    | 2,322       |
| Gross losses from sales                            | (19)                      |             | (576)                    | (283)       |
| Gross losses from other-than-temporary impairments | (317)                     |             | (2,838)                  | (4,560)     |
|  | (63)                      | 2,322       | (155)                    | (2,521)     |
| Total equity securities                            | (165)                     | 2,325       | 39                       | (2,928)     |
| Net realized (losses) gains on securities          | \$ (313)                  | \$ 2,150    | \$ (259)                 | \$ (1,202)  |

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

|   | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|---|---------------------------|-------------|--------------------------|-------------|
|   | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|   | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| <b>Changes in net unrealized gains (losses):</b>      |                           |             |                          |             |
| Recognized in income:                                 |                           |             |                          |             |
| Equity securities trading                             | \$ 4,611                  | \$ 4,860    | \$ 631                   | \$ 8,036    |
| Recognized in accumulated other comprehensive income: |                           |             |                          |             |
| Fixed maturities available for sale                   | 14,376                    | 21,393      | 53,900                   | 21,044      |
| Equity securities available for sale                  | 5,011                     | 3,346       | 3,066                    | 2,837       |

**\$ 19,387      \$ 24,739      \$ 56,966      \$ 23,881**

Not recognized in the consolidated financial statements:

|                                   |              |              |               |                 |
|-----------------------------------|--------------|--------------|---------------|-----------------|
| Fixed maturities held to maturity | <b>\$ 93</b> | <b>\$ 90</b> | <b>\$ 442</b> | <b>\$ (441)</b> |
|-----------------------------------|--------------|--------------|---------------|-----------------|

The deferred tax liability/asset on unrealized gains and losses, respectively, recognized in accumulated other comprehensive income/ (loss) during the nine months ended September 30, 2010 and 2009 aggregated to \$10,315 and \$3,582, respectively.

As of September 30, 2010 and December 31, 2009, no individual investment in securities exceeded 10% of stockholders equity.

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

(Unaudited)

Components of net investment income were as follows:

|  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Fixed maturities                               | \$ 11,707                 | \$ 11,629   | \$ 34,303                | \$ 34,498   |
| Equity securities                              | 756                       | 891         | 2,595                    | 2,984       |
| Policy loans                                   | 113                       | 105         | 330                      | 302         |
| Cash equivalents and interest-bearing deposits | 58                        | 127         | 160                      | 485         |
| Other  | 160                       | 203         | 500                      | 587         |
| Total  | \$ 12,794                 | \$ 12,955   | \$ 37,888                | \$ 38,856   |

**(5) Premiums and Other Receivables, Net**

Premiums and other receivables, net as of September 30, 2010 and December 31, 2009 were as follows:

|  | <b>September</b> | <b>December</b> |
|--|------------------|-----------------|
|  | <b>30,</b>       | <b>31,</b>      |
|  | <b>2010</b>      | <b>2009</b>     |
| Premium                                  | \$ 142,397       | \$ 98,429       |
| Self-funded group receivables            | 81,634           | 70,315          |
| FEHBP                                    | 11,198           | 10,297          |
| Agents balances                          | 28,187           | 37,888          |
| Accrued interest                         | 10,278           | 9,287           |
| Reinsurance recoverable                  | 47,303           | 43,951          |
| Other                                    | 26,050           | 27,999          |
|  | 347,047          | 298,166         |
| Less allowance for doubtful receivables: |                  |                 |
| Premiums                                 | 24,884           | 20,280          |
| Other                                    | 7,071            | 4,954           |
|  | 31,955           | 25,234          |
| Total premiums and other receivables     | \$ 315,092       | \$ 272,932      |

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(Unaudited)

**(6) Claim Liabilities**

The activity in the total claim liabilities for the three months and nine months ended September 30, 2010 and 2009 is as follows:

|  | Three months ended |            | Nine months ended |            |
|--|--------------------|------------|-------------------|------------|
|  | September 30,      |            | September 30,     |            |
|  | 2010               | 2009       | 2010              | 2009       |
| Claim liabilities at beginning of period         | \$ 411,410         | \$ 363,914 | \$ 360,446        | \$ 323,710 |
| Reinsurance recoverable on claim liabilities     | (33,069)           | (30,154)   | (30,712)          | (30,432)   |
| Net claim liabilities at beginning of period     | 378,341            | 333,760    | 329,734           | 293,278    |
| Incurred claims and loss-adjustment expenses:    |                    |            |                   |            |
| Current period insured events                    | 417,642            | 407,651    | 1,259,518         | 1,194,365  |
| Prior period insured events                      | 671                | 1,731      | 4,006             | (2,872)    |
| Total  | 418,313            | 409,382    | 1,263,524         | 1,191,493  |
| Payments of losses and loss-adjustment expenses: |                    |            |                   |            |
| Current period insured events                    | 383,961            | 353,243    | 951,570           | 903,574    |
| Prior period insured events                      | 22,016             | 44,728     | 251,011           | 236,026    |
| Total  | 405,977            | 397,971    | 1,202,581         | 1,139,600  |
| Net claim liabilities at end of period           | 390,677            | 345,171    | 390,677           | 345,171    |
| Reinsurance recoverable on claim liabilities     | 33,142             | 32,626     | 33,142            | 32,626     |
| Claim liabilities at end of period               | \$ 423,819         | \$ 377,797 | \$ 423,819        | \$ 377,797 |

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

The amount of incurred claims and loss-adjustment expenses for prior period insured events for the three months and nine months ended September 30, 2010 and for the three months ended September 30, 2009 is due primarily to higher than expected utilization trends. The credit in the incurred claims and loss-adjustment expenses for prior period insured events for the nine months ended September 30, 2009 is due primarily to better than expected utilization trends.

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 change in the liability for future policy benefits expense, which amounted to \$3,201 and \$8,656, during the three months and nine months ended September 30, 2010, respectively. The change in the liability for future policy benefits during the three months and nine months ended September 30, 2009 amount to \$3,010 and \$9,655, respectively.

**(7) Borrowings**

During September 2010, the Company entered into an agreement to purchase \$25.0 million of its \$60.0 million, 6.60% unsecured note payable with a settlement date of October 1, 2010.





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(Unaudited)

**(8) Fair Value Measurements**

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

**Level Input: Input Definition:**

Level 1 Inputs are unadjusted, quoted prices for identical assets or liabilities in active markets at the measurement date.

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

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

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

**(i) Cash and Cash Equivalents**

The carrying amount approximates fair value because of the short-term nature of such instruments.

**(ii) Investment in Securities**

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

**(iii) 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.

**(iv) Receivables, Accounts Payable and Accrued Liabilities**

The carrying amount of receivables, accounts payable and accrued liabilities approximates fair value because they mature and should be collected or paid within 12 months after September 30, 2010.

**(v) 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.

**(vi) Borrowings**

The carrying amounts and fair value of the Corporation's borrowings are as follows:

|                                     | September 30, 2010 |            | December 31, 2009 |            |
|-------------------------------------|--------------------|------------|-------------------|------------|
|                                     | Carrying amount    | Fair value | Carrying amount   | Fair value |
| Loans payable to bank               | \$ 21,437          | \$ 21,437  | \$ 22,667         | \$ 22,667  |
| 6.3% senior unsecured notes payable | 50,000             | 49,725     | 50,000            | 48,000     |
| 6.6% senior unsecured notes payable | 59,687             | 59,025     | 60,000            | 57,420     |
| 6.7% senior unsecured notes payable | 35,000             | 34,458     | 35,000            | 33,320     |
| Totals                              | \$ 166,124         | \$ 164,645 | \$ 167,667        | \$ 161,407 |



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(Unaudited)

The carrying amount of the loans payable to bank approximates fair value due to its floating interest-rate structure. The fair value of the senior unsecured notes payable was determined using broker quotations. The carrying amount of short-term borrowings approximates fair value because of the short-term nature of such instruments.

**(vii) Derivative Instruments**

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

The following table summarizes fair value measurements by level at September 30, 2010 and December 31, 2009 for assets measured at fair value on a recurring basis:

|  | <b>September 30, 2010</b> |                  |                | <b>Total</b>     |
|--|---------------------------|------------------|----------------|------------------|
|  | <b>Level 1</b>            | <b>Level 2</b>   | <b>Level 3</b> |                  |
| Equity securities held for trading                   | \$ 46,228                 | \$               | \$             | \$ 46,228        |
| Securities available for sale:                       |                           |                  |                |                  |
| Fixed maturity securities                            |                           |                  |                |                  |
| Obligations of government-sponsored                  |                           | 201,728          |                | 201,728          |
| U.S. Treasury securities and obligations of U.S      |                           |                  |                |                  |
| government instrumentalities                         | 55,966                    |                  |                | 55,966           |
| Obligations of the Commonwealth of Puerto and its    |                           |                  |                |                  |
| instrumentalities                                    |                           | 165,291          |                | 165,291          |
| Municipal securities                                 |                           | 213,769          |                | 213,769          |
| Corporate bonds                                      |                           | 116,626          |                | 116,626          |
| Residential agency mortgage-backed securities        |                           | 14,753           |                | 14,753           |
| Collateralized mortgage obligations                  |                           | 255,336          |                | 255,336          |
| <br>Total fixed maturities                           | <br>55,966                | <br>967,503      |                | <br>1,023,469    |
| <br>Equity securities                                |                           |                  |                |                  |
| Common stocks  | 3,686                     |                  |                | 3,686            |
| Preferred stocks                                     | 3,845                     |                  |                | 3,845            |
| Perpetual preferred stocks                           | 921                       |                  |                | 921              |
| Mutual funds   | 24,211                    | 39,732           | 846            | 64,789           |
| <br>Total equity securities                          | <br>32,663                | <br>39,732       | <br>846        | <br>73,241       |
| <br>Derivatives (reported within other assets in the |                           |                  |                |                  |
| consolidated balance sheets)                         |                           | 659              |                | 659              |
| <br>Total  | <br>\$ 134,857            | <br>\$ 1,007,894 | <br>\$ 846     | <br>\$ 1,143,597 |

