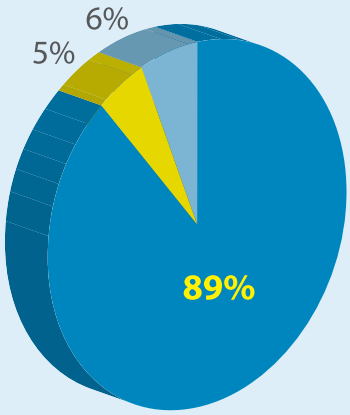
TRIPLE-S MANAGEMENT

Integration. Diversification. Growth.

Annual Report 2011

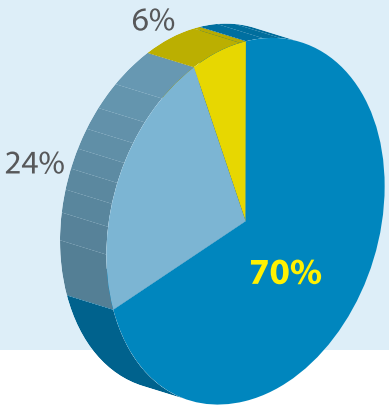
Financial Highlights

	2011	2010	2009
Total operating revenues	$2,141.20	$1,989.80	$1,969.80
Total revenues	$2,153.20	$1,998.60	$1,982.20
Operating income	$ 77.30	$ 88.00	$ 84.60
Net income	$ 58.00	$ 66.80	$ 68.80
PER SHARE AMOUNTS			
Operating income	$ 2.70	$ 3.03	$ 2.87
Net income	$ 2.02	$ 2.30	$ 2.33
AT YEAR END			
Total assets	$1,880.60	$1,759.40	$1,648.70
Total liabilities	$1,203.60	$1,142.10	$1,110.90
Stockholders' equity	$ 677.00	$ 617.30	$ 537.80
Weighted average of common shares outstanding	28.7	29.0	29.5



OPERATING REVENUES

- Managed Care
- Life
- Property & Casualty



OPERATING INCOME

- Managed Care
- Life
- Property & Casualty

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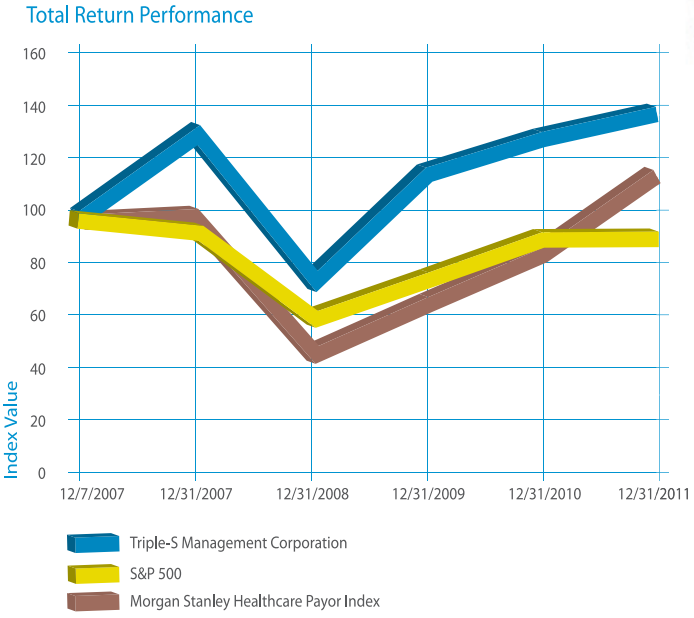
Letter to Stockholders

By the end of 2011, Triple-S Management Corporation (TSM) was the insurer of choice for nearly half of all Puerto Rican consumers. We provided health, life, disability, catastrophic illness insurance, and property and casualty products to over 1.8 million customers. While the insurance landscape continued to steadily evolve, and despite the protracted sluggish economic environment, Triple-S Management grew its revenues through acquisitions, product line expansions, organic growth and strategic investments in complementary businesses.

As we expanded our reach, we did not lose sight of our "portfolio approach" to managing our business, which mitigates risk and segment variability, or of supplying products, services and solutions to our customers who entrust us with their insurance needs. The market has responded favorably to our strategy, and results are evidenced by the performance of our stock relative to that of the Standard & Poor's and Morgan Stanley Healthcare Payor Indexes. Triple-S Management has performed better than both of these indexes since going public in December 2007, and we remain committed to providing consistent return to our shareholders in the future.



> "We provided health, life, disability, catastrophic illness insurance, and property and casualty products to over **1.8 million** customers."

2011 Business Highlights

In 2011 the Corporation grew its total operating revenues, driven by an increase in consolidated premiums. In addition, the overall Medical Loss Ratio (MLR) was reduced by 90 basis points. However, our 2011 performance was hampered by an increase in our Medicare Advantage (MA) MLR, which rose to 89.4% from 83.9% in 2010 and increased expenses tied to the implementation of our new IT platform at Triple-S Salud. We are addressing the MA issues and are engaged in efforts to assess the risk profile of the MA population more accurately through increased implementation of health risk assessments.

Other highlights for the year include:

- Total operating revenues reached $2.1 billion, an increase of 7.6%.
- Consolidated premiums increased to $2.05 billion, compared to $1.90 billion in 2010.
- Overall MLR was reduced to 87.2% in 2011 from 88.1% in 2010.
- Net income amounted to $58.0 million during the year ended December 31, 2011.
- Earnings per share were $2.02.

Total revenues
$2.2 billion

Consolidated premiums increased to
$2.05 billion

Medical Loss Ratio
87.2%

Growing our Business

The acquisition of American Health Medicare, Inc. added approximately 40,000 Medicare lives to our portfolio of managed healthcare companies. This acquisition further solidified us as a major player within the local Medicare Advantage market. Moreover, American Health's membership achieved double-digit growth in its first year under our group umbrella. Notably, Triple-S Management's MA share increased from approximately 11% to 23% by January 2012, reflecting both the American Health acquisition and the organic growth of our Triple-S Salud Medicare Advantage division. Through a two-pronged branding strategy, and a wide array of dual and non-dual products, we are now well poised to maximize the MA opportunity across the fastest growing population segment in Puerto Rico.

In November we embraced the opportunity to provide healthcare services to over 840,000 eligible members in MiSalud, the Island's public health insurance program. Recognizing the importance of the Island's Medicaid population, we took on the responsibility of serving this membership through a 20-month Administrative Services Only (ASO) contract, where the government retains the insurance risk and pays us a per-member, per-month (PMPM) fee.

Additionally, we continued to invest in complementary health businesses. During 2011, we increased our financial stake in an electronic medical records company, and recently, we invested in a San Juan metropolitan-area health clinic that provides one-stop medical services to our members, as well as to patients covered by other health insurance companies. These initiatives will allow us to pursue innovative and more cost effective ways of serving our Managed Care commercial membership.

Responding to Market Needs

When our Managed Care business effectively doubled its membership on November 1, 2011 with the addition of the MiSalud business, the Triple-S Salud team worked diligently in managing the transfer of these members from the prior plan. To support this population, Triple-S Salud opened 17 new regional offices, hired 422 employees and contracted with 20 hospitals and scores of providers. We are working closely with our providers and beneficiaries, along with the government, to transform the MiSalud program to one that is focused more comprehensively on preventive care.

In our Commercial segment, our broad network of providers and outstanding commitment to service contributed to this segment's stability, as we once again surpassed a 90% retention rate in this business. This segment also experienced a substantially improved MLR (to 85.6% from 89.7% in 2010), reflecting the success of our ongoing clinical management initiatives and stricter pricing guidelines.

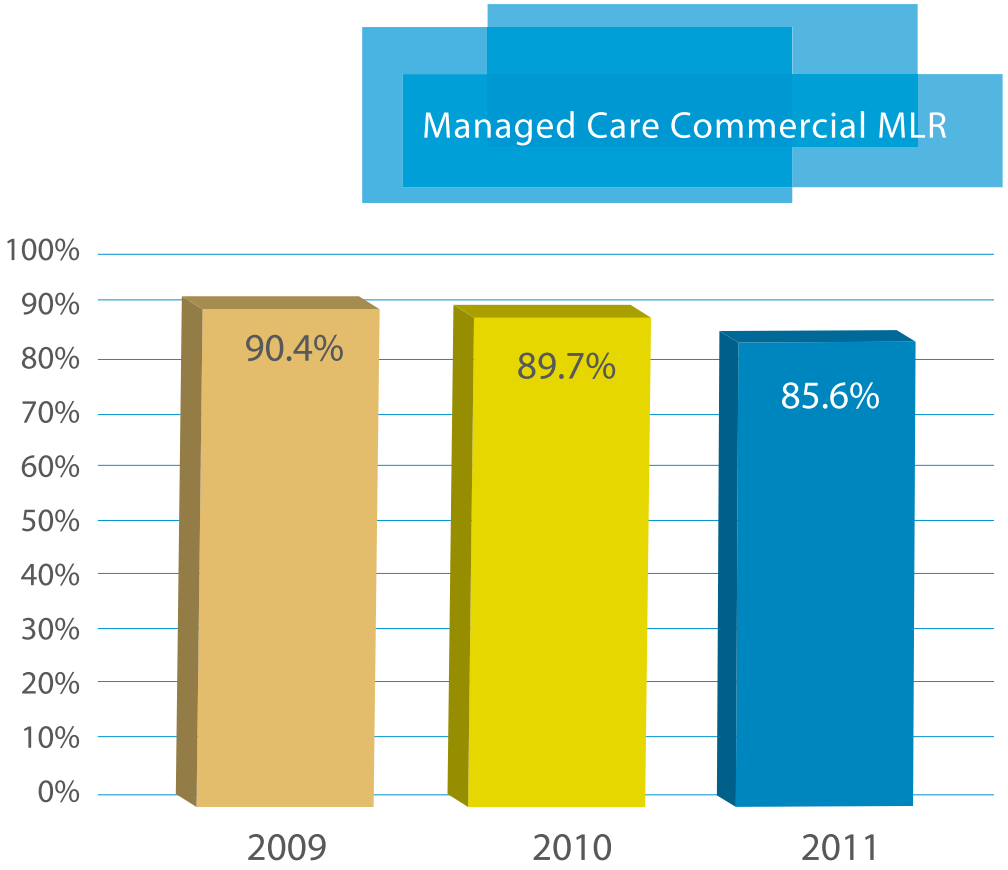
We also made substantial inroads in providing healthcare insurance to municipalities in Puerto Rico during 2011. We now provide healthcare coverage for employees in four of the largest and financially strongest municipalities in Puerto Rico, including San Juan, Bayamón, Guaynabo and Caguas.

Our members within the MA segment suffer from a wide variety of chronic and acute conditions. To address the needs of our non-dual beneficiaries more effectively,

> "Triple-S Salud opened 17 new regional offices, hired 422 employees and contracted with 20 hospitals and scores of providers."

we began instituting broad initiatives to assess the risk profile of this population more accurately, including the expanded implementation of health risk assessments. We are now working with a leading provider of data-driven healthcare solutions, MedAssurant, to improve our CMS Star ratings in 2013 and beyond. Higher Star ratings would ultimately lead to higher premiums for Triple-S, which is of paramount importance given the declining reimbursement environment in the MA segment.

In 2011, we improved and continued to diversify our product offerings to address the difficult economic conditions that Puerto Rico is currently facing. For example, Triple-S Vida added an unemployment provision to our life insurance policies to provide additional sums of money for a limited period of time in case of policyholder job loss. In addition, we developed a lump-sum cancer policy, adding to the alternatives we already provide. Within our retirement products, the Individual Retirement Annuity offering also includes a provision



for disability coverage. Our constant focus on refining our products and improving customer service, together with the expansion of our sales force, led to a 7% increase in premium rates and 9% in sales of life insurance products. Our cancer policies and home service funeral policies were in-line with our growth, rising 17% and 8%, respectively.

Additionally, within Triple-S Vida we enhanced our customer service function by improving our call center features and expanding the quality and availability of information to clients through web-based platforms. Our clients may now view their transactions and determine their claim status online. We also developed additional web-based applications for our agents and other third-party service providers.

Triple-S Propiedad continues to work on the diversification of its product portfolio. The ProPack policy offers umbrella-like protection to individuals and their families and provides savings to the consumer by combining home, car and liability insurance into a single policy. For the past three years, this product has been continuously enhanced, enabling Triple-S Propiedad to sustain double-digit growth. In 2011, sales of ProPack increased by 10%. We expanded our offerings to small and medium-sized businesses with the ProBusiness policy, providing protection in difficult times to businesses that could not typically afford the coverage under the ProBusiness policy.

Our property and casualty agency gained representation for insurance products from Guardian Insurance and Travelers Casualty & Surety Company. Towards the end of 2011, we improved the transactional capabilities of our website, and our clients can now pay premiums and monitor their claims process online.

Our Property and Casualty segment conducted at Triple-S Propiedad continued to be hit hard by Puerto Rico's 5-year recession. Nonetheless, we prudently managed this business and once again obtained an excellent rating of A- from A.M. Best. ■

Our Organization

During the year, we strengthened our senior management team with three key appointments. Susan E. Rawlings became the head of our new subsidiary American Health Medicare. Susan brings to our management team extensive operational knowledge in the managed care industry, particularly in the Medicare Advantage sector, given her proven experience in the seniors market in major U.S. metropolitan centers. We named Frank Astor as the new Chief Medical Officer of Triple-S Salud. Frank, who most recently served as Medical Director at Blue Cross Blue Shield of Florida, has over 20 years of clinical experience and close to 4 years in the managed care industry.

Alan Cohen was appointed to the newly created post of Chief Marketing and Communications Officer for Triple-S Management. Alan is responsible for the development of marketing and communication strategies for Triple-S Management. He also directs our investor relations function and existing marketing and public relations efforts throughout our subsidiaries. In addition, Alan assists in designing strategies for corporate growth and new business initiatives. Prior to joining Triple-S, he was Senior Vice President of Marketing and Public Relations at First BanCorp. He also served as Marketing and Sales Director for PepsiCo International.

> "In late 2010, the Board authorized a **$30 million** share repurchase program. Last year we bought back **653,399** shares for a total of **$11.3 million.** There is **$12.5 million** remaining under the existing authorization."

Capital

As part of its IPO, Triple-S Management adopted a dual class structure of capital stock to offset the potential impact on the value of its Class B common stock attributable to any issuance of shares of common stock for less than fair market value resulting from a successful claim against us under any share acquisition agreement or by any non-medical heir. At any time following our IPO's fifth anniversary in December 2012, the Board of Directors may, at its discretion, authorize the conversion of any remaining Class A common stock into shares of Class B common stock, even if we have not resolved all such claims pending against us by that time. As a result of this conversion, the anti-dilution protection afforded by our dual class structure would no longer exist. In evaluating the conversion, our Board will consider all relevant factors, including market conditions at the time, and the interests of all shareholders in discharging its fiduciary duties.

In late 2010, the Board authorized a $30 million share repurchase program. Last year, we repurchased 653,399 shares under the program for $11.3 million. There is $12.5 million remaining under the existing authorization.

Our Strategy

In 2012, we will continue to seek opportunities to deepen, complement and diversify our product and service offerings within Puerto Rico and outside the Island. We will continue to expand and innovate to meet the needs of our customers. Similarly, we continue evaluating prospects for growth in the Caribbean and Central and South America through strategic investments in companies with a strong presence in their home markets that also share a compatible business ethos with us.

In the Managed Care segment we will steadfastly pursue ongoing initiatives aimed specifically at increasing our Star Rating within Medicare Advantage. We will also work with our providers to achieve electronic medical records compliance by the 2014 deadline mandated under new federal health reform legislation. Within the Commercial segment, we will continue to work with our clients to improve quality of service while we seek to improve our medical loss ratio, as we grow market share. We will also strive to service the MiSalud membership without significant additional infrastructure investments.

We are well positioned to sustain solid growth and manage risk even under adverse circumstances, thanks to the tireless efforts of our dedicated employees. We are a group of companies committed to produce better outcomes for the health of those we insure and the businesses and lives we protect. Our success in these areas will ultimately help us deliver consistent value to our shareholders. ■

Luis A. Clavell-Rodríguez
Chairman of the Board

Ramón M. Ruiz-Comas
President & CEO

2011

Highlights

Managed Care

Triple-S Salud and American Health Medicare

Triple-S Salud and its subsidiary American Health Medicare are part of the managed care group that provides health coverage to approximately 1,700,000 members in Puerto Rico. Triple-S Salud is a BlueCross BlueShield independent licensee for Puerto Rico and the U.S. Virgin Islands, and serves various segments of the Puerto Rico health insurance market: individual, group, Medicare Advantage, and local/federal government employees.

Well known for its quality, accessibility, flexibility and reliability, Triple-S provides:

- Coverage outside of Puerto Rico through BlueCard® (U.S.) and BlueCard Worldwide®
- The most comprehensive healthcare provider network
- Access to health information line Teleconsulta, available 24/7
- Medical management for chronic conditions and individual case management services to ensure optimal care for extraordinary situations

A wide variety of health insurance coverage options for every person and need:

- Individual plans that provide personal or family protection at an accessible price. Starting at $66 per month, Triple-S Directo is ideal for college students and the self-employed
- Group plans for companies of all sizes. It is the top choice of the local business sector, covering 67% of the largest employers and 58% of the top 400 corporations
- Medicare Advantage plans offer great convenience for Medicare Part A and B beneficiaries
- Largest health insurer for MiSalud, the government of Puerto Rico's public health insurance provider for the medically indigent
- American Health Medicare provides Medicare Advantage plans. For more information, see profile on page 9 ■

Property

Triple-S Management's property and casualty subsidiary, Triple-S Propiedad, is one of the top five general insurers in Puerto Rico, offering an array of insurance products to both individuals and businesses.

Personal Lines: ProPack Personal package, dwelling, homeowner's, auto, liability, inland marine, umbrella, flood, home assistance, and road & travel assistance.

Commercial Lines: property, liability, umbrella, auto, builder's risk, inland marine, crime, garage, medical and hospital malpractice, and bonds.

Classified A- (Excellent) by A.M. Best since 1996.

Triple-S Insurance Agency: the third largest insurance agency in Puerto Rico, sells the products of Triple-S Propiedad and of local and national insurance companies.

Life

Triple-S Vida is the largest life insurance company in Puerto Rico. This TSM subsidiary offers peace of mind to thousands of families and businesses Island-wide by providing a wide array of life and disability products:

- Individual and group life insurance
- Cancer policy
- Funeral policy
- Group disability insurance
- Annuity
- Individual Retirement Annuity (IRA)

American Health Medicare

As the senior population of Puerto Rico soars, Triple-S positioned itself in 2011 to meet the 80% projected growth to take place in this group in the next decade. Baby boomers are all about choice and Triple-S offers a variety of Medicare Advantage (MA) products for the dual and non-dual eligible segments, and a complementary insurance product to those who choose to remain with traditional Medicare.

American Health Medicare (AHM), acquired in February 2011, has made remarkable inroads in a highly competitive market segment in Puerto Rico after five years in the market. By January 2012, just a year after the acquisition, enrollment rose by 20% to 48,000 lives that trust their health to us.

The company operates under its own brand and management team. In September of 2011, Susan E. Rawlings, a seasoned healthcare insurance executive, accepted the responsibility of leading the company as president and CEO. Over the past twenty years, she has had direct responsibility for the senior market in major markets in the continental U.S.

Susan's career has focused on integrating the healthcare system and resources available throughout communities to bring greater value and effectiveness to its users, specifically older adults. This is a particularly good fit for AHM, which is characterized by a model linked to community doctors practicing in the field. The Island is divided into 12 regions and each has a medical director who is also a practicing physician. These 12 medical directors meet once a month with top management to address policies, understand patterns of utilization, discuss market challenges and share member and provider needs. This model has allowed for a quick understanding of trends and agile policy-making and implementation.

Another distinguishing feature of the company is its focus on taking care of members with frail health, those who cannot leave their homes or are institutionalized in senior homes. AHM's innovative benefit design made it the first company in Puerto Rico to provide adult diapers and a supply of oral supplements to cover the first month of an enrollee. The company closely coordinates the care of this population with senior homes to provide preventive

care that can maintain quality of life for these members.

AHM has created a novel Gero-Social program to coordinate care that goes beyond medical needs. This program employs gerontologists and social workers who visit patients to understand their surroundings, identify needs, and improve their situation. (See example of how it works on page 14)

As MA fees decline, while pressure to deliver more preventive care rises, AHM is making the most of its model of integration with providers to increase diagnostic tools to manage the health of this population. In September, the company met with representatives of clinical laboratories and other diagnostic service providers to facilitate lab work that included occult fecal blood and bone densitometry for members who had not taken these tests. As a result of this effort, the amount of lab work multiplied threefold. AHM personnel closely monitored anyone who received a positive occult blood test result or densitometry showing osteoporosis and notified their physicians. ■

American Health Medicare

Headquarters

Many of AHM's efforts are made possible by very strong IT capabilities that are fully integrated in the company's day-to-day operations. IT managers "listen" closely to the challenges faced by the business, and work to develop solutions. For example, the company needed to capture all of the data from laboratories, a critical aspect to be able to ascertain the health of the population it serves, the amount of preventive care that is being delivered and the health risk each member represents. Yet, a high percentage of patients who have lab work done never take their results to the physician. The IT managers realized they would have to develop a tool that could collect the data from the labs. AHM made the most of the goodwill it has developed with laboratories and contracted specialized vendors to devise ways of gathering the data in the easiest way possible. As a result of this effort made in late 2011, AHM was able to capture a significant amount of information and has devised a system that will continue to stream data that can be scrutinized to provide better care. Because of the close ties to physicians established by the AHM Provider Relations and Medical Management personnel, AHM/IT was given the information and specifications necessary to create the first provider web portal in Puerto Rico. The intuitive tools on the portal allow physicians to reconcile their claims and cap payments, as well verify member eligibility, view authorization status, submit Health Risk Evaluations, and view reports on our Advanced Analytic Reporting Module. These solutions reduce administrative paperwork and expenses while improving the quality of patient care and lowering costs.

AHM offers a unique combination of knowledgeable, caring and committed employees who focus on delivering the best possible care to the senior population they serve. In 2012, the company will continue to develop its model, further integrating providers to its operation and valuable data to increase Star Ratings, manage costs, and improve outcomes. AHM is a critical part of the growing choice that TSM offers the market, with a diversified group of companies that is ready to meet the healthcare challenges of our people. ■

Community Engagement
The Essence of a Core Business Value

Throughout 2011 we continued developing strategic partnerships to address community issues. Collaboration is a fundamental component for success. We reinforced our partnerships with non-profit organizations, universities, the private sector and the government to address key outreach strategies, mainly in health, education and the environment.

Employee engagement has been crucial for the company's community outreach. Our employees donated more than 2,450 man-hours to community projects sponsored by Triple-S. In 2011, our employees did volunteer work for the Muscular Dystrophy Association, United Way and the refurbishing of two shelters for orphaned children, among others. One of the most popular events was fundraising for the Pediatric Oncology Hospital, when thirty-five of our employees shaved their heads and raised $55,000. Moreover, we supported individual volunteer community work through our program Te Ayudamos a Ayudar (We Help you Give Help), where our employees donated an estimated 10,450 man-hours to community projects of their choice.

A highlight of 2011 was the inauguration of El Edén Health Clinic at Albergue El Paraíso, a fully equipped facility for the homeless community in San Juan. Construction was made possible with a Federal Department of Housing and Urban Development grant. Triple-S provided funding to equip the facilities so that the homeless population could receive much needed medical care. Doctors and students in the residency program of the University of Puerto Rico Medical School provide services to the homeless population served by the shelter. ■

Our employees
donated more than
2,450 man-hours
to community projects
sponsored by **Triple-S.**

Through a partnership with the Polytechnic University of Puerto Rico School of Engineering, students under the guidance of Triple-S personnel developed initiatives to help hospitals improve their core-quality measurement standards for CMS. For example, Auxilio Mutuo Hospital was able to cut its preadmission process from 6.5 hours to 2.5 hours, Ashford Presbyterian Hospital improved its surgical infection indicator by 15% and HIMA San Pablo in Caguas reached the national compliance standards established by CMS for heart failure and surgical infection indicators.

For more than ten years, Triple-S has been active in environmental issues. This year we have enhanced our social media website, junteambiental.com, to make it a more useful communication and networking tool for the community. The website reached 15,000 unique users by the end of the year. We continued to pursue energy efficiency in our facilities; and in 2011, recycled more than 12,342 pounds of non-confidential papers, saved 39 thousand gallons of water and cut 26 thousand KW-hours of electricity.

Fighting Obesity

Obesity is an issue of great importance and we have developed several initiatives to work with behavior modification. We identify the at-risk population to promote a timely intervention. Among our initiatives is The Good Health Club, an education and guidance program directed at children to promote a healthy lifestyle. The program was originally developed by the Blue Cross Blue Shield Association and has been modified by Triple-S to adapt it to the eating habits and cultural nuances of Puerto Rico. It incorporates a toolkit for pediatricians, which allows them to identify patients at risk and approach them and their parents.

The Good Health Club also supports other strategies developed by Triple-S to fight obesity, which include initiatives directed to physicians, alliances with related health organizations, development of online tools, as well as direct interaction with children and parents; among them:

- Well Child Program – Promotes that children between 0 to 36 months of age receive prevention services and developmental assessments recommended by the American Academy of Pediatrics and the Puerto Rico Health Department.
- Health Risk Assessment (HRA)– A Triple-S online tool that analyzes lifestyles, develops an epidemiological profile and identifies conditions that can put you at risk.
- Anda, ¡Muévete! (Walking Works) Program - Offers Internet tools to begin and maintain a walking exercise routine.
- Family Encounters and Good Health Club - Pilot program for federal government employees, which focuses on the prevention of obesity.
- Aliméntate Saludable (Eat Healthy) - Developed in alliance with the Puerto Rico Food Industry Association and the Turabo University School of Nutrition to educate consumers on healthy eating habits at local supermarkets.
- Diabetes Management Program (adults) - Provides nursing professionals to follow-up on medical treatment and offer patients guidance to help them gain a better understanding of their condition.

Our engagement with the community is embedded in our values as a company. We are fully committed to volunteer service and social investment to address issues that affect the wellbeing of the people we serve. As in the past, we will remain faithful to our responsibility of promoting a brighter and better living environment for our community. ■

Learn more about our Community Engagement

Novel Programs

The aging of Puerto Rico's population presents both an opportunity and a challenge. Triple-S Salud and American Health Medicare have created two novel programs that are geared towards improving the quality of care to its respective members under its Medicare Advantage services, while better managing the health risks of their frailest members.

Triple-S Salud: Emotional Support Hotline

Triple-S Salud established a hotline for Emotional Support for members and their caregivers available seven days a week, 24 hours a day. Highly qualified personnel such as social workers and clinical psychologists are available to provide help and guidance on how to overcome emotional challenges and situations. These calls are supervised by a psychiatrist.

The program can also lend a hand to family members who are exhausted by the demands of caring for a sick elderly loved one. Members can request the services of a certified caregiver who may be assigned for up to four hours, six times a year.

The program was launched in January of 2012. So far, sixty percent of calls are caregivers who need support on how to deal with patients suffering from Alzheimer's Disease. The remaining calls are from members who feel lonely and are depressed.

American Health Medicare: Gero-Social program

The Gero-Social program of American Health Medicare (AHM) is based on the understanding that often the health of an older or vulnerable person is impacted by their home and family surroundings. From its beginnings, AHM designed a multidisciplinary team of social workers and gerontologists to tend to the frail elderly and their array of "life" needs and specifically address these issues that for younger and healthier people are generally not considered healthcare related.

Such is the case of Ciprián Morales, a 91-year old member who began to have mobility problems, yet was intent on living independently. Don Cirprián retired to Puerto Rico after working 49 years as a cook in the U.S. His four

children live in the U.S. and two of them are suffering from Alzheimer's disease and are unable to help provide familial care. Through his various contacts with the AHM Customer Service department, it became clear that don Ciprián needed additional assistance to maintain his mobility, and he requested assistance from the Gero-Social program to continue to live independently. After his case was evaluated, the case worker was able to organize and provide various household necessities for him, at no cost to the plan or Mr. Morales. His mood improved significantly and he was able to remain at home.

