TRIPLE-S MANAGEMENT CORP
Form 10-K
March 30, 2006

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United States Securities and Exchange Commission
Washington, D.C. 20549
FORM 10-K

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 2005

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

COMMISSION FILE NUMBER 0-49762
Triple-S Management Corporation

Puerto Rico	**66-0555678**
(STATE OF INCORPORATION)	**(I.R.S. ID)**

1441 F.D. Roosevelt Avenue, San Juan, PR 00920
(787) 749-4949

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, $40.00 Par Value

Indicate by check mark if the registrant is well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES o NO þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES o NO þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES þ NO o
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer o Non-accelerated filer þ
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). o YES þ NO
The aggregate market value of common stock held by non-affiliates of the registrant as of December 31, 2005 was $356,160. *
The number of shares outstanding of the registrant s common stock as of March 15, 2006 was 8,904.

***** The Articles of Incorporation of Triple-S Management Corporation (TSM) provide for redemption of the common stock of TSM at the original amount paid by the shareholder. There is no established public trading market for TSM s common stock.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive Proxy Statement to be delivered to shareholders in connection with the Annual Meeting of Shareholders to be held April 30, 2006 are incorporated by reference into Part III of this Annual Report on Form

10-K.

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Part I

Item 1. Business.

General Description of Business and Recent Developments

Triple-S Management Corporation (we, TSM or the Corporation) is incorporated under the laws of the Commonwealth of Puerto Rico on January 17, 1997. It is the holding company of several entities, through which it offers a wide range of insurance products and services. These products and services are offered through the following TSM wholly-owned subsidiaries:

Triple-S, Inc. (TSI), a health insurance company serving two major segments: the Commercial Program and the Commonwealth of Puerto Rico Health Reform Program (the Reform);

Seguros Triple-S, Inc. (STS), a property and casualty insurance company; and

Seguros de Vida Triple-S, Inc. (SVTS), a life and disability insurance and annuity products company.

TSM s insurance subsidiaries are subject to the regulations and supervision of the Office of the Commissioner of Insurance of the Commonwealth of Puerto Rico (the Commissioner of Insurance). The regulations and supervision of the Commissioner of Insurance consist primarily of: the approval of certain policy forms and rates, the standards of solvency that must be met and maintained by insurers and their agents, and the nature of and limitations on investments, deposits of securities for the benefit of policyholders, methods of accounting, periodic examinations and the form and content of reports of financial condition required to be filed, among others. In general, such regulations are for the protection of policyholders rather than security holders.

In addition to the insurance subsidiaries mentioned above, TSM has the following other wholly-owned subsidiaries: Interactive Systems, Inc. (ISI) and Triple-C, Inc. (TCI). ISI provides data processing services to Triple-S Management Corporation and its subsidiaries (the Corporation). TCI is currently engaged as the third-party administrator in the administration of the Corporation s Reform segment described under Health Insurance Reform Segment . It also provides healthcare advisory and other health-related services to TSI and other third-parties.

All of the premiums generated by the insurance subsidiaries are generated from customers within Puerto Rico. In addition, all long-lived assets, other than financial instruments, including deferred policy acquisition costs and deferred tax assets of the Corporation, are located in Puerto Rico.

Effective January 31, 2006, TSM acquired 100% of the common stock of Great American Assurance Company of Puerto Rico (GA Life) for $37.5 million. As a result of this acquisition, the Corporation expects to be one of the leading providers of life insurance policies in Puerto Rico. During 2006, TSM expects to merge the operations of GA Life with those of its existing life insurance subsidiary, SVTS. The results of operations and financial condition of the Corporation included in this Annual Report on Form 10-K do not reflect the acquisition or the operations of GA Life since the transaction was not completed until 2006.

On January 13, 2006 TSM announced that its Board of Directors (the Board) had authorized and directed management to start the process of transforming the Corporation from a privately-held entity into a publicly traded entity.

Also on January 13, 2006, the Board declared a cash dividend of $6.2 million distributed pro rata among the entire Corporation s issued and outstanding common shares, excluding those shares issued to representatives of the community that are members of the Board (the qualifying shares). All shareholders of record as of the close of business on January 16, 2006, except those who only hold qualifying shares, received a dividend of $700.00 for each share held on that date. Historically, prior to January 2006, the Corporation had not declared or distributed dividends on its common stock.

TSI was exempt from 1979 through 2002 from Puerto Rico income taxes under a ruling issued by the Department of the Treasury of Puerto Rico. On June 18, 2003, the Department of the Treasury notified TSM and TSI that the ruling recognizing TSI s exemption was terminated effective December 31, 2002. The termination of the ruling responded to a new public policy set by the Department of the Treasury according to which tax exemptions under Section 1101(6) of

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the Puerto Rico Internal Revenue Code of 1994 (the P.R. Code), as amended, will not apply to corporations organized as for-profit, which is TSI s case.

On July 31, 2003, TSM and TSI executed a closing agreement with the Department of the Treasury. In general, the terms of the closing agreement established the termination of TSI s tax exemption effective December 31, 2002 as stated in the ruling. Accordingly, effective January 1, 2003 TSI became subject to Puerto Rico income taxes as an other-than-life insurance entity, as defined in the P.R. Code.