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(Unaudited)

|   | <b>December 31, 2009</b> |                |                |              |
|---|--------------------------|----------------|----------------|--------------|
|   | <b>Level 1</b>           | <b>Level 2</b> | <b>Level 3</b> | <b>Total</b> |
| Equity securities held for trading                | \$ 43,909                | \$             | \$             | \$ 43,909    |
| Securities available for sale:                    |                          |                |                |              |
| Fixed maturity securities                         |                          |                |                |              |
| Obligations of government-sponsored               |                          | 251,428        |                | 251,428      |
| U.S. Treasury securities and obligations of U.S   |                          |                |                |              |
| government instrumentalities                      | 51,338                   |                |                | 51,338       |
| Obligations of the Commonwealth of Puerto and its |                          |                |                |              |
| instrumentalities                                 |                          | 155,948        |                | 155,948      |
| Municipal securities                              |                          | 106,707        |                | 106,707      |
| Corporate bonds                                   |                          | 105,365        |                | 105,365      |
| Residential agency mortgage-backed securities     |                          | 17,281         |                | 17,281       |
| Collateralized mortgage obligations               |                          | 230,910        |                | 230,910      |
| <br>  |                          |                |                |              |
| Total fixed maturities                            | 51,338                   | 867,639        |                | 918,977      |
| <br>  |                          |                |                |              |
| Equity securities                                 |                          |                |                |              |
| Common stocks                                     | 7,509                    |                |                | 7,509        |
| Preferred stocks                                  | 2,675                    |                |                | 2,675        |
| Perpetual preferred stocks                        | 2,579                    |                |                | 2,579        |
| Mutual funds                                      | 6,961                    | 44,190         | 775            | 51,926       |
| <br>  |                          |                |                |              |
| Total equity securities                           | 19,724                   | 44,190         | 775            | 64,689       |
| <br>  |                          |                |                |              |
| Derivatives (reported within other assets in the  |                          |                |                |              |
| consolidated balance sheets)                      |                          | 1,608          |                | 1,608        |
| <br>  |                          |                |                |              |
| Total   | \$ 114,971               | \$ 913,437     | \$ 775         | \$ 1,029,183 |

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 utilizes 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 pricing company's evaluated pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing, to prepare evaluations. 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 services 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.

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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 three months and nine months ended September 30, 2010 and 2009 is as follows:

|  | <b>Three months ended</b>                |                              |              |  |                              |              |
|--|--|------------------------------|--------------|--|------------------------------|--------------|
|  | <b>September 30, 2010</b>                |                              |              | <b>September 30, 2009</b>                |                              |              |
|  | <b>Fixed<br/>Maturity<br/>Securities</b> | <b>Equity<br/>Securities</b> | <b>Total</b> | <b>Fixed<br/>Maturity<br/>Securities</b> | <b>Equity<br/>Securities</b> | <b>Total</b> |
| <b>Beginning balance</b>                                   | \$                                       | \$ 699                       | \$ 699       | \$ 560                                   | \$ 1,747                     | \$ 2,307     |
| Total gains or losses:                                     |  |                              |              |  |                              |              |
| Realized in earnings                                       |  |                              |              | (240)                                    |                              | (240)        |
| Unrealized in other<br>accumulated comprehensive<br>income |  | (6)                          | (6)          |  |                              |              |
| Purchases and sales  |  | 153                          | 153          |  |                              |              |
| Transfers in and/or out of<br>Level 3                      |  |                              |              |  |                              |              |
| <b>Ending balance</b>                                      | \$                                       | \$ 846                       | \$ 846       | \$ 320                                   | \$ 1,747                     | \$ 2,067     |

  

|  | <b>Nine months ended</b>                 |                              |              |  |                              |              |
|--|--|------------------------------|--------------|--|------------------------------|--------------|
|  | <b>September 30, 2010</b>                |                              |              | <b>September 30, 2009</b>                |                              |              |
|  | <b>Fixed<br/>Maturity<br/>Securities</b> | <b>Equity<br/>Securities</b> | <b>Total</b> | <b>Fixed<br/>Maturity<br/>Securities</b> | <b>Equity<br/>Securities</b> | <b>Total</b> |
| <b>Beginning balance</b>                                   | \$                                       | \$ 775                       | \$ 775       | \$ 1,281                                 | \$ 1,086                     | \$ 2,367     |
| Total gains or losses:                                     |  |                              |              |  |                              |              |
| Realized in earnings                                       |  |                              |              | (1,264)                                  |                              | (1,264)      |
| Unrealized in other<br>accumulated comprehensive<br>income |  | (253)                        | (253)        | 303                                      | 661                          | 964          |
| Purchases and sales  |  | 324                          | 324          |  |                              |              |
| Transfers in and/or out of<br>Level 3                      |  |                              |              |  |                              |              |
| <b>Ending balance</b>                                      | \$                                       | \$ 846                       | \$ 846       | \$ 320                                   | \$ 1,747                     | \$ 2,067     |

There were no transfers in or transfers out of Level 3 for the nine months ended September 30, 2010 and 2009.

As of September 30, 2010, a mutual fund investment was classified as Level 3 due to the unavailability of market quotes for the underlying securities.

During the three months and nine months ended September 30, 2009, certain fixed maturity and equity securities classified at Level 3 were thinly traded due to issuer liquidity concerns. Consequently, broker quotes or other observable inputs were not always available and the fair value of these securities was estimated using internal

estimates for inputs including, but not limited to, credit spreads, default rates and benchmark yields. An other-than-temporary impairment of approximately \$0.2 million and \$1.3 million was recorded on Level 3 securities during the three months and nine months ended September 30, 2009.

**(9) Share-Based Compensation**

Share-based compensation expense recorded during the three months and nine months ended September 30, 2010 was \$638 and \$1,316, respectively. Share-based compensation expense recorded during the three months and nine months ended September 30, 2009 was \$779 and \$3,258, respectively. Share based compensation expense for the nine months ended September 30, 2009 includes \$937 of compensation cost that should have been recorded in

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earlier periods. This adjustment relates to employees that qualified for approved retirement as defined under the plan.

Pursuant to the 2007 Incentive Plan, on September 30, 2010 the Corporation granted certain key employees 4,032 stock options, 741 shares of restricted stocks, and 741 performance awards. Effective July 12, 2010, the Corporation granted 15,480 shares of restricted stock to non-employee directors pursuant to the 2007 Incentive Plan.

**(10) Comprehensive Income (Loss)**

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

|                                | <b>Net<br/>unrealized<br/>gain on<br/>securities</b> | <b>Liability<br/>for<br/>pension<br/>benefits</b> | <b>Accumulated<br/>other<br/>comprehensive<br/>income (loss)</b> |
|--------------------------------|--|---|--|
| <b>Balance at January 1</b>    | \$ 9,141   | \$ (20,717)                                       | \$ (11,576)  |
| Net current period change      | 48,332   | 886   | 49,218   |
| <b>Balance at September 30</b> | \$ 57,473  | \$ (19,831)                                       | \$ 37,642  |

**(11) Income Taxes**

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. The Corporation and its subsidiaries are subject to Puerto Rico income taxes. The Corporation's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of September 30, 2010, tax years 2004 through 2009 for the Corporation and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

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

On July 10, 2009 the Governor of Puerto Rico signed into law Puerto Rico's Act No. 37, which requires certain corporations to pay a 5% additional special tax over tax liability. The effective tax rate includes the additional special tax, as enacted.



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**(12) Pension Plan**

The components of net periodic benefit cost for the three months and nine months ended September 30, 2010 and 2009 were as follows:

|  | Three months ended<br>September 30, |          | Nine months ended<br>September 30, |          |
|--|-------------------------------------|----------|------------------------------------|----------|
|  | 2010                                | 2009     | 2010                               | 2009     |
| Components of net periodic benefit cost: |                                     |          |                                    |          |
| Service cost                             | \$ 1,218                            | \$ 1,372 | \$ 3,772                           | \$ 3,791 |
| Interest cost                            | 1,478                               | 1,614    | 4,497                              | 4,290    |
| Expected return on assets                | (1,044)                             | (1,135)  | (3,148)                            | (3,047)  |
| Amortization of prior service benefit    | (110)                               | (127)    | (333)                              | (340)    |
| Amortization of actuarial loss           | 588                                 | 718      | 1,782                              | 1,809    |
| Net periodic benefit cost                | \$ 2,130                            | \$ 2,442 | \$ 6,570                           | \$ 6,503 |

*Employer contributions:* The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2009 that it expected to contribute \$7,000 to its pension program in 2010. As of September 30, 2010, the Corporation has contributed \$9,800 to the pension program. The Corporation does not expect to make further contributions to the program during 2010.

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

The following table sets forth the computation of basic and diluted earnings per share for the three months and nine months ended September 30, 2010 and 2009:

|  | Three months ended<br>September 30, |            | Nine months ended<br>September 30, |            |
|--|-------------------------------------|------------|------------------------------------|------------|
|  | 2010                                | 2009       | 2010                               | 2009       |
| Numerator for earnings per share:          |                                     |            |                                    |            |
| Net income available to stockholders       | \$ 20,488                           | \$ 18,084  | \$ 46,737                          | \$ 40,676  |
| Denominator for basic earnings per share:  |                                     |            |                                    |            |
| Weighted average of common shares          | 29,095,272                          | 29,265,472 | 29,085,188                         | 29,607,691 |
| Effect of dilutive securities              | 220,301                             | 107,462    | 197,690                            | 64,876     |
| Denominator for diluted earnings per share | 29,315,573                          | 29,372,934 | 29,282,878                         | 29,672,567 |
| Basic net income per share                 | \$ 0.70                             | \$ 0.62    | \$ 1.61                            | \$ 1.37    |
| Diluted net income per share               | \$ 0.70                             | \$ 0.62    | \$ 1.60                            | \$ 1.37    |

During the nine months ended September 30, 2009, the weighted average of stock option shares of approximately 1,013,000 was excluded from the denominator for the diluted earnings per share computation because the stock options were anti-dilutive. There were no anti-dilutive stock options during the three months and nine months ended September 30, 2010 and during the three months ended September 30, 2009.