Through various efforts and partnerships, the Gero-Social staff has been able to support efforts to accommodate the disabled elderly who want to and are able to continue living at home. These efforts include various healthcare related programs, and can even include home modifications designed to make the home more supportive, such as retrofitting bathrooms and kitchens. The type of assistance coordinated by the Gero-Social program tends to improve the health and wellbeing of its members across the "life continuum". This often includes programs for family members who are dealing with an elderly relative who is terminally ill or otherwise unable to live independently. The program complements overall medical care and often helps members avoid costly hospitalizations and readmissions. ■

Leadership

Board of Directors

left to right:
JAIME MORGAN-STUBBE

RAMÓN M. RUIZ-COMAS

JUAN E. RODRÍGUEZ-DÍAZ

JESÚS R. SÁNCHEZ-COLÓN

left to right:
MANUEL FIGUEROA-COLLAZO

FRANCISCO J. TOÑAREL Y-BARRETO

ADAMINA SOTO-MARTÍNEZ

JORGE L. FUENTES-BENEJAM

left to right:
VICENTE J. LEÓN-IRIZARRY

ANTONIO F. FARÍA-SOTO

CARMEN ANA CULPEPER-RAMÍREZ

LUIS A. CLAVELL-RODRÍGUEZ

Subsidiary Presidents

left to right:
SUSAN E. RAWLINGS
American Health Medicare

EVA G. SALGADO
Triple-S Propiedad

RAMÓN M. RUIZ-COMAS
Triple-S Management Corporation

SOCORRO RIVAS
Triple-S Salud

ARTURO L. CARRIÓN
Triple-S Vida

Management Team

left to right:

ROBERTO GARCÍA
General Counsel & Secretary

CARMEN M. ROSICH
Vice President of Internal Audit

IRAIDA T. OJEDA
Vice President of Human Resources

FRANCISCO "KIKI" MARTORELL
Vice President of Corporate Development

ALAN I. COHEN
Chief Marketing & Communications Officer

LUIS A. MARINI
Vice President

TRIPLE-S MANAGEMENT

Integration. Diversification. Growth.

2011 Financial Information

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report contains forward-looking statements, as such term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that include information about possible or assumed future sales, results of operations, developments, regulatory approvals or other circumstances. Statements that use the terms ''believe'', ''expect'', ''plan'', ''intend'', ''estimate'', ''anticipate'', ''project'', ''may'', ''will'', ''shall'', ''should'' and similar expressions, whether in the positive or negative, are intended to identify forward-looking statements.

All forward-looking statements in this Annual Report reflect our current views about future events and are based on assumptions and subject to risks and uncertainties. Consequently, actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors.

In addition, we operate in a highly competitive, constantly changing environment that is significantly influenced by very large organizations that have resulted from business combinations, aggressive marketing and pricing practices of competitors and regulatory oversight. The following is a summary of factors, the results of which, either individually or in combination, if markedly different from our planning assumptions, could cause our results to differ materially from those expressed in any forward-looking statements contained in this Annual Report:

- trends in health care costs and utilization rates;
- ability to secure sufficient premium rate increases;
- competitor pricing below market trends of increasing costs;
- re-estimates of our policy and contract liabilities;
- changes in government regulation of managed care, life insurance or property and casualty insurance;
- significant acquisitions or divestitures by major competitors;
- introduction and use of new prescription drugs and technologies;
- a downgrade in our financial strength ratings;
- litigation or legislation targeted at managed care, life insurance or property and casualty insurance companies;
- ability to contract with providers and government agencies consistent with past practice;
- ability to successfully implement our disease management and utilization management programs;
- volatility in the securities markets and investment losses and defaults;
- general economic downturns, major disasters and epidemics.

The foregoing list should not be construed to be exhaustive. We believe the forward-looking statements in this Annual Report are reasonable; however, there is no assurance that the actions, events or results anticipated by the forward-looking statements will occur or, if any of them do, what impact they will have on our results of operations or financial condition. In view of these uncertainties, you should not place undue reliance on any forward-looking statements, which are based on our current expectations. Further, forward-looking statements speak only as of the date they are made, and, other than as required by applicable law, including the securities laws of the United States, we do not intend to update or revise any of them in light of new information or future events.

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TRIPLE-S MANAGEMENT

2011 Financial Information

Financial Information 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This financial discussion contains an analysis of our consolidated financial position and financial performance as of December 31, 2011 and 2010, and consolidated results of operations for 2011, 2010 and 2009. This analysis should be read in its entirety and in conjunction with the consolidated financial statements, notes and tables included elsewhere in this Annual Report.

Overview

We are the 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 the Medicare (including Medicare Advantage and the Part D stand-alone prescription drug plans ("PDP")) markets. We also participated in the government of Puerto Rico Health Care Plan (similar to Medicaid) ("Medicaid") up to September 30, 2010, and beginning on November 1st, 2011 we resumed our participation in this sector by administering the provision of the physical health component in designated service regions in the Commonwealth of Puerto Rico ("the government of Puerto Rico").

We have the exclusive right to use the Blue Cross and Blue Shield name and mark throughout Puerto Rico and U.S. Virgin Islands. As of December 31, 2011 we serve approximately 1,684,000 members across all regions of Puerto Rico. For the years ended December 31, 2011 and 2010 respectively, our managed care segment represented approximately 89.9% and 89.4% of our total consolidated premiums earned, net, and approximately 68.6% and 72.4% of our operating income. 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 13.6% (in terms of premiums written) for 2010. Our property and casualty segment had a market share of approximately 8% (in terms of direct premiums) during the nine-month period ended September 30, 2011.

We participate in the managed care market through our subsidiaries, Triple-S Salud, Inc. ("TSS") and AH. TSS is a BCBSA licensee, which provides us with exclusive use of the Blue Cross and Blue Shield Association ("BCBSA") licensee, which provides us with exclusive use of the Blue Cross and 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"). TSV and TSP represented approximately 5.5% and 4.8%, respectively, of our consolidated premiums earned, net for the year ended December 31, 2011 and 22.9% and 6.0%, respectively, of our operating income for that period.

The Commissioner of Insurance of the Commonwealth of Puerto Rico ("Commissioner of Insurance of Puerto Rico") recognizes only statutory accounting practices for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the Puerto Rico insurance laws and for determining whether its financial condition warrants the payment of a dividend to its stockholders. No consideration is given by the Commissioner of Insurance of Puerto Rico to financial statements prepared in accordance with U.S. generally accepted accounting principles (GAAP) in making such determinations. See note 26 to our audited consolidated financial statements.

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 presented in this Annual Report 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:

(Dollar amounts in millions)	Years ended December 31, 2011	2010	2009
Premiums earned, net:			
Managed care	$ 1,846.4	$ 1,700.3	$ 1,677.1
Life insurance	113.0	105.8	100.1
Property and casualty insurance	97.6	99.2	96.2
Intersegment premiums earned	(2.5)	(4.2)	(4.3)
Consolidated premiums earned, net	$ 2,054.5	$ 1,901.1	$ 1,869.1
Administrative service fees:			
Managed care	$ 43.0	$ 43.2	$ 51.3
Intersegment administrative service fees	(4.5)	(3.6)	(2.7)
Consolidated administrative service fees	$ 38.5	$ 39.6	$ 48.6
Operating income:			
Managed care	$ 53.0	$ 63.8	$ 57.2
Life insurance	17.7	17.3	14.6
Property and casualty insurance	4.5	3.6	8.8
Intersegment and other	2.1	3.3	4.0
Consolidated operating income	$ 77.3	$ 88.0	$ 84.6

Results of Operations

Revenue

General. Our revenue consists primarily of (i) premium revenue we generate from our managed care business, (ii) administrative service fees we receive for services provided to self-insured employers (ASO), (iii) premiums we generate from our life insurance and property and casualty insurance businesses and (iv) investment income.

Managed Care Premium Revenue. Our revenue primarily consists of premiums earned from the sale of managed care products to the Commercial market sector, including corporate accounts, federal government employees, local government employees, individual accounts and Medicare Supplement, as well as to the Medicare Advantage (including PDP) and, up to September 30, 2010, the Medicaid sectors. We receive a monthly payment from or on behalf of each member enrolled in our managed care plans (excluding ASO). We recognize all premium revenue in our managed care business during the month in which we are obligated to provide services to an enrolled member. Premiums we receive in advance of that date are recorded as unearned premiums.

Premiums are set prospectively, meaning that a fixed premium rate is determined at the beginning of each contract year and revised at renewal. We renegotiate the premiums of different groups as their existing annual contracts become due. Our Medicare Advantage contracts entitle us to premium payments from CMS on behalf of each Medicare beneficiary enrolled in our plans, generally on a per member per month ("PMPM") basis. We submit rate proposals to CMS in June for each Medicare Advantage product that will be offered beginning January 1 of the subsequent year in accordance with the competitive bidding process under the MMA. Retroactive rate adjustments are made periodically with respect to our Medicare Advantage plans based on the aggregate health status and risk scores of our plan participants.

Premium payments from CMS in respect of our Medicare Part D prescription drug plans are based on written bids submitted by us which include the estimated costs of providing the prescription drug benefits.

Administrative Service Fees. Administrative service fees include amounts paid to us for administrative services provided to self-insured contracts. We provide a range of customer services pursuant to our administrative services only ("ASO") contracts, including claims administration, billing, access to our provider networks and membership services. Effective November 1st, 2011, TSS entered into a new contract with the

government of Puerto Rico, to administer the provision of the physical health component of the *miSalud* program (similar to Medicaid) in designated service regions in Puerto Rico. Administrative service fees are recognized in the month in which services are provided.

Other Premium Revenue. Other premium revenue includes premiums generated from the sale of life insurance and property and casualty insurance products. Premiums on traditional life insurance policies are reported as earned when due. Premiums on accident and health and other short-term contracts are recognized as earned, primary on a pro rata basis over the contract period. Premiums on credit life policies are recognized as earned in proportion to the amounts of insurance in force. Group insurance premiums are billed one month in advance and a grace period of one month is provided for premium payment. If the insured fails to pay within the one-month grace period, we may cancel the policy. We recognize premiums on property and casualty contracts as earned on a pro rata basis over the policy term. Property and casualty policies are subscribed through general agencies, which bill policy premiums to their clients in advance or, in the case of new business, at the inception date and remit collections to us, net of commissions. The portion of premiums related to the period prior to the end of coverage is recorded in the consolidated balance sheet as unearned premiums and is transferred to premium revenue as earned.

Investment Income and Other Income. Investment income consists of interest and dividend income from investment securities and other income primarily consist of net unrealized gains (losses) of derivative instruments. See note 4 to our audited consolidated financial statements.

Expenses

Claims Incurred. Our largest expense is medical claims incurred, or the cost of medical services we arrange for our members. Medical claims incurred include the payment of benefits and losses, mostly to physicians, hospitals and other service providers, and to policyholders. We generally pay our providers on one of three bases: (1) fee-for-service contracts based on negotiated fee schedules; (2) capitation arrangements, generally on a fixed PMPM payment basis, whereby the provider generally assumes some of the medical expense risk; and (3) risk-sharing arrangements, whereby we advance a PMPM payment and share the risk of certain medical costs of our members with the provider based on actual experience as measured against pre-determined sharing ratios. Claims incurred also include claims incurred in our life insurance and property and casualty insurance businesses. Each segment's results of operations depend in significant part on our ability to accurately predict and effectively manage claims and losses. 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.

The medical loss ratio ("MLR"), which is calculated by dividing managed care claims incurred by managed care premiums earned, net is one of our primary management tools for measuring these costs and their impact on our profitability. The MLR is affected by the cost and utilization of services. The cost of services is affected by many factors, in particular our ability to negotiate competitive rates with our providers. The cost of services is also influenced by inflation and new medical discoveries, including new prescription drugs, therapies and diagnostic procedures. Utilization rates, which reflect the extent to which beneficiaries utilize healthcare services, significantly influence our medical costs. The level of utilization of services depends in large part on the age, health and lifestyle of our members, among other factors. As the MLR is the ratio of claims incurred to premiums earned, net it is affected not only by our ability to contain cost trends but also by our ability to increase premium rates to levels consistent with or above medical cost trends. We use MLRs both to monitor our management of healthcare costs and to make various business decisions, including what plans or benefits to offer and our selection of healthcare providers.

Operating Expenses. Operating expenses include commissions to external brokers, general and administrative expenses, cost containment expenses such as case and disease management programs, and depreciation and amortization. The operating expense ratio is calculated by dividing operating expenses by premiums earned, net and administrative service fees. A significant portion of our operating expenses are fixed costs. Accordingly, it is important that we maintain or increase our volume of business in order to distribute our fixed costs over a larger membership base. Significant changes in our volume of business will affect our operating expense ratio and results of operations. We also have variable costs, which vary in proportion to changes in volume of business.

Membership

Our results of operation depend in large part on our ability to maintain or grow our membership. In addition to driving revenues, membership growth is necessary to successfully introduce new products, maintain an extensive network of providers and achieve economies of scale. Our ability to maintain or grow our membership is affected principally by the competitive environment and general market conditions.

Effective November 1st, 2011, TSS entered into a new contract with the Government to administer the provision of the physical health component of the *miSalud* program (similar to Medicaid) in designated service regions in the Commonwealth of Puerto Rico.

In February 7, 2011, our subsidiary TSS completed the AH acquisition, as of December 31, 2011, the Medicare membership attributable to AH was 47,552.

The following table sets forth selected membership data as of the dates set forth below:

	As of December 31,		
	2011	**2010**	**2009**
Commercial (1)	711,508	725,328	737,286
Medicare (2)	113,431	63,553	69,605
Medicaid (3)	858,757	-	540,142
Total	1,683,696	788,881	1,347,033

(1) Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare Supplement, Federal government employees and local government employees.
(2) Includes Medicare Advantage as well as stand-alone PDP plan membership.
(3) Medicaid membership as of December 31, 2011 includes self-funded members from the *miSalud* program. Before 2010, Medicaid membership includes rated and self-funded members.

Consolidated Operating Results

The following table sets forth our consolidated operating results for the years ended December 31, 2011, 2010 and 2009.

(Dollar amounts in millions)	**2011**	**2010**	**2009**
Years ended December 31,			
Revenues:			
Premiums earned, net	$ 2,054.5	$ 1,901.1	$ 1,869.1
Administrative service fees	38.5	39.6	48.6
Net investment income	48.2	49.1	52.1
Total operating revenues	2,141.2	1,989.8	1,969.8
Net realized investment gains	18.6	2.5	0.6
Net unrealized investment gain (loss) on trading securities	(7.3)	5.4	10.5
Other income, net	0.7	0.9	1.3
Total revenues	2,153.2	1,998.6	1,982.2
Benefits and expenses:			
Claims incurred	1,716.3	1,596.8	1,605.8
Operating expenses	347.6	305.0	279.4
Total operating costs	2,063.9	1,901.8	1,885.2
Interest expense	10.8	12.6	13.3
Total benefits and expenses	2,074.7	1,914.4	1,898.5
Income before taxes	78.5	84.2	83.7
Income tax expense	20.5	17.4	14.9
Net income	$ 58.0	$ 66.8	$ 68.8

Year ended December 31, 2011 compared with the year ended December 31, 2010

Operating Revenues

Consolidated premiums earned, net increased by $153.4 million, or 8.1%, to $2.1 billion during the year ended December 31, 2011 compared to the year ended December 31, 2010. The increase was mostly the result of a higher member months enrollment in the Medicare business attributed to new members acquired from AH, offset in part by the termination of the Medicaid contracts effective September 30, 2010.

The decrease in the administrative service fees of the Managed Care segment of $1.1 million, or 2.8%, to $38.5 million in the 2011 period is attributed to a lower self-funded member months enrollment.

Consolidated net investment income decreased by $0.9 million, or 1.8%, to $48.2 million during the year ended December 31, 2011 mostly as the result of lower yields in fixed income investments acquired during the period.

Net Realized Investment Gains

Consolidated net realized investment gains of $18.6 million during the year ended December 31, 2011 are the result of net realized gains from the sale of debt and equity securities, including our trading portfolio.

Net Unrealized Loss on Trading Securities and Other Income, Net

The combined balance of our consolidated net unrealized loss on trading securities and other income, net decreased by $12.9 million, to $6.6 million during the year ended December 31, 2011. This decrease is attributable to the effect of the sale of the trading portfolio and market fluctuations during this period.

Claims Incurred

Consolidated claims incurred during the year ended December 31, 2011 increased by $119.5 million, or 7.5%, to $1.7 billion when compared to the claims incurred during the year ended December 31, 2010, mostly due to claims incurred in the Managed Care segment. This increase is principally due to the claims incurred related to the AH acquisition, offset in part by the termination of the Medicaid contracts effective September 30, 2010. The consolidated loss ratio decreased by 50 basis points to 83.5%.

Operating Expenses

Consolidated operating expenses during the year ended December 31, 2011 increased by $42.6 million, or 14.0%, to $347.6 million as compared to the operating expenses during the year ended December 31, 2010, primarily due to the acquisition of AH. For the year ended December 31, 2011, the consolidated operating expense ratio increased by 90 basis points to 16.6%. The higher operating expense ratio is mainly due to additional operating costs incurred by the Managed Care segment in order to maintain the level of services offered to members and providers while transitioning to its new IT system and a higher amount of self-insured contracts after resuming our participation in the Medicaid sector. Also contributing to the higher operating expense ratio are the expenses related to the AH operations, which run at a higher operating expense ratio than the Medicaid business lost in 2010. Approximately $7.6 million of the expense associated to the AH operations are related to the amortization of intangible assets.

Income tax expense

Consolidated income tax expense during the year ended December 31, 2011 increased by $3.1 million, or 17.8%, to $20.5 million as compared to the income tax expense during the year ended December 31, 2010. The effective tax rate increased by 540 basis points, to 26.1%, during the year ended December 31, 2011. The consolidated income tax expense includes a one-time charge of $6.4 million resulting from the reduction of the net deferred tax assets following the reduction in income tax rates after the enactment of the new Puerto Rico tax reform, which was effective January 2011. This tax reform decreased corporations maximum tax rate from 39% to 30% and eliminated the additional tax rate imposed on a temporary basis. Partially offsetting the effect of this adjustment to net deferred tax assets, is a reduction in the taxable income of in the Managed Care segment, which operates at a higher effective tax rate, and the use of tax credits in the 2011 period.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Operating Revenues

Consolidated premiums earned, net increased by $32.0 million, or 1.7%, to $1.9 billion during the year ended December 31, 2010 compared to the year ended December 31, 2009. The increase was primarily due to the net effect of an increase in the premiums earned in our Managed Care segment, primarily from growth in Commercial member months enrollment, as well as higher premium rates across all businesses, offset in part by the termination of the Medicaid contracts effective September 30, 2010.

The decrease in the administrative service fees of the Managed Care segment of $9.0 million in the 2010 period is attributed to a lower self-funded member months enrollment after the termination of the Medicaid contract for the Metro-North region, which we served on an ASO basis until September 30, 2010.

Consolidated net investment income decreased by $3.0 million, or 5.8%, to $49.1 million during the year ended December 31, 2010 mostly as the result of lower yields in fixed income investments acquired during the period.

Net Realized Investment Gains

Consolidated net realized investment gains of $2.5 million during the year ended December 31, 2010 are the result of net realized gains from the sale of fixed income and equity securities amounting to $5.5 million. The net realized gains were partially offset by $3.0 million of other-than-temporary impairments related to fixed income and equity securities.

Net Unrealized Gains on Trading Securities and Other Income, Net

The combined balance of our consolidated net unrealized gain on trading securities and other income, net decreased by $5.5 million, to $6.3 million during the year ended December 31, 2010. This decrease is attributable to a lower increase in the 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 12.4% in the market value of the portfolio, which is slightly lower than the changes experienced by the comparable indexes; the Standard and Poor's 500 Index increased by 12.8% and the Russell 1000 Growth increased by 14.9%.

Claims Incurred

Consolidated claims incurred during the year ended December 31, 2010 decreased by $9.0 million, or 0.6%, to $1.6 billion when compared to the claims incurred during the year ended December 31, 2009. This decrease is principally due to the termination of the Medicaid contracts effective September 30, 2010 offset in part by increased claims in the Managed Care segment's Commercial business as a result of higher volume. The consolidated loss ratio decreased by 190 basis points to 84.0%, mostly as the result of lower MLRs in the Managed Care segment's Commercial and Medicare businesses.

Operating Expenses

Consolidated operating expenses during the year ended December 31, 2010 increased by $25.6 million, or 9.2%, to $305.0 million as compared to the operating expenses during the year ended December 31, 2009. The consolidated operating expense ratio increased by 110 basis points, to 15.7%, primarily attributed to higher costs associated to the implementation of a new information system in the managed care segment, intangible asset amortization, and the effect of the lower volume of business in the Managed care segment after the termination of the Medicaid contracts effective September 30, 2010.

Income tax expense

Consolidated income tax expense during the year ended December 31, 2010 increased by $2.5 million to $17.4 million as compared to the income tax expense during the year ended December 31, 2009. The effective tax rate increased by 290 basis points to 20.7% primarily due to the use of tax credits during the 2009 period and a higher taxable income in the Managed Care segment, which operates at a higher effective tax rate.

Managed Care Operating Results

We offer our products in the managed care segment to three distinct market sectors in Puerto Rico: Commercial, Medicare (including Medicare Advantage and PDP) and Medicaid. For the year ended December 31, 2011, the Commercial sector represented 46.1% and 41.0% of our consolidated premiums earned, net and operating income, respectively. Premiums earned, net and operating income generated from our Medicare contracts (including PDP) during the year ended December 31, 2011 represented 43.6% and 12.5%, respectively, of our consolidated earned premiums, net and operating income, respectively.

(Dollar amounts in millions)	**2011**	**2010**	**2009**
Operating revenues:			
Medical premiums earned, net:			
Commercial	$ 947.1	$ 947.1	$ 822.1
Medicare	896.6	468.4	506.9
Medicaid	2.7	284.8	348.1
Medical premiums earned, net	1,846.4	1,700.3	1,677.1
Administrative service fees	43.0	43.2	51.3
Net investment income	17.5	19.8	21.6
Total operating revenues	1,906.9	1,763.3	1,750.0
Medical operating costs:			
Medical claims incurred	1,610.5	1,497.8	1,508.2
Medical operating expenses	243.4	201.7	184.6
Total medical operating costs	1,853.9	1,699.5	1,692.8
Medical operating income	$ 53.0	$ 63.8	$ 57.2
Additional data:			
Member months enrollment:			
Commercial:			
Fully-insured	5,806,053	5,982,094	5,421,586
Self-funded	2,744,431	2,966,291	2,726,036
Total Commercial member months	8,550,484	8,948,385	8,147,622
Medicaid:			
Fully-insured	-	3,078,288	4,016,332
Self-funded	1,718,888	1,782,426	2,321,144
Total Medicaid member months	1,718,888	4,860,714	6,337,476
Medicare:			
Medicare Advantange	1,132,634	670,250	742,666
Stand-alone PDP	105,987	112,297	117,700
Total Medicare member months	1,238,621	782,547	860,366
Total member months	11,507,993	14,591,646	15,345,464
Medical loss ratio	87.2%	88.1%	89.9%
Operating expense ratio	12.9%	11.6%	10.7%

Year ended December 31, 2011 compared with the year ended December 31, 2010

Medical Operating Revenues

Medical premiums earned for the year ended December 31, 2011 increased by $146.1 million, or 8.6%, to $1.8 billion when compared to the medical premiums earned during the year ended December 31, 2010. This increase is principally the result of the following:

- Medical premiums generated by the Medicare business increased by $428.2 million, or 91.4%, to $896.6 million. This fluctuation is the result of an overall increase in the member months enrollment of this business by 456,074, or 58.3%, when compared with the same period in 2010. Increase in member months enrollment was attributed to new members acquired from AH effective February 1, 2011, offset

in part by a decrease in member months in our legacy products. Total member months from AH amounted to 475,780 during the year ended December 31, 2011.

- Medical premiums earned in the Medicaid business decreased by $282.1 million, to $2.7 million during the year ended December 31, 2011. This fluctuation results from the termination of the Medicaid contracts effective September 30, 2010. The premiums earned that are reflected in the 2011 period result from adjustments that increased the amount receivable corresponding to the risk sharing agreement with the government of Puerto Rico included in the Metro-North region contract.
- Medical premiums generated by the Commercial business remained in line with prior year at $947.1 million. This is the result of a decrease in member months enrollment of 176,041, or 2.9%, and higher average premium rates per member of approximately 3.0%. Premium rate increases were consistent with claims trends.

Administrative service fees decreased by $0.2 million, to $43.0 million during the 2011 period, mainly due to a decrease in self-funded member months enrollment of 285,398 members. Such decrease primarily results from a lower self-insured commercial member months enrollment during the 2011 period; offset in part by a increase in member months from the *miSalud* program effective November 1, 2011

Medical Claims Incurred

Medical claims incurred during the year ended December 31, 2011 increased by $112.7 million, or 7.5%, to $1.6 billion, when compared to the year ended December 31, 2010. The MLR of the segment experienced a decrease of 90 basis points during the 2011 period, to 87.2%. These fluctuations are primarily attributed to the effect of the following:

- The medical claims incurred of the Medicare business increased by $408.3 million during the 2011 period primarily due to the acquisition of AH effective February 1, 2011. Total claims incurred during the 2011 period related to the AH business amounted to $385.4 million. The Medicare MLR was 89.4%, which is 550 basis points higher than the MLR for the prior year. The MLR excluding prior period reserve developments in the 2011 and 2010 periods and risk-score adjustments presents an increase of 500 basis points. The higher adjusted MLR is due to higher utilization trends in our non-dual product as compared to last year as well as to the addition of AH which has a higher MLR than our Medicare legacy products.
- The medical claims incurred of the Medicaid business were $258.0 million lower than the prior year mostly due to the termination of the Medicaid contracts effective September 30, 2010.
- The medical claims incurred of the Commercial business decreased by $37.6 million during the 2011 period and its MLR decreased by 410 basis points. The MLR excluding the effect of prior period reserve developments in the 2011 and 2010 periods presents a decrease of 440 basis points, mostly as the result of lower utilization trends in 2011 and our strict underwriting guidelines.

Medical Operating Expenses

Medical operating expenses for the year ended December 31, 2011 increased by $41.7 million, or 20.7%, to $243.4 million when compared to the year ended December 31, 2010, primarily due to the acquisition of AH. Total operating expenses during the year ended December 31, 2011 related to the AH business amounted to $44.9 million, approximately $7.6 million of which are related to the amortization of intangible assets. The operating expense ratio increased by 130 basis points, from 11.6% in 2010 to 12.9% in 2011. This increase is mainly due to additional operating costs incurred in order to maintain the level of services offered to members and providers while transitioning to the new IT system and a higher amount of self-insured contracts after resuming our participation in the Medicaid sector. Also contributing to the increased operating expense ratio are the expenses associated to the AH operations, which run with a higher operating expense ratio than the Medicaid business lost in 2010.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Medical Operating Revenues

Medical premiums earned for the year ended December 31, 2010 increased by $23.2 million, or 1.4%, to $1.7 billion when compared to the medical premiums earned during the year ended December 31, 2009. This increase is principally the result of the following:

- Medical premiums generated by the Commercial business increased by $125.0 million, or 15.2%, to $947.1 million. This fluctuation is primarily the result of an increase in member months enrollment of 560,508, or 10.3%, and higher average premium rates per member of approximately 4.4%. Increase in member months was mainly attributed to the La Cruz Azul acquisition in July 2009 and organic growth, mostly in large accounts. Premium rate increases were consistent with claims trends.
- Medicare premiums decreased by $38.5 million, or 7.6%, to $468.4 million, primarily due to a lower member months enrollment of approximately 77,819 or 9.0%, mostly in our dual eligible product, particularly during the first half of the year and resulting from changes in our product offering. In addition, the premiums for the year ended December 31, 2010 reflect a lower final risk score adjustment as compared to 2009. The 2010 and 2009 periods include the net effect of approximately $3.0 million and $8.7 million in adjustments related to CMS final risk score adjustment corresponding to prior periods. These fluctuations were partially offset by higher average premium rates, mostly due to higher risk scores in our dual-eligible product.
- Medical premiums earned in the Medicaid business decreased by $63.3 million, or 18.2%, to $284.8 million during the year ended December 31, 2010. This fluctuation results from the termination of the Medicaid contracts effective September 30, 2010. Total Medicaid enrollment as of September 30, 2010 was 544,448 members. This decrease is offset in part by an increase in premiums of $11.7 million as the result of a cleanup of accounts receivable and the reversal of allowances for unresolved reconciling items with the government of Puerto Rico.

Administrative service fees decreased by $8.1 million, to $43.2 million during the 2010 period, mainly due to a decrease in self-funded member months enrollment of 298,463 members. Such decrease results from the net effect of the termination of the Medicaid contract effective September 30, 2010 and an increase in the Commercial ASO member months enrollment resulting from the LCA acquisition on July 1, 2009 and organic growth.