The closing agreement also stipulated that TSM would pay taxes on TSI s accumulated statutory net income, in accordance with the income recognition methodology applied by the Secretary of the Treasury in the closing agreement and the ruling mentioned above. This tax ruling established the following methodology for TSM to determine its tax liability:

TSI s accumulated statutory net income while operating under the tax exemption, amounting to $132.8 million, was deemed distributed to TSM.

For tax purposes, TSM recognized the exempt accumulated statutory net income as gross income. On this amount, TSM recognized an income tax liability amounting to $51.8 million, which was determined by applying a tax rate of 39% to the exempt accumulated statutory net income deemed distributed to TSM. This income tax liability was recorded by TSM within the current income tax expense in the 2003 consolidated statements of earnings. Of this tax $37.0 million were paid on July 31, 2003, the date of the closing agreement, and $14.8 million on April 15, 2004.

The amount of TSM s net income available for distribution to stockholders had excluded amounts derived from TSI s results of operations for the year 2002 and prior years due to a prohibition on declaring dividends contained in the tax exemption ruling. Since TSI s tax exemption ended effective December 31, 2002, its earnings are now available for distribution to TSM s stockholders.

Separate disclosure about operating segments is required for any operating segment that meets any of the quantitative thresholds determined by FASB Statement No. 131, Disclosures about Segments of an Enterprise and Related Information, (SFAS No. 131). In determining whether information about segments is required for a particular year, the evaluation should be based on comparability between years. Thus, information would be required in the current period even if immaterial pursuant to the provisions of SFAS No. 131 if a segment has been significant in the immediate preceding period and is expected to be significant in the future. Based on the requirements of SFAS No. 131, as of December 31, 2005, the reportable segments for the Corporation are: the Health Insurance Commercial, the Health Insurance Healthcare Reform, the Property and Casualty Insurance and the Life and Disability Insurance segments. The Life and Disability Insurance segment was not presented as a reportable segment in previous filings since it did not meet any of the quantitative thresholds in the years 2004, 2003 and 2002. The segment information for the years 2004 and 2003 included in this Annual Report on Form 10-K has been restated to present the results of operations and financial position of the Life and Disability Insurance segment separately.

Available Information

TSM files annual, quarterly and current reports and other information with the Securities and Exchange Commission (the SEC). The SEC maintains a website that contains annual, quarterly and current reports and other information that issuers (including TSM) file electronically with the SEC. The SEC s website is www.sec.gov. TSM currently does not have an Internet website through which make available its SEC filings. The website address listed above is provided for the information of the reader and is not intended to be an active link. The Corporation will provide free of charge copies of its filings to any shareholder that requests them at the following address: Triple-S Management Corporation; Office of the Secretary of the Board; PO Box 363628; San Juan, P.R. 00936-3628.

Cautionary Statement Regarding Forward-Looking Information

This Annual Report on Form 10-K and other publicly available documents of TSM may include statements that constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including, among other things, statements concerning the financial condition, results of operations and business of the Corporation. These statements are not historical, but instead represent TSM s belief regarding future events, many of which, by their nature, are inherently uncertain and outside of the Corporation s control. These statements may address, among other things, future financial results, strategy for growth, and market position. It is possible that the

Corporation s actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. The factors that could cause actual results to differ from those in the forward-looking statements are discussed throughout this Form 10-K. TSM is

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not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligation), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

Puerto Rico s Economy

Key economic indicators published by the government of Puerto Rico for 2005, showed growth in the local economy of 2.4%, which is 0.2 percentage points lower than the growth experienced during the year 2004. The indicators published by the government suggest that the modest economic recovery that appeared to have gained strength during 2004 had slowed down during the year 2005. Furthermore, the government forecasted that during 2006 economic growth would not exceed 2.2%, which is even lower than the growth experienced this year. The moderation in the economic growth in Puerto Rico during the last year is due to many factors. First, the decrease in growth rate of the United States economy this past year, as well as the increases in oil prices, have had a direct impact on the Puerto Rican economy. The real growth rate of the economy in Puerto Rico is directly affected by the expected U.S. economy growth. On a local level, the fiscal crisis of the government of Puerto Rico has led to tax increases as well as to increases in the costs of several basic services and utilities, such as electricity and water, which will negatively affect the purchasing power of consumers. In addition, also due to the fiscal crisis, the government of Puerto Rico is immersed in an analysis of alternatives to increase its revenues, including a proposed tax reform which would impose a tax based upon the consumption of goods and services. The fiscal crisis faced by the government of Puerto Rico, if correction measures are not implemented on a timely basis, could result in severe credit difficulties, which would in turn have an adverse effect on the Island s already weakened economy.

The overall growth of the U.S. economy is the most important variable exerting an impact on Puerto Rico s economy. The U. S. government reported that its economy grew 3.5% during 2005, following a growth of 4.2% during 2004, which was the fastest economic growth experienced since 1999. The Congressional Budget Office forecasts the U.S. economy will grow 3.6% during the year 2006 and 3.4% during the year 2007. The economists believe that the U.S. economy will keep growing but at lower rates than during the extraordinary expansion of the second half of the nineties. Even with this economic growth, high oil prices, rising interest rates, the possibility of another terrorist attack, continuing concerns with international politics and the value of the dollar might dampen the economic rebound in the U.S. and Puerto Rico economies.

Insurance Industry

The insurance industry in Puerto Rico is highly competitive and is comprised of both local and foreign entities. The approval of the Gramm-Leach-Bliley Act of 1999, which applies to financial institutions domiciled in Puerto Rico, has opened the insurance market to new competition by allowing financial institutions