**(14) Contingencies**

As of September 30, 2010, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. We are also defendants in various other claims and proceedings, some of which are described below. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities,

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

(Unaudited)

regularly make inquiries and conduct audits concerning the Corporation's compliance with applicable insurance and other laws and regulations.

Management believes that the aggregate liabilities, if any, arising from all such claims, assessments, audits and lawsuits will not have a material adverse effect on the consolidated financial position or results of operations of the Corporation. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could have a material adverse effect on the financial condition, operating results and/or cash flows. Where the Corporation believes that a loss is both probable and estimable, such amounts have been recorded. In other cases, it is at least reasonably possible that the Corporation may incur a loss related to one or more of the mentioned pending lawsuits or investigations, but the Corporation is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution.

Additionally, we may face various potential litigation claims that have not been asserted to date, including claims from persons purporting to have contractual rights to acquire shares of the Corporation on favorable terms or to have inherited such shares notwithstanding applicable transfer and ownership restrictions.

**Hau et al Litigation (formerly known as Jordan et al)**

On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against the Corporation, the Corporation's subsidiary TSS and others in the Court of First Instance for San Juan, Superior Section (the Court of First Instance), alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, antitrust violations, unfair business practices, RICO violations, breach of contract with providers, and damages in the amount of \$12 million. Following years of complaint amendments, motions practice and interim appeals up to the level of the Puerto Rico Supreme Court, the plaintiffs amended their complaint on June 20, 2008 to allege with particularity the same claims initially asserted but on behalf of a more limited group of plaintiffs, and increase their claim for damages to approximately \$207 million. Discovery is ongoing. The Corporation intends to vigorously defend this claim.

**Dentists Association Litigation**

On February 11, 2009, the Puerto Rico Dentists Association (Colegio de Cirujanos Dentistas de Puerto Rico) filed a complaint in the Court of First Instance against 24 health plans operating in Puerto Rico that offer dental health coverage. The Corporation and two of its subsidiaries, TSS and Triple-C, Inc. (TCI), were included as defendants. This litigation purports to be a class action filed on behalf of Puerto Rico dentists who are similarly situated; however, the complaint does not include a single dentist as a class representative nor a definition of the intended class.

The complaint alleges that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to dentists so that they are not paid in a timely and complete manner for the covered medically necessary services they render. The complaint also alleges, among other things, violations to the Puerto Rico Insurance Code, antitrust laws, the Puerto Rico racketeering statute, unfair business practices, breach of contract with providers, and damages in the amount of \$150 million. In addition, the complaint claims that the Puerto Rico Insurance Companies Association is the hub of an alleged conspiracy concocted by the member plans to defraud dentists. There are numerous available defenses to oppose both the request for class certification and the merits. The Corporation intends to vigorously defend this claim.

Two codefendant plans removed the case to federal court, which the plaintiffs and the other codefendants, including the Corporation, opposed. The federal District Court decided that it lacked jurisdiction under the Class Action Fairness Act (CAFA) and remanded the case to state court. The removing defendants petitioned to appeal to the First Circuit Court of Appeals. Having accepted the appeal, the First Circuit Court of Appeals issued an order in late October 2009 which found the lower court's decision premature. The Court of Appeals remanded the case to the federal District Court and allowed limited discovery to determine whether the case should be heard in federal court pursuant to CAFA. The parties completed the limited discovery in August 2010 and supplemented their previous filings.



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

(Unaudited)

**Colón Litigation**

On October 15, 2007, José L. Colón-Dueño, a former holder of one share of TSS predecessor stock, filed suit against TSS and the Puerto Rico Commissioner of Insurance (the Commissioner) in the Court of First Instance. The sale of that share to Mr. Colón-Dueño was voided in 1999 pursuant to an order issued by the Commissioner in which the sale of 1,582 shares to a number of TSS shareholders was voided. TSS, however, appealed the Commissioner's order before the Puerto Rico Court of Appeals, which upheld the order on March 31, 2000. Plaintiff requests that the court direct TSS to return his share of stock and compensate him for alleged damages in excess of \$500,000 plus attorney's fees. The Corporation is vigorously contesting this lawsuit because, among other reasons, the Commissioner's order is final and cannot be collaterally attacked in this litigation.

**Puerto Rico Center for Municipal Revenue Collection**

On March 1, 2006 and March 3, 2006, respectively, the Puerto Rico Center for Municipal Revenue Collection (CRIM) imposed a real property tax assessment of approximately \$1.3 million and a personal property tax assessment of approximately \$4.0 million upon TSS for fiscal years 1992-1993 through 2002-2003. During that time, TSS qualified as a tax-exempt entity under Puerto Rico law pursuant to rulings issued by the Puerto Rico tax authorities. In imposing the tax assessments, CRIM revoked the tax rulings retroactively, based on its contention that a for-profit corporation such as TSS is not entitled to such an exemption. TSS unsuccessfully filed suit in the local court system up to the level of the Puerto Rico Supreme Court and a petition for a writ of certiorari before the U.S. Supreme Court, based on its strong belief that CRIM's retroactive revocation of applicable tax rulings and its imposition of a tax liability reaching back over ten years constituted a violation of the Corporation's due process rights.

TSS has decided to benefit from an incentive plan established under Law No. 71 of July 2, 2010, which waives accumulated interest, penalties and surcharges. As a result TSS will pay a total of approximately \$5.3 million in property taxes for the period involved in this litigation. The amount accrued is included within accounts payable and accrued liabilities in the accompanying consolidated financial statements.

**Claims by Heirs of Former Shareholders**

The Corporation and TSS are defending five individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 80 shares of the Corporation or one of its predecessors or affiliates (before giving effect to the 3,000-for-one stock split). While each case presents unique facts, the lawsuits generally allege that the redemption of the shares by the Corporation pursuant to transfer and ownership restrictions contained in the Corporation's (or its predecessors or affiliates') articles of incorporation and bylaws was improper. One of the cases is in its initial stage; in the other cases, discovery has been completed and the parties are awaiting trial. Management believes all these claims are time barred under one or more statutes of limitations and other grounds and is vigorously defending them.

**ACODESE Investigation**

During April 2010, each of the Company's wholly-owned insurance subsidiaries received subpoenas for documents from the U.S. Attorney for the Commonwealth of Puerto Rico (the U.S. Attorney) and the Puerto Rico Department of Justice (PRDOJ) requesting information principally related to the Asociación de Compañías de Seguros de Puerto Rico, Inc. (ACODESE by its Spanish acronym). Also in April, the Company's insurance subsidiaries received a request for information from the Office of the Commissioner of Insurance of Puerto Rico (OCI) related principally to ACODESE. The Company's insurance subsidiaries are members of ACODESE, an insurance trade association established in Puerto Rico since 1975, and their current presidents have participated over the years on ACODESE's board of directors.

The Company believes similar subpoenas and information requests were issued to other member companies of ACODESE in connection with the investigation of alleged payments by the former Executive Vice President of

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

(Unaudited)

ACODESE to members of the Puerto Rico Legislative Assembly beginning in 2005. The Company, however, has not been informed of the specific subject matter of the investigations being conducted by the U.S. Attorney, the PRDOJ or the OCI. The Company is fully complying with the subpoenas and the request for information and intends to cooperate with any related government investigation. The Company at this time cannot reasonably assess the outcome of these investigations or their impact on the Company.

**Intrusions into Triple-C, Inc. Internet IPA Database**

On September 21, 2010, we learned from a competitor that a specific internet database managed by our subsidiary TCI, containing information pertaining to individuals previously insured by TSS under the Government of Puerto Rico's Health Insurance Plan (HIP) and to independent practice associations (IPAs) that provided services to those individuals, had been accessed without authorization by certain of our competitor's employees from September 9 to September 15, 2010. We immediately began an investigation and engaged external resources to assist in this matter. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010. We have identified the information that was accessed and downloaded into the competitor's system. The September 2010 intrusions may have potentially compromised protected health information of approximately 398,000 beneficiaries in the North and Metro-North regions of the HIP. We have also learned as a result of our ongoing investigation that protected health information of approximately 5,500 HIP beneficiaries, 2,500 Medicare beneficiaries and IPA data from all three HIP regions previously serviced by TSS was accessed through multiple, separate intrusions into the TCI IPA database from October 2008 to August 2010. The stolen information did not include Social Security numbers.

Our investigation has revealed that the security breaches were the result of unauthorized use of one or more active user IDs and passwords specific to the TCI IPA database, and not the result of breaches of TSS's or the Corporation's system security features. We cannot at this time determine the purpose of these breaches and do not know the extent of any fraudulent use of the information or its impact on the potentially affected individuals and IPAs. We believe, however, that the most likely target was financial information related to IPAs rather than the individuals' information. During the course of our investigation we learned that there may have been improper uses of the IPA passwords by one or more consultants working for the IPAs. We have taken measures to strengthen the TCI server security and credentials management procedures, and are conducting an assessment of our system-wide data and facility security to prevent the occurrence of a similar incident in the future. We continue to investigate these events and to analyze the data as it becomes known to us to identify all individuals and entities whose information may have been impacted, and to take any additional corresponding remedial actions in accordance with applicable laws and regulations.

We have notified the appropriate Puerto Rico and federal government agencies of these events, and have issued public notice of the breaches as required under Puerto Rico law. We have received a number of inquiries and requests for information related to these events from these government agencies and are cooperating with them. As a result of our ongoing investigation, we have determined that additional filings and public notices will be required. In addition, the Puerto Rico government agency that oversees the HIP has levied a fine of \$100,000 on TSS in connection with these incidents, which we are appealing. Other government agencies may seek to impose fines or other obligations on us. We do not have sufficient information at this time to predict whether any future action by government entities or others as a result of the data breaches would adversely affect our business, financial condition and results of operations.

**(15) Subsequent Event**

The Corporation evaluated subsequent events through the date that these consolidated interim financial statements were issued. No events have occurred that required disclosure or adjustments.

**Table of Contents*****Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations***

The Management's Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations for the three months and nine months ended September 30, 2010. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2009.