Medical Claims Incurred

Medical claims incurred during the year ended December 31, 2010 decreased by $10.4 million, or 0.7%, to $1.5 billion, when compared to the year ended December 31, 2009. The MLR of the segment presented a decrease of 180 basis points during the 2010 period, to 88.1%. These fluctuations are primarily attributed to the effect of the following:

- The medical claims incurred of the Commercial business increased by $106.9 million during the 2010 period and its MLR decreased by 0.7 percentage points. The increase in claims incurred relates primarily to the increase in member month enrollment during this year. The lower MLR is primarily due to lower utilization trends in 2010 and stable pricing environment.
- The medical claims incurred of the Medicare business decreased by $52.6 million during the 2010 period primarily due to the lower member months enrollment. The MLR for the year was 83.9%, 410 basis points lower than 2009. Adjusting the MLR for changes in prior period reserve developments and risk score premium adjustments, the 2010 MLR would have decreased by 270 basis points as compared to the adjusted MLR for 2009. The lower adjusted MLR is primarily the result of the new risk sharing agreement with our providers in the dual-eligible product, changes in benefits and higher average premium rates.
- The medical claims incurred of the Reform business decreased by $64.7 million and its MLR decreased by 230 basis points during the year ended December 31, 2010. Excluding the effect of prior period reserve developments and premium adjustments, the MLR would have increased 130 basis points,

mostly resulting from a lower premium yield due to the extension of prior year's Medicaid contracts without premium rate increases until September 2010.

Medical Operating Expenses

Medical operating expenses for the year ended December 31, 2010 increased by $17.1 million, or 9.3%, to $201.7 million when compared to the year ended December 31, 2009. The increase in the operating expenses is mainly due to the segment's higher volume in the Commercial business, as well as to the costs related to the implementation of a new information system and a higher amortization of intangibles. The operating expense ratio increased by 90 percentage points, from 10.7% in 2009 to 11.6% in 2010. The higher operating expense ratio is primarily the result of expenses related to the implementation of the segment's new IT system, including information systems consultants and depreciation and amortization expense, which increased by approximately $6.2 million. The higher operating expense ratio was also attributed to the effect of the termination of the Medicaid contracts. In addition, the operating expenses were affected by an increase of $1.4 million related to a new product launched during January 2010 and higher charges and amortization expense related to the intangible assets recorded after the LCA acquisition by approximately $2.3 million. 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 approximately $2.1 million higher than the actual payment made during the 2010 period.

Life Insurance Operating Results

(Dollar amounts in millions)	**2011**	**2010**	**2009**
Years ended December 31,			
Operating revenues:			
Premiums earned, net			
Premiums earned, net	$ 118.8	$ 111.4	$ 106.2
Premiums earned ceded	(5.8)	(5.6)	(6.1)
Net premiums earned	113.0	105.8	100.1
Commission income on reinsurance	-	-	-
Premiums earned, net	113.0	105.8	100.1
Net investment income	18.5	17.1	16.8
Total operating revenues	131.5	122.9	116.9
Operating costs:			
Policy benefits and claims incurred	57.5	49.8	50.3
Underwriting and other expenses	56.3	55.8	52.0
Total operating costs	113.8	105.6	102.3
Operating income	$ 17.7	$ 17.3	$ 14.6
Additional data:			
Loss ratio	50.9%	47.1%	50.2%
Expense ratio	49.8%	52.7%	51.9%

Year ended December 31, 2011 compared with the year ended December 31, 2010

Operating Revenues

Premiums earned, net for the segment increased by $7.2 million, or 6.8%, to $113.0 million during the year ended December 31, 2011 as compared to the year ended December 31, 2010, primarily as the result of higher sales in the Individual Life and Cancer lines of business during the period.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred increased by $7.7 million, or 15.5%, to $57.5 million during the year ended December 31, 2011. This fluctuation is primarily the result of higher claims received, as well as to a higher average claim amount, in the Cancer line of business, and also to an increase in the liability for future policy benefits that was driven by new business subscribed in the period. The loss ratio for the period increased from 47.1% in 2010 to 50.9% in 2011, or 380 basis points.

Underwriting and Other Expenses

Underwriting and other expenses for the segment increased by $0.5 million, or 0.9%, to $56.3 million during the year ended December 31, 2011 primarily the result the higher of the volume of business of this segment and a slowdown in the amortization of deferred policy acquisition costs resulting from increased persistency in certain products within the Individual Life line of business. The increased premiums earned resulted in a lower operating expense ratio, which decreased by 290 basis points, from 52.7% in 2010 to 49.8% in 2011.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Operating Revenues

Premiums earned, net for the segment increased by $5.7 million, or 5.7%, to $105.8 million during the year ended December 31, 2010 as compared to the year ended December 31, 2009, primarily as the result of higher sales in the Cancer and Individual Life lines of business during the period.

Policy Benefits and Claims Incurred

Policy benefits and claims incurred during the year ended December 31, 2010 decreased by $0.5 million, or 1.0%, to $49.8 million during the year ended December 31, 2010. This fluctuation is primarily the result of a reduction in the change in the liability for future policy benefits when compared to 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 310 percentage points, to 47.1% during the year ended December 31, 2010.

Underwriting and Other Expenses

Underwriting and other expenses for the segment increased by $3.8 million, or 7.3%, to $55.8 million during the year ended December 31, 2010 primarily the result of a higher amortization of deferred policy acquisition costs and the higher volume of business of this segment. The segment's operating expense ratio increased by 80 basis points, to 52.7% during the 2010 period.

Property and Casualty Insurance Operating Results

(Dollar amounts in millions)	**2011**	**2010**	**2009**
Years ended December 31,			
Operating revenues:			
Premiums earned, net:			
Premiums written	$ 152.9	$ 159.2	$ 163.3
Premiums ceded	(63.0)	(63.7)	(67.5)
Change in unearned premiums	7.7	3.7	0.4
Premiums earned, net	97.6	99.2	96.2
Net investment income	9.5	10.1	11.7
Total operating revenues	107.1	109.3	107.9
Operating costs:			
Claims incurred	48.2	49.2	47.3
Underwriting and other operating expenses	54.4	56.5	51.8
Total operating costs	102.6	105.7	99.1
Operating income	$ 4.5	$ 3.6	$ 8.8
Additional data:			
Loss ratio	49.4%	49.6%	49.2%
Expense ratio	55.7%	57.0%	53.8%

Year ended December 31, 2011 compared with the year ended December 31, 2010

Operating Revenues

Total premiums written during the year ended December 31, 2011 decreased by $6.3 million, or 4.0%, to $152.9 million, mostly resulting from lower premiums in the Dwelling and Commercial Property Mono-line and Commercial Auto insurance products; offset in part by higher sales in the Commercial Multi-Peril products. The commercial business remains under soft market conditions, thus reducing premium rates and increasing competition for renewals and new business.

Premiums ceded to reinsurers during the year ended December 31, 2011 decreased by approximately $0.7 million, or 1.1%, to $63.0 million. The ratio of premiums ceded to premiums written increased by 120 basis points, to 41.2% in 2011. This fluctuation was primarily the result of higher Commercial Property cessions which were increased from 32% to 37%.

The change in unearned premiums presented an increase of $4.0 million, to $7.7 million during the year ended December 31, 2011, primarily as the result of the lower volume of premiums written during this period.

Claims Incurred

Claims incurred during the year ended December 31, 2011 decreased by $1.0 million, or 2.0%, to $48.2 million. The loss ratio decreased by 20 basis points, to 49.4% during the year ended December 31, 2011, as a result of favorable loss experience in the Commercial Auto line of business resulting from lower claim amounts in the claims reported during the current period; offset in part by an increase in Commercial Multi-Peril line of business. Although the current period reflects $1.6 million of net losses related to Tropical Storm Irene, the 2010 period was impacted by several large losses caused by fires and liability claims in excess of $1.9 million.

Underwriting and Other Expenses

Underwriting and other operating expenses for the year ended December 31, 2011 decreased by $2.1 million, or 3.7%, to $54.4 million. This decrease is primarily due to a lower commission expense as a result of lower premiums; offset in part by an increase in the provision for uncollectible amounts. The operating expense ratio decreased by 130 percentage points during the same period, to 57.7% in 2011.

Year ended December 31, 2010 compared with the year ended December 31, 2009

Operating Revenues

Total premiums written during the year ended December 31, 2010 decreased by $4.1 million, or 2.5%, to $159.2 million, mostly in its Commercial Multi-peril product. The commercial business continues under soft market conditions, thus reducing premiums and increasing competition for renewals and new business. Also, economic conditions affected the construction activity affecting the volume of related insurance premiums.

Premiums ceded to reinsurers during the year ended December 31, 2010 decreased by approximately $3.8 million, or 5.6%, to $63.7 million. The ratio of premiums ceded to premiums written decreased by 130 basis points, to 40.0% in 2010. This fluctuation was the result of the a reduction of reinsurance cessions in quota share contracts for commercial and personal property insurance risks of 3.0% and 2.2%, respectively.

The change in unearned premiums presented an increase of $3.3 million, to $3.7 million during the year ended December 31, 2010, primarily as the result of the lower volume of premiums written.

Claims Incurred

Claims incurred during the year ended December 31, 2010 increased by $1.9 million, or 4.0%, to $49.2 million. The loss ratio increased by 40 basis points, to 49.6% during the year ended December 31, 2010, primarily due to an unfavorable loss experience in the Commercial Multi-peril, General Liability, and Personal Auto insurance.

Underwriting and Other Expenses

Underwriting and other operating expenses for the year ended December 31, 2010 increased by $4.7 million, or 9.1%, to $56.5 million. This increase is primarily due to a higher amortization of deferred policy acquisition

costs resulting from the lower premiums subscribed during this year. The operating expense ratio increased by 320 percentage points during the same period, to 57.0% in 2010 due to the lower volume of business of the segment.

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:

(dollar amounts in millions)	**2011**	**2010**	**2009**
Years ended December 31,			
Sources of cash:			
Net cash provided by operating activities	$ 162.5	$ 37.7	$ 72.6
Proceeds from annuity contracts	31.8	10.7	4.3
Proceeds from exercise stock options	0.2	-	-
Net proceeds from borrowings	-	40.6	-
Other	4.4	0.2	-
Total sources of cash	198.9	89.2	76.9
Uses of cash:			
Net purchases of investment securities	(13.6)	(23.7)	(17.3)
Cash settlements of stock options	(2.4)	-	-
Capital expenditures	(16.3)	(19.2)	(18.7)
Payments of long-term borrowings	(51.6)	(26.4)	(1.6)
Payments of short-term borrowings	(15.6)	-	-
Surrenders of annuity contracts	(6.6)	(9.1)	(7.1)
Repurchase and retirement of common stock	(11.3)	(6.2)	(32.3)
Acquisition of business, net of cash of $30.1 million	(54.7)	-	-
Total uses of cash	(172.1)	(84.6)	(82.6)
Net increase (decrease) in cash and cash equivalents	$ 26.8	$ 4.6	$ (5.7)

Year ended December 31, 2011 compared to year ended December 31, 2010

Cash flows from operating activities increased by $124.8 million for the year ended December 31, 2011 as compared to the year ended December 31, 2010, principally due to the effect of higher premiums collections by $289.9 million and increase in net proceeds from our trading portfolio by $51.9 million, offset in part by an increase in claims paid, cash paid to suppliers and employees and income tax paid by $125.6 million, $76.7 million and $15.2 million, respectively. The increase in premiums and service fee collected is principally the effect of the AH acquisition as well as to the collection of past due Medicaid balances. The higher net proceeds from our trading portfolio results from the sale of our trading portfolio. The fluctuations in claims paid and cash paid to suppliers and employees is primarily as the result of the effect of the AH acquisition. The increase in income tax payments results from the use of tax credits during the year ended December 31, 2010.

During the year ended December 31, 2011 we received higher net proceeds from policyholder deposits, increasing by $23.6 million when compared to the prior year primarily as the result of new annuity products that are more attractive to prospective policyholders.

Net acquisition of investment securities decreased by $10.1 million during the year ended December 31, 2011 when compared to the prior year. This fluctuation is primarily due to a reduction in the acquisition of investment securities as part of our decision to increase liquidity to pay for the AH acquisition and to repay some of our long-term borrowings.

Net proceeds from borrowings decreased by $40.6 million during the year ended December 31, 2011. The decrease in borrowings is the net result of proceeds from securities sold under agreements of repurchases

amounting to $15.6 million and $25.0 million from a long-term repurchase agreement to partially repay a long-term borrowing during 2010.

Payments of long-term borrowings increased by $25.2 million during the year ended December 31, 2011 as the result of the repayment of our senior unsecured notes.

Net payments of short-term borrowings increased by $15.6 million during the year ended December 31, 2011 to address timing differences between cash receipts and disbursements.

In the 2011 period we cash-settled 432,567 stock options for $2.4 million, its fair value on settlement date.

On September 29, 2010 we announced the commencement of a $30.0 million share repurchase program. We paid approximately $11.3 million under the stock repurchase program during the year ended December 31, 2011.

On February 7, 2011, we acquired AH at a cost of $54.7 million, net of $30.1 million of cash acquired.

The increase of $4.2 million in the other source of cash is attributed to changes in the amount of outstanding checks over bank balances in the 2011 period.

Year ended December 31, 2010 compared to year ended December 31, 2009

Cash flows from operating activities decreased by $34.9 million during the year ended December 31, 2010 as compared to the year ended December 31, 2009, principally due to the increases claims paid and cash paid to suppliers and employees amounting to $23.7 million and $4.2 million, respectively, offset in part by the effect of increase in premiums collections by $12.3 million and lower income tax payments by $11.1 million. The increase in premiums collected is the result of a higher member months enrollment, mainly in the Managed Care segment's Commercial business offset in part by a higher amount in accounts receivable. The fluctuation in claims paid is primarily the result of the effect of the run-off of the Medicaid business and a higher volume in the Commercial business. The decrease in income tax payments results from the use of tax credits acquired during the year ended December 31, 2009.

Net acquisition of investment securities increased by $6.4 million during the year ended December 31, 2010 when compared to the prior year.

Net proceeds from borrowings increased by $40.6 million during the year ended December 31, 2010. The increase in borrowings is the net result of proceeds from securities sold under agreements of repurchases amounting to $15.6 million and $25.0 million from a long-term repurchase agreement to partially repay a long-term borrowing.

The net proceeds from policyholder deposits increased by $4.4 million during the year ended December 31, 2010 primarily due to deposits received during the period.

The increase in the other sources (uses) of cash of $5.8 million is attributed to changes in the amount of outstanding checks over bank balances in the 2010 period.

On September 29, 2010 we announced the immediate commencement of a $30.0 million share repurchase program. We paid approximately $6.2 million under the stock repurchase program during the year ended December 31, 2010. During the year ended December 31, 2009 we paid approximately $32.3 million under the $40.0 million stock repurchase program that began in December 2008.

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 December 31, 2011, we had $210.0 million of available credit under these facilities. There are no outstanding short-term borrowings under these facilities as of December 31, 2011.

As of December 31, 2011, 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). The 6.7% notes were privately placed to various institutional accredited investors. The notes pay interest each month until the principal becomes due and payable. These notes

can be redeemed after five years at par, in whole or in part, as determined by us. The proceeds obtained from this issuance were used to finance the acquisition of 100% of the common stock of GA Life effective January 31, 2006.

- 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). The 6.6% notes were privately placed to various institutional accredited investors. The notes pay interest each month until the principal becomes due and payable. These notes can be redeemed after five years at par, in whole or in part, as determined by us. The proceeds obtained from this issuance were used to pay the ceding commission to GA Life on the effective date of the coinsurance funds withheld reinsurance agreement. On October 1, 2010 we repaid $25.0 million of the principal of these senior unsecured notes.
- On November 1, 2010, we entered into a $25.0 million arrangement to sell securities under repurchase agreements that matures on November 2015. The repurchase agreement pays interest quarterly at 1.96%. The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral such securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on our consolidated balance sheet. At December 31, 2011 investment securities available for sale with fair value of $28.1 million (face value of $27.8 million) were pledged as collateral under this agreement. The proceeds obtained from this agreement were used to repay $25.0 million of the 6.6% notes.

The 6.6% notes and the 6.7% notes contain certain non-financial covenants. At December 31, 2011, we 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 December 31, 2011, this secured loan had an outstanding balance of $19.4 million and average annual interest rate of 1.33%.

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 which are customary for this type of facility, including, but not limited to, restrictions on the granting of certain liens, limitations on acquisitions and limitations on changes in control. As of December 31, 2011, we are in compliance with these covenants. Failure to meet these non-financial covenants may trigger the accelerated payment of the secured loan's outstanding balances.

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

Planned Capital Expenditures

Our managed care business is currently in a project to change a significant part of its operations computer system. This project is expected to be carried out in phases until the second quarter in 2012. Total external costs for the entire project are expected to amount approximately $56.0 million. Our managed care business expects to incur costs of approximately $2.0 million during 2012. We estimate that $1.2 million of the costs expected to be incurred in 2012 will be capitalized over the system's useful life and the remaining amount will be expensed. This amount is expected to be paid out of the operating cash flows of our managed care business.

In addition, during February 2012 the Company began a project to implement a new Enterprise Resource Planning (ERP) system. Total costs for the project are expected to amount approximately $13.0 million. This amount is expected to be paid out of our operating cash flows.

Contractual Obligations

Our contractual obligations impact our short and long-term liquidity and capital resource needs. However, our future cash flow prospects cannot be reasonably assessed based solely on such obligations. Future cash outflows, whether contractual or not, will vary based on our future needs. While some cash outflows are completely fixed (such as commitments to repay principal and interest on borrowings), most are dependent on future events (such as the payout pattern of claim liabilities which have been incurred but not reported).

The table below describes the payments due under our contractual obligations, aggregated by type of contractual obligation, including the maturity profile of our debt, operating leases and other long-term liabilities, and excludes an estimate of the future cash outflows related to the following liabilities:

- Unearned premiums – This amount accounts for the premiums collected prior to the end of coverage period and does not represent a future cash outflow. As of December 31, 2011, we had $94.8 million in unearned premiums.
- Policyholder deposits – The cash outflows related to these instruments are not included because they do not have defined maturities, such that the timing of payments and withdrawals is uncertain. There are currently no significant policyholder deposits in paying status. As of December 31, 2011, our policyholder deposits had a carrying amount of $76.8 million.
- Other long-term liabilities – Due to the indeterminate nature of their cash outflows, $121.2 million of other long-term liabilities are not reflected in the following table, including $77.5 million of liability for pension benefits, $24.6 million in deferred tax liabilities, and $19.1 million in liabilities to the Federal Employees' Health Benefits Plan Program.

		Contractual obligations by year						
(Dollar amounts in millions)	**Total**	**2012**	**2013**	**2014**	**2015**	**2016**	**Thereafter**
Long-term borrowings (1)	$ 162.4	$ 7.0	$ 7.0	$ 7.0	$ 32.0	$ 6.5	$ 102.9
Operating leases	25.4	5.6	4.1	3.8	3.6	3.0	5.3
Purchase obligations (2)	166.1	161.8	2.0	1.2	0.8	0.3	-
Claim liabilities (3)	354.0	265.5	56.5	9.5	9.0	4.8	8.7
Estimated obligation for future policy benefits (4)	993.3	79.1	67.2	63.1	59.6	56.0	668.3
	$ 1,701.2	$ 519.0	$ 136.8	$ 84.6	$ 105.0	$ 70.6	$ 785.2

(1) As of December 31, 2011, our long-term borrowings consist of our 6.6% senior unsecured notes payable, our 6.7% senior unsecured notes payable, a $25.0 million arrangement to sell securities under repurchase agreements which requires quarterly interest payments at 1.96%, and a loan payable to a commercial bank. Total contractual obligations for long-term borrowings include the current maturities of long term debt. For the 6.6% and 6.7% senior unsecured notes and the arrangement to sell securities under repurchase agreements, scheduled interest payments were included in the total contractual obligations for long-term borrowings until the maturity dates of the notes in 2020, 2021, and 2015 respectively. We may redeem the senior unsecured notes starting five years after issuance; however no redemption is considered in this schedule. The interest payments related to our loan payable were estimated using the interest rate applicable as of December 31, 2011. The actual amount of interest payments of the loan payable will differ from the amount included in this schedule due to the loan's variable interest rate structure. See the "Financing and Financing Capacity" section for additional information regarding our long-term borrowings.

(2) Purchase obligations represent payments required by us under material agreements to purchase goods or services that are enforceable and legally binding and where all significant terms are specified, including: quantities to be purchased, price provisions and the timing of the transaction. Other purchase orders made in the ordinary course of business for which we are not liable are excluded from the table above. Estimated pension plan contributions amounting to $13.0 million were included within the total purchase obligations. However, this amount is an estimate which may be subject to change in view of the fact that contribution decisions are affected by various factors such as market performance, regulatory and legal requirements and plan funding policy.

(3) Claim liabilities represent the amount of our claims processed and incomplete as well as an estimate of the amount of incurred but not reported claims and loss-adjustment expenses. This amount does not include an estimate of claims to be incurred subsequent to December 31, 2011. The expected claims payments are an estimate and may differ materially from the actual claims payments made by us in the future. Also, claim liabilities are presented gross, and thus do not reflect the effects of reinsurance under which $37.2 million of reserves had been ceded at December 31, 2011.

(4) Our life insurance segment establishes, and carries as liabilities, actuarially determined amounts that are calculated to meet its policy obligations when a policy matures or surrenders, an insured dies or becomes

disabled or upon the occurrence of other covered events. A significant portion of the estimated obligation for future policy benefits to be paid included in this table considers contracts under which we are currently not making payments and will not make payments until the occurrence of an insurable event not under our control, such as death, illness, or the surrender of a policy. We have estimated the timing of the cash flows related to these contracts based on historical experience as well as expectations of future payment patterns. The amounts presented in the table above represent the estimated cash payments for benefits under such contracts based on assumptions related to the receipt of future premiums and assumptions related to mortality, morbidity, policy lapses, renewals, retirements, disability incidence and other contingent events as appropriate for the respective product type. All estimated cash payments included in this table are not discounted to present value nor do they take into account estimated future premiums on policies in-force as of December 31, 2011 and are gross of any reinsurance recoverable. The $993.3 million total estimated cash flows for all years in the table is different from the liability of future policy benefits of $254.2 million included in our audited consolidated financial statements principally due to the time value of money. Actual cash payments to policyholders could differ significantly from the estimated cash payments as presented in this table due to differences between actual experience and the assumptions used in the estimation of these payments.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements that have or are reasonably likely to have a current or future material effect on our financial condition, revenues and expenses, results of operations, liquidity, capital expenditures or capital resources.

Restriction on Certain Payments by the Corporation's Subsidiaries

Our insurance subsidiaries are subject to the regulations of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the "Commissioner of Insurance of Puerto Rico"). These regulations, among other things, require insurance companies to maintain certain levels of capital, thereby restricting the amount of earnings that can be distributed by the insurance subsidiaries to TSM.

Since 2009, local insurers and health organizations are required by the Insurance Code to submit to the Commissioner of Insurance Puerto Rico RBC reports following the NAIC's RBC Model Act and accordingly are subject to the relevant measures and actions as required based on their capital levels in relation to the determined risk based capital. In February 2010 Insurance Regulation No. 92 ("Rule 92") entered into effect establishing guidelines to implement the RBC requirements. Rule 92 provides for a gradual compliance and a five-year transition period, including dividend payment restriction and exemption to comply with requirements.

As of December 31, 2011, our insurance subsidiaries were in compliance with such minimum capital requirements.

These regulations are not directly applicable to us, as a holding company, since we are not an insurance company.

Our secured term loan restricts the amount of dividends that we and our subsidiaries can declare or pay to shareholders. Under the secured term loan, dividend payments cannot be made in excess of the accumulated retained earnings of the paying entity.

We do not expect that any of the previously described dividend restrictions will have a significant effect on our ability to meet our cash obligations.

Solvency Regulation

To monitor the solvency of the operations, the BCBSA requires us and TSS to comply with certain specified levels of RBC. RBC is designed to identify weakly capitalized companies by comparing each company's adjusted surplus to its required surplus (RBC ratio). The RBC ratio reflects the risk profile of insurance companies. At December 31, 2011, both we and TSS estimated RBC ratio were above the 200% of our RBC required by the BCBSA and the 375% of our RBC level required by the BCBSA to avoid monitoring.

Other Contingencies

Legal Proceedings

Various litigation claims and assessments against us have arisen in the course of our business, including but not limited to, our activities as an insurer and employer. Furthermore, the Commissioner of Insurance, as well as other Federal and Puerto Rico government authorities, regularly make inquiries and conduct audits concerning our compliance with applicable insurance and other laws and regulations.

Based on the information currently known by our management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have a material adverse effect on our financial position, results of operations and cash flows. However, given the inherent unpredictability of these matters, it is possible that an adverse outcome in certain matters could, from time to time, have an adverse effect on our operating results and/or cash flows.

Guarantee Associations

To operate in Puerto Rico, insurance companies, such as our insurance subsidiaries, are required to participate in guarantee associations, which are organized to pay policyholders contractual benefits on behalf of insurers declared to be insolvent. These associations levy assessments, up to prescribed limits, on a proportional basis, to all member insurers in the line of business in which the insolvent insurer was engaged. During the years ended December 31, 2011, 2010 and 2009, no assessment or payment was made in connection with insurance companies declared insolvent. It is the opinion of management that any possible future guarantee association assessments will not have a material effect on our operating results and/or cash flows, although there is no ceiling on these payment obligations.

Pursuant to the Puerto Rico Insurance Code, our property and casualty insurance subsidiary is a member of Sindicato de Aseguradores para la Suscripción Conjunta de Seguros de Responsabilidad Profesional Médico-Hospitalaria (SIMED). The syndicate was organized for the purpose of underwriting medical-hospital professional liability insurance. As a member, the property and casualty insurance segment shares risks with other member companies and, accordingly, is contingently liable in the event the syndicate cannot meet their obligations. During 2011, 2010 and 2009, no assessment or payment was made for this contingency. It is the opinion of management that any possible future syndicate assessments will not have a material effect on our operating results and/or cash flows, although there is no ceiling on these payment obligations.

In addition, pursuant to Article 12 of Rule LXIX of the Insurance Code, our property and casualty insurance subsidiary is a member of the Compulsory Vehicle Liability Insurance Joint Underwriting Association (the Association). The Association was organized in 1997 to underwrite insurance coverage of motor vehicle property damage liability risks effective January 1, 1998. As a participant, the segment shares the risk proportionally with other members based on a formula established by the Insurance Code. During the years 2011, 2010 and 2009, the Association distributed the Company a dividend based on the good experience of the business amounting to $1.3 million in 2011 and 2010 and $1.1 million in 2009.

Critical Accounting Estimates

Our consolidated financial statements and accompanying notes included in this Annual Report have been prepared in accordance with GAAP applied on a consistent basis. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. We continually evaluate the accounting policies and estimates we use to prepare our consolidated financial statements. In general, management's estimates are based on historical experience and various other assumptions it believes to be reasonable under the circumstances. The following is an explanation of our accounting policies considered most significant by management. These accounting policies require us to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Such estimates and assumptions could change in the future as more information is known. Actual results could differ materially from those estimates.

The policies discussed below are considered by management to be critical to an understanding of our financial statements because their application places the most significant demands on management's judgment, with financial reporting results relying on estimation about the effect of matters that are inherently uncertain. For all these policies, management cautions that future events may not necessarily develop as forecasted, and that the best estimates routinely require adjustment. Management believes that the amounts provided for these critical accounting estimates are adequate.

Claim Liabilities

Claim liabilities by segment as of December 31, 2011 were as follows:

(Dollar amounts in millions)		
Managed care	$	262.2
Life insurance		43.4
Property and casualty insurance		85.7
Consolidated	$	391.3

Management continually evaluates the potential for changes in its claim liabilities estimates, both positive and negative, and uses the results of these evaluations to adjust recorded claim liabilities and underwriting criteria. Our profitability depends in large part on our ability to accurately predict and effectively manage the amount of claims incurred, particularly those of the managed care segment and the losses arising from the property and casualty and life insurance segment. Management regularly reviews its premiums and benefits structure to reflect our underlying claims experience and revised actuarial data; however, several factors could adversely affect our underwriting results. Some of these factors are beyond management's control and could adversely affect its ability to accurately predict and effectively control claims incurred. Examples of such factors include changes in health practices, economic conditions, change in utilization trends, healthcare costs, the advent of natural disasters, and malpractice litigation. Costs in excess of those anticipated could have a material adverse effect on our results of operations.

We recognize claim liabilities as follows:

Managed Care Segment

At December 31, 2011, claim liabilities for the managed care segment amounted to $262.2 million and represented 67.0% of our total consolidated claim liabilities and 21.8% of our total consolidated liabilities.

Claim liabilities are determined employing actuarial methods that are commonly used by managed care actuaries and meet Actuarial Standards of Practice, which require that the claim liabilities be adequate under moderately adverse circumstances. The segment determines the amount of the liability by following a detailed actuarial process that entails using both historical claim payment patterns as well as emerging medical cost trends to project a best estimate of claim liabilities. Under this process, historical claims incurred dates are compared to actual dates of claims payment. This information is analyzed to create "completion" or "development" factors that represent the average percentage of total incurred claims that have been paid through a given date after being incurred. Completion factors are applied to claims paid through the financial statement date to estimate the ultimate claim expense incurred for the current period. Actuarial estimates of claim liabilities are then determined by subtracting the actual paid claims from the estimate of the total expected claims incurred. The majority of unpaid claims, both reported and unreported, for any period, are those claims which are incurred in the final months of the period. Since the percentage of claims paid during the period with respect to claims incurred in those months is generally very low, the above-described completion factor methodology is less reliable for such months. In order to complement the analysis to determine the unpaid claims, historical completion factors and payment patterns are applied to incurred and paid claims for the most recent twelve months and compared to the prior twelve month period. Incurred claims for the most recent twelve months also take into account recent claims expense levels and health care trend levels (trend factors). Using all of the above methodologies, our actuaries determine based on the different circumstances the unpaid claims as of the end of period.

Because the reserve methodology is based upon historical information, it must be adjusted for known or suspected operational and environmental changes. These adjustments are made by our actuaries based on their knowledge and their estimate of emerging impacts to benefit costs and payment speed.

Circumstances to be considered in developing our best estimate of reserves include changes in enrollment, utilization levels, unit costs, mix of business, benefit plan designs, provider reimbursement levels, processing system conversions and changes, claim inventory levels, regulatory and legislative requirements, claim processing patterns, and claim submission patterns. A comparison or prior period liabilities to re-estimated claim liabilities based on subsequent claims development is also considered in making the liability determination. In the actuarial process, the methods and assumptions are not changed as reserves are recalculated, but rather the availability of additional paid claims information drives our changes in the re-estimate of the unpaid claim liability. Changes in such development are recorded as a change to current period benefit expense. The re-estimates or recasts are done monthly for the previous four calendar quarters. On average, about 87% of the claims are paid within three months after the last day of the month in which they were incurred and about 8% are within the next three months, for a total of 95% paid within six months after the last day of the month in which they were incurred.

Management regularly reviews its assumptions regarding claim liabilities and makes adjustments to claims incurred when necessary. If management's assumptions regarding cost trends and utilization are significantly different than actual results, our statement of earnings and financial position could be impacted in future periods. Changes to prior year estimates may result in an increase in claims incurred or a reduction of claims incurred in the period the change is made. Further, due to the considerable variability of health care costs, adjustments to claims liabilities are made in each period and are sometimes significant as compared to the net income recorded in that period. Prior year development of claim liabilities is recognized immediately upon the actuary's judgment that a portion of the prior year liability is no longer needed or that an additional liability should have been accrued. Health care trends are monitored in conjunction with the claim reserve analysis. Based on these analyses, rating trends are adjusted to anticipate future changes in health care cost or utilization. Thus, the managed care segment incorporates those trends as part of the development of premium rates in an effort to keep premium rating trends in line with claims trends.

As described above, completion factors and claims trend factors can have a significant impact on determination of our claim liabilities. The following example provides the estimated impact on our December 31, 2011 claim liabilities, assuming the indicated hypothetical changes in completion and trend factors:

(Dollar amounts in millions)

Completion Factor [1]		Claims Trend Factor [2]	
(Decrease) Increase		(Decrease) Increase	
In completion factor	In unpaid claim liabilities	In claims trend factor	In unpaid claim liabilities
-0.6%	$9.6	0.75%	$10.3
-0.4%	6.5	0.50%	6.8
-0.2%	3.2	0.25%	3.4
0.2%	(3.2)	-0.25%	(3.4)
0.4%	(6.3)	-0.50%	(6.8)
0.6%	(9.5)	-0.75%	(10.3)

(1) Assumes (decrease) increase in the completion factors for the most recent twelve months.
(2) Assumes (decrease) increase in the claims trend factors for the most recent twelve months.

The segments' reserving practice is to consistently recognize the actuarial best estimate as the ultimate liability for claims within a level of confidence required by actuarial standards. Management believes that the methodology for determining the best estimate for claim liabilities at each reporting date has been consistently applied.

Amounts incurred related to prior years vary from previously estimated liabilities as the claims are ultimately settled. Liabilities at any year-end are continually reviewed and re-estimated as information regarding actual claims payments, or run-out becomes known. This information is compared to the originally established year-end liability. Negative amounts reported for incurred claims related to prior years result from claims being settled for amounts less than originally estimated. The reverse is true of reserve shortfalls. Medical claim liabilities are usually described as having a "short tail": which means that they are generally paid within several months of the member receiving service from the provider. Accordingly, the majority, or approximately 95%, of any redundancy or shortfall relates to claims incurred in the previous calendar year-end, with the remaining 5% related to claims incurred prior to the previous calendar year-end. Management has not noted any significant emerging trends in claim frequency and severity and the normal fluctuations in enrollment and utilization trends from year to year.

The following table shows the variance between the segment's incurred claims for current period insured events and the incurred claims for such years had they been determined retrospectively (the "Incurred claims related to current period insured events" for the year shown plus or minus the "Incurred claims related to prior period insured events" for the following year as included in note 10 to the audited consolidated financial statements). This table shows that the segments' estimates of this liability have approximated the actual development.

(Dollar amounts in millions	**2010**	**2009**	**2008**
Years ended December 31,			
Total incurred claims:			
As reported [(1)]	$ 1,503.3	$ 1,512.1	$ 1,348.9
On a retrospective basis	1,495.6	1,506.5	1,352.0
Variance	$ 7.7	$ 5.6	$ (3.1)
Variance to total incurred claims as reported	0.5%	0.4%	-0.2%

(1) Includes total claims incurred less adjustments for prior year reserve development.

Management expects that substantially all of the development of the 2011 estimate of medical claims payable will be known during 2012 and that the variance of the total incurred claims on a retrospective basis when compared to reported incurred claims will be similar to the prior years.

In the event this segment experiences an unexpected increase in health care cost or utilization trends, we have the following options to cover claim payments:

- Through the management of our cash flows and investment portfolio.
- We have the ability to increase the premium rates throughout the year in the monthly renewal process, when renegotiating the premiums for the following contract year of each group as they become due. We consider the actual claims trend of each group when determining the premium rates for the following contract year.
- We have available short-term borrowing facilities that from time to time address differences between cash receipts and disbursements.

For additional information on our credit facilities, see section "Financing and Financing Capacity" of this Section.

Life Insurance Segment

At December 31, 2011, claim liabilities for the life insurance segment amounted to $43.4 million and represented 11.1% of total consolidated claim liabilities and 3.6% of our total consolidated liabilities.

The claim liabilities related to the life insurance segment are based on methods and underlying assumptions in accordance with GAAP and applicable actuarial standards. The estimate of claim liabilities for this segment is based on the amount of benefits contractually determined and on actuarial estimates of the amount of loss inherent in that period's claims, including losses for which claims have not been reported. This estimate relies on actuarial observations of ultimate loss experience for similar historical events. Principal assumptions used in the establishment of claim liabilities for this segment are mortality, morbidity and claim submission patterns, among others.

Claim reserve reviews are generally conducted on a monthly basis, in light of continually updated information. We review reserves using current inventory of policies and claims data. These reviews incorporate a variety of actuarial methods, judgments and analysis.

The key assumption with regard to claim liabilities for our life insurance segment is related to claims incurred prior to the end of the year, but not yet reported to our subsidiary. A liability for these claims is estimated based upon experience with regards to amounts reported subsequent to the close of business in prior years. There are uncertainties in the development of these estimates; however, in recent years our estimates have resulted in immaterial redundancies or deficiencies.

Property and Casualty Insurance Segment

At December 31, 2011, claim liabilities for the property and casualty insurance segment amounted to $85.7 million and represented 21.9% of the total consolidated claim liabilities and 7.1% of our total consolidated liabilities.

Estimates of the ultimate cost of claims and loss-adjustment expenses of this segment are based largely on the assumption that past developments, with appropriate adjustments due to known or unexpected changes, are a reasonable basis on which to predict future events and trends, and involve a variety of actuarial techniques that analyze current experience, trends and other relevant factors. Property and casualty insurance claim liabilities are categorized and tracked by line of business. Medical malpractice policies are written on a claims-made basis. Policies written on a claims-made basis require that claims be reported during the policy period. Other lines of business are written on an occurrence basis.

Individual case estimates for reported claims are established by a claims adjuster and are changed as new information becomes available during the course of handling the claim. Our property and casualty business, other than medical malpractice, is primarily short-tailed business, where losses (e.g. paid losses and case reserves) are generally reported quickly.

Claim reserve reviews are generally conducted on a quarterly basis, in light of continually updated information. Our actuary certifies reserves for both current and prior accident years using current claims data. These reviews incorporate a variety of actuarial methods, judgments, and analysis. For each line of business, a variety of actuarial methods are used, with the final selections of ultimate losses that are appropriate for each line of business selected based on the current circumstances affecting that line of business. These selections incorporate input from management, particularly from the claims, underwriting and operations divisions, about reported loss cost trends and other factors that could affect the reserve estimates.

Key assumptions are based on the consideration that past emergence of paid losses and case reserves is credible and likely indicative of future emergence and ultimate losses. A key assumption is the expected loss ratio for the current accident year. This expected loss ratio is generally determined through a review of the loss ratios of prior accident years and expected changes to earned pricing, loss costs, mix of business, and other factors that are expected to impact the loss ratio for the current accident year. Another key assumption is the development patterns for paid and reported losses (also referred to as the loss emergence and settlement patterns). The reserves for unreported claims for each year are determined after reviewing the indications produced by each actuarial projection method, which, in turn, rely on the expected paid and reported development patterns and the expected loss ratio for that year.

At December 31, 2011, the actuarial reserve range determined by the actuaries was from $84 million to $94 million. Management reviews the results of the reserve estimates in order to determine any appropriate adjustments in the recording of reserves. Adjustments to reserve estimates are made after management's consideration of numerous factors, including but not limited to the magnitude of the difference between the actuarial indication and the recorded reserves, improvement or deterioration of actuarial indications in the

period, the maturity of the accident year, trends observed over the recent past and the level of volatility within a particular line of business. In general, changes are made more quickly to more mature accident years and less volatile lines of business. Varying the net expected loss ratio by +/-1% in all lines of business for the six most recent accident years would increase/decrease the claims incurred by approximately $5.7 million.

Liability for Future Policy Benefits

Our life insurance segment establishes, and carries as liabilities, actuarially determined amounts that are calculated to meet its policy obligations when a policy matures or surrenders, an insured dies or becomes disabled or upon the occurrence of other covered events. We compute the amounts for actuarial liabilities in conformity with GAAP.

Liabilities for future policy benefits for whole life and term insurance products and active life reserves for accident and health products are computed by the net level premium method, using interest assumptions ranging from 5.0% to 5.75% and withdrawal, mortality, morbidity and maintenance expense assumptions appropriate at the time the policies were issued (or when a block of business was purchased, as applicable). Accident and health unpaid claim reserves are stated at amounts determined by estimates on individual claims and estimates of unreported claims based on past experience. Liabilities for universal life policies are stated at policyholder account values before surrender charges. Deferred annuity reserves are carried at the account value.

The liabilities for all products, except for universal life and deferred annuities, are based upon a variety of actuarial assumptions that are uncertain. The most significant of these assumptions is the level of anticipated death and health claims. Other assumptions that are less significant to the appropriate level of the liability for future policy benefits are anticipated policy persistency rates, investment yields, and operating expense levels. These are reviewed frequently by our subsidiary's external actuaries, to assure that the current level of liabilities for future policy benefits is sufficient, in combination with anticipated future cash flows, to provide for all contractual obligations. For all products, except for universal life and deferred annuities, the basis for the liability for future policy benefits is established at the time of issuance of each contract and would only change if our experience deteriorates to the point that the level of the liability is not adequate to provide for future policy benefits. We do not currently expect that level of deterioration to occur.

Deferred Policy Acquisition Costs and Value of Business Acquired

Certain costs for acquiring life and property and casualty insurance business are deferred. Acquisition costs related to the managed care business are expensed as incurred.

The costs of acquiring new life business, principally commissions, and certain variable underwriting, agency and policy issue expenses of our life insurance segment, have been deferred. These costs, including value of business acquired (VOBA) recorded upon our acquisition of GA Life (now TSV), are amortized to income over the premium-paying period of the related whole life and term insurance policies in proportion to the ratio of the expected annual premium revenue to the expected total premium revenue, and over the anticipated lives of universal life policies in proportion to the ratio of the expected annual gross profits to the expected total gross profits. The expected premiums revenue and gross profits are based upon the same mortality and withdrawal assumptions used in determining the liability for future policy benefits. For universal life and deferred annuity policies, changes in the amount or timing of expected gross profits result in adjustments to the cumulative amortization of these costs. The effect on the amortization of deferred policy acquisition costs of revisions to estimated gross profits is reported in earnings in the period such estimated gross profits are revised.

The schedules of amortization of life insurance deferred policy acquisition costs (DPAC) and VOBA are based upon actuarial assumptions regarding future events that are uncertain. For all products, other than universal life and deferred annuities, the most significant of these assumptions is the level of contract persistency and investment yield rates. For these products the basis for the amortization of DPAC and VOBA is established at the issue of each contract and would only change if our segment's experience deteriorates to the point that the level of the liability is not adequate. We do not currently expect that level of deterioration to occur. For the universal life and deferred annuity products, amortization schedules are based upon the level of historic and anticipated gross profit margins, from the date of each contract's issued (or purchase, in the case of VOBA). These schedules are based upon several actuarial assumptions that are uncertain, are reviewed annually and are modified if necessary. The most significant of these assumptions are anticipated universal life claims,

investment yield rates and contract persistency. Based upon the most recent actuarial reviews of all of the assumptions, we do not currently anticipate material changes to the level of these amortization schedules.

The property and casualty business acquisition costs consist of commissions incurred during the production of business and are deferred and amortized ratably over the terms of the policies. The method used in calculating deferred acquisition costs limits the amount of such deferred costs to actual costs or their estimated realizable value, whichever is lower.

Impairment of Investments

Impairment of an investment exists if a decline in the estimated fair value is below the amortized cost of the security. Management regularly monitors and evaluates the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating: (1) the length of time and the extent to which the estimated fair value has been less than amortized cost for fixed maturity securities, or cost for equity securities, (2) the financial condition, near-term and long-term prospects for the issuer, including relevant industry conditions and trends, and implications of rating agency actions, (3) the Company's intent 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 our analysis, along with the judgment that must be applied in the analysis, it is possible that we 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 we determined during its analysis, which may lead to a different impairment conclusion in future periods. If after monitoring and analyzing impaired securities, management determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value according to current accounting guidance. The new cost basis of an impaired security is not adjusted for subsequent increases in estimated fair value. In periods subsequent to the recognition of an other-than-temporary impairment, the impaired security is accounted for as if it had been purchased on the measurement date of the impairment. For debt securities, the discount (or reduced premium) based on the new cost basis may be accreted into net investment income in future periods based on prospective changes in cash flow estimates, to reflect adjustments to the effective yield.

Our 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 investments losses that represent 20% or more of cost.
- 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 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.

Management continues to review the investment portfolios under our 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.

During the years ended December 31, 2011, 2010 and 2009 we recognized other-than-temporary impairments amounting to $0.3 million, $3.0 million and $7.1 million, respectively, on fixed income, equity securities and perpetual preferred stocks classified as available for sale. As of December 31, 2011, the

investments in securities of $1.1 billion is classified as either available-for-sale or held-to-maturity and consists of high-quality investments. Of this amount, $863.6 million, or 75.3%, are securities in obligations of U.S. government-sponsored enterprises, U.S. Treasury securities, obligations of the Commonwealth of Puerto Rico, municipal securities, obligations of U.S. states and its political subdivisions, mortgage backed and collateralized mortgage obligations that are U.S. agency-backed. The remaining $283.4 million, or 27.4%, are from corporate fixed, equity securities and mutual funds. The net unrealized gain as of December 31, 2011 of the available-for-sale and held-to-maturity portfolios amounted to $82.1 million.

The impairment analysis as of December 31, 2011 indicated that, other than those securities for which an other-than-temporary impairment was recognized, none of the securities whose carrying amount exceeded its estimated fair value was considered other-than-temporarily impaired as of that date; however, several factors are beyond management's control, such as the following: financial condition of the issuer, movement of interest rates, specific situations within corporations, among others. Over time, the economic and market environment may provide additional insight regarding the estimated fair value of certain securities, which could change management's judgment regarding impairment. This could result in realized losses related to other-than-temporary declines being charged against future income.

Our fixed maturity securities are sensitive to interest rate and credit risk fluctuations, which impact the fair value of individual securities. Our equity securities are sensitive to equity price risks, for which potential losses could arise from adverse changes in the value of equity securities. For additional information on the sensitivity of our investments, see "Quantitative and Qualitative Disclosures About Market Risk" in this Annual Report.

A detail of the 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 December 31, 2011 and 2010 is included in note 3 to the audited consolidated financial statements.

Allowance for Doubtful Receivables

We estimate the amount of uncollectible receivables in each period and establish an allowance for doubtful receivables. The allowance for doubtful receivables amounted to $23.9 million and $20.0 million as of December 31, 2011 and 2010, respectively. The amount of the allowance is based on the age of unpaid accounts, information about the customer's creditworthiness and other relevant information. The estimates of uncollectible accounts are revised each period, and changes are recorded in the period they become known. In determining the allowance, we use predetermined percentages applied to aged account balances, as well as individual analysis of large accounts. These percentages are based on our collection experience and are periodically evaluated. A significant change in the level of uncollectible accounts would have a material effect on our results of operations.

In addition to premium-related receivables, we evaluate the risk in the realization of other accounts receivable, including balances due from third parties related to overpayment of medical claims and rebates, among others. These amounts are individually analyzed and the allowance determined based on the specific collectivity assessment and circumstances of each individual case.

We consider this allowance adequate to cover probable losses that may result from our inability to subsequently collect the amounts reported as accounts receivable. However, such estimates may change significantly in the event that unforeseen economic conditions adversely impact the ability of third parties to repay the amounts due to us.

Goodwill and Other Intangible Assets

Our consolidated goodwill at December 31, 2011 was $25.4 and other intangible assets were $33.3.

We follow FASB guidance for business combinations and goodwill and other intangible assets, which specifies the types of acquired intangible assets that are required to be recognized and reported separately from goodwill. Under the guidance, goodwill is not amortized but is tested for impairment at least annually. Furthermore, goodwill is allocated to reporting units for purposes of the annual impairment test. Our impairment tests require us to make assumptions and judgments regarding the estimated fair value of our reporting units, which include goodwill and other intangible assets.

We complete our annual impairment tests of existing goodwill during the fourth quarter of each year. These tests involve the use of estimates related to the fair value of the goodwill reporting unit and require a significant degree of management judgment and the use of subjective assumptions. Certain interim impairment tests are also performed during interim periods when potential impairment indicators exist or other changes in our business occur.

Fair value is estimated using the income and market approaches for our goodwill reporting units. Use of the income and market approaches for our goodwill impairment test reflects our view that both valuation methodologies provide a reasonable estimate of fair value.

The income approach is developed using assumptions about future revenue, expenses and net income derived from our internal planning process. These estimated future cash flows are then discounted. Our assumed discount rate is based on our industry's weighted average cost of capital. Market valuations are based on observed multiples of certain measures including membership, revenue and EBITDA (earnings before interest, taxes, depreciation and amortization) and include market comparisons to publicly traded companies in our industry.

While we believe we have appropriately allocated the purchase price of our acquisitions, this allocation requires many assumptions to be made regarding the fair value of assets and liabilities acquired. In addition, estimated fair values developed based on our assumptions and judgments might be significantly different if other reasonable assumptions and estimates were to be used. If estimated fair values are less than the carrying values of the reporting unit or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against future income.

Other Significant Accounting Policies

We have other accounting policies that are important to an understanding of the financial statements. See note 2 to the audited consolidated financial statements.

Recently Issued Accounting Standards

In September 2011, the FASB issued guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the guidance permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the

components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB issued updated guidance temporarily eliminating the presentation requirements for reclassification adjustments, while the Board considers certain operational concerns about these requirements after several concerns were raised about undue complexity within the income statement, potentially compromising clarity of financial statements. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ("IFRS"). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. 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 an impact on our financial position or results of operations.

In April 2011, the FASB issued guidance to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The Board determined that the criterion pertaining to an exchange of collateral should not be a determining factor in assessing effective control. The Board concluded that the assessment of effective control should focus on a transferor's contractual rights and obligations with respect to transferred financial assets, not on whether the transferor has the practical ability to perform in accordance with those rights or obligations. The Board also concluded that the remaining criteria are sufficient to determine effective control. Consequently, the amendments remove the transferor's ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. 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 d. 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 are currently in the process of completing our evaluation of the adoption of this standard. However, based in a preliminary evaluation of the effect of the adoption of this guidance we do not expect to have a significant impact on our financial position or results of operations as a result of the adoption.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued that had or are expected to have a material impact on our financial position, operating results or disclosures.

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 are also subject to additional market risk with respect to certain of our financial instruments. We must effectively manage, measure, and monitor the market risk associated with our invested assets and interest rate sensitive liabilities. We have established and implemented comprehensive policies and procedures to minimize the effects of potential market volatility.

Market Risk Exposure

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. Analytical tools and monitoring systems are in place to assess each one of the elements of market risks.

As in other insurance companies, investment activities are an integral part of our business. Insurance statutes regulate the type of investments that the insurance segments are permitted to make and limit the amount of funds that may be invested in some types of securities. We have a diversified investment portfolio with a large portion invested in investment-grade, fixed income securities.

Our investment philosophy is to maintain a largely investment-grade fixed income portfolio, provide adequate liquidity for expected liability durations and other requirements, and maximize total return through active investment management.

We evaluate the interest rate risk of our assets and liabilities regularly, as well as the appropriateness of investments relative to our internal investment guidelines. We operate within these guidelines by maintaining a diversified portfolio, both across and within asset classes.

The board of directors monitors and approves investment policies and procedures. Investment decisions are centrally managed by investment professionals based on the guidelines established in our investment policies and procedures. The investment portfolio is managed following those policies and procedures.

Our investment portfolio is predominantly comprised of obligations of U.S. government-sponsored enterprises, U.S. Treasury securities, obligations of state and political subdivisions, obligations of the Commonwealth of Puerto Rico, municipal securities and obligations of U.S. states and its political subdivisions and obligations from U.S. and Puerto Rican government instrumentalities. These investments comprised approximately 75.2% of the total portfolio value as of December 31, 2011, of which 25.2% consisted of U. S. agency-backed mortgage backed securities and collateralized mortgage obligations. The remaining balance of the investment portfolio consists of mutual funds, investments in local stocks from well-known financial institutions and investments in corporate bonds.

We use a sensitivity analysis to measure the market risk related to our holdings of invested assets and other financial instruments. This analysis estimates the potential changes in fair value of the instruments subject to market risk. This sensitivity analysis is an estimate and should not be viewed as predictive of our future financial performance. Our actual losses in any particular year could exceed the amounts indicated in the following paragraphs. Limitations related to this sensitivity analysis include:

- the market risk information is limited by the assumptions and parameters established in creating the related sensitivity analysis, including the impact of prepayment rates on mortgages; and
- the model assumes that the composition of assets and liabilities remains unchanged throughout the year.

Accordingly, we use such models as tools and not as a substitute for the experience and judgment of our management.

Interest Rate Risk

Our exposure to interest rate changes results from our significant holdings of fixed maturity securities. Investments subject to interest rate risk are held in our other-than-trading portfolios. We are also exposed to interest rate risk from our variable interest secured term loan and from our policyholder deposits.

Equity Price Risk

Our investments in equity securities expose us to equity price risks, for which potential losses could arise from adverse changes in the value of equity securities. Financial instruments subject to equity prices risk are held in our trading and other-than-trading portfolios.

Risk Measurement

Trading Portfolio

Our trading securities at December 31, 2010 are a source of market risk. As of December 31, 2010, our trading portfolio was comprised of investments in publicly-traded common stocks. The securities in the trading portfolio are believed by management to be high quality and are diversified across industries and readily marketable. Trading securities are recorded at fair value, and changes in fair value are included in operations. The fair value of the investments in trading securities is exposed to equity price risk. Assuming an immediate decrease of 10% in the market value of these securities as of December 31, 2010 the hypothetical loss in the fair value of these investments would have been approximately $5.1 million. The trading portfolio was sold during this period.

Other than Trading Portfolio

Our available-for-sale and held-to-maturity securities are also a source of market risk. As of December 31, 2011 approximately 87.3% and 100.0% of our investments in available-for-sale and held-to-maturity securities, respectively, consisted of fixed income securities. The remaining balance of the available-for-sale portfolio is comprised of equity securities. Available-for-sale securities are recorded at fair value and changes in the fair value of these securities, net of the related tax effect, are excluded from operations and are reported as a separate component of other comprehensive income (loss) until realized. Held-to-maturity securities are recorded at amortized cost and adjusted for the amortization or accretion of premiums or discounts. The fair value of the investments in the other-than-trading portfolio is exposed to both interest rate risk and equity price risk.

Interest Rate Risk

We have evaluated the net impact to the fair value of our fixed income investments of a significant one-time change in interest rate risk using a combination of both statistical and fundamental methodologies. From these shocked values a resultant market price appreciation/depreciation can be determined after portfolio cash flows are modeled and evaluated over instantaneous 100, 200 and 300 basis point rate shifts. Techniques used in the evaluation of cash flows include Monte Carlo simulation through a series of probability distributions over 200 interest rate paths. Necessary prepayment speeds are compiled using Salomon Brothers Yield Book, which sources numerous factors in deriving speeds, including but not limited to: historical speeds, economic indicators, street consensus speeds, etc. Securities evaluated by us under these scenarios include mortgage pass-through certificates and collateralized mortgage obligations of U.S. agencies, and private label structures, provided that cash flows information is available. The following table sets forth the result of this analysis for the years ended December 31, 2011 and 2010.

(Dollar amounts in millions)

Change in Interest Rates	Expected Fair Value	Amount of Decrease	% Change
December 31, 2011:			
Base Scenario	$ 1,003.1		
+100 bp	949.6	(53.5)	(5.3)%
+200 bp	896.9	(106.2)	(10.6)%
+300 bp	843.6	(159.5)	(15.9)%
December 31, 2010:			
Base Scenario	$ 991.6		
+100 bp	940.4	(51.2)	(5.2)%
+200 bp	886.1	(105.5)	(10.6)%
+300 bp	836.5	(155.1)	(15.6)%

We believe that an interest rate shift in a 12-month period of 100 basis points represents a moderately adverse outcome, while a 200 basis point shift is significantly adverse and a 300 basis point shift is unlikely given historical precedents. Although we classify 98.6% of our fixed income securities as available-for-sale, our cash flows and the intermediate duration of our investment portfolio should allow us to hold securities until maturity, thereby avoiding the recognition of losses, should interest rates rise significantly.

Equity Price Risk

Our equity securities in the available-for-sale portfolio are comprised primarily of stock of several Puerto Rican financial institutions and mutual funds. Assuming an immediate decrease of 10% in the market value of these securities as of December 31, 2011 and 2010, the hypothetical loss in the fair value of these investments would have been approximately $14.4 million and $5.2 million, respectively.

Other Risk Measurement

We are subject to interest rate risk on our variable interest secured term loan and our policyholder deposits. Shifting interest rates do not have a material effect on the fair value of these instruments. The secured term loan has a variable interest rate structure, which reduces the potential exposure to interest rate risk. The policyholder deposits have short-term interest rate guarantees, which also reduce the accounts' exposure to interest rate risk.

We have invested in a hybrid instrument, including a derivative component, with a market value of approximately $10.0 million and $10.6 million as of December 31, 2011 and 2010 in order to diversify our investment in securities and participate in foreign stock markets.