**Cautionary Statement Regarding Forward-Looking Information**

This Quarterly Report on Form 10-Q and other of our publicly available documents may include statements that constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things: statements concerning our business and our financial condition and results of operations. These statements are not historical, but instead represent our belief regarding future events, any of which, by their nature, are inherently uncertain and outside of our control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. The factors that could cause actual results to differ from those in the forward-looking statements are discussed throughout this form. We are not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligations), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

**Overview**

We are one of the most significant players in the managed care industry in Puerto Rico and have over 50 years of experience in this industry. We offer a broad portfolio of managed care and related products in the Commercial and Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plan ( PDP )) markets. In the Commercial market we are the largest provider of managed care products. We offer products to corporate accounts, U.S. federal government employees, local government employees, individual accounts and Medicare Supplement. We also participated in the Government of Puerto Rico Health Reform ( Medicaid ) up to September 30, 2010. Medicaid is a government of Puerto Rico-funded managed care program for the medically indigent that is similar to the Medicaid program in the U.S.

We have the exclusive right to use the Blue Cross Blue Shield name and mark throughout Puerto Rico and U.S. Virgin Islands. As of September 30, 2010 we serve approximately 1.3 million members across all regions of Puerto Rico and U.S. Virgin Islands. Excluding the Medicaid membership, which we served until September 30, 2010, we serve over 800 thousand members covering approximately 20% of the Puerto Rico population. For the nine months ended September 30, 2010, our managed care segment represented approximately 90% of our total consolidated premiums earned. We also have significant positions in the life insurance and property and casualty insurance markets. Our life insurance segment had a market share of approximately 12.5% (in terms of direct premiums) during the year ended December 31, 2009. Our property and casualty segment had a market share of approximately 9% (in terms of direct premiums) during the year ended December 31, 2009.

We participate in the managed care market through our subsidiary, Triple-S Salud, Inc. ( TSS ). Our managed care subsidiary is a Blue Cross Blue Shield Association ( BCBSA ) licensee, which provides us with exclusive use of the Blue Cross Blue Shield name and mark throughout Puerto Rico and U.S. Virgin Islands.

We participate in the life insurance market through our subsidiary, Triple-S Vida, Inc. ( TSV ) and in the property and casualty insurance market through our subsidiary, Triple-S Propiedad, Inc. ( TSP ), each one representing approximately 5% of our consolidated premiums earned, net for the nine months ended September 30, 2010.

Intersegment revenues and expenses are reported on a gross basis in each of the operating segments but eliminated in the consolidated results. Except as otherwise indicated, the numbers for each segment presented in





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this Quarterly Report on Form 10-Q do not reflect intersegment eliminations. These intersegment revenues and expenses affect the amounts reported on the financial statement line items for each segment, but are eliminated in consolidation and do not change net income. The following table shows premiums earned, net and net fee revenue and operating income for each segment, as well as the intersegment premiums earned, service revenues and other intersegment transactions, which are eliminated in the consolidated results:

| <i>(Dollar amounts in millions)</i>      | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| <b>Premiums earned, net:</b>             |                           |             |                          |             |
| Managed care                             | \$ 446.4                  | \$ 428.2    | \$ 1,342.7               | \$ 1,246.6  |
| Life insurance                           | 26.7                      | 24.7        | 78.7                     | 74.5        |
| Property and casualty insurance          | 24.5                      | 24.4        | 75.2                     | 73.0        |
| Intersegment premiums earned             | (1.1)                     | (1.0)       | (3.2)                    | (3.4)       |
| Consolidated premiums earned, net        | \$ 496.5                  | \$ 476.3    | \$ 1,493.4               | \$ 1,390.7  |
| <b>Administrative service fees:</b>      |                           |             |                          |             |
| Managed care                             | \$ 10.9                   | \$ 10.5     | \$ 37.1                  | \$ 32.0     |
| Intersegment administrative service fees | (0.7)                     | (0.7)       | (2.2)                    | (2.0)       |
| Consolidated administrative service fees | \$ 10.2                   | \$ 9.8      | \$ 34.9                  | \$ 30.0     |
| <b>Operating income:</b>                 |                           |             |                          |             |
| Managed care                             | \$ 16.4                   | \$ 10.1     | \$ 47.5                  | \$ 32.1     |
| Life insurance                           | 4.6                       | 4.0         | 13.1                     | 10.9        |
| Property and casualty insurance          | 2.2                       | 0.2         | 3.3                      | 4.4         |
| Intersegment and other                   | 0.7                       | 1.1         | 2.4                      | 3.0         |
| Consolidated operating income            | \$ 23.9                   | \$ 15.4     | \$ 66.3                  | \$ 50.4     |

Our revenues primarily consist of premiums earned, net and administrative service fees. These revenues are derived from the sale of managed care products in the Commercial market to employer groups, individuals and government-sponsored programs, principally Medicare and Medicaid. Premiums are derived from insurance contracts and administrative service fees are derived from self-funded contracts, under which we provide a range of services, including claims administration, billing and membership services, among others. Revenues also include premiums earned from the sale of property and casualty and life insurance contracts, and investment income. Substantially all of our earnings are generated in Puerto Rico.

Claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. Each segment's results of operations depend in significant part on their ability to accurately predict and effectively manage claims. A portion of the claims incurred for each period consists of claims reported but not paid during the period, as well as a management and actuarial estimate of claims incurred but not reported during the period. Operating expenses consist primarily of compensation expenses, commission payments to brokers and other overhead business expenses.

We use operating income as a measure of performance of the underwriting and investment functions of our segments. We also use the loss ratio and the operating expense ratio as measures of performance. The loss ratio is claims incurred divided by premiums earned, net, multiplied by 100. The operating expense ratio is operating

expenses divided by premiums earned; net and administrative service fees, multiplied by 100.

**Recent Developments**

***Federal Health Reform Legislation***

On March 23, 2010, President Obama signed into law federal health reform legislation, known as the Patient Protection and Affordable Care Act. As further detailed below, the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2010, which was signed into law on March 30, 2010 (collectively, Pub. L. No. 111-148, and referred to herein as PPACA ), includes certain mandates that will take effect in 2010, as well as other requirements that will take effect over the next eight (8) years. Many aspects of the PPACA will be further articulated and clarified through regulation and guidance. The PPACA effects all aspects

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of the health care delivery and reimbursement system in the United States, including health insurers, managed care organizations, health care providers, employers, and U.S. states and territories.

The implementation of PPACA could have a material adverse effect on the profitability or marketability of our business, financial condition and results of operations. Because of the absence of the anticipated regulations and guidance, we are not able to fully assess the impact of the PPACA on us at this time and we will continue to assess its impact on us as these regulations and guidance are issued.

Some of the more significant PPACA issues that may affect our managed care business (including our Commercial, Medicare and Medicaid sectors) include:

Provisions requiring greater access to coverage for certain uninsured and under-insured populations and the elimination of certain underwriting practices without adequate funding to health plans or other negative financial levy on health plans such as restrictions in ability to charge additional premium for additional risk, including but not limited to provisions: (i) extending dependent coverage for unmarried individuals until age 26 under their parents health coverage, (ii) limiting a health plan s ability to rescind coverage and restrict the plan s ability to establish annual and lifetime financial caps, and (iii) limiting a health plan s ability to deny or limit coverage on grounds of a person s pre-existing medical condition;

Provisions restricting medical loss ratios and imposing significant penalties for non-compliance;

Provisions requiring health plans to report to their members and the United States Department of Health and Human Services ( HHS ) certain quality performance measures and their wellness promotion activities;

Provisions that freeze premium payments to Medicare Advantage health plans beginning in 2011 and that tie such premium to the local Medicare fee for service costs. The adjustment will be phased in over between 3 and 7 years depending on the amount of the eventual adjustment;

Provisions that tie Medicare Advantage premiums to achievement of certain quality performance measures;

Other efforts or specific legislative changes to the Medicare and Medicaid programs, including changes in the bidding process, authority of the Centers for Medicare and Medicaid Services ( CMS ) to deny bids, or other means of materially reducing premiums such as through further adjustments to the risk adjustment methodology;

Increased federal funding to the Reform program available for years 2014 2019;

Funding provided to the Commonwealth of Puerto Rico to either establish health insurance exchanges or fund the Puerto Rico Medicaid program at the discretion of the Governor;

Increased government funding to enforcement agencies and/or changes in interpretation or application of fraud and abuse laws;

Expanded scope of authority and/or funding to audit Medicare Advantage health plans and recoup premiums or other funds by the government or its representatives; and

The increase in persons eligible for coverage under the Medicaid program in Puerto Rico may result in some persons currently insured by us in our Commercial programs becoming eligible for, and thus moving to, the Medicaid program.

The constitutionality of the PPACA is being challenged by a number of states in the U.S. District Courts in Florida and Virginia. We will continue to assess the impact of these state challenges on the PPACA as they develop.

For a further description of our Business and other Risk Factors, see Items 1 and 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2009. The information included in this section supplements those

materials as to: Item 1. Business sections Regulation , Federal Regulation , and Legislative and Regulatory Initiatives ; and Item 1A. Risk Factors section Risks Relating to the Regulation of Our Industry Changes in governmental regulations, or the application thereof, may adversely affect our business, financial condition and results of operations.

**Table of Contents*****Commonwealth of Puerto Rico Healthcare Reform Contracts (Medicaid)***

On August 31, 2010, the Puerto Rico Health Insurance Administration notified our managed care subsidiary, TSS, that the proposal submitted by TSS to provide services to the Medicaid population was not selected. The current contracts expired by their own terms on September 30, 2010. Total Medicaid enrollment as of September 30, 2010 was 544,448 members. The Medicaid premiums earned, net during the nine months ended September 30, 2010 and 2009 amounted to \$273.1 million and \$257.7 million, respectively. The operating income for the Medicaid business during the nine months ended September 30, 2010 and 2009 amounted to \$5.0 million and \$13.7 million, respectively.

**Recent Accounting Standards**

For a description of recent accounting standards, see note 2 to the unaudited consolidated financial statements included in this Quarterly Report on Form 10-Q.