In 2005, we invested in $5.0 million in each of two structured note agreements, under which the interest income received is linked to the performance of the Dow Jones Euro STOXX 50 and Nikkei 225 Equity Indices (the Indices). Under these agreements the principal invested by us is protected, the only amount that varies according to the performance of the Indices is the interest to be received upon the maturity of the instruments. Should the Indices experience a negative performance during the holding period of the structured notes, no interest will be received and no amount will be paid to the issuer of the structured notes. The contingent interest payment component within the structured note agreements meets the definition of an embedded derivative. In accordance with current accounting guidance the embedded derivative component of the structured note is separated from the structured notes and accounted for separately as a derivative instrument. The derivative component of the structured notes exposes us to credit risk and market risk. We minimize credit risk by entering into transactions with counterparties that we believe to be high-quality based on their credit ratings. The market risk is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken. As of December 31, 2011 the fair value of the derivative component of the structure notes are not significant since maturity date will be on May 2012, and the value is near at par value. The fair value as of December 31, 2010 was $0.7 million. Assuming an immediate decrease of 10% in the period-end Indices as of December 31, 2011 and 2010, the hypothetical loss in the estimated fair value of the derivative component of the structured notes would have been approximately $0.1 million. The investment component of the structured

notes, which had a fair value of $10.0 million and $9.9 million as of December 31, 2011 and 2010, respectively, is accounted for as a held-to-maturity debt security and is included within "investment in securities" in the consolidated balance sheet and its risk measurement is evaluated along the other investments in "— Other Than Trading Portfolio" above.

Triple-S Management Corporation

Consolidated Financial Statements
December 31, 2011, 2010, and 2009

To Our Stockholders

Management's Report on Internal Control Over Financial Reporting

The management of Triple-S Management Corporation (the Company) is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of "internal control over financial reporting," as defined under Exchange Act Rule 13a-15(f). The Company's internal control over financial reporting is a process designed by, or under the supervision of, the Company's chief executive officer and corporate controller, and conducted by the Company's board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external purposes in accordance with (generally accepted accounting principles) ("GAAP"), and includes those policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management, under the supervision and with the participation of the chief executive officer and corporate controller, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2011 based on criteria described in the "Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Based on that assessment and those criteria, management has concluded that the Company's internal control over financial reporting was effective as of December 31, 2011 to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's consolidated financial statements for external reporting purposes in accordance with GAAP.

Management has excluded Socios Mayores en Salud Holdings, Inc. and subsidiaries, the indirect parent company of American Health, Inc. (from now on referred to as "AH") from its assessment of internal control over financial reporting as of December 31, 2011 because it was acquired by the Company in a purchase business combination during 2011. AH is a wholly-owned subsidiary whose total assets and total revenue represent 9% and 20%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2011.

The effectiveness of our internal control over financial reporting as of December 31, 2011 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

Ramón M. Ruiz-Comas
President and Chief Executive Officer

Liliana Rivera-Corcino
Corporate Controller

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Triple-S Management Corporation

In our opinion, the accompanying consolidated balance sheets, and the related consolidated statements of earnings, stockholders' equity and comprehensive income, and of cash flows present fairly, in all material respects, the financial position of Triple-S Management Corporation and its subsidiaries (the Company) at December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on criteria established in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As described in Management's Report on Internal Control Over Financial Reporting, management has excluded Socios Mayores en Salud Holdings, Inc. and its subsidiaries ("American Health") from its assessment of internal control over financial reporting as of December 31, 2011 because it was acquired by the Company in a purchase business combination during 2011. We have also excluded American Health from our audit of internal control over financial reporting. American Health is a wholly-owned subsidiary whose total assets and total revenue represent 9% and 20%, respectively, of the related consolidated financial statement amounts as of and for the year ended December 31, 2011.

PricewaterhouseCoopers LLP

San Juan, Puerto Rico
March 14, 2012

CERTIFIED PUBLIC ACCOUNTANTS
(OF PUERTO RICO)
License No. 216 Expires Dec. 1, 2013
Stamp E16125 of the P.R. Society of
Certified Public Accountants has been
affixed to the file copy of this report

Triple-S Management Corporation
Consolidated Balance Sheets
December 31, 2011 and 2010
(dollar amounts in thousands, except per share data)

Assets	**2011**	**2010**
Investments and cash		
Equity securities held for trading, at fair value (cost of $43,832 in 2010)	$ -	$ 51,099
Securities available for sale, at fair value:		
Fixed maturities (amortized cost of $913,555 in 2011 and $947,957 in 2010)	988,894	977,586
Equity securities (cost of $138,167 in 2011 and $42,750 in 2010)	144,408	51,507
Securities held to maturity, at amortized cost:		
Fixed maturities (fair value of $14,252 in 2011 and $15,424 in 2010)	13,684	14,615
Policy loans	6,307	5,887
Cash and cash equivalents	71,834	45,021
Total investments and cash	1,225,127	1,145,715
Premium and other receivables, net	287,184	325,780
Deferred policy acquisition costs and value of business acquired	155,788	146,086
Property and equipment, net	81,872	76,745
Deferred tax asset	28,707	29,445
Goodwill	25,397	426
Other assets	76,502	35,173
Total assets	$ 1,880,577	$ 1,759,370
Liabilities and Stockholders' Equity		
Claim liabilities	391,259	360,210
Liability for future policy benefits	254,194	236,523
Unearned premiums	94,772	98,341
Policyholder deposits	76,753	49,936
Liability to Federal Employees' Health Benefits Program	19,051	15,018
Accounts payable and accrued liabilities	151,052	136,567
Deferred tax liability	24,603	12,655
Short term borrowings	-	15,575
Long term borrowings	114,387	166,027
Liability for pension benefits	77,547	51,246
Total liabilities	1,203,618	1,142,098
Commitments and contingencies		
Stockholders' equity		
Common stock Class A, $1 par value. Authorized 100,000,000 shares; issued and outstanding 9,042,809 at December 31, 2011 and 2010	9,043	9,043
Common stock Class B, $1 par value. Authorized 100,000,000 shares; issued and outstanding 19,321,524 and 19,772,614 shares at December 31, 2011 and 2010, respectively	19,322	19,773
Additional paid-in capital	144,302	155,299
Retained earnings	485,729	427,693
Accumulated other comprehensive income, net	18,563	5,464
Total stockholders' equity	676,959	617,272
Total liabilities and stockholders' equity	$ 1,880,577	$ 1,759,370

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

Triple-S Management Corporation and Subsidiaries
Consolidated Statements of Earnings
December 31, 2011, 2010 and 2009
(dollar amounts in thousands, except per share data)

	2011	2010	2009
Revenues			
Premiums earned, net	$ 2,054,468	$ 1,901,100	$ 1,869,084
Administrative service fees	38,459	39,546	48,643
Net investment income	48,226	49,145	52,136
Total operating revenues	2,141,153	1,989,791	1,969,863
Net realized investment gains (losses):			
Total other-than-temporary impairment losses on securities	(257)	(2,997)	(7,118)
Net realized gains, excluding other-than-temporary impairment losses on securities	18,854	5,529	7,732
Total net realized investment gains	18,597	2,532	614
Net unrealized investment gains (losses) on trading securities	(7,267)	5,433	10,497
Other income, net	716	889	1,237
Total revenues	2,153,199	1,998,645	1,982,211
Benefits and expenses			
Claims incurred	1,716,254	1,596,789	1,605,872
Operating expenses	347,590	304,995	279,418
Total operating costs	2,063,844	1,901,784	1,885,290
Interest expense	10,855	12,658	13,270
Total benefits and expenses	2,074,699	1,914,442	1,898,560
Income before taxes	78,500	84,203	83,651
Income tax expense (benefit):			
Current	6,594	14,348	19,197
Deferred	13,870	3,054	(4,326)
Total income taxes	20,464	17,402	14,871
Net income	$ 58,036	$ 66,801	$ 68,780
Basic net income per share	$ 2.02	$ 2.30	$ 2.33
Diluted net income per share	$ 2.01	$ 2.28	$ 2.33

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

Triple-S Management Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity and Comprehensive Income
December 31, 2011, 2010 and 2009

(dollar amounts in thousands, except per share data)

	Class A Common Stock	Class B Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balance, December 31, 2008	$ 9,043	$ 22,105	$ 179,504	$ 292,112	$ (17,665)	$ 485,099
Share-based compensation	-	-	3,897	-	-	3,897
Grant of restricted Class B common stock	-	27	-	-	-	27
Repurchase and retirement of common stock	-	(2,022)	(24,098)	-	-	(26,120)
Comprehensive income						
Net income	-	-	-	68,780	-	68,780
Net unrealized change in fair value of available for sale securities	-	-	-	-	3,539	3,539
Defined benefit pension plan						
Prior service credit, net	-	-	-	-	(273)	(273)
Actuarial gain	-	-	-	-	2,823	2,823
Total comprehensive income						74,869
Balance, December 31, 2009	9,043	20,110	159,303	360,892	(11,576)	537,772
Share-based compensation	-	-	1,878	-	-	1,878
Grant of restricted Class B common stock	-	16	-	-	-	16
Repurchase and retirement of common stock	-	(353)	(5,882)	-	-	(6,235)
Comprehensive income						
Net income	-	-	-	66,801	-	66,801
Net unrealized change in fair value of available for sale securities	-	-	-	-	23,602	23,602
Defined benefit pension plan						
Prior service credit, net	-	-	-	-	(265)	(265)
Actuarial loss	-	-	-	-	(6,297)	(6,297)
Total comprehensive income						83,841
Balance, December 31, 2010	9,043	19,773	155,299	427,693	5,464	617,272
Share-based compensation	-	173	1,899	-	-	2,072
Cash settlement of options under share-based compensation plan	-	-	(2,420)	-	-	(2,420)
Stock issued upon exercise of stock options	-	88	1,191			1,279
Repurchase and retirement of common stock	-	(712)	(11,667)	-	-	(12,379)
Comprehensive income						
Net income	-	-	-	58,036	-	58,036
Net unrealized change in fair value of available for sale securities	-	-	-	-	35,394	35,394
Defined benefit pension plan						
Prior service credit, net	-	-	-	-	(304)	(304)
Actuarial loss	-	-	-	-	(21,991)	(21,991)
Total comprehensive income						71,135
Balance, December 31, 2011	$ 9,043	$ 19,322	$ 144,302	$ 485,729	$ 18,563	$ 676,959

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

Triple-S Management Corporation and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2011, 2010 and 2009
(dollar amounts in thousands, except per share data)

	2011	2010	2009
Cash flows from operating activities			
Net income	$ 58,036	$ 66,801	$ 68,780
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	22,229	15,500	9,643
Net amortization of investments	3,912	4,511	744
Provision (reversal of provision) for doubtful receivables	7,837	(5,200)	10,489
Deferred tax expense (benefit)	13,870	3,054	(4,326)
Net realized investment gains	(18,597)	(2,532)	(614)
Net unrealized (gains) losses on trading securities	7,267	(5,433)	(10,497)
Share-based compensation	2,072	1,894	3,924
Proceeds from trading securities sold			
Equity securities	53,066	4,871	4,240
Acquisition of securities in trading portfolio			
Equity securities	(2,764)	(6,506)	(6,132)
Gain (loss) on sale of property and equipment	(13)	6	-
(Increase) decrease in assets			
Premium and other receivables, net	54,622	(47,648)	(46,263)
Deferred policy acquisition costs and value of business acquired	(9,702)	(6,169)	(13,570)
Other deferred taxes	71	6,658	900
Other assets	(18,245)	5,223	(1,593)
Increase (decrease) in liabilities			
Claim liabilities	(11,998)	(236)	36,736
Liability for future policy benefits	17,671	13,904	15,074
Unearned premiums	(4,288)	(10,001)	(1,799)
Policyholder deposits	1,554	733	1,665
Liability to FEHBP	4,033	2,016	1,845
Accounts payable and accrued liabilities	(18,106)	(3,790)	3,339
Net cash provided by operating activities	162,527	37,656	72,585

Triple-S Management Corporation and Subsidiaries
Consolidated Statements of Cash Flows
December 31, 2011, 2010 and 2009
(dollar amounts in thousands, except per share data)

	2011	2010	2009
Cash flows from investing activities			
Proceeds from investments sold or matured			
Securities available for sale			
Fixed maturities sold	$ 240,034	$ 121,968	$ 241,368
Fixed maturities matured	104,728	175,483	189,144
Equity securities sold	38,022	41,802	9,877
Securities held to maturity			
Fixed maturities matured	1,941	2,587	7,819
Acquisition of investments			
Securities available for sale			
Fixed maturities	(265,356)	(337,569)	(459,705)
Equity securities	(129,328)	(21,957)	(3,684)
Securities held to maturity			
Fixed maturities	(755)	(1,050)	(1,502)
Other investments	(2,500)	(5,000)	-
Net (disbursements) repayment for policy loans	(420)	53	(489)
Acquisition of business, net of $30,070 of cash acquired	(54,680)	-	-
Net capital expenditures	(16,337)	(19,222)	(18,706)
Net cash used in investing activities	(84,651)	(42,905)	(35,878)
Cash flows from financing activities			
Repurchase and retirement of common stock	(11,289)	(6,235)	(32,355)
Cash settlement of stock options	(2,420)	-	-
Proceeds from exercise of stock options	189	-	-
Change in outstanding checks in excess of bank balances	4,409	281	(5,645)
Repayments of long-term borrowings	(51,640)	(26,367)	(1,640)
Net change in short-term borrowings	(15,575)	15,575	-
Proceeds from long-term borrowings	-	25,000	-
Proceeds from annuity contracts	31,809	10,691	4,307
Surrenders of annuity contracts	(6,546)	(9,051)	(7,093)
Net cash provided by (used in) financing activities	(51,063)	9,894	(42,426)
Net increase (decrease) in cash and cash equivalents	26,813	4,645	(5,719)
Cash and cash equivalents			
Beginning of year	45,021	40,376	46,095
End of year	$ 71,834	$ 45,021	$ 40,376

1. Nature of Business

Triple-S Management Corporation (the Company or TSM) was incorporated under the laws of the Commonwealth of Puerto Rico to engage, among other things, as the holding company of entities primarily involved in the insurance industry.

The Company has the following wholly owned subsidiaries that are subject to the regulations of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner of Insurance): (1) Triple-S Salud, Inc. (TSS) and Socios Mayores en Salud Holdings, Inc. (from now on referred as American Health or AH), managed care organizations that provide health benefits services to subscribers through contracts with hospitals, physicians, dentists, laboratories, and other organizations; (2) Triple-S Vida, Inc. (TSV), which is engaged in the underwriting of life and accident and health insurance policies and the administration of annuity contracts; and (3) Triple-S Propiedad, Inc. (TSP), which is engaged in the underwriting of property and casualty insurance policies. The Company and TSS are members of the Blue Cross and Blue Shield Association (BCBSA).

Effective February 7, 2011, the Company through its subsidiary TSS, completed the acquisition of 100% of the outstanding capital stock of AH, a provider of Medicare Advantage services to over 40,000 dual and non-dual eligible members in Puerto Rico. After this acquisition the Company expects to be better positioned for continued growth in the Medicare Advantage business. The results of operations and financial condition of AH are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition.

The Company also has two other wholly owned subsidiaries, Interactive Systems, Inc. (ISI) and Triple-C, Inc. (TC). ISI is mainly engaged in providing data processing services to the Company and its subsidiaries. TC is engaged as a third-party administrator for TSS in the administration of the Commonwealth of Puerto Rico Health Insurance Plan (Similar to Medicaid) (Medicaid) business. Also, TC provides healthcare advisory services to TSS and other health insurance-related services to the health insurance industry.

The contract with the Commonwealth of Puerto Rico (the government of Puerto Rico) that allowed us to provide services to Medicaid enrollees, expired by its own terms on September 30, 2010, thus we ceased providing services to these enrollees effective October 1st, 2010. On October 17, 2011, TSS entered into a new contract with the government of Puerto Rico, effective November 1st, 2011, to administer the provision of the physical health component of the miSalud program (similar to Medicaid) in designated service regions in Puerto Rico. TSS receives a monthly per-member, per-month administrative fee for its services and does not bear the insurance risk of the program.

A substantial majority of the Company's business activity is with insurers located throughout Puerto Rico, and as such, the Company is subject to the risks associated with the Puerto Rico economy.

2. Significant Accounting Policies

The following are the significant accounting policies followed by the Company and its subsidiaries:

Basis of Presentation
The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The consolidated financial statements include the financial statements of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates
The preparation of the consolidated financial statements in conformity with GAAP requires the Company to make a number of estimates and assumptions relating to the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates. The most significant items on the consolidated balance sheets that involve a greater degree of accounting estimates and actuarial determinations subject to changes in the near future are the assessment of other-than-temporary impairments, allowance for doubtful receivables, deferred policy acquisition costs and value of business acquired, claim liabilities, the liability for future policy benefits, and liability for pension benefits. As additional information becomes available (or actual amounts are determinable), the recorded estimates are revised and reflected in operating results of the period they are determined. Although some variability is inherent in these estimates, the Company believes the amounts provided are adequate.

Reclassifications
Certain amounts in the 2010 consolidated financial statements were reclassified to conform to the 2011 presentation.

Cash Equivalents
The Company considers all highly liquid debt instruments with original maturities of three months or less to be cash equivalents. Cash equivalents of $13,003 and $626 at December 31, 2011 and 2010, respectively, consist principally of obligations of government-sponsored enterprises and certificates of deposit with an initial term of less than three months.

Investments
Investment in securities at December 31, 2011 and 2010 consists mainly of obligations of government-sponsored enterprises, U.S. Treasury securities and obligations of U.S. government instrumentalities, obligations of the Commonwealth of Puerto Rico and its instrumentalities, municipal securities, obligations of states of the United States and political subdivisions of the states, corporate bonds, mortgage-backed securities, collateralized mortgage obligations, and equity securities. The Company classifies its debt and equity securities in one of three categories: trading, available for sale, or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Securities classified as held to maturity are those securities in which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held to maturity are classified as available for sale.

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

available-for-sale securities are included in earnings and are determined on a specific-identification basis.

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

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

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

The unrealized gains or losses on the Company's equity securities classified as available-for-sale are included in accumulated other comprehensive income as a separate component of stockholders' equity, unless the decline in value is deemed to be other-than-temporary and the Company does not have the intent and ability to hold such equity securities until their full cost can be recovered, in which case such equity securities are written down to fair value and the loss is charged to other-than-temporary impairment losses recognized in earnings.

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

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

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

Revenue Recognition

a. Managed Care

Subscriber premiums on the managed care business are billed in advance of their respective coverage period and the related revenue is recorded as earned during the coverage period. Managed care premiums are billed in the month prior to the effective date of the policy with a grace period of up to two months. If the insured fails to pay, the policy can be canceled at the end of the grace period at the option of the Company. Managed care premiums are reported as earned when due.

Premiums for the Medicare Advantage (MA) business are based on a bid contract with the Centers for Medicare and Medicaid Services (CMS) and billed in advance of the coverage period. MA contracts provide for a risk factor to adjust premiums paid for members that represent a higher or lower risk to the Company. Retroactive rate adjustments are made periodically based on the aggregate health status and risk scores of the Company's MA membership. These risk adjustments are evaluated quarterly based on actuarial estimates. Actual results could differ from these estimates. As additional information becomes available, the recorded estimate is revised and reflected in operating results.

Prescription drug coverage is offered to Medicare eligible beneficiaries as part of MA plans (MA-PD) and on a stand-alone basis (stand-alone PDP). Premiums are based on a bid contract with CMS that considers the estimated costs of providing prescription drug benefits to enrolled participants. MA-PD and stand-alone PDP premiums are subject to adjustment, positive or negative, based upon the application of risk corridors that compare the estimated prescription drug costs included in the bids to CMS to actual prescription drug costs. Variances exceeding certain thresholds may result in CMS making additional payments or in CMS requesting a refund for a portion of the premiums collected. The Company estimates and records adjustments to earned premiums related to estimated risk corridor payments based upon actual prescription drug costs for each reporting period as if the annual contract were to end at the end of each reporting period.

Administrative service fees include revenue from certain groups which has managed care contracts that provide for the group to be at risk for all or a portion of their claims experience. For these groups, the Company is not at risk and only handles the administration of the insurance coverage for an administrative service fee. The Company pays claims under commercial self-funded arrangements from its own funds, and subsequently receives

reimbursement from these groups. The claims related to the administration of the Medicaid (miSalud) business are paid from a bank account owned and funded by the government of Puerto Rico. Claims paid under self-funded arrangements are excluded from the claims incurred in the accompanying consolidated financial statements. Administrative service fees under the self-funded arrangements are recognized based on the group's membership or incurred claims for the period multiplied by an administrative fee rate plus other fees. In addition, some of these self-funded groups purchase aggregate and/or specific stop-loss coverage. In exchange for a premium, the group's aggregate liability or the group's liability on any one episode of care is capped for the year. Premiums for the stop-loss coverage are actuarially determined based on experience and other factors and are recorded as earned over the period of the contract in proportion to the coverage provided. This fully insured portion of premiums is included within the premiums earned, net in the accompanying consolidated statements of earnings. The Medicaid contract with the Government of Puerto Rico that expired in 2010 contained a savings-sharing provision whereby the Government of Puerto Rico shared with TSS a portion of the medical cost savings obtained with the administration of the region served on an administrative service basis. Any savings-sharing amount is recorded when earned as administrative service fees in the accompanying consolidated statements of earnings. The Medicaid contract that became effective in 2011 does not contain savings-sharing provisions.

b. Life and Accident and Health Insurance

Premiums on life insurance policies are billed in advance of their respective coverage period and the related revenue is recorded as earned when due. Premiums on accident and health and other short-term policies are recognized as earned primarily on a pro rata basis over the contract period. Premiums on credit life policies are recognized as earned in proportion to the amounts of insurance in-force. Revenues from universal life and interest sensitive policies represent amounts assessed against policyholders, including mortality charges, surrender charges actually paid, and earned policy service fees. The revenues for limited payment contracts are recognized over the period that benefits are provided rather than on collection of premiums.

c. Property and Casualty Insurance

Premiums on property and casualty contracts are billed in advance of their respective coverage period and they are recognized as earned on a pro rata basis over the policy term. The portion of premiums related to the period prior to the end of coverage is recorded in the consolidated balance sheets as unearned premiums and is transferred to premium revenue as earned.

Allowance for Doubtful Receivables
The allowance for doubtful receivables is based on management's evaluation of the aging of accounts and such other factors, which deserve current recognition. Actual results could differ from these estimates. Receivables are charged against their respective allowance accounts when deemed to be uncollectible.

Deferred Policy Acquisition Costs and Value of Business Acquired
Certain direct costs for acquiring life and accident and health, and property and casualty insurance business are deferred by the Company. Substantially all acquisition costs related to the managed care business are expensed as incurred.

In the life and accident and health business deferred acquisition costs consist of commissions and certain expenses related to the production of life, annuity, accident and health, and credit business. In the event that future premiums, in combination with policyholder reserves and anticipated investment income, could not provide for all future maintenance and settlement expenses, the amount of deferred policy acquisition costs would be reduced to provide for such amount. The related amortization is provided over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to expected total premium revenue to be received over the life of the policies. Interest is considered in the amortization of deferred policy acquisition cost and value of business acquired. For these contracts interest is considered at a level rate at the time of issue of each contract, from 5.4% to 5.65% for 2011 and 5.4% for 2010 and 2009, and, in the case of the value of business acquired, at the time of any acquisition. For certain other long-duration contracts, deferred amounts are amortized at historical and forecasted credited interest rates. Expected premium revenue is estimated by using the same mortality and withdrawal assumptions used in computing liabilities for future policy benefits. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated net realizable value. In determining estimated net realizable value, the computations give effect to the premiums to be earned, related investment income, losses and loss-adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Costs deferred on universal life and interest sensitive products are amortized as a level percentage of the present value of anticipated gross profits from investment yields, mortality, expenses and surrender charges. Estimates used are based on the Company's experience as adjusted to provide for possible adverse deviations. These estimates are periodically reviewed and compared with actual experience. When it is determined that future expected experience differs significantly from that assumed, the estimates are revised for current and future issues.

The value assigned to the life insurance in-force at the date of the acquisition is amortized using methods similar to those used to amortize the deferred policy acquisition costs of the life and accident and health business.

In the property and casualty business, acquisition costs consist of commissions incurred during the production of business and are deferred and amortized ratably over the terms of the policies.

Property and Equipment

Property and equipment are stated at cost. Maintenance and repairs are expensed as incurred. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets. Costs of computer equipment, programs, systems, installations, and enhancements are capitalized and amortized straight-line over their estimated useful lives. The following is a summary of the estimated useful lives of the Company's property and equipment:

Asset Category	Estimated Useful Life
Buildings	20 to 50 years
Building improvements	3 to 5 years
Leasehold improvements	Shorter of estimated useful life or lease term
Office furniture	5 years
Computer software	3 to 10 years
Computer equipment, equipment, and automobiles	3 years

Software Development Costs
Costs related to software developed or obtained for internal use that is incurred in the preliminary project stage are expensed as incurred. Once capitalization criteria are met, directly attributable development costs are capitalized and amortized over the expected useful life of the software. Upgrade and maintenance costs are expensed as incurred. During the year ended December 31, 2011 and 2010 the Company capitalized approximately $7,633 and $11,647 associated with the implementation of new software.

Long-Lived Assets
Long-lived assets, such as property and equipment, and purchased intangible assets subject to amortization, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of would be separately presented in the balance sheets and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated balance sheets.

Goodwill and intangible assets that have indefinite useful lives are tested annually for impairment, and are tested for impairment more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value. For goodwill, the impairment determination is made at the reporting unit level and consists of two steps. First, the Company determines the fair value of a reporting unit and compares it to its carrying amount. Second, if the carrying amount of a reporting unit exceeds its fair value, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation. The residual fair value after this allocation is the implied fair value of the reporting unit goodwill.

Claim Liabilities
Claim liabilities for managed care policies represent the estimated amounts to be paid to providers based on experience and accumulated statistical data. Loss-adjustment expenses related to such claims are currently accrued based on estimated future expenses necessary to process such claims.

The Company contracts with various independent practice associations (IPAs) for certain medical care services provided to some policies subscribers. The IPAs are compensated on a capitation basis. In the Medicaid business and certain MA policies, a portion of the capitation payments is retained to provide for incurred but not reported losses. At December 31, 2011 and 2010, total withholdings and capitation payable amounted to $21,595 and $22,428, respectively, which are recorded as part of the claim liabilities in the accompanying consolidated balance sheets.

Claim liabilities include unpaid claims and loss-adjustment expenses of the life and accident and health business based on a case-basis estimate for reported claims, and on estimates, based on experience, for unreported claims and loss-adjustment expenses. The liability for policy and

contract claims and claims expenses has been established to cover the estimated net cost of insured claims.

Also included within the claim liabilities is the liability for losses and loss-adjustment expenses for the property and casualty business which represents individual case estimates for reported claims and estimates for unreported losses, net of any salvage and subrogation based on past experience modified for current trends and estimates of expenses for investigating and settling claims.

Claim liabilities are necessarily based on estimates and, while management believes that the amounts are adequate, the ultimate liability may be in excess of or less than the amounts provided. The methods for making such estimates and for establishing the resulting liability are continually reviewed, and any adjustments are reflected in the consolidated statements of earnings in the period determined.

Future Policy Benefits
The liability for future policy benefits has been computed using the level-premium method based on estimated future investment yield, mortality, morbidity and withdrawal experience. The interest rate assumption ranges between 5.0% and 5.75% for all years in issue. Mortality has been calculated principally on select and ultimate tables in common usage in the industry. Withdrawals have been determined principally based on industry tables, modified by Company's experience.

Policyholder Deposits
Amounts received for annuity contracts are considered deposits and recorded as a liability along with the accrued interest and reduced for charges and withdrawals. Interest incurred on such deposits, which amounted to $2,003, $1,688, and $1,665, during the years ended December 31, 2011, 2010, and 2009, respectively, is recorded as interest expense in the accompanying consolidated statements of earnings.

Reinsurance
In the normal course of business, the insurance-related subsidiaries seek to limit their exposure that may arise from catastrophes or other events that cause unfavorable underwriting results by reinsuring certain levels of risk in various areas of exposure with other insurance enterprises or reinsurers.

Reinsurance premiums, commissions, and expense reimbursements, related to reinsured business are accounted for on bases consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Accordingly, reinsurance premiums are reported as prepaid reinsurance premiums and amortized over the remaining contract period in proportion to the amount of insurance protection provided.

Premiums ceded and recoveries of losses and loss-adjustment expenses have been reported as a reduction of premiums earned and losses and loss-adjustment expenses incurred, respectively. Property and casualty commission and expense allowances received in connection with reinsurance ceded have been accounted for as a reduction of the related policy acquisition costs and are deferred and amortized accordingly. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy.

Derivative Instruments and Hedging Activities
The Company recognizes all derivative instruments, including certain derivative instruments embedded in other contracts, whether or not designated in hedging relationships, as either assets

or liabilities in the balance sheet at their respective fair values. Changes in the fair value of derivative instruments are recorded in earnings, unless specific hedge accounting criteria are met in which case the change in fair value of the instrument is recorded within other comprehensive income for cash flow hedges.

On the date the derivative contract designated as a hedging instrument is entered into, the Company designates the instrument as either a hedge of the fair value of a recognized asset or liability or of an unrecognized firm commitment (fair-value hedge), a hedge of a forecasted transaction or the variability of cash flows to be received or paid related to a recognized asset or liability (cash-flow hedge), a foreign currency fair-value or cash-flow hedge (foreign-currency hedge), or a hedge of a net investment in a foreign operation. For all hedging relationships the Company formally documents the hedging relationship and its risk-management objective and strategy for undertaking the hedge, the hedging instrument, the hedged item, the nature of the risk being hedged, how the hedging instrument's effectiveness in offsetting the hedged risk will be assessed, and a description of the method of measuring ineffectiveness. This process includes linking all derivatives that are designated as fair-value, cash-flow, or foreign-currency hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a fair-value hedge, along with the loss or gain on the hedged asset or liability or unrecognized firm commitment of the hedged item that is attributable to the hedged risk, are recorded in earnings. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash-flow hedge are recorded in other comprehensive income to the extent that the derivative is effective as hedge, until earnings are affected by the variability in cash flows of the designated hedged item. Changes in the fair value of derivatives that are highly effective as hedges and that are designated and qualify as foreign-currency hedges are recorded in either earnings or other comprehensive income, depending on whether the hedge transaction is a fair-value hedge or a cash-flow hedge. However, if a derivative is used as a hedge of a net investment in a foreign operation, its changes in fair value, to the extent effective as a hedge, are recorded in the cumulative translation adjustments account within other comprehensive income. The ineffective portion of the change in fair value of a derivative instrument that qualifies as either a fair-value hedge or a cash-flow hedge is reported in earnings. Changes in the fair value of derivative trading instruments are reported in current period earnings.

The Company discontinues hedge accounting prospectively when it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of the hedged item, the derivative expires or is sold, terminated, or exercised, the derivative is de-designated as a hedging instrument, because it is unlikely that a forecasted transaction will occur, a hedged firm commitment no longer meets the definition of a firm commitment, or management determines that designation of the derivative as a hedging instrument is no longer appropriate.

In all situations in which hedge accounting is discontinued and the derivative is retained, the Company continues to carry the derivative at its fair value on the balance sheet and recognizes any subsequent changes in its fair value in earnings. When hedge accounting is discontinued because it is determined that the derivative no longer qualifies as an effective fair-value hedge, the Company no longer adjusts the hedged asset or liability for changes in fair value. The adjustment of the carrying amount of the hedged asset or liability is accounted for in the same manner as other components of the carrying amount of that asset or liability. When hedge accounting is

discontinued because the hedged item no longer meets the definition of a firm commitment, the Company removes any asset or liability that was recorded pursuant to recognition of the firm commitment from the balance sheet, and recognizes any gain or loss in earnings. When it is probable that a forecasted transaction will not occur, the Company discontinues hedge accounting if not already done and recognizes immediately in earnings gains and losses that were accumulated in other comprehensive income.

Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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. The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized income tax positions are measured at the largest amount that is greater than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

The Company records any interest and penalties related to unrecognized tax benefits within the operating expenses in the consolidated statement of earnings.

The holding company within the AH group of companies is a U.S.-based company that does not record a U.S. deferred tax liability for the excess of the book basis over the tax basis of its investments in Puerto Rico corporations to the extent that the basis difference results from outside basis difference created as a result of the business combination and earnings that meet the indefinite reversal criteria. The indefinite reversal criteria is met if the Puerto Rico subsidiary has invested, or will invest, the undistributed earnings indefinitely. The decision as to the amount of undistributed earnings intended to be maintained in Puerto Rico corporations takes into account items including, but is not limited to, forecasts and budgets of financial needs of cash for working capital, liquidity plans, capital improvement programs, merger and acquisition plans as well as expected cash requirements in the U.S. or in other Puerto Rico subsidiaries from the U.S.-based company.

Insurance-Related Assessments

The Company records a liability for insurance-related assessments when the following three conditions are met: (1) the assessment has been imposed or the information available prior to the issuance of the financial statements indicates it is probable that an assessment will be imposed; (2) the event obligating an entity to pay (underlying cause of) an imposed or probable assessment has occurred on or before the date of the financial statements; and (3) the amount of the assessment can be reasonably estimated. A related asset is recognized when the paid or accrued assessment is recoverable through either premium taxes or policy surcharges.

Commitments and Contingencies

Liabilities for loss contingencies arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment and/or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred. Recoveries of costs from third

parties, which are probable of realization, are separately recorded as assets, and are not offset against the related liability.

Share-Based Compensation
Share-based compensation is measured at the fair value of the award and recognized as an expense in the financial statements over the vesting period. The Company recognizes compensation expense for its stock options based on estimated grant date fair value using the Black-Scholes option-pricing model.

Earnings Per Share
Basic earnings per share excludes dilution and is computed by dividing net income available to all classes of common stockholders by the weighted average number of all classes of common shares outstanding for the period, excluding non-vested restricted stocks. Diluted earnings per share is computed in the same manner as basic earnings per share except that the number of shares is increased to include the number of additional common shares that would have been outstanding if the potentially dilutive common shares had been issued. Dilutive common shares are included in the diluted earnings per share calculation using the treasury stock method.

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

a. Cash and Cash Equivalents

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

b. Investment in Securities

Fair values of available-for-sale fixed maturity securities are based on quoted market prices, where available. These fair values are obtained primarily from third party pricing services, which generally use Level I or Level II inputs for the determination of fair value to facilitate fair value measurements and disclosures. U.S. Treasury securities and obligations of U.S. government instrumentalities represent Level I securities, while Level II securities primarily include Obligations of government-sponsored enterprises, Obligations of the Commonwealth of Puerto Rico and its instrumentalities, Municipal securities, Corporate bonds, Residential agency mortgage-backed securities and Collateralized mortgage obligations. For securities not actively traded, the third party pricing services may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities.

Fair values of equity securities are generally designated as Level I and are based on quoted market prices. For certain equity securities, primarily mutual funds, quoted market prices for the identical security are not always available and the fair value is determined by the fund manager at the end of each trading day. These securities are designated Level II. We also have certain equity securities, including private equity investments, for which the fair value is estimated based on each security's current condition and future cash flow projections. Such securities are designated Level III.

(dollar amounts in thousands, except per share data)

Additional information pertinent to the estimated fair value of investment in securities is included in note 3 and note 9.

c. 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.

d. 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 December 31.

e. 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.

f. Short-term Borrowings

The carrying amount of securities sold under agreements to repurchase approximates fair value due to its short-term nature.

g. Long-term Borrowings

The carrying amounts and fair value of the Company's long-term borrowings are as follows:

	2011		2010	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Loans payable to bank	19,387	19,387	21,027	21,027
6.3% senior unsecured notes payable	-	-	50,000	49,625
6.6% senior unsecured notes payable	35,000	34,475	35,000	34,388
6.7% senior unsecured notes payable	35,000	34,650	35,000	35,000
1.96% repurchase agreement	25,000	25,739	25,000	24,575
	$ 114,387	$ 114,251	$ 166,027	$ 164,615

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 and the repurchase agreement was determined using market quotations. Additional information pertinent to borrowings is included in Note 13.

h. 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. Additional information pertinent to the estimated fair value of derivative instruments is included in note 14.

Recently Issued Accounting Standards

In September 2011, the FASB issued guidance to simplify how entities, both public and nonpublic, test goodwill for impairment. The amendments in the guidance permit an entity to first assess qualitative factors to determine whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount as a basis for determining whether it is necessary to perform the two-step goodwill impairment test described in Topic 350. This guidance is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In July 2011, the FASB issued guidance to address questions about how health insurers should recognize and classify in their income statements fees mandated by the Patient Protection and Affordable Care Act as amended by the Health Care and Education Reconciliation Act. A health insurer's portion of the annual fee becomes payable to the U.S. Treasury once the entity provides health insurance for any U.S. health risk for each applicable calendar year. The amendments specify that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. This guidance is effective for calendar years beginning after December 31, 2013, when the fee initially becomes effective. We are currently evaluating the impact, if any, the adoption of this guidance will have on the financial position or results of operations.

In June 2011, the FASB issued guidance to improve the comparability, consistency, and transparency of financial reporting and to increase the prominence of items reported in other comprehensive income. The FASB decided to eliminate the option to present components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments require that all non-owner changes in stockholders' equity be presented either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In the two-statement approach, the first statement should present total net income and its components followed consecutively by a second statement that should present total other comprehensive income, the components of other comprehensive income, and the total of comprehensive income. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The FASB issued updated guidance temporarily eliminating the presentation requirements for reclassification adjustments, while the Board considers certain operational concerns about these requirements after several concerns were raised about undue complexity within the income statement, potentially compromising clarity of financial statements. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

In May 2011, the FASB issued guidance that changes the wording used to describe many of the requirements in GAAP for measuring fair value and for disclosing information about fair value measurements that result in common fair value measurement and disclosure requirements in GAAP and International Financial Reporting Standards ("IFRS"). For many of the requirements, FASB does not intend the amendments in this guidance to result in a change in the application of the requirements in Topic 820. Some of the amendments clarify the FASB's intent about the application of existing fair value measurement requirements. Other amendments change a

particular principle or requirement for measuring fair value or for disclosing information about fair value measurements. 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 an impact on our financial position or results of operations.

In April 2011, the FASB issued guidance to improve the accounting for repurchase agreements (repos) and other agreements that both entitle and obligate a transferor to repurchase or redeem financial assets before their maturity. The Board determined that the criterion pertaining to an exchange of collateral should not be a determining factor in assessing effective control. The Board concluded that the assessment of effective control should focus on a transferor's contractual rights and obligations with respect to transferred financial assets, not on whether the transferor has the practical ability to perform in accordance with those rights or obligations. The Board also concluded that the remaining criteria are sufficient to determine effective control. Consequently, the amendments remove the transferor's ability criterion from the consideration of effective control for repos and other agreements that both entitle and obligate the transferor to repurchase or redeem financial assets before their maturity. This guidance is effective for fiscal years and interim periods within those fiscal years, beginning on or after December 15, 2011. The guidance should be applied prospectively to transactions or modifications of existing transactions that occur on or after the effective date. We do not expect the adoption of this guidance to have an impact on our financial position or results of operations.

Other than the accounting pronouncement disclosed above, there were no other new accounting pronouncements issued that could have a material impact on Company's our financial position, operating results or financials statement disclosures.

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 d. 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 are currently in the process of completing our evaluation of the adoption impact of this standard. However, based on a preliminary evaluation of the effect of the adoption of this guidance we do not expect to have a significant impact on our financial position or results of operations as a result of the adoption.

(dollar amounts in thousands, except per share data)

3. Investment in Securities

The amortized cost for debt and 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 December 31, 2011 and 2010 were as follows:

There were no trading securities as of December 31, 2011.

	2010			
	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Trading securities				
Equity securities	$ 43,832	$ 10,738	$ (3,471)	$ 51,099

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government-sponsored enterprises	$ 75,429	$ 5,392	$ -	$ 80,821
U.S. Treasury securities and obligations of U.S. government instrumentalities	39,544	2,311	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	83,685	2,584	(10)	86,259
Municipal securities	394,201	40,094	(116)	434,179
Corporate bonds	109,024	20,268	(148)	129,144
Residential mortgage-backed securities	8,367	748	-	9,115
Collateralized mortgage obligations	203,305	4,586	(370)	207,521
Total fixed maturities	913,555	75,983	(644)	988,894
Equity securities				
Common stocks	66	3,257	-	3,323
Perpetual preferred stocks	1,000	-	(101)	899
Mutual funds	137,101	5,453	(2,368)	140,186
Total equity securities	138,167	8,710	(2,469)	144,408
Total	$ 1,051,722	$ 84,693	$ (3,113)	$ 1,133,302

(dollar amounts in thousands, except per share data)

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities available for sale				
Fixed maturities				
Obligations of government-sponsored enterprises	$ 124,735	$ 6,650	$ -	$ 131,385
U.S. Treasury securities and obligations of U.S. government instrumentalities	47,427	5,451	-	52,878
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	117,519	3,115	(10)	120,624
Municipal securities	272,383	3,979	(2,798)	273,564
Corporate bonds	102,184	7,698	(250)	109,632
Residential mortgage-backed securities	12,560	801	(1)	13,360
Collateralized mortgage obligations	271,149	6,158	(1,164)	276,143
Total fixed maturities	947,957	33,852	(4,223)	977,586
Equity securities				
Common stocks	901	3,430	-	4,331
Preferred stocks	4,298	68	(737)	3,629
Perpetual preferred stocks	1,000	-	(94)	906
Mutual funds	36,551	6,400	(310)	42,641
Total equity securities	42,750	9,898	(1,141)	51,507
Total	$ 990,707	$ 43,750	$ (5,364)	$ 1,029,093

	2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity				
Obligations of government-sponsored enterprises	$ 1,793	$ 173	$ -	$ 1,966
U.S. Treasury securities and obligations of U.S. government instrumentalties	624	223	-	847
Corporate bonds	9,839	130	-	9,969
Residential mortgage-backed securities	479	42	-	521
Certificates of deposits	949	-	-	949
	$ 13,684	$ 568	$ -	$ 14,252

(dollar amounts in thousands, except per share data)

	2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Securities held to maturity				
Obligations of government-sponsored enterprises	$ 1,793	$ 151	$ -	$ 1,944
U.S. Treasury securities and obligations of U.S. government instrumentalties	1,478	203	-	1,681
Corporate bonds	9,443	414	-	9,857
Residential mortgage-backed securities	660	41	-	701
Certificates of deposits	1,241	-	-	1,241
	$ 14,615	$ 809	$ -	$ 15,424

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 December 31, 2011 and 2010 were as follows:

(dollar amounts in thousands, except per share data)

	2011								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale									
Fixed maturities									
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities	$ 6,073	$ (10)	3	$ -	$ -	-	$ 6,073	$ (10)	3
Municipal securities	16,726	(116)	5	-	-	-	16,726	(116)	5
Corporate bonds	3,790	(85)	3	800	(63)	1	4,590	(148)	4
Collateralized mortgage obligations	29,813	(274)	7	1,611	(96)	1	31,424	(370)	8
Total fixed maturities	56,402	(485)	18	2,411	(159)	2	58,813	(644)	20
Equity securities									
Perpetual preferred stocks	-	-	-	899	(101)	1	899	(101)	1
Mutual funds	37,943	(2,270)	18	1,917	(98)	1	39,860	(2,368)	19
Total equity securities	37,943	(2,270)	18	2,816	(199)	2	40,759	(2,469)	20
Total for securities available for sale	$ 94,345	$ (2,755)	36	$ 5,227	$ (358)	4	$ 99,572	$ (3,113)	40

	2010								
	Less than 12 months			12 months or longer			Total		
	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities	Estimated Fair Value	Gross Unrealized Loss	Number of Securities
Securites available for sale									
Fixed maturities									
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities	$ 2,483	$ (10)	5	$ -	$ -	-	$ 2,483	$ (10)	5
Municipal securities	105,280	(2,652)	53	692	(146)	1	105,972	(2,798)	54
Corporate bonds	5,828	(250)	3	-	-	-	5,828	(250)	3
Residential mortgage-backed securities	-	-	-	36	(1)	1	36	(1)	1
Collateralized mortgage obligations	77,417	(1,144)	12	1,953	(20)	1	79,370	(1,164)	13
Total fixed maturities	191,008	(4,056)	73	2,681	(167)	3	193,689	(4,223)	76
Equity securities									
Preferred stocks	-	-	-	3,263	(737)	1	3,263	(737)	1
Perpetual preferred stocks	-	-	-	906	(94)	1	906	(94)	1
Mutual funds	2,337	(310)	2	-	-	-	2,337	(310)	2
Total equity securities	2,337	(310)	2	4,169	(831)	2	6,506	(1,141)	4
Total for securities available for sale	$193,345	$ (4,366)	75	$ 6,850	$ (998)	5	$ 200,195	$ (5,364)	80

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

The Company'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 investments losses that represent 20% or more of their cost and all investments with an unrealized loss greater than $50.

- 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 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 Company continues to review the investment portfolios under the Company'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 the Commonwealth of Puerto Rico and its Instrumentalities and Municipal Securities: The unrealized losses on the Company's investments in obligations of states of the United States 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 rate 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 Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

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

Collateralized Mortgage Obligations: The unrealized losses on investments in collateralized mortgage obligations (CMO's) were caused by fluctuations in interest rates. The contractual cash flows of these securities, other than private CMOs, are guaranteed by a U.S. government-sponsored enterprise. The Company also has investments in private CMOs with amortized cost amounting to $12,234 and $5,785 in 2011 and 2010, respectively (fair value of $12,768 and $6,106, respectively). Any loss in these securities is determined according to the seniority level of each tranche, with the least senior (or most junior), typically the unrated residual tranche, taking any initial loss. The investment grade credit rating of our securities reflects the seniority of the securities that the Company owns. Because the decline in fair value is attributable to changes in interest rates and not credit quality; the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity; and because the Company expects to collect all contractual cash flows, these investments are not considered other-than-temporarily impaired.

Perpetual Preferred Stocks: Because this security has not experienced a significant fluctuation during the past year, the issuers' capital ratios are above regulatory levels, the Company does not have the intent to sell the investment, and the Company has the intent and ability to hold the investments until a market price recovery, this investment is not considered other-than-temporarily impaired.

Mutual Funds: The security that has been in an unrealized loss position more than twelve months has experienced an improvement in fair value during 2011. All other funds have been in an unrealized loss position for less than twelve months. These positions are not considered other-than-temporarily impaired because the Company does not have the intent to sell these investments, and the Company has the ability to hold the investments until a market price recovery.

Maturities of investment securities classified as available for sale and held to maturity were as follows at December 31, 2011:

(dollar amounts in thousands, except per share data)

	Amortized Cost	Estimated Fair Value
Securities available for sale		
Due in one year or less	$ 11,855	$ 12,024
Due after one year through five years	162,664	170,563
Due after five years through ten years	122,367	136,795
Due after ten years	404,997	452,876
Residential mortgage-backed securities	8,367	9,115
Collateralized mortgage obligations	203,305	207,521
	$ 913,555	$ 988,894
Securities held to maturity		
Due in one year or less	$ 10,788	$ 10,918
Due after ten years	2,417	2,813
Residential mortgage-backed securities	479	521
	$ 13,684	$ 14,252

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.

Investments with an amortized cost of $3,977 and $4,493 (fair value of $4,057 and $4,702) at December 31, 2011 and 2010, respectively, were deposited with the Commissioner of Insurance to comply with the deposit requirements of the Insurance Code of the Commonwealth of Puerto Rico (the Insurance Code). An instrument with an amortized cost of $565 as of December 31, 2010 (estimated fair value of $575 at December 31, 2010) that matured during the fiscal year 2011 was held by the Commissioner of Insurance and in process of reinvestment as of December 31, 2011. Investment with an amortized cost of $500 (fair value of $500) at December 31, 2011 and 2010, was deposited with the Commissioner of Insurance of the Government of the U.S. Virgin Islands.

(dollar amounts in thousands, except per share data)

Information regarding realized and unrealized gains and losses from investments for the years ended December 31, 2011, 2010, and 2009 is as follows:

	2011	2010	2009
Realized gains (losses)			
Fixed maturity securities			
Securities available for sale			
Gross gains from sales	$ 11,190	$ 1,947	$ 5,323
Gross losses from sales	(258)	(505)	(4)
Gross losses from other-than-temporary impairments	-	(95)	(1,711)
Total fixed maturity securities	10,932	1,347	3,608
Equity securities			
Trading securities:			
Gross gains from sales	11,757	1,083	717
Gross losses from sales	(5,286)	(961)	(1,381)
	6,471	122	(664)
Securities available for sale			
Gross gains from sales	3,730	5,051	3,468
Gross losses from sales	(2,279)	(1,086)	(391)
Gross losses from other-than-temporary impairments	(257)	(2,902)	(5,407)
	1,194	1,063	(2,330)
Total equity securities	7,665	1,185	(2,994)
Net realized gains (losses) on securities	$ 18,597	$ 2,532	$ 614

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

	2011	2010	2009
Changes in unrealized gains (losses)			
Recognized in income			
Equity securities – trading	$ (7,267)	$ 5,433	$ 10,497
Recognized in accumulated other comprehensive income (loss)			
Fixed maturities – available for sale	45,710	22,014	(406)
Equity securities – available for sale	(2,516)	5,599	4,583
	$ 43,194	$ 27,613	$ 4,177
Not recognized in the consolidated financial statements			
Fixed maturities – held to maturity	$ (241)	$ 113	$ (614)

(dollar amounts in thousands, except per share data)

The deferred tax liability on unrealized gains recognized in accumulated other comprehensive income during the years 2011, 2010, and 2009 aggregated $(7,800), $(4,243), and $(638), respectively.

As of December 31, 2011 and 2010 no individual investment in securities exceeded 10% of stockholders' equity.

4. Net Investment Income

Components of net investment income were as follows:

	Years ended December 31		
	2011	2010	2009
Fixed maturities	$ 43,388	$ 44,371	$ 46,285
Equity securities	3,238	3,452	4,077
Policy loans	450	441	411
Cash equivalents and interest-bearing deposits	399	197	577
Other	751	684	786
Total	$ 48,226	$ 49,145	$ 52,136

5. Premium and Other Receivables, Net

Premium and other receivables, net as of December 31 were as follows:

	2011	2010
Premium	$ 105,177	$ 144,501
Self-funded group receivables	64,053	73,750
FEHBP	11,062	11,001
Agent balances	37,421	37,262
Accrued interest	10,788	9,781
Reinsurance recoverable	48,828	47,342
Other	33,721	22,177
	311,050	345,814
Less allowance for doubtful receivables:		
Premium	14,299	13,106
Others	9,567	6,928
	23,866	20,034
Premium and other receivables, net	$ 287,184	$ 325,780

(dollar amounts in thousands, except per share data)

6. Deferred Policy Acquisition Costs and Value of Business Acquired

The movement of deferred policy acquisition costs (DPAC) and value of business acquired (VOBA) for the years ended December 31, 2011, 2010, and 2009 is summarized as follows:

	DPAC	VOBA	Total
Balance, December 31, 2008	$ 69,243	$ 57,104	$ 126,347
Additions	55,632	-	55,632
VOBA interest at an average rate of 5.29%	-	3,066	3,066
Amortization	(35,923)	(9,205)	(45,128)
Net change	19,709	(6,139)	13,570
Balance, December 31, 2009	88,952	50,965	139,917
Additions	54,247	-	54,247
VOBA interest at an average rate of 5.24%	-	2,752	2,752
Amortization	(42,324)	(8,506)	(50,830)
Net change	11,923	(5,754)	6,169
Balance, December 31, 2010	100,875	45,211	146,086
Additions	53,843	-	53,843
VOBA interest at an average rate of 5.4%	-	2,441	2,441
Amortization	(39,378)	(7,204)	(46,582)
Net change	14,465	(4,763)	9,702
Balance, December 31, 2011	$ 115,340	$ 40,448	$ 155,788

The amortization expense of the deferred policy acquisition costs and value of business acquired is included within the operating expenses in the accompanying consolidated statement of earnings.

The estimated amount of the year-end VOBA balance expected to be amortized during the next five years is as follows:

Year ending December 31:	
2012	$ 7,086
2013	5,861
2014	5,197
2015	4,587
2016	4,039

(dollar amounts in thousands, except per share data)

7. Property and Equipment, Net

Property and equipment, net as of December 31 are composed of the following:

	2011	2010
Land	$ 7,309	$ 7,309
Buildings and leasehold improvements	48,715	45,472
Office furniture and equipment	16,115	14,401
Computer equipment and software	101,277	89,266
Automobiles	731	525
	174,147	156,973
Less accumulated depreciation and amortization	92,275	80,228
Property and equipment, net	$ 81,872	$ 76,745

8. Intangible Asset

Intangible assets, included within other assets, at December 31, 2011 and 2010 consist of:

	2011	2010
Trade name	$ 5,491	$ -
Membership base	41,188	11,562
Provider networks	1,681	-
Other	484	-
	48,844	11,562
Accumulated amortization	15,513	6,262
Intangible assets, net	$ 33,331	$ 5,300

Trade name and provider networks are amortized over the expected life of 3 and 5 years, respectively. Membership base is amortized over the expected life between 1 and 13 years, or using determined percentages, ranging from 25% to 30%.

The intangible asset related to the AH acquisition amounted to $33,660. See note 28.

Amortization expense recorded for the years ended December 31, 2011, 2010, and 2009 amounted to $9,251, $4,040, and $1,737, respectively.

(dollar amounts in thousands, except per share data)

Estimated amortization expense for the following five years is as follows:

Year ending December 31:		
2012	$	9,843
2013		7,607
2014		6,260
2015		2,854
2016		1,735

9. 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 are as follows:

Level 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 Company uses observable inputs when available. Fair value is based upon quoted market prices when available. If market prices are not available, the Company employs internally-developed models that primarily use market-based inputs including yield curves, interest rates, volatilities, and credit curves, among others. The Company limits valuation adjustments to those deemed necessary to ensure that the security or derivative's fair value adequately represents the price that would be received or paid in the marketplace. Valuation adjustments may include consideration of counterparty credit quality and liquidity as well as other criteria. The estimated fair value amounts are subjective in nature and may involve uncertainties and matters of significant judgment for certain financial instruments. Changes in the underlying assumptions used in estimating fair value could affect the results. The fair value measurement levels are not indicative of risk of investment. The following table summarizes fair value measurements by level at December 31, 2011 and 2010 for assets measured at fair value on a recurring basis:

(dollar amounts in thousands, except per share data)

	2011			
	Level 1	Level 2	Level 3	Total
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	$ -	$ 80,821	$ -	$ 80,821
U.S. Treasury securities and obligations of U.S. government instrumentalities	41,855	-	-	41,855
Obligations of the Commonwealth of Puerto Rico and its instrumentalities	-	86,259	-	86,259
Municipal securities	-	434,179	-	434,179
Corporate Bonds	-	129,144	-	129,144
Residential agency mortgage-backed securities	-	9,115	-	9,115
Collaterized mortgage obligations	-	207,521	-	207,521
Total fixed maturities	41,855	947,039	-	988,894
Equity securities				
Common stocks	3,323	-	-	3,323
Perpetual preferred stocks	899	-	-	899
Mutual funds	120,651	12,441	7,094	140,186
Total equity securities	124,873	12,441	7,094	144,408
Derivatives (reported within other assets in the consolidated balance sheets)	-	7	-	7
	$ 166,728	$ 959,487	$ 7,094	$ 1,133,309

(dollar amounts in thousands, except per share data)

	2010			
	Level 1	Level 2	Level 3	Total
Equity securities held for trading	$ 51,099	$ -	$ -	$ 51,099
Securities available for sale				
Fixed maturity securities				
Obligations of government-sponsored enterprises	-	131,385	-	131,385
U.S. Treasury securities and obligations of U.S. government instrumentalities	52,878	-	-	52,878
Obligations of the Commonw ealth of Puerto Rico and its instrumentalities	-	120,624	-	120,624
Municipal securities	-	273,564	-	273,564
Corporate Bonds	-	109,632	-	109,632
Residential agency mortgage-backed securities	-	13,360	-	13,360
Collaterized mortgage obligations	-	276,143	-	276,143
Total fixed maturities	52,878	924,708	-	977,586
Equity securities				
Common stocks	4,331	-	-	4,331
Preferred stocks	3,629	-	-	3,629
Perpetual preferred stocks	906	-	-	906
Mutual funds	27,858	13,739	1,044	42,641
Total equity securities	36,724	13,739	1,044	51,507
Derivatives (reported w ithin other assets in the consolidated balance sheets)	-	748	-	748
	$ 140,701	$ 939,195	$ 1,044	$ 1,080,940

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2011 and 2010 is as follows:

	Level 3
Begining balance December 31, 2009	$ 775
Unrealized in other accumulated comprehensive income	(299)
Purchases and sales	568
Ending balance December 31, 2010	$ 1,044
Unrealized in other accumulated comprehensive income	13
Purchases	6,037
Ending balance December 31, 2011	$ 7,094

(dollar amounts in thousands, except per share data)

10. Claim Liabilities

The activity in claim liabilities during 2011, 2010, and 2009 is as follows:

	2011	2010	2009
Claim liabilities at beginning of year	$ 360,210	$ 360,446	$ 323,710
Reinsurance recoverable on claim liabilities	(31,449)	(30,712)	(30,432)
Net claim liabilities at beginning of year	328,761	329,734	293,278
Claim liabilities acquired from American Health	43,047	-	-
Claims incurred			
Current period insured events	1,703,194	1,594,977	1,594,814
Prior period insured events	(2,507)	(10,067)	(1,887)
Total	1,700,687	1,584,910	1,592,927
Payments of losses and loss-adjustment expenses			
Current period insured events	1,360,806	1,316,321	1,309,304
Prior period insured events	357,664	269,562	247,167
Total	1,718,470	1,585,883	1,556,471
Net claim liabilities at end of year	354,025	328,761	329,734
Reinsurance recoverable on claim liabilities	37,234	31,449	30,712
Claim liabilities at end of year	$ 391,259	$ 360,210	$ 360,446

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

The credits in the claims incurred and loss-adjustment expenses for prior period insured events for 2011, 2010 and 2009 are 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 portion of the change in the liability for future policy benefits amounting to $15,567, $11,879, and $12,945 that is included within the consolidated claims incurred during the years ended December 31, 2011, 2010 and 2009, respectively.