**Managed Care Membership**

|  | <b>As of September 30,</b> |             |
|--|----------------------------|-------------|
|  | <b>2010</b>                | <b>2009</b> |
| <b>Managed care enrollment:</b>                        |                            |             |
| Commercial <sup>1</sup>                                | <b>737,697</b>             | 745,933     |
| Medicaid <sup>2</sup>                                  | <b>544,448</b>             | 537,414     |
| Medicare <sup>3</sup>                                  | <b>64,190</b>              | 69,290      |
| <b>Total</b>   | <b>1,346,335</b>           | 1,352,637   |
| <br>   |                            |             |
| <b>Managed care enrollment by funding arrangement:</b> |                            |             |
| Fully-insured  | <b>900,498</b>             | 890,987     |
| Self-insured   | <b>445,837</b>             | 461,650     |
| <b>Total</b>   | <b>1,346,335</b>           | 1,352,637   |

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, U.S. Federal government employees and local government employees.

(2) Includes rated and self-funded

members.

- (3) Includes Medicare Advantage as well as stand-alone PDP plan membership.

**Table of Contents****Consolidated Operating Results**

The following table sets forth the Corporation's consolidated operating results. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

| <i>(Dollar amounts in millions)</i>                  | <b>Three months ended</b> |             | <b>Nine months ended</b> |             |
|--|---------------------------|-------------|--------------------------|-------------|
|  | <b>September 30,</b>      |             | <b>September 30,</b>     |             |
|  | <b>2010</b>               | <b>2009</b> | <b>2010</b>              | <b>2009</b> |
| Revenues:  |                           |             |                          |             |
| Premiums earned, net                                 | \$ 496.5                  | 476.3       | \$ 1,493.4               | 1,390.7     |
| Administrative service fees                          | 10.2                      | 9.8         | 34.9                     | 30.0        |
| Net investment income                                | 12.8                      | 12.9        | 37.9                     | 38.9        |
| Total operating revenues                             | 519.5                     | 499.0       | 1,566.2                  | 1,459.6     |
| Net realized investment gains (losses)               | (0.3)                     | 2.1         | (0.3)                    | (1.2)       |
| Net unrealized investment gain on trading securities | 4.6                       | 4.9         | 0.6                      | 8.1         |
| Other income, net                                    | 0.6                       | 0.1         | 0.4                      | 0.4         |
| Total revenues                                       | 524.4                     | 506.1       | 1,566.9                  | 1,466.9     |
| Benefits and expenses:                               |                           |             |                          |             |
| Claims incurred                                      | 421.5                     | 412.4       | 1,272.2                  | 1,201.1     |
| Operating expenses                                   | 74.1                      | 71.2        | 227.7                    | 208.1       |
| Total operating expenses                             | 495.6                     | 483.6       | 1,499.9                  | 1,409.2     |
| Interest expense                                     | 3.0                       | 3.4         | 9.6                      | 10.0        |
| Total benefits and expenses                          | 498.6                     | 487.0       | 1,509.5                  | 1,419.2     |
| Income before taxes                                  | 25.8                      | 19.1        | 57.4                     | 47.7        |
| Income tax expense                                   | 5.3                       | 1.0         | 10.7                     | 7.0         |
| Net income   | \$ 20.5                   | 18.1        | \$ 46.7                  | 40.7        |

***Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009******Operating Revenues***

Consolidated premiums earned, net increased by \$20.2 million, or 4.2%, to \$496.5 million during the three months ended September 30, 2010 when compared to the three months ended September 30, 2009. The increase was mostly due to an increase in the premiums earned, net in our Managed Care segment, primarily from growth in the Commercial membership reflecting organic growth as well as to higher premium rates, particularly in the Commercial and Medicare businesses.

***Claims Incurred***

Consolidated claims incurred increased by \$9.1 million, or 2.2%, to \$421.5 million during the three months ended September 30, 2010 when compared to the claims incurred during the three months ended September 30, 2009. This increase is principally due to increased claims in the Managed Care segment as a result of higher enrollment and an increase in loss adjustment expenses for the Medicaid business. The consolidated loss ratio decreased by 1.7 percentage points to 84.9%.

***Operating Expenses***

Consolidated operating expenses during the three months ended September 30, 2010 increased by \$2.9 million, or 4.1%, to \$74.1 million as compared to the operating expenses during the three months ended September 30, 2009. This increase is primarily attributed to a higher volume of business, particularly in our Managed Care segment, and to expenses related to the implementation of the new Managed Care information technology ( IT ) system. For the three months ended September 30, 2010, the consolidated operating expense ratio remained remained stable at 14.6%.



**Table of Contents***Income Tax Expense*

Consolidated income tax expense during the three months ended September 30, 2010 increased by \$4.3 million to \$5.3 million as compared to the income tax expense during the three months ended September 30, 2009. The consolidated effective tax rate increased by 15.3 percentage points, to 20.5%, primarily due to the use of tax credits during the 2009 period.

***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009****Operating Revenues*

Consolidated premiums earned, net increased by \$102.7 million, or 7.4%, to \$1,493.4 million during the nine months ended September 30, 2010 when compared to the nine months ended September 30, 2009. The increase was primarily due to an increase in the premiums earned, net in our Managed Care segment, primarily from growth in Commercial membership, reflecting, in part, the La Cruz Azul (LCA) transaction, and organic growth as well as higher premium rates, particularly in the Commercial and Medicare businesses.

The increase in administrative service fees of \$4.9 million, or 16.3%, to \$34.9 million in the 2010 period, is attributed to a higher self-insured member months enrollment. Increase is mostly due to new self-insured members in our Commercial business primarily as the result of the aforementioned acquisition of LCA, which was effective July 1, 2009.

Consolidated net investment income decreased by \$1.0 million, or 2.6%, to \$37.9 million during nine months ended September 30, 2010 mostly as the result of lower yields in fixed income investment acquired during the period.

*Net Realized Investment Losses*

Consolidated net realized investment losses of \$0.3 million during the 2010 period are the result of other-than-temporary impairments amounting to \$2.9 million related to equity and fixed income securities, offset in part by net realized gains from the sale of fixed income and equity securities amounting to \$2.6 million.

*Net Unrealized Investment Gains on Trading Securities and Other Income, Net*

The combined balance of our consolidated net unrealized investment gain on trading securities and other income, net decreased by \$7.5 million, to \$1.0 million during the nine months ended September 30, 2010. This decrease is attributable to a lower increase in fair value of our trading securities portfolio as compared to last year's increase. The unrealized gain experienced on our trading portfolio represents a combined increase of 3.6% in the market value of the portfolio, which compares favorably with the changes experienced by the comparable indexes; the Standard and Poor's 500 Index increased by 2.3% and the Russell 1000 Growth decreased by 3.1% during this period.

*Claims Incurred*

Consolidated claims incurred increased by \$71.1 million, or 5.9%, to \$1,272.2 million during the nine months ended September 30, 2010 when compared to the claims incurred during the nine months ended September 30, 2009. This increase is principally due to increased claims in the Managed Care segment as a result of higher enrollment. The consolidated loss ratio decreased by 1.2 percentage points to 85.2%.

*Operating Expenses*

Consolidated operating expenses during the 2010 period increased by \$19.6 million, or 9.4%, to \$227.7 million as compared to the operating expenses during the 2009 period. This increase is primarily attributed to a higher volume of business, particularly in our Managed Care segment and expenses related to the implementation of the new Managed Care IT system. The consolidated operating expense ratio reflects an increase of 0.3 percentage point, to 14.9% during 2010.

*Income Tax Expense*

Consolidated income tax expense during the nine months ended September 30, 2010 increased by \$3.7 million to \$10.7 million as compared to the income tax expense during the nine months ended September 30, 2009.

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The consolidated effective tax rate increased by 3.9 percentage points, to 18.6%, primarily due to the use of tax credits during the 2009 period.

**Managed Care Operating Results**

| <i>(Dollar amounts in millions)</i> | Three months ended |           | Nine months ended |            |
|-------------------------------------|--------------------|-----------|-------------------|------------|
|                                     | September 30,      |           | September 30,     |            |
|                                     | 2010               | 2009      | 2010              | 2009       |
| Operating revenues:                 |                    |           |                   |            |
| Medical premiums earned, net:       |                    |           |                   |            |
| Commercial                          | \$ 237.1           | \$ 217.3  | \$ 715.0          | \$ 600.3   |
| Medicaid                            | 92.9               | 89.4      | 273.1             | 257.7      |
| Medicare                            | 116.4              | 121.5     | 354.6             | 388.6      |
| Medical premiums earned, net        | 446.4              | 428.2     | 1,342.7           | 1,246.6    |
| Administrative service fees         | 10.9               | 10.5      | 37.1              | 32.0       |
| Net investment income               | 5.2                | 5.4       | 15.2              | 15.9       |
| Total operating revenues            | 462.5              | 444.1     | 1,395.0           | 1,294.5    |
| Medical operating costs:            |                    |           |                   |            |
| Medical claims incurred             | 397.5              | 386.5     | 1,197.6           | 1,126.4    |
| Medical operating expenses          | 48.6               | 47.5      | 149.9             | 136.0      |
| Total medical operating costs       | 446.1              | 434.0     | 1,347.5           | 1,262.4    |
| Medical operating income            | \$ 16.4            | \$ 10.1   | \$ 47.5           | \$ 32.1    |
| Additional data:                    |                    |           |                   |            |
| Member months enrollment:           |                    |           |                   |            |
| Commercial:                         |                    |           |                   |            |
| Fully-insured                       | 1,484,056          | 1,441,028 | 4,521,088         | 3,977,778  |
| Self-funded                         | 735,154            | 812,780   | 2,239,544         | 1,954,997  |
| Total Commercial member months      | 2,219,210          | 2,253,808 | 6,760,632         | 5,932,775  |
| Medicaid:                           |                    |           |                   |            |
| Fully-insured                       | 1,034,749          | 1,011,294 | 3,078,288         | 2,997,800  |
| Self-funded                         | 599,648            | 590,117   | 1,782,426         | 1,723,568  |
| Total Medicaid member months        | 1,634,397          | 1,601,411 | 4,860,714         | 4,721,368  |
| Medicare:                           |                    |           |                   |            |
| Medicare Advantage                  | 165,327            | 179,878   | 506,622           | 565,439    |
| Stand-alone PDP                     | 28,014             | 29,330    | 84,395            | 88,301     |
| Total Medicare member months        | 193,341            | 209,208   | 591,017           | 653,740    |
| Total member months                 | 4,046,948          | 4,064,427 | 12,212,363        | 11,307,883 |

|                         |              |       |              |       |
|-------------------------|--------------|-------|--------------|-------|
| Medical loss ratio      | <b>89.0%</b> | 90.3% | <b>89.2%</b> | 90.4% |
| Operating expense ratio | <b>10.6%</b> | 10.8% | <b>10.9%</b> | 10.6% |

***Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009***

*Medical Operating Revenues*

Medical premiums earned for the three months ended September 30, 2010 increased by \$18.2 million, or 4.3%, to \$446.4 million when compared to the medical premiums earned during the three months ended September 30, 2009. This increase is principally the result of the following:

Medical premiums generated by the Commercial business increased by \$19.8 million, or 9.1%, to \$237.1 million during the three months ended September 30, 2010. This fluctuation is primarily the result of an increase in member months enrollment by 43,028, or 3.0%, and an increase in average premium rates in rated group policies of approximately 7.6%. Increase in member months was primarily attributed to new groups acquired during the period.