11. Federal Employees' Health Benefits Program (FEHBP)

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

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

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

The contract with OPM allows for the payment to the Company of service fees as negotiated between TSS and OPM. Service fees, which are included within the other income, net in the accompanying consolidated statements of earnings, for each of the years in the three-year period ended December 31, 2011 amounted to $1,038, $998, and $988, respectively.

The Company also has funds available related to the FEHBP amounting to $45,640 and $28,093 as of December 31, 2011 and 2010, respectively and are included within the cash and cash equivalents in the accompanying consolidated balance sheets. Such funds must only be used to cover health benefits charges, administrative expenses and service charges required by the FEHBP.

A contingency reserve is maintained by the OPM at the U.S. Treasury, and is available to the Company under certain conditions as specified in government regulations. Accordingly, such reserve is not reflected in the consolidated balance sheets. The balance of such reserve as of December 31, 2011 and 2010 was $22,432 and $28,092, respectively. The Company received $5,305, $5,161, and $6,343, of payments made from the contingency reserve fund of OPM during 2011, 2010, and 2009, respectively.

The claim payments and operating expenses charged to the FEHBP are subject to audit by the U.S. government. Management is of the opinion that an adjustment, if any, resulting from such audits will not have a significant effect on the accompanying financial statements. The claim payments and operating expenses reimbursed in connection with the FEHBP have been audited through 2004 by OPM.

12. Short-Term Borrowings

Short-term borrowings represent securities sold under agreements to repurchase. There were no outstanding short-term borrowings at December 31, 2011. The agreement outstanding at December 31, 2010 amounting to $15,575, matured in January 3, 2011 and accrued interest at

(dollar amounts in thousands, except per share data)

fixed rate of 0.50%. The weighted average interest rate for short-term borrowings in 2010 amounted to 0.38%.

The investment securities underlying such agreements were delivered to the dealers with whom the agreements were transacted. The dealers may have sold, loaned, or otherwise disposed of such securities in the normal course of business operations, but have agreed to resell to the Company substantially the same securities on the maturity dates of the agreements.

At December 31, 2010 investment securities available for sale with fair value of $16,199 (face value of $14,630) were pledged as collateral under these agreements.

13. Long-Term Borrowings

A summary of the borrowings entered by the Company at December 31, 2011 and 2010 is as follows:

	2011	2010
Senior unsecured notes payable of $50,000 issued on September 2004; due September 2019. Interest is payable semiannually at a fixed rate of 6.30%.	$ -	$ 50,000
Senior unsecured notes payable of $60,000 issued on December 2005; due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	35,000	35,000
Senior unsecured notes payable of $35,000 issued on January 2006; due January 2021. Interest is payable monthly at a fixed rate of 6.70%.	35,000	35,000
Secured loan payable of $41,000, payable in monthly installments of $137 through July 1, 2024, plus interest at a rate reset periodically of 100 basis points over selected LIBOR maturity (which was 1.37% and 1.29% at December 31, 2011, and 2010, respectively).	19,387	21,027
Repurchase agreement of $25.0 million entered on November 2010, due November 2015. Interest is payable quarterly at a fixed rate of 1.96%.	25,000	25,000
Total borrowings	$ 114,387	$ 166,027

(dollar amounts in thousands, except per share data)

Aggregate maturities of the Company's borrowings as of December 31, 2011 are summarized as follows:

Year ending December 31	
2012	$ 1,640
2013	1,640
2014	1,640
2015	26,640
2016	1,640
Thereafter	81,187
	$ 114,387

All of the Company's senior notes may be prepaid at par, in total or partially, five years after issuance as determined by the Company. The Company's senior unsecured notes contain certain non- financial covenants with which TSS and the Company have complied with at December 31, 2011. During 2011, we repaid $50.0 million of the principal of the 6.30% senior unsecured note. During 2010 we repaid $25.0 million of the principal of the 6.60% senior unsecured note.

Debt issuance costs related to each of the Company's senior unsecured notes were deferred and are being amortized over the term of its respective senior note. Unamortized debt issuance costs related to these senior unsecured notes as of December 31, 2011 and 2010 amounted to $388 and $781, respectively and are included within other assets in the accompanying consolidated balance sheets.

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

The repurchase agreement has pledged as collateral investment securities available for sale with fair value of $28,138 (face value of $27,835). The investment securities underlying such agreements were delivered to the financial institution with whom the agreement was transacted. The dealers may have loaned, or used as collateral securities in the normal course of business operations. We maintain effective control over the investment securities pledged as collateral and accordingly, such securities continue to be carried on the accompanying consolidated balance sheets.

Interest expense on the above borrowings amounted to $7,078, $9,210, and $9,870, for the years ended December 31, 2011, 2010, and 2009, respectively.

14. Derivative Instruments and Hedging Activities

By using derivative financial instruments the Company exposes itself to credit risk and market risk. Credit risk is the failure of the counterparty to perform under the terms of the derivative contract. When the fair value of a derivative contract is positive, the counterparty is obligated to the Company, which creates credit risk for the Company. When the fair value of a derivative contract is negative, the Company owes the counterparty and, therefore, it does not possess credit risk.

The Company minimizes the credit risk in derivative instruments by entering into transactions with high-quality counterparties.

Market risk is the adverse effect on the value of a financial instrument that results from a change in interest rates, currency exchange rates, commodity prices, or market indexes. The market risk associated with derivative instruments is managed by establishing and monitoring parameters that limit the types and degree of market risk that may be undertaken.

The Company has invested in certain derivative instruments in order to diversify its investment in securities and participate in the foreign stock market.

During 2005 the Company invested in two structured note agreements amounting to $5,000 each, maturing in May 25, 2012, where the interest income received is linked to the performance of the Dow Jones Euro STOXX 50 and Nikkei 225 Equity Indexes (the Indexes). Under these agreements the principal invested by the Company is protected, the only amount that varies according to the performance of the Indexes is the interest to be received upon the maturity of the instruments. Should the Indexes experience a negative performance during the holding period of the structured notes, no interest will be received. The contingent interest payment component within the structured note agreements meets the definition of an embedded derivative. In accordance with the provisions of current accounting guidance, the embedded derivative component of the structured notes is separated from the structured notes and accounted for separately as a derivative instrument.

The changes in the fair value of the embedded derivative component are recorded as gains or losses in earnings in the period of change. During the years ended December 31, 2011, 2010 and 2009 the Company recorded a loss associated with the change in the fair value of this derivative component of $741, $859 and $66, respectively. The change in the fair value of the embedded derivative component is included within the other income, net in the accompanying consolidated statement of earnings.

As of December 31, 2011 and 2010, the fair value of the derivative component of the structured notes amounted to $7, and $748, respectively, and is included within the Company's other assets in the accompanying consolidated balance sheets. The investment component of the structured notes is accounted for as held-to-maturity debt securities and is included within the investment in securities in the accompanying consolidated balance sheets. As of December 31, 2011 the fair value and amortized cost of the investment component of both structured notes amounted to $9,969, and $9,839, respectively. As of December 31, 2010 the fair value and amortized cost of the investment component of both structured notes amounted to $9,857, and $9,443, respectively.

15. Agency Contract and Expense Reimbursement

TSS processed and paid claims as fiscal intermediary for the Medicare – Part B Program until February 2009, the contract termination date. TSS was reimbursed for administrative expenses incurred in performing this service. For the years ended December 2010, and 2009, TSS billed and was reimbursed $21, and $1,842, respectively, for such services, which are deducted from operating expenses in the accompanying consolidated statements of earnings. There were no reimbursements during the year 2011.

The operating expense reimbursements in connection with processing Medicare claims have been audited through 2005 by federal government representatives. Management is of the opinion that no significant adjustments will be made affecting cost reimbursements through December 31, 2011.

(dollar amounts in thousands, except per share data)

On March 1, 2009, the Centers for Medicare and Medicaid Services (CMS) awarded to First Coast Service Options (FCSO), a non-affiliated third party organization based in Jacksonville, Florida, the Medicare Administrative Contract (MAC) for Jurisdiction 9 (Florida, Puerto Rico and the U.S. Virgin Islands). FCSO proposed TSS as a subcontractor in MAC Jurisdiction 9 to perform certain provider customer service functions, subject to terms and conditions negotiated between FSCO and TSS. Pursuant to this, TSS billed reimbursements of expenses of $3,008, $2,829 and $2,650 for performing the customer service functions during the years ended December 31, 2011, 2010 and 2009, respectively.

16. Reinsurance Activity

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

	Premiums Earned			Claims Incurred[1]		
	2011	2010	2009	2011	2010	2009
Gross	$ 2,135,417	$ 1,981,700	$ 1,950,097	$ 1,729,192	$ 1,611,289	$ 1,611,675
Ceded	(80,949)	(80,600)	(81,013)	(28,505)	(26,379)	(18,748)
Net	$ 2,054,468	$ 1,901,100	$ 1,869,084	$ 1,700,687	$ 1,584,910	$ 1,592,927

(1) The claims incurred disclosed in this table exclude the portion of the change in the liability for future policy benefits amounting to $15,567, $11,879, and $12,945 that is included within the consolidated claims incurred during the years ended December 31, 2011, 2010 and 2009, respectively.

TSS, TSP and TSV, in accordance with general industry practices, annually purchase reinsurance to protect them from the impact of large unforeseen losses and prevent sudden and unpredictable changes in net income and stockholders' equity of the Company. Reinsurance contracts do not relieve any of the subsidiaries from their obligations to policyholders. In the event that all or any of the reinsuring companies might be unable to meet their obligations under existing reinsurance agreements, the subsidiaries would be liable for such defaulted amounts. During 2011, 2010 and 2009 TSP placed 11.02%, 14.37%, and 13.53% of its reinsurance business with one reinsurance company.

TSS has two excess of loss reinsurance treaties whereby it cedes a portion of its premiums to third parties. Reinsurance contracts are primarily for periods of one year, and are subject to modifications and negotiations in each renewal date. Premiums ceded under these contracts amounted to $12,103, $11,206, and $7,341 in 2011, 2010 and 2009, respectively. Claims ceded amounted to $9,004, $9,519, and $3,870 in 2011, 2010 and 2009, respectively. Principal reinsurance agreements are as follows:

- Organ transplant excess of loss treaty covering 100% of the claims up to a maximum of $1,000 per person, per life.

- Routine medical care excess of loss treaty covering 100% of claims from the amount of $100 and up to a maximum of $900 per covered person, per contract year.

TSP has a number of pro rata and excess of loss reinsurance treaties whereby the subsidiary retains for its own account all loss payments for each occurrence that does not exceed the stated amount in the agreements and a catastrophe cover, whereby it protects itself from a loss or disaster

of a catastrophic nature. Under these treaties, TSP ceded premiums of $63,013, $63,746, and $67,541, in 2011, 2010, and 2009, respectively.

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

- Property quota share treaty covering for a maximum of $20,000 for any one risk. Under this treaty 37% of the risk is ceded to reinsurers. The remaining exposure is covered by a property per risk excess of loss treaty that provides reinsurance in excess of $500 up to a maximum of $10,000, or the remaining 63% for any one risk. In addition, TSP has an additional property catastrophe excess of loss contract that provides protection for losses in excess of $8,000 resulting from any catastrophe, subject to a maximum loss of $10,000.

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

- Commercial property catastrophe excess of loss. This treaty provides protection for losses in excess of $10,000 resulting from any catastrophe, subject to a maximum loss of $140,000.

- Property catastrophe excess of loss. This treaty provides protection for $185,000 in excess of $80,000 and $140,000 with respect to personal and commercial lines, respectively, resulting from any catastrophe, subject to a maximum loss of $160,000 in respect of the ceded portion of the Commercial Lines Quota Share.

- Personal lines quota share. This treaty provides protection of 2.3% on all ground-up losses, subject to a limit of $1,000 for any one risk.

- Reinstatement premium protection. This treaty provides a maximum limit of approximately $4,300 for personal lines and $10,500 in commercial lines to cover the necessity of reinstating the catastrophe program in the event it is activated.

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

- Medical malpractice excess of loss. This treaty provides reinsurance in excess of $150 up to a maximum of $1,500 per incident.

- Builders' risk quota share and first surplus covering contractors' risk. This treaty provides protection on a 20/80 quota share basis for the initial $2,500 and a first surplus of $10,000 for a maximum of $12,500 for any one risk.

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

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

The ceded unearned reinsurance premiums on TSP arising from these reinsurance transactions amounted to $16,135 and $13,264 at December 31, 2011 and 2010, respectively, and are reported as other assets in the accompanying consolidated balance sheets.

TSV also cedes insurance with various reinsurance companies under a number of pro rata, excess of loss and catastrophe treaties. Under these treaties, TSV ceded premiums of $5,833, $5,648, and $6,131, in 2011, 2010, and 2009, respectively. Principal reinsurance agreements are as follows:

- Group life pro rata agreement, reinsuring 50% of the risk up to $250 on the life of any participating individual of certain groups insured. This contract was cancelled on June 30, 2009.

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

- Group life insurance facultative excess of loss agreements in which TSV retains a portion of the losses on the life of any participating individual of certain groups insured. Any excess will be recovered from the reinsurer. This agreement provides for various retentions ($25, $50 and $75) of the losses. The contract was cancelled during December 2009.

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

- Accidental death catastrophic reinsurance covering each and every accident arising out of one event or occurrence resulting in the death or dismemberment of five or more persons. The retention for each event is $250 with a maximum of $1,000 for each event and $2,000 per year.

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

17. Income Taxes

Under Puerto Rico income tax law, the Company is not allowed to file consolidated tax returns with its subsidiaries. The Company and its subsidiaries are subject to Puerto Rico income taxes. The Company's insurance subsidiaries are also subject to U.S. federal income taxes for foreign source dividend income. As of December 31, 2011, tax years 2006 through 2011 of the Company and its subsidiaries are subject to examination by Puerto Rico taxing authorities.

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

The Life Insurance corporation operates as a qualified domestic life insurance company and is subject to the alternative minimum tax and taxes on its capital gains.

Federal income taxes recognized by the Company's insurance subsidiaries amounted to approximately $120, $97, and $125, in 2011, 2010, and 2009, respectively.

All other corporations within the group are subject to Puerto Rico income taxes as a regular corporation, as defined in the P.R. Internal Revenue Code, as amended. The holding company within the AH group of companies is a U.S.-based corporation and is subject to U.S. federal income taxes. This U.S-based corporation within our group has not provided U.S. deferred taxes on an outside basis difference created as a result of the business combination of AH and cumulative earnings of its Puerto Rico-based subsidiaries that are considered to be indefinitely reinvested. The total outside basis difference at December 31, 2011 is estimated at $57 million. We do not intend to repatriate earnings to fund U.S. and Puerto Rico operations nor do any transaction that would cause a reversal of that outside basis difference. Because of the availability of U.S. foreign tax credits, it is not practicable to determine the U.S. federal income tax liability if such outside basis difference was reversed.

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 the tax obligation through December 31, 2011. The effective tax rate includes the additional special tax, as enacted.

Recently, the Government of Puerto Rico adopted a comprehensive tax reform in two phases. The first phase of the tax reform was enacted in the last quarter of 2010 and was mostly related to reducing the income tax burden to individuals. In 2010 only, corporations received an income tax credit amounting to 7% of the tax determined, defined as the tax liability less certain credits. The second phase of the reform, which was approved on January 31, 2011, provides for the reduction of the maximum corporate income tax rate from 40.95% to approximately 30%, including the elimination of the above mentioned 5% additional special tax for corporations, as well as adding several tax credits and deductions, among other tax reliefs and changes. One of the companies acquired in the AH transaction elected to continue filing its tax returns at the 39% statutory tax rate, following the previous Puerto Rico tax code. This selection was made according the provisions of the newly enacted Puerto Rico tax code in order to maximize the use of net operating losses carryforward.

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

(dollar amounts in thousands, except per share data)

	2011	2010	2009
Income before taxes	$ 78,500	$ 84,203	$ 83,651
Statutory tax rate	30.00%	40.95%	40.95%
Income tax expense at statutory rate	23,550	34,481	34,255
Increase (decrease) in taxes resulting from			
Exempt interest income	(7,468)	(11,955)	(13,201)
Effect of taxing life insurance operations as a qualified domestic life insurance company instead of as a regular corporation	(4,592)	(5,336)	(4,759)
Effect of using earnings under statutory accounting principles instead of GAAP for TSS and TSP	(37)	(1,430)	(3,089)
Effect of taxing capital gains at a preferential rate	(483)	907	446
Effect of using the 1994 tax code instead of the 2011 tax code	1,409	-	-
Dividends received deduction	(68)	(221)	(262)
Adjustment to deferred tax assets and liabilities for changes in effective tax rates	6,450	-	(239)
Other adjustments to deferred tax assets and liabilities	1,034	(132)	(771)
Tax credit benefit	(865)	(1,569)	(2,386)
Other permanent disallowances, net:			
Effect of capital gains preferential rate on impairments	-	-	1,385
Disallowance of expenses related to exempt interest income	474	1,115	871
Disallowed interest expense	193	597	730
Other	(66)	423	1,404
Total other permanent differences	601	2,135	4,390
Other adjustments	933	522	487
Total Income Tax Expense	$ 20,464	$ 17,402	$ 14,871

(dollar amounts in thousands, except per share data)

Deferred income taxes reflect the tax effects of temporary differences between carrying amounts of assets and liabilities for financial reporting purposes and income tax purposes. The net deferred tax asset at December 31, 2011 and 2010 of the Company and its subsidiaries is composed of the following:

	2011	2010
Deferred tax assets		
Allowance for doubtful receivables	$ 6,433	$ 7,679
Liability for pension benefits	22,973	17,443
Employee benefits plan	1,122	2,509
Postretirement benefits	925	1,434
Deferred compensation	1,247	2,185
Accumulated depreciation	-	289
Impairment loss on investments	887	2,891
Contingency reserves	156	214
Share-based compensation	464	10
Unrealized loss on derivative instruments	249	175
Alternative minimum income tax credit	1,619	955
Purchased tax credits	42	42
Net operating loss	3,340	-
Other	1,389	1,135
Gross deferred tax assets	40,846	36,961
Deferred tax liabilities		
Deferred policy acquisition costs	(5,402)	(7,359)
Catastrophe loss reserve trust fund	(6,616)	(6,247)
Unrealized gain upon acquisition of GA Life	(211)	(539)
Unrealized gain on trading securities	-	(1,135)
Unrealized gain on securities available for sale	(12,458)	(4,658)
Unamortized bond issue costs	(61)	(224)
Intangible asset	(7,813)	-
Accumulated depreciation	(4,053)	-
Other	(128)	(9)
Gross deferred tax liabilities	(36,742)	(20,171)
Net deferred tax asset	$ 4,104	$ 16,790

The net deferred tax asset shown in the table above at December 31, 2011 and 2010 is reflected in the consolidated balance sheets as $28,707 and $29,445, respectively, in deferred tax assets and $24,603 and $12,655, in deferred tax liabilities, respectively, reflecting the aggregate deferred tax assets or liabilities of individual tax-paying subsidiaries of the Company.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management believes that it is more likely than not that the Company will realize the benefits of these deductible differences.

At December 31, 2011, the Company has operating loss carry-forwards for income tax purposes of approximately $9,870, which were mostly acquired with AH and that are available to offset future taxable income for up to December 2019.

18. Pension Plans

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

The following table sets forth the plan's benefit obligations, fair value of plan assets, and funded status as of December 31, 2011 and 2010, accordingly:

(dollar amounts in thousands, except per share data)

	2011	2010
Change in benefit obligation		
Projected benefit obligation at beginning of year	$ 113,912	$ 90,888
Service cost	5,781	4,975
Interest cost	6,681	6,033
Benefit payments	(3,869)	(3,963)
Actuarial losses	30,056	15,979
Projected benefit obligation at end of year	$ 152,561	$ 113,912
Accumulated benefit obligation at end of year	$ 118,607	$ 85,858
Change in fair value of plan assets		
Fair value of plan assets at beginning of year	$ 67,530	$ 53,433
Actual return on assets (net of expenses)	1,344	8,260
Employer contributions	16,500	9,800
Benefit payments	(3,869)	(3,963)
Fair value of plan assets at end of year	$ 81,505	$ 67,530
Funded status at end of year	$ (71,056)	$ (46,382)
Amounts in accumulated other comprehensive income not yet recognized as a component of net periodic pension cost		
Development of prior service credit		
Balance at beginning of year	$ (4,473)	$ (4,922)
Amortization	450	449
Net prior service credit	(4,023)	(4,473)
Development of actuarial loss		
Balance at beginning of year	47,825	38,245
Amortization	(3,326)	(2,400)
(Gain)/Loss arising during the year	33,934	11,980
Actuarial net loss	78,433	47,825
Sum of deferrals	$ 74,410	$ 43,352
Net amount recognized prepaid (payable)	$ 3,354	$ (3,029)

(dollar amounts in thousands, except per share data)

The following assumptions were used on a weighted average basis to determine benefits obligations of the plan as of December 31, 2011 and 2010.

	2011	2010
Discount rate	5.0%	6.0%
Rate of compensation increase	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%

The assumed discount rate of 5.00% at December 31, 2011 reflects the hypothetical rate at which the projected benefit obligations could be effectively settled or paid out to participants on that date. The Company determined the discount rate based on a range of factors, including a yield curve comprised of the rates of return on high-quality, fixed-income corporate bonds available at the measurement date and the related expected duration for the obligations.

The amounts recognized in the balance sheets as of December 31, 2011 and 2010 consist of the following:

	2011	2010
Pension liability	$ 71,056	$ 46,382
Accumulated other comprehensive loss, net of a deferred tax of $18,421 and $16,907 in 2011 and 2010, respectively	48,185	26,445

The components of net periodic benefit cost income for 2011, 2010, and 2009 were as follows:

	2011	2010	2009
Components of net periodic benefit cost			
Service cost	$ 5,781	$ 4,976	$ 4,912
Interest cost	6,681	6,033	5,712
Expected return on assets	(5,221)	(4,262)	(4,018)
Amortization of prior service (benefit) cost	(450)	(450)	(450)
Amortization of actuarial loss	3,326	2,400	2,487
Net periodic benefit cost	$ 10,117	$ 8,697	$ 8,643

Net periodic pension expense may include settlement charges as a result of retirees selecting lump-sum distributions. Settlement charges may increase in the future if the number of eligible participants deciding to receive distributions and the amount of their benefits increases.

The estimated net loss and prior service benefit that will be amortized from accumulated other comprehensive loss into net periodic pension benefits cost during the next twelve months is as follows:

Prior service cost	$ (450)
Actuarial loss	5,883

(dollar amounts in thousands, except per share data)

The following assumptions were used on a weighted average basis in computing the periodic benefit cost for the years ended December 31, 2011, 2010, and 2009:

	2011	2010	2009
Discount rate	6.00%	6.75%	6.75%
Expected return on plan assets	7.75%	7.75%	8.00%
Rate of compensation increase	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%	Graded; 3.50% to 8.00%

The basis of the overall expected long-term rate of return on assets assumption is a forward-looking approach based on the current long-term capital market outlook assumptions of the assets categories the trust invests in and the trust's target asset allocation. At December 31, 2011, the assumed target asset allocation for the program is: 44%-56% equity securities, 35%-45% debt securities, and 6%-14% other securities. Using a mean-variance model to project returns over a 30-year horizon under the target asset allocation, the 35% to 65% percentile range of annual rates of return is 6.5%-8.1%. The Company selected a rate from within this range of 7.75% for 2011 and 2010, which reflects the Company's best estimate for this assumption based on the data described above, information on the historical returns on assets invested in the pension trust, and expected future conditions. This rate is net of both investment related expenses and a 0.10% reduction for other administrative expenses charged to the trust.

Plan Assets

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

The following table summarizes fair value measurements by level at December 31, 2011 for assets measured at fair value on a recurring basis.

	Level 1	Level 2	Level 3	Total
Government obligations	$ -	$ 3,689	$ 297	$ 3,986
Corporate obligations	-	3,271	204	3,475
Partnership/Joint venture	-	2,999	1,133	4,132
Real estate	-	-	2,962	2,962
Registered investments	6,979	17,682	-	24,661
Common/Collective trusts	-	33,643	-	33,643
Hedge funds	-	1,853	1,455	3,308
Common stocks	4,823	129	-	4,952
Preferred stocks	236	1	-	237
Forward foreign currency contracts	(8)	-	-	(8)
Interest-bearing cash	534	-	-	534
Options	(10)	(9)	-	(19)
	$ 12,554	$ 63,258	$ 6,051	$ 81,863

(dollar amounts in thousands, except per share data)

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the year ended December 31, 2011 is as follows:

	Government Obligations	Corporate Obligations	Partnership/ Joint Venture	Real Estate	Hedge Funds	Total
Beginning Balance at December 31, 2010	$ 336	$ 31	$ 837	$ 1,731	$ 1,241	$ 4,176
Actual return on program assets:						
Relating to assets still held at the reporting date	(7)	(13)	299	701	214	1,194
Relating to assets sold during the period	(6)	(6)	(2)	(49)	-	(63)
Purchases, issuances, and settlements	16	111	-	578	-	705
Transfer in and/or out	(42)	81	-	-	-	39
Ending balance at December 31, 2011	$ 297	$ 204	$ 1,134	$ 2,961	$ 1,455	$ 6,051

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

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

- Increasing risk is rewarded with compensating returns over time, and therefore, prudent risk taking is justifiable for long-term investors.

- Risk can be controlled through diversification of asset classes and investment approaches, as well as diversification of individual securities.

- Risk is reduced by time, and over time the relative performance of different asset classes is reasonably consistent. Over the long-term, equity investments have provided and should continue to provide superior returns over other security types. Fixed-income securities can dampen volatility and provide liquidity in periods of depressed economic activity. Lengthening duration of fixed income securities may reduce surplus volatility.

- The strategic or long-term allocation of assets among various asset classes is an important driver of long-term returns.

- Relative performance of various asset classes is unpredictable in the short-term and attempts to shift tactically between asset classes are unlikely to be rewarded.

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

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

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

(dollar amounts in thousands, except per share data)

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

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

Cash Flows
The Company expects to contribute $13,000 to its pension program in 2012.

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

Year ending December 31	
2012	$ 6,079
2013	6,806
2014	7,147
2015	7,416
2016	8,620
2017 – 2021	58,620

Noncontributory Supplemental Pension Plan
In addition, the Company sponsors a noncontributory supplemental pension plan. This plan covers employees with qualified defined benefit retirement plan benefits limited by the U.S. Internal Revenue Code maximum compensation and benefit limits. At December 31, 2011 and 2010, the Company has recorded a pension liability of $6,491 and $4,864, respectively. The charge to accumulated other comprehensive loss related to the noncontributory pension plan at December 31, 2011 and 2010 amounted to $1,391 and $836, respectively, net of a deferred tax asset of $526 and $535, respectively.

19. Catastrophe Loss Reserve and Trust Fund

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

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

The interest earning assets in this fund, which amounted to $37,544 and $35,721 as of December 31, 2011 and 2010, respectively, are to be used solely and exclusively to pay catastrophe losses covered under policies written in Puerto Rico.

TSP is required to contribute to the trust fund, if any, on or before January 31 of the following year. Contributions are determined by a rate imposed by the Commissioner of Insurance for the catastrophe policies written in that year. Additions in 2011 and 2010, amounting to $720 and $761, respectively, were determined by applying a rate of 1% to catastrophe premiums written.

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

Retained earnings are restricted in the accompanying consolidated balance sheets by the total catastrophe loss reserve balance, which as of December 31, 2011 and 2010 amounted to $37,818 and $35,969, respectively.

20. Stockholders' Equity

a. Common Stock

On December 8, 2008, the Company converted 7 million issued and outstanding Class A shares into Class B shares, in conjunction with the expiration of the lockup agreements signed by holders of Class A shares at the time of the Company's initial public offering.

For a period of five years after the completion of the IPO on December 7, 2007, subject to the extension or shortening under certain circumstances, each holder of Class B common stock will benefit from anti-dilution protections provided in the Company's amended and restated certificate of incorporation.

b. Stock Repurchase Program

The Company repurchased shares of its common stock under a $40,000 share repurchase program authorized by the Company's Board in October 2008. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During 2009 the Company repurchased and retired 2,021,960 shares at an average per share price of $12.92, for an aggregate cost of $26,120. This repurchase program was completed during 2009.

On September 2010, the Company's Board approved another repurchase program of its common stock amounting to $30,000. Repurchases were conducted through open-market purchases of Class B shares only, in accordance with Rule 10b-18 under the Securities Exchange Act of 1934, as amended. During 2011, the Company repurchased and retired 653,399 shares at an average per share price of $17.28, for an aggregate cost of $11,289. During 2010, the Company repurchased and retired 352,791 shares at an average per share price of $17.67, for an aggregate cost of $6,235.

(dollar amounts in thousands, except per share data)

c. Preferred Stock

Authorized capital stock includes 100,000,000 of preferred stock with a par value of $1.00 per share. As of December 31, 2011 and 2010, there are no issued and outstanding preferred shares.

d. Liquidity Requirements

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

21. Comprehensive Income

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

	Unrealized Gains on securities	Liability for Pension Benefits	Accumulated Other Comprehensive Income
Beginning balance at December 31, 2010	$ 32,743	$ (27,279)	$ 5,464
Net current period change	47,022	(24,500)	22,522
Reclassification adjustments for gains and losses reclassified in income	(11,628)	2,205	(9,423)
Ending balance at December 31, 2011	$ 68,137	$ (49,574)	$ 18,563

(dollar amounts in thousands, except per share data)

The related deferred tax effects allocated to each component of other comprehensive income in the accompanying consolidated statements of stockholders' equity and comprehensive income in 2011, 2010 and 2009 are as follows:

	2011		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$ 55,320	$ (8,298)	$ 47,022
Less reclassification adjustment for gains and losses realized in income	(12,126)	498	(11,628)
Net change in unrealized gain	43,194	(7,800)	35,394
Liability for pension benefits:			
Reclassification adjustment for amortization of net losses from past experience and prior service costs	3,150	(945)	2,205
Net change arising from assumptions and plan changes and experience	(35,000)	10,500	(24,500)
Net change in liability for pension benefits	(31,850)	9,555	(22,295)
Net current period change	$ 11,344	$ 1,755	$ 13,099

	2010		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding gains on securities arising during the period	$ 30,255	$ (5,749)	$ 24,506
Less reclassification adjustment for gains and losses realized in income	(2,410)	1,506	(904)
Net change in unrealized gain	27,845	(4,243)	23,602
Liability for pension benefits	(10,844)	4,282	(6,562)
Net current period change	$ 17,001	$ 39	$ 17,040

(dollar amounts in thousands, except per share data)

	2009		
	Before-Tax Amount	Deferred Tax (Expense) Benefit	Net-of-Tax Amount
Unrealized holding losses on securities arising during the period	$ 5,455	$ (825)	$ 4,630
Less reclassification adjustment for gains and losses realized in income	(1,278)	187	(1,091)
Net change in unrealized loss	4,177	(638)	3,539
Liability for pension benefits	4,070	(1,520)	2,550
Net current period change	$ 8,247	$ (2,158)	$ 6,089

22. Share-Based Compensation

In December 2007 the Company adopted the 2007 Incentive Plan (the Plan), which permits the Board the grant of stock options, restricted stock awards and performance awards to eligible officers, directors and key employees. The Plan authorizes grants to issue up to 4,700,000 of Class B common shares of authorized but unissued stock. At December 31, 2011, there were 3,109,237 shares available for the Company to grant under the Plan. Stock options can be granted with an exercise price at least equal the stock's fair market value at the date of grant. The stock option awards vest in equal annual installments over 3 years and its expiration date cannot exceed 7 years. The restricted stock and performance awards are issued at the fair value of the stock on the grant date with vesting periods ranging from one to three years. Restricted stock awards vest in installments, as stipulated in each restricted stock agreement. Performance awards vest on the last day of the performance period, provided that at least minimum performance standards were achieved.

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

The following assumptions were used in the development of fair value of option awards:

	2011 *	2010	2009
Expected dividend yield	N/A	—	—
Expected volatility (per year)	N/A	43.00%	53.85%
Expected term (in years)	N/A	4.50	4.50
Risk-free interest rate	N/A	1.12%	1.47%

* No stock options were granted in 2011.

(dollar amounts in thousands, except per share data)

Stock option activity during the year ended December 31, 2011 is as follows:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding balance at January 1, 2011	987,438	$ 14.48		
Exercised during the year	(88,172)	$ 14.50		
Canceled during the year	(432,567)	$ 14.50		
Outstanding balance at December 31, 2011	466,699	$ 14.46	2.99	$ 2,593,475
Exercisable at December 31, 2011	459,571	$ 14.47	2.96	$ 2,551,519

The weighted average grant date fair value of options granted during 2010 and 2009 was $6.20 and $5.63, respectively. No options were granted in 2011. There were 88,172 and 21,982 exercised options during 2011 and 2010, respectively. No options were exercised during the year ended December 31, 2009. During the year ended December 31, 2011 cash received from stock options exercises was $189 and is presented within the cash flows from financing activities in the accompanying consolidated statement of cash flows. During the years ended December 31, 2011 and 2010, 51,639 and 21,982 shares, respectively, were repurchased and retired as a result of non-cash exercise of stock options. Also, during the year ended December 31, 2011, 432,567 options were cash-settled for $2,420 at its fair value at time of settlement.

A summary of the status of the Company's nonvested restricted and performance shares as of December 31, 2011, and changes during the year ended December 31, 2011, are presented below:

	Restricted Awards		Performance Awards	
	Number of Shares	Weighted Average Fair Value	Number of Shares	Weighted Average Exercise Price
Outstanding balance at January 1, 2011	18,222	$ 18.52	3,743	$ 13.35
Granted	57,642	20.70	116,090	20.67
Lapsed	(16,727)	18.93	(2,250)	12.49
Forfeited (due to performance payout less than 100%)	—	—	(752)	12.49
Forfeited (due to termination)	(6,617)	20.78	(19,850)	20.78
Outstanding balance at December 31, 2011	52,520	$ 20.50	96,981	$ 20.62

The weighted average grant date fair value of restricted shares granted during the year 2011, 2010 and 2009 were $20.70, $19.26, and $12.33, respectively. Total fair value of restricted stock vested during the year ended December 31, 2011, 2010 and 2009 was $375, $1,480 and $1,158, respectively.

(dollar amounts in thousands, except per share data)

At December 31, 2011 there was $1,709 of total unrecognized compensation cost related to nonvested share-based compensation arrangements granted under the Plan. That cost is expected to be recognized over a weighted average period of 1.09 years. The Company currently uses authorized and unissued Class B common shares to satisfy share award exercises.

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

The following table sets forth the computation of basic and diluted earnings per share for the three-year period ended December 31, 2011.

	2011	2010	2009
Numerator for earnings per share			
Net income available to stockholders	$ 58,036	$ 66,801	$ 68,780
Denominator for basic earnings per share –			
Weighted average of common shares	28,665,045	29,034,442	29,494,468
Effect of dilutive securities	166,964	207,911	68,862
Denominator for diluted earnings per share	$ 28,832,009	$ 29,242,353	$ 29,563,330
Basic net income per share	$ 2.02	$ 2.30	$ 2.33
Diluted net income per share	$ 2.01	$ 2.28	$ 2.33

During the years ended December 31, 2011, 2010 and 2009, the weighted average of all stock option shares of 4,032, 1,027, and 1,012,594, respectively, were excluded from the denominator for diluted earnings per share because the stock options were anti-dilutive.

24. Commitments

The Company leases its regional offices, certain equipment, and warehouse facilities under non-cancelable operating leases. Minimum annual rental commitments at December 31, 2011 under existing agreements are summarized as follows:

Year ending December 31	
2012	$ 5,597
2013	4,087
2014	3,819
2015	3,567
2016	3,043
Thereafter	5,342
Total	$ 25,455

Rental expense for 2011, 2010, and 2009 was $8,352, $4,546, and $4,690, respectively, after deducting the amount of $130, $112, and $132, respectively, reimbursed by CMS for the administration of the Medicare Part B Program (see note 15).

25. Contingencies

Legal Proceedings

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, 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. After some intensive discovery, plaintiffs amended their complaint for the third time in December 2010 and dropped all claims predicated on violations of the antitrust and RICO laws and the Puerto Rico Insurance Code. In addition, the plaintiffs voluntarily dismissed with prejudice any and all claims against officers of the Corporation and TSS. Two of the original plaintiffs were also eliminated from the Third Amended Complaint (TAC). The TAC only alleges breach of an agreement to purchase stocks of the now defunct Triple-S, Inc., and breach of the provider contract by way of discriminatory audits and improper payment of services rendered. Plaintiffs also allege a claim for libel and slander against a former President of TSM. In January 2011, we filed our response and a counterclaim for malicious prosecution and abuse of process. Discovery is ongoing. The Corporation is vigorously defending 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.

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, whose main operations are outside Puerto Rico, removed the case to federal court in Florida, which the plaintiffs and the other codefendants, including the Corporation, opposed. Following months of jurisdictional proceedings in the federal court system, the federal district court in Puerto Rico decided to retain jurisdiction on February 8, 2011. The defendants filed a joint motion to dismiss the case on the merits, because the complaint fails to state a claim upon which relief can be granted. On August 31, 2011, the District Court dismissed all of plaintiffs' claims except for its breach of contract claim, and ordered the parties to brief the issue of whether the court still has federal jurisdiction under the Class Action Fairness Act of 2005. The parties have briefed the issue. At the same time, the plaintiffs moved the court to reconsider its August 31, 2011 decision. In addition, the defendants also moved the court to dismiss the breach of contract claim, as it also failed to state a claim upon which relief can be granted. The parties are awaiting the court's decision on these post-judgment issues.

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. On January 13, 2011, the Court of First Instance dismissed the case with prejudice and, on July 1, 2011, the Puerto Rico Court of Appeals confirmed such dismissal. Plaintiff filed a petition before the Puerto Rico Supreme Court on July 28, 2011, requesting the revision of the Court of Appeals' judgment. On December 7, 2011, Puerto Rico Supreme Court denied Plaintiff's petition.

Claims by Heirs of Former Shareholders

The Corporation and TSS are defending four individual lawsuits, all filed in state court, from persons who claim to have inherited a total of 69 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 and allegations, 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. In two of these cases, the Court of First Instance determined that the plaintiffs' claims are time barred under the two year statute of limitations contained in the local securities law. These cases are in different stages of appeal by the plaintiffs. The third case is pending trial.

Management believes all these claims are time barred under one or more statutes of limitations and other grounds and is vigorously defending them. This belief is supported by the outcome of a similar claim brought by non-medical heirs against us in 2009. The Puerto Rico Court of Appeals dismissed that claim as time barred under the two year statute of limitations contained in the local securities law, and the Puerto Rico Supreme Court denied the plaintiffs petition for certiorari in January 2011.

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 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. TCI served as a third-party administrator for TSS in the administration of its HIP contracts until September 30, 2010. We conducted a thorough investigation with the assistance of external resources and 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. Our investigation also revealed 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. We have no evidence indicating that the stolen information included Social Security numbers. We attempted to notify by mail all beneficiaries whose information may have been compromised by these intrusions. We also established a toll-free call center to address inquiries and complaints from the individuals to whom notice was provided. We received a total of approximately 1,530 inquiries and no complaints from these individuals.

Our investigation 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 TCI's, TSS's or the Corporation's system security features. Nonetheless, we took measures to strengthen TCI's server security and credentials management procedures and conducted an assessment of our system-wide data and facility security to prevent the occurrence of a similar incident in the future.

We were unable to 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. According to representations made by our competitor, however, the target was financial information related to IPAs and management of the HIP, rather than the beneficiaries' information.

We notified the appropriate Puerto Rico and federal government agencies of these events, and gave public notice of the breaches as required under Puerto Rico and federal law. We received a number of inquiries and requests for information related to these events from these government agencies and are cooperating with them. The Puerto Rico government agency that oversees the HIP levied a fine of $100 on TSS in connection with these incidents, but following our request for reconsideration, the agency withdrew the fine until the pertinent federal authorities conclude their investigations of this matter. On August 16, 2011, the Office for Civil Rights of the U.S. Department of Health and Human Services initiated a review of TSS's and TCI's compliance with the security and privacy rules promulgated under the Health Insurance Portability and Accountability Act of 1996, in connection with these data breaches. The Company at this time cannot reasonably assess the outcome of these investigations or their impact on the Company.

Joint Underwriting Association Litigations

On August 19, 2011, plaintiffs, purportedly a class of motor vehicle owners, filed an action in the United States District Court for the District of Puerto Rico against the Puerto Rico Joint Underwriting Association ("JUA") and 18 other Insurance companies, among them Triple-S Propiedad, Inc. ("TSP"), alleging violations under the Puerto Rico Insurance Code, the Puerto Rico Civil Code, the Racketeer Influenced and Corrupt Organizations Act ("RICO") and the local statute against organized crime and money laundering.

Plaintiffs request that defendants, TSP and other insurers return to the owners of motor vehicles those portions of the annual dollar-premium collected from them when they acquired the policies of the compulsory liability insurance established by law, which allegedly were withheld and misappropriated by the defendants in violation of the Puerto Rico Insurance Code. Plaintiffs claim that defendants, taking advantage of their interlocking directorships, conspired and agreed with each other to engage, and did in fact engage, in many of predicate acts of mail fraud in violation of

RICO, as part of a scheme to defraud and obtain money from motor vehicle owners located in Puerto Rico.

Plaintiffs claim that 8% of the dollar premium was in concept of “acquisition costs” for services of brokers that were never given, plus 4% of the dollar premium by concept of an “administrative cost” for the issuance of paper copies of policies, which were never issued.

According to the allegations of the complaint, this constitutes a violation of the Insurance Code of Puerto Rico.

Moreover, allegedly defendants embezzled such funds for their own pecuniary benefit. Plaintiffs requested the reimbursement of the moneys, which amount to $406.6 million to be trebled under counts I, II and III (RICO), plus a permanent injunction and declaratory judgment barring defendants from their alleged conduct and practices.

Our preliminary analysis tends to support the contention that the totality of the collected premium was authorized by law and thus no fraud was committed. Furthermore, the complaint may fall short of RICO’s pleading requirements.

This case is similar to Maria Margarita Collazo Burgos ET ALS vs. (ASC) Joint Underwriting Association (JUA) in the Puerto Rican Courts.

On December 30, 2011, TSP and other insurance companies filed a joint Motion to Dismiss. It was alleged that plaintiffs’ claims should be dismissed because they are barred by the filed rate doctrine, inasmuch a suit cannot be brought, even under RICO, to amend the compulsory liability insurance rates that were approved by the Legislature and the Insurance Commissioner. It was also argued that since RICO is not a federal statute that specifically relates to the business of insurance, and its application in the claims at issue would frustrate State policy and interfere with Puerto Rico's insurance administrative regime, the McCarran-Ferguson Act precludes plaintiffs’ claims. Finally, we alleged that plaintiffs failed to allege the necessary elements of an actionable RICO claim, or, in the alternative, their damages claim is time barred.

Plaintiffs requested an extension of time until February 16, 2012 to respond to the Motion to Dismiss.

The case is just beginning and the discovery proceedings have not even started. It is not possible at this stage of the proceedings to classify an unfavorable outcome of the case as probable or remote. Management with the advice of its legal counsel is of the opinion that the ultimate resolution of this case will not have a material adverse effect on its statutory financial position or the result of the operations of TSP.

26. Statutory Accounting

TSS, AH, TSV and TPS (collectively known as the regulated subsidiaries) are regulated by the Commissioner of Insurance. The regulated subsidiaries are required to prepare financial statements using accounting practices prescribed or permitted by the Commissioner of Insurance, which differ from GAAP.

The accumulated earnings of TSS, AH, TSV, and TSP are restricted as to the payment of dividends by statutory limitations applicable to domestic insurance companies. Such limitations restrict the payment of dividends by insurance companies generally to unrestricted unassigned surplus funds reported for statutory purposes. As more fully described in note 19, a portion of the accumulated earnings of TSP are also restricted by the catastrophe loss reserve balance (amounting to $37,818 and $35,969 as of December 31, 2011 and 2010, respectively) as required by the Insurance Code.

The combined net admitted assets, unassigned surplus and net income of the regulated subsidiaries at December 31, 2011, 2010 and 2009 are as follows:

(dollar amounts in millions)	2011	2010	2009
Net admitted assets	$ 1,470	$ 1,347	$ 1,298
Capital and surplus	529	458	416
Net income	73	58	43

27. Supplementary Information on Cash Flow Activities

	2011	2010	2009
Supplementary information			
Noncash transactions affecting cash flows activities			
Change in net unrealized (gain) loss on securities available for sale, including deferred income tax (asset)/liability of $7,800, $4,243, and $(638) in 2011, 2010, and 2009, respectively	$ (35,394)	$ (23,602)	$ 3,539
Change in liability for pension benefits, and deferred income tax liability/(asset) of $(9,555), $(4,282), $(1,520), in 2011, 2010, and 2009, respectively	$ 22,295	$ 6,562	$ 2,550
Other			
Income taxes paid	$ 19,664	$ 3,187	$ 15,552
Interest paid	$ 9,301	$ 11,925	$ 11,605

(dollar amounts in thousands, except per share data)

28. Business Combination

Effective February 7, 2011, the Company announced that its subsidiary, TSS completed the acquisition of 100% of the outstanding capital stock of AH, a provider of Medicare Advantage services to over 40,000 dual and non-dual eligible members in Puerto Rico. After this acquisition the Company expects to be better positioned for continued growth in the Medicare Advantage business. The Company accounted for this acquisition in accordance with the provisions of Accounting Standard Codification Topic 805, *Business Combinations*. The results of operations and financial condition of AH are included in the accompanying consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity was $84,750. Direct costs related to the acquisition amounted to $440 and were included in the consolidated operating expenses during the year ended December 31, 2011.

Although the closing date of the transaction was February 7, 2011, the consideration amount was determined using AH's financial position as of January 31, 2011 and as such, TSS has acquired the net assets held by AH as of that date. Therefore, we have recorded an allocation of the purchase price to AH tangible and intangible assets acquired and liabilities assumed based on their fair value as of January 31, 2011. Goodwill has been recorded based on the amount by which the purchase price exceeds the fair value of the net assets acquired. Goodwill will not be deductible for tax purposes and is attributable to synergies and economies of scale expected from the acquisition. The following table summarizes the consideration transferred to acquire AH as of December 31, 2011 and the allocation of the purchase price to the assets acquired and liabilities assumed at the acquisition.

Cash	$ 81,770
Due to seller	2,980
Total purchase price	$ 84,750
Investments and cash and cash equivalents	$ 71,060
Premiums and other receivables	23,563
Property and equipment	1,665
Intangible assets	33,660
Other assets	10,746
Claim liabilities	(43,047)
Accounts payable and accrued liabilities	(27,770)
Deferred tax liability	(10,098)
Total net assets	$ 59,779
Goodwill	$ 24,971

At January 31, 2011, we recognized intangible assets of $33,660 and goodwill of $24,971 within the consolidated other assets. During the year ended December 31, 2011, we recognized $7,623 of amortization expense related to estimated intangible assets resulting from the AH transaction.

The consolidated statement of earnings for year ended December 31, 2011 includes $433,112 and $1,154 related to AH operating revenues and net income, respectively. The following unaudited pro forma financial information presents the combined results of operations of the Company and AH as if the acquisition had occurred at the beginning of 2009. The unaudited pro forma financial

(dollar amounts in thousands, except per share data)

information is not intended to represent or be indicative of the Company's consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Company's future consolidated results of operations.

(unaudited)	2011	2010	2009
Operating revenues	$ 2,181,390	$ 2,373,261	$ 2,237,021
Net Income	$ 62,641	$ 78,392	$ 71,671
Basic net income per share	$ 2.18	$ 2.70	$ 2.43
Diluted net income per share	$ 2.17	$ 2.68	$ 2.42

The above unaudited pro forma operating revenues and net income considers the following estimated acquisition adjustments:

- Amortization of intangible assets – based on the estimated fair value of the tangible net assets acquired from AH, we estimate that we will recognize in our consolidated balance sheet intangible assets of approximately $58,631, including goodwill. We considered an amortization expense of $5,551, $7,005, and $8,315 for the years ended December 31, 2011, 2010, and 2009, respectively.

- Interest expense – represents the interest expense related to the short-term reverse repurchase agreements amounting to $55.0 million to finance the first payment of the acquisition. This agreement was paid during the quarter of the acquisition. Total interest expense related to these reverse repurchase agreements was approximately $42.
- Net investment income - this unaudited pro forma adjustment represents the anticipated bond discount amortization of approximately $122 for the year ended December 31, 2009 due to the fair value accounting of investment in securities. For year ended December 31, 2011, an additional bond discount amortization of approximately $11 was recorded.
- Acquisition costs – we recognized $440 of expenses for the year ended December 31, 2009 related to the acquisition.
- Current income tax expense – we recognized the tax effect of the other unaudited pro forma adjustments done to the statement of earnings. During the 2009 and 2010 periods the Company and AH were subject to Puerto Rico income taxes as regular corporations at the then enacted tax rate of 39% plus a temporary surtax of 5%. The enacted tax rate for the 2011 period was 30%.

29. Segment Information

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

- ***Managed Care segment*** – This segment is engaged in the sale of managed care products to the Commercial, Medicare and Medicaid market sectors. The Commercial accounts sector

includes corporate accounts, U.S. federal government employees, individual accounts, local government employees, and Medicare supplement. The following represents a description of the major contracts by sector:

- The segment is a qualified contractor to provide health coverage to federal government employees within Puerto Rico. Earned premiums revenue related to this contract amounted to $138,004, $130,803, and $125,994 for the three-year period ended December 31, 2011, 2010, and 2009, respectively (see note 11).
- Under its commercial business, the segment also provides health coverage to certain employees of the Commonwealth of Puerto Rico and its instrumentalities. Earned premium revenue related to such health plans amounted to $54,238, $63,353, and $46,114, for the three-year period ended December 31, 2011, 2010, and 2009, respectively.
- The segment provides services through its Medicare health plans pursuant to a limited number of contracts with CMS. Earned premium revenue related to the Medicare business amounted to $896,613, $468,401, and $513,823, for the three-year period ended December 31, 2011, 2010, and 2009, respectively.
- The segment also participates in the Medicaid program to provide health coverage to medically indigent citizens in Puerto Rico, as defined by the laws of the government of Puerto Rico. Up to September 30, 2010, the segment 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. Effective November 1st, 2011, after signing a new contract with the government of Puerto Rico, the segment resumed the administration of the physical health component of the miSalud program (similar to Medicaid) in designated service regions in the Commonwealth of Puerto Rico on an ASO basis, in which it receives a monthly per-member, per-month administrative fee for its services and does not bear the insurance risk of the program. Earned premium revenue related to this business amounted to $2,728, $284,815, and $348,096, for each of the year in the three-year period ended December 31, 2011, 2010, and 2009, respectively. Administrative service fee for each of the year in the three-year period ended December 31, 2011, 2010, and 2009 amounted to $14,180, $12,535 and $23,299, respectively.

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

- ***Property and Casualty Insurance segment*** –The predominant insurance lines of business of this segment are commercial multiple peril, auto physical damage, auto liability, and dwelling. The premiums for this segment are originated through a network of independent insurance agents and brokers. Agents or general agencies collect the premiums from the insureds, which are subsequently remitted to the segment, net of commissions. Remittances are due 60 days after the closing date of the general agent's account current.

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

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

The following tables summarize the operations by operating segment for each of the years in the three-year period ended December 31, 2011, 2010, and 2009.

(dollar amounts in thousands, except per share data)

	2011	2010	2009
Operating revenues			
Managed care			
Premiums earned, net	$ 1,844,723	$ 1,697,083	$ 1,673,762
Fee revenue	38,459	39,546	48,643
Intersegment premiums/fee revenue	6,193	6,852	5,995
Net investment income	17,543	19,799	21,641
Total managed care	1,906,918	1,763,280	1,750,041
Life			
Premiums earned, net	112,704	105,437	99,726
Intersegment premiums	345	382	386
Net investment income	18,521	17,130	16,763
Total life	131,570	122,949	116,875
Property and casualty			
Premiums earned, net	97,041	98,580	95,596
Intersegment premiums	613	613	613
Net investment income	9,472	10,132	11,679
Total property and casualty	107,126	109,325	107,888
Other segments*			
Intersegment service revenues	16,079	45,852	52,997
Operating revenues from external sources	1,452	2	-
Total other segments	17,531	45,854	52,997
Total business segments	2,163,145	2,041,408	2,027,801
TSM operating revenues from external sources	1,238	2,082	2,053
Elimination of intersegment premiums	(7,151)	(7,847)	(6,994)
Elimination of intersegment service revenue	(16,079)	(45,852)	(52,997)
Consolidated operating revenues	$ 2,141,153	$ 1,989,791	$ 1,969,863

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

(dollar amounts in thousands, except per share data)

	2011	2010	2009
Operating income			
Managed care	$ 53,006	$ 63,798	$ 57,193
Life	17,744	17,334	14,555
Property and casualty	4,544	3,579	8,746
Other segments*	671	1,161	1,482
Total business segments	75,965	85,872	81,976
TSM operating revenues from external sources	1,452	2,082	2,053
TSM unallocated operating expenses	(10,790)	(9,566)	(9,004)
Elimination of TSM charges	10,682	9,619	9,548
Consolidated operating income	77,309	88,007	84,573
Consolidated net realized investment gains	18,597	2,532	614
Consolidated net unrealized investment gains (losses) on trading securities	(7,267)	5,433	10,497
Consolidated interest expense	(10,855)	(12,658)	(13,270)
Consolidated other income, net	716	889	1,237
Consolidated income before taxes	$ 78,500	$ 84,203	$ 83,651

	2011	2010	2009
Depreciation expense			
Managed care	$ 19,467	$ 12,282	$ 6,640
Life	649	674	663
Property and casualty	1,311	1,680	1,477
Total business segments	21,427	14,636	8,780
TSM depreciation expense	802	864	863
Consolidated depreciation expense	$ 22,229	$ 15,500	$ 9,643

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

(dollar amounts in thousands, except per share data)

	2011	2010
Assets		
Managed care	$ 832,850	$ 790,485
Life	610,118	523,246
Property and casualty	348,480	339,955
Other segments*	15,846	16,842
Total business segments	1,807,294	1,670,528
Unallocated amounts related to TSM		
Cash, cash equivalents, and investments	53,172	62,841
Property and equipment, net	22,269	20,712
Other assets	27,794	20,600
	103,235	104,153
Elimination entries – intersegment receivables and others	(29,952)	(15,002)
Consolidated total assets	$ 1,880,577	$ 1,759,679

	2011	2010
Significant noncash items		
Net change in unrealized gain (loss) on securities available for sale		
Managed care	$ 12,449	$ (8,512)
Life	21,698	(7,746)
Property and casualty	7,169	(2,328)
Other segments*	(50)	(196)
Total business segments	41,266	(18,782)
Amount related to TSM	(5,872)	(4,820)
Consolidated net change in unrealized gain on securities available for sale	$ 35,394	$ (23,602)

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

30. Subsequent Events

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

Shareholder Information

Corporate Headquarters
Triple-S Management Corporation
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787.749.4949
www.triplesmanagement.com

Form 10-K
The company has filed an Annual Report on Form 10-K for the year ended December 31, 2011, with the Securities and Exchange Commission (SEC).

Triple-S Management Corporation's Annual Report and other SEC filings may be accessed at www.sec.gov or at www.triplesmanagement.com, Investor Relations section, SEC Filings link.

Investor Relations
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& Chief Marketing and Communications Officer
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Notice of Annual Meeting
The Annual Meeting of Stockholders will be held on April 27, 2012 at 9:00 a.m., local time, at the Bahía Room of the Sheraton Puerto Rico Hotel and Casino, 200 Convention Boulevard, San Juan, Puerto Rico 00907.

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Class B Common Stock
The Corporation's common stock is listed on the New York Stock Exchange (NYSE) under the symbol "GTS".

Annual Certifications
Our President and Chief Executive Officer (CEO) has submitted to the NYSE the Domestic Company Section 303A Annual CEO Certification regarding our compliance with the corporate governance listing standards of the NYSE. In addition, we have filed with the SEC, as exhibits to our Annual Report on Form 10-K for fiscal 2011, the Sarbanes-Oxley Act Section 302 Certifications of both our CEO and Corporate Controller regarding the quality of our public disclosures.

Annual Report 2011