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Medical premiums earned in the Medicaid business increased by \$3.5 million, or 3.9%, to \$92.9 million during the three months ended September 30, 2010. This fluctuation is due to an increase in member months enrollment in the fully-insured membership by 23,455, or 2.3%, as well as to an average increase in premiums rates of 4.8% that was effective September 1<sup>st</sup>, 2010.

Medical premiums generated by the Medicare business decreased during the three months ended September 30, 2010 by \$5.1 million, or 4.2%, to \$116.4 million. This fluctuation is the result of an overall decrease in the member months enrollment of this business by 15,867, or 7.6%, when compared with the same period in 2009, mostly reflected in our dual-eligible product. This decrease in member month enrollment is offset in part by higher average premium rates, particularly in our dual eligible product, and to higher CMS risk score adjustment for the 2010 period as compared to 2009. The three months ended September 30, 2010 and 2009 include the net effect of approximately \$1.8 million and \$0.9 million, respectively of risk score adjustments corresponding to prior periods.

*Medical Claims Incurred*

Medical claims incurred during the three months ended September 30, 2010 increased by \$11.0 million, or 2.8%, to \$397.5 million when compared to the three months ended September 30, 2009. The medical loss ratio ( MLR ) of the segment decreased 1.3 percentage points during the 2010 period, to 89.0%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business increased by \$12.0 million, or 6.2%, during the 2010 period and its MLR decreased by 2.3 percentage points. The increase in claims relates primarily to the increase in member months enrollment experienced during the 2010 period. The lower MLR is primarily due to the effect of prior period reserve developments in the 2010 and 2009 periods. Excluding the effect of prior period reserve developments, the MLR decreased by 1.1 percentage points, mostly resulting from a higher overall trend in premium rate increases as compared to cost trends as well as to lower utilization trends in 2010.

The medical claims incurred of the Medicaid business increased by \$4.7 million, or 5.8%, and its MLR increased by 1.7 percentage points during the three months ended September 30, 2010. The increase in MLR is primarily due to the effect of prior period reserve developments in the 2010 and 2009 periods and an increase in loss adjustment expenses. This increase was offset in part by the 2009 premium adjustment to provide for unresolved reconciling items with the Government of Puerto Rico. Excluding the effect of these items in the 2010 and 2009 periods, the MLR increased 5.0 percentage points mostly resulting from lower premium yields during the 2010 period due to the extension of the prior year s contract with the government without premium rate increases until September 2010.

The medical claims incurred of the Medicare business decreased by \$5.7 million, or 5.3% during the 2010 period primarily due to a lower membership and its MLR was 89.3%, 1.1 percentage points lower than the MLR for same period of the prior year. Excluding the effect of prior period reserve developments in the 2010 and 2009 period and risk-score premium adjustments, the MLR increased by 1.0 percentage points primarily the result of higher utilization trends in our non-dual product.

*Medical Operating Expenses*

Medical operating expenses for the three months ended September 30, 2010 increased by \$1.1 million, or 2.3%, to \$48.6 million when compared to the three months ended September 30, 2009. This increase is mainly due to the higher volume of business associated to the increased enrollment in the 2010 quarter and costs related to the implementation of the new IT system, including information systems consultants and depreciation and amortization expense, which increased by approximately \$1.7 million and \$1.4 million, respectively. These increases were offset in part by a decrease of approximately \$2.1 in contingent property tax accrual during the 2010 period as the result of the benefit provided by an incentive program established by the government which waives accumulated interest, penalties and surcharges. The operating expense ratio decreased by 0.2 percentage points, from 10.8% in 2009 to 10.6% in 2010.



**Table of Contents*****Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009******Medical Operating Revenues***

Medical premiums earned for the nine months ended September 30, 2010 increased by \$96.1 million, or 7.7%, to \$1,342.7 million when compared to the medical premiums earned during the nine months ended September 30, 2009. This increase is principally the result of the following:

Medical premiums generated by the Commercial business increased by \$114.7 million, or 19.1%, to \$715.0 million during the nine months ended September 30, 2010. This fluctuation is primarily the result of an increase in member months enrollment by 543,310, or 13.7%, and an increase in average premium rates in rated group policies of approximately 6.1%. Increase in member months was attributed to new members acquired from LCA effective July 1, 2009, which represent approximately 35.1% of the increase in member months enrollment experienced during 2010, and to new groups acquired during the period.

Medical premiums earned in the Medicaid business increased by \$15.4 million, or 6.0%, to \$273.1 million during the nine months ended September 30, 2010. This fluctuation is due to an increase in the member months enrollment in the fully-insured membership by 80,488, or 2.7%. In addition, the 2009 period includes a premium reduction adjustment of approximately \$8.0 million to provide for unresolved reconciling items with the Government of Puerto Rico. The average premiums rates of this business were increased by 4.8% effective September 1<sup>st</sup>, 2010.

Medical premiums generated by the Medicare business decreased by \$34.0 million, or 8.7%, to \$354.6 million, primarily due to a decrease in member month enrollment of 62,723, or 9.6%, when compared with the same period in 2009. The fluctuation in premiums also results from a lower final risk score adjustments received from CMS in 2010 as compared to 2009. The nine months ended September 30, 2010 and 2009 include the net effect of approximately \$3.0 million and \$9.2 million, respectively, related to CMS risk score adjustments corresponding to prior periods. These fluctuations were offset in part by higher average premium rates, particularly in our dual eligible product.

Administrative service fees increased by \$5.1 million, or 15.9%, to \$37.1 million during the 2010 period, mainly due to an increase in self-funded member months enrollment of 343,405, or 9.3%. Increase in members is mainly the result of the contracts acquired from LCA effective July 1, 2009.

***Medical Claims Incurred***

Medical claims incurred during the nine months ended September 30, 2010 increased by \$71.2 million, or 6.3%, to \$1,197.6 million when compared to the nine months ended September 30, 2009. The MLR of the segment decreased 1.2 percentage points during the 2010 period, to 89.2%. These fluctuations are primarily attributed to the effect of the following:

The medical claims incurred of the Commercial business increased by \$98.8 million, or 18.1%, during the 2010 period and its MLR decreased by 0.7 percentage points. The increase in claims relates primarily to the increase in member months enrollment of 543,310, or 13.7%. The lower MLR primarily results from a higher overall trend in premium rate increases as compared to cost trends as well as to lower utilization trends in 2010.

The medical claims incurred of the Medicaid business increased by \$25.4 million, or 11.0%, during the 2010 period and its MLR increased by 4.2 percentage points during the nine months ended September 30, 2010, to 94.1%. The MLR of this business is affected by the 2009 premium adjustment to provide for unresolved reconciling items with the Government of Puerto Rico and prior period reserve developments. Considering the effect of these items in the 2009 and 2010 periods, the MLR increased by 2.8 percentage points during the 2010 period, mostly resulting from a lower premium yield due to the extension of the prior year's contract with the government without premium rate increases until September 2010.

The medical claims incurred of the Medicare business decreased by \$53.0 million, or 15.2%, during the 2010 period primarily due to lower membership and MLR. The MLR was 83.6%, 6.4 percentage points lower than the MLR for same period in 2009. The lower MLR mostly results from the effect of prior period reserve developments in 2010 and 2009 and risk score premium adjustments. Excluding the effect of prior period reserve developments in the 2010 and 2009 period and risk-score premium adjustments, the MLR decreased by 3.4 percentage points mostly as the result of higher premium rates and lower utilization in our Medicare products and a new risk-sharing arrangement with our providers in the dual-eligible product.

**Table of Contents*****Medical Operating Expenses***

Medical operating expenses for the nine months ended September 30, 2010 increased by \$13.9 million, or 10.2%, to \$149.9 million when compared to the nine months ended September 30, 2009. This increase is mainly due to the higher volume of business associated to the higher enrollment and costs related to the implementation of the new IT system. The operating expense ratio increased by 0.3 percentage points, from 10.6% in 2009 to 10.9% in 2010. The higher operating expense ratio is primarily the result of expenses related to the implementation of the new IT system, including information systems consultants and depreciation and amortization expense, which, increased by approximately \$1.8 million and \$3.1 million, respectively, when compared to the 2009 period expenses; and approximately \$1.1 million in expenses related to a new product launched during January 2010. In addition, the asset purchase amortization related to the LCA acquisition was approximately \$1.0 million higher than during the 2009 period. In the 2009 period a contingent property tax accrual of approximately \$7.5 million was recorded, offset in part by the effect of \$3.6 million related to the settlement of an insurance recovery receivable of legal expenses. This contingent property tax accrual was decreased by approximately \$2.1 million during the 2010 period as the result of the benefit provided by an incentive program established by the government which waives accumulated interest, penalties and surcharges.

***Life Insurance Operating Results***

| <i>(Dollar amounts in millions)</i> | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|-------------------------------------|---|-------------|--|-------------|
|                                     | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Operating revenues:                 |   |             |  |             |
| Premiums earned, net:               |   |             |  |             |
| Premiums earned                     | <b>\$ 28.1</b>                              | \$ 26.2     | <b>\$ 82.9</b>                             | \$ 79.1     |
| Premiums earned ceded               | <b>(1.4)</b>                                | (1.5)       | <b>(4.2)</b>                               | (4.6)       |
| Premiums earned, net                | <b>26.7</b>                                 | 24.7        | <b>78.7</b>                                | 74.5        |
| Net investment income               | <b>4.5</b>                                  | 4.1         | <b>12.9</b>                                | 12.5        |
| Total operating revenues            | <b>31.2</b>                                 | 28.8        | <b>91.6</b>                                | 87.0        |
| Operating costs:                    |   |             |  |             |
| Policy benefits and claims incurred | <b>12.8</b>                                 | 12.2        | <b>37.1</b>                                | 37.9        |
| Underwriting and other expenses     | <b>13.8</b>                                 | 12.6        | <b>41.4</b>                                | 38.2        |
| Total operating costs               | <b>26.6</b>                                 | 24.8        | <b>78.5</b>                                | 76.1        |
| Operating income                    | <b>\$ 4.6</b>                               | \$ 4.0      | <b>\$ 13.1</b>                             | \$ 10.9     |
| Additional data:                    |   |             |  |             |
| Loss ratio                          | <b>47.9%</b>                                | 49.4%       | <b>47.1%</b>                               | 50.9%       |
| Operating expense ratio             | <b>51.7%</b>                                | 51.0%       | <b>52.6%</b>                               | 51.3%       |

***Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009******Operating Revenues***

Premiums earned, net for the three months ended September 30, 2010 increased by \$2.0 million, or 8.1% to \$26.7 million when compared to the three months ended the September 30, 2009. Such increase is primarily related to higher sales in the Cancer Protection line of business.

***Policy Benefits and Claims Incurred***

Policy benefits and claims incurred for the three months ended September 30, 2010 increased by \$0.6 million, or 4.9%, to \$12.8 million when compared to the three months ended September 30, 2009, mostly resulting from the



higher volume experienced in the Cancer Protection line of business. The loss ratio for the period improved from 49.4% in 2009 to 47.9% in 2010, or 1.5 percentage points. The lower loss ratio is primarily the result of lower death benefits incurred during this period as compared to 2009.

**Table of Contents***Underwriting and Other Expenses*

Underwriting and other expenses for the three month period ended September 30, 2010 increased \$1.2 million, or 9.5%, to \$13.8 million when compared to the three months ended September 30, 2009. The increase is mostly related to a higher amortization of deferred policy acquisition costs. The increased operating expenses resulted in a higher operating expense ratio, which increased by 0.7 percentage points from 51.0% in 2009 to 51.7% in 2010.

***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009****Operating Revenues*

Premiums earned, net increased by \$4.2 million, or 5.6% to \$78.7 million during the nine months ended September 30, 2010 primarily as the result of higher sales in the Cancer Protection and Individual Life lines of business, which increased by \$2.4 and \$1.8 million, respectively.

*Policy Benefits and Claims Incurred*

Policy benefits and claims incurred decreased by \$0.8 million, or 2.1%, to \$37.1 million during the nine months ended September 30, 2010. This decrease is mostly related to a reduction in the change in the liability for future policy benefits when compared to the same period in 2009 resulting from a change in the mix of business subscribed by the segment. As a result of the reduction in policy benefits, the loss ratio improved by 3.8 percentage points, from 50.9% in 2009 to 47.1% in 2010.

*Underwriting and Other Expenses*

Operating expenses increased \$3.2 million, or 8.4%, to \$41.4 million during the nine months ended September 30, 2010. The increase is mostly related to a higher amortization of deferred policy acquisition costs. The higher operating expenses increased the operating expense ratio by 1.3 percentage points, from 51.3% in 2009 to 52.6% in 2010.

***Property and Casualty Insurance Operating Results***

| <i>(Dollar amounts in millions)</i> | <b>Three months ended<br/>September 30,</b> |             | <b>Nine months ended<br/>September 30,</b> |             |
|-------------------------------------|---|-------------|--|-------------|
|                                     | <b>2010</b>                                 | <b>2009</b> | <b>2010</b>                                | <b>2009</b> |
| Operating revenues:                 |   |             |  |             |
| Premiums earned, net:               |   |             |  |             |
| Premiums written                    | <b>\$ 40.7</b>                              | \$ 40.1     | <b>\$ 111.5</b>                            | \$ 110.8    |
| Premiums ceded                      | <b>(17.4)</b>                               | (15.5)      | <b>(46.7)</b>                              | (45.0)      |
| Change in unearned premiums         | <b>1.2</b>                                  | (0.2)       | <b>10.4</b>                                | 7.2         |
| Premiums earned, net                | <b>24.5</b>                                 | 24.4        | <b>75.2</b>                                | 73.0        |
| Net investment income               | <b>2.6</b>                                  | 3.0         | <b>8.2</b>                                 | 8.8         |
| Total operating revenues            | <b>27.1</b>                                 | 27.4        | <b>83.4</b>                                | 81.8        |
| Operating costs:                    |   |             |  |             |
| Claims incurred                     | <b>11.2</b>                                 | 13.7        | <b>37.5</b>                                | 36.9        |
| Underwriting and other expenses     | <b>13.7</b>                                 | 13.5        | <b>42.6</b>                                | 40.5        |
| Total operating costs               | <b>24.9</b>                                 | 27.2        | <b>80.1</b>                                | 77.4        |
| Operating income                    | <b>\$ 2.2</b>                               | \$ 0.2      | <b>\$ 3.3</b>                              | \$ 4.4      |
| Additional data:                    |   |             |  |             |
| Loss ratio                          | <b>45.7%</b>                                | 56.1%       | <b>49.9%</b>                               | 50.5%       |
| Operating expense ratio             | <b>55.9%</b>                                | 55.3%       | <b>56.6%</b>                               | 55.5%       |

***Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009***

*Operating Revenues*

Total premiums written during the three months ended September 30, 2010 increased by \$0.6 million, or 1.5%, to \$40.7 million, mostly resulting from new sales in the Commercial Multi-Peril and General Liability lines of

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business. The commercial business continues under soft market conditions, thus reducing premium rates and increasing competition for renewals and new business.

Premiums ceded to reinsurers during the three months ended September 30, 2010 increased by approximately \$1.9 million, or 12.3% to \$17.4 million. The ratio of premiums ceded to premiums written increased by 3.8 percentage points, from 38.7% in 2009 to 42.5% in 2010, mostly due to an increase in facultative reinsurance cessions, which represented 5.2 percentage points of the increase experienced during 2010. This was partially offset by a decrease in the Commercial and Personal lines quota share treaties of 3.0 and 2.2 percentage points, respectively.

The change in unearned premiums presented an increase of \$1.4 million, to \$1.2 million during the three months ended September 30, 2010, primarily as the result of the amortization of premiums written in prior periods.

*Claims Incurred*

Claims incurred during the three months ended September 30, 2010 decreased by \$2.5 million, or 18.2%, to \$11.2 million. The loss ratio decreased by 10.4 percentage points, to 45.7% during the three months ended September 30, 2010 as a result of favorable loss experience in the Commercial Multi-Peril, Commercial Auto and Dwelling and Property Monoline lines of business resulting from lower claim amounts in the claims reported during the current period.

*Underwriting and Other Expenses*

Underwriting and other operating expenses for the three months ended September 30, 2010 increased by \$0.2 million, or 1.5%, to \$13.7 million. The operating expense ratio increased by 0.6 percentage points during the same period, to 55.9% in 2010. This fluctuation is primarily due to an increase of \$0.1 million in net commission mostly driven by the higher premium volume during this quarter.

***Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009****Operating Revenues*

Total premiums written during the nine-month period ended September 30, 2010 increased by \$0.7 million, or 0.6%, to \$111.5 million. This fluctuation is primarily due to increases in the General Liability, Personal Auto and Dwelling and Commercial Property Mono-Line lines of business, partially offset by decreases in premiums written in the Medical Malpractice and Commercial Multi-Peril lines of business.

Premiums ceded to reinsurers during the nine months ended September 30, 2010 increased by approximately \$1.7 million, or 3.8%, to \$46.7 million. The ratio of premiums ceded to premiums written increased by 1.3 percentage points, from 40.6% in 2009 to 41.9% in 2010. This fluctuation results from higher facultative reinsurance cessions, which represented 1.9 percentage points of the increase experienced during the period. This was partially offset by a decrease in the reinsurance rates for the quota share contracts for commercial and personal property insurance risks by 3.0 and 2.2 percentage points, respectively.

The change in unearned premiums presented an increase of \$3.2 million, to \$10.4 million during the nine months ended September 30, 2010, primarily as the result of the result of the lower volume of premiums written when compared to the premiums written during the last six months of the year ended December 31, 2009.

*Claims incurred*

Claims incurred during the nine months ended September 30, 2010 increased by \$0.6 million, or 1.6%, to \$37.5 million. The loss ratio decreased by 0.6 percentage points, to 49.9% during the nine months ended September 30, 2010, primarily due to favorable loss experience in the Dwelling and Property Monoline, the Medical Malpractice and the Personal Auto lines of business.

*Underwriting and other expenses*

Underwriting and other operating expenses for the nine months ended September 30, 2010 increased by \$2.1 million, or 5.2%, to \$42.6 million. This increase is primarily due to higher net commissions by approximately \$1.4 million due to a higher amortization of deferred acquisition costs due to the lower volume experienced in the 2010 period. The operating expense ratio increased by 1.1 percentage points, from 55.5% in 2009 to 56.6% in 2010.

**Table of Contents****Liquidity and Capital Resources****Cash Flows**

A summary of our major sources and uses of cash for the periods indicated is presented in the following table:

| <i>(Dollar amounts in millions)</i>              | <b>Nine months ended</b> |             |
|--|--------------------------|-------------|
|  | <b>September 30,</b>     |             |
|  | <b>2010</b>              | <b>2009</b> |
| <b>Sources of cash:</b>                          |                          |             |
| Cash provided by operating activities            | \$ 87.0                  | \$ 66.7     |
| Proceeds from policyholder deposits              | 7.7                      | 3.7         |
| <b>Total sources of cash</b>                     | <b>94.7</b>              | 70.4        |
| <b>Uses of cash:</b>                             |                          |             |
| Net purchases of investment securities           | <b>(59.4)</b>            | (6.8)       |
| Capital expenditures                             | <b>(13.7)</b>            | (14.7)      |
| Repurchase and retirement of common stock        |                          | (22.0)      |
| Payments of long-term borrowings                 | <b>(1.2)</b>             | (1.2)       |
| Surrenders of policyholder deposits              | <b>(7.6)</b>             | (4.9)       |
| Other  | <b>(2.5)</b>             | (12.2)      |
| <b>Total uses of cash</b>                        | <b>(84.4)</b>            | (61.8)      |
| <b>Net increase in cash and cash equivalents</b> | <b>\$ 10.3</b>           | \$ 8.6      |

Cash flow from operating activities increased by \$20.3 million for the nine months ended September 30, 2010 as compared to the nine months ended September 30, 2009, principally due to the effect of an increase in premiums collected of \$81.8 and a decrease in income taxes paid of \$13.6. These fluctuations were offset in part by an increase in claims paid of \$59.8 million and an increase in cash paid to suppliers and employees of \$4.4 million. The increase in claims paid and in premiums collected is primarily the result of higher volume in our Managed Care segment, mainly in the member months enrollment of the Commercial business.

Net acquisition of investment securities increased by \$52.6 million during the nine months ended September 30, 2010, when compared to same period the prior year primarily as the result of the purchase of investments classified as available-for-sale with cash generated from operations.

The decrease in the other uses of cash of \$9.7 million is attributed to changes in the amount of outstanding checks over bank balances in the 2010 period.

On December 8, 2008 we announced the immediate commencement of a \$40.0 million share repurchase program. We paid approximately \$22.0 million under the stock repurchase program during the nine months ended September 30, 2009. This share repurchase program was completed in December 1, 2009.

**Share Repurchase Program**

On September 29, 2010, we announced the immediate commencement of a \$30.0 million share repurchase program. The program will be conducted using available cash through open-market purchases and privately-negotiated transactions of Class B shares only, in accordance with Rules 10b-18 and 10b5-1 under the Securities Exchange Act of 1934, as amended. During the three months ended September 30, 2010 we repurchased and retired 24,400 shares at an average per share price of \$16.61, for an aggregate cost of \$0.4 million. At September 30, 2010 these shares repurchases remained unsettled and were included within the accounts payable and accrued liabilities in the accompanying consolidated balance sheet.

**Financing and Financing Capacity**

We have several short-term facilities available to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of arrangements to sell securities under repurchase agreements. As of September 30, 2010, we had \$110.0 million of available credit under these facilities.

As of September 30, 2010, we had the following senior unsecured notes payable:

On January 31, 2006, we issued and sold \$35.0 million of our 6.7% senior unsecured notes payable due January 2021 (the 6.7% notes).

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On December 21, 2005, we issued and sold \$60.0 million of our 6.6% senior unsecured notes due December 2020 (the 6.6% notes). During September 2010, we entered into an agreement to purchase \$25.0 million of this note on October 1, 2010. For additional information refer to note 7 of the unaudited consolidated financial statements.

On September 30, 2004, we issued and sold \$50.0 million of our 6.3% senior unsecured notes due September 2019 (the 6.3% notes).

The 6.3% notes, the 6.6% notes and the 6.7% notes contain certain non-financial covenants. At September 30, 2010, we and our managed care subsidiary, as applicable, are in compliance with these covenants.

In addition, we are a party to a secured term loan with a commercial bank in Puerto Rico. This secured loan bears interest at a rate equal to the London Interbank Offered Rate (LIBOR) plus 100 basis points and requires monthly principal repayments of \$0.1 million. As of September 30, 2010, this secured loan had an outstanding balance of \$21.4 million and average annual interest rate of 1.37%.

This secured loan is guaranteed by a first lien on our land, buildings and substantially all leasehold improvements, as collateral for the term of the agreements under a continuing general security agreement. This secured loan contains certain non-financial covenants that 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. As of September 30, 2010 we are in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the secured loan's outstanding balance.

We anticipate that we will have sufficient liquidity to support our currently expected needs.

Further details regarding the senior unsecured notes and the credit agreements are incorporated by reference to Item 7. Management Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2009.

***Item 3. Quantitative and Qualitative Disclosures about Market Risk***

We are exposed to certain market risks that are inherent in our financial instruments, which arise from transactions entered into in the normal course of business. We have exposure to market risk mostly in our investment activities. For purposes of this disclosure, market risk is defined as the risk of loss resulting from changes in interest rates and equity prices. No material changes have occurred in our exposure to financial market risks since December 31, 2009. A discussion of our market risk is incorporated by reference to Item 7A. Quantitative and Qualitative Disclosures about Market Risk of our Annual Report on Form 10-K for the year ended December 31, 2009.

***Item 4. Controls and Procedures*****Evaluation of Disclosure Controls and Procedures**

In connection with the preparation of this Quarterly Report on Form 10-Q, management, under the supervision and with the participation of the chief executive officer and chief financial officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as such term is defined under Exchange Act Rule 13a-15(e)). Disclosure controls and procedures are designed to ensure that information required to be disclosed in reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to management, including the chief executive officer and chief financial officer, to allow timely decisions regarding required disclosures. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility that judgments in decision-making can be faulty, and breakdowns as a result of simple errors or mistake. Accordingly, even effective disclosure controls and procedures can only provide reasonable assurance of achieving their control objectives. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

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Based on this evaluation, our chief executive officer and chief financial officer have concluded that as of September 30, 2010, which is the end of the period covered by this Quarterly Report on Form 10-Q, our disclosure controls and procedures are effective to a reasonable level of assurance.

There were no significant changes in our disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the chief executive officer and chief financial officer completed the evaluation referred to above.

**Changes in Internal Controls Over Financial Reporting**

No changes in our internal control over financial reporting (as such term is defined in Exchange Act Rule 13a-15(f)) occurred during the fiscal quarter ended September 30, 2010 that materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Part II Other Information*****Item 1. Legal Proceedings***

For a description of legal proceedings, see note 14 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

***Item 1A. Risk Factors***

For a description of our risk factors see Item 1A of Part I of our Annual Report on Form 10-K for the year ended December 31, 2009. See also section Recent Developments Federal Health Reform Legislation in Item 2 of Part I of this Quarterly Report on Form 10-Q.

***Item 2. Unregistered Sales of Equity Securities and Use of Proceeds*****Purchases of Equity Securities by the Issuer**

The following table presents information related to our repurchases of common stock for the period indicated:

|  | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased</b> | <b>Average<br/>Price<br/>Paid<br/>per<br/>Share</b> | <b>Total<br/>Number<br/>of<br/>Shares<br/>Purchased<br/>as<br/>Part of<br/>Publicly<br/>Announced<br/>Programs<sup>1</sup></b> | <b>Approximate<br/>Dollar<br/>Value<br/>of<br/>Shares<br/>that<br/>May Yet<br/>Be<br/>Purchased<br/>Under the<br/>Programs</b> |
|--|---|---|--|--|
| <i>(Dollar amounts in millions, except<br/>per share data)</i> |   |   |  |  |
| September 1, 2010 to September 30, 2010                        | 24,400  | \$ 16.61  | 24,400   | \$ 29.6  |

<sup>1</sup> On September 29, 2010, the Board of Directors authorized the immediate commencement of a \$30.0 million share repurchase program of



Class B shares  
only.

***Item 3. Defaults Upon Senior Securities***

Not applicable.

***Item 4. (Removed and Reserved)***

***Item 5. Other Information***

Not applicable.

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***Item 6. Exhibits***

| <i>Exhibits</i> | <i>Description</i>   |
|-----------------|--|
| Exhibit 3(ii)   | Amended and Restated Bylaws of Triple-S Management Corporation (incorporated herein by reference to Exhibit 3.1 to TSM's Current Report on Form 8-K filed on June 11, 2010 (File No. 001-33865)).  |
| Exhibit 10.1    | Extension to the agreement between the Puerto Rico Health Insurance Administration and TSS for the provision of health insurance coverage to eligible population in the North and South-West Regions until June 30, 2010 (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33865)).             |
| Exhibit 10.2    | Extension to the agreement between the Puerto Rico Health Insurance Administration and TSS to act as third party administrator in the Metro-North Region until September 30, 2010 (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33865)).  |
| Exhibit 10.3    | Extension to the agreement between the Puerto Rico Health Insurance Administration and TSS for the provision of health insurance coverage to eligible population in the North and South-West Regions until September 30, 2010 (incorporated herein by reference to Exhibit 10.1 to TSM's Quarterly Report on Form 10-Q for the quarter ended June 30, 2010 (File No. 001-33865)).        |
| Exhibit 10.4*   | Amendment to the Medicare Platino Contract (Medicare Wraparound) between the Puerto Rico Health Insurance Administration and TSS for the provision of wraparound coverage to health insurance dual-eligible population until December 31, 2011.  |
| 11              | Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and six months ended September 30, 2010 and 2009 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q. |
| 31.1*           | Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).   |
| 31.2*           | Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).   |
| 32.1*           | Certification of the President and Chief Executive Officer required pursuant to 18 U.S.C Section 1350.   |
| 32.2*           | Certification of the Vice President of Finance and Chief Financial Officer required pursuant to 18 U.S.C Section 1350.   |

All other exhibits for which provision is made in the applicable accounting regulation of the United States Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

\* Filed herein.

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**SIGNATURES**

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

**Triple-S Management Corporation**  
Registrant

Date: November 9, 2010

By: /s/ Ramón M. Ruiz-Comas  
Ramón M. Ruiz-Comas, CPA  
*President and  
Chief Executive Officer*

Date: November 9, 2010

By: /s/ Juan J. Román  
Juan J. Román, CPA  
*Vice President of Finance  
and Chief Financial Officer  
Principal Accounting Officer*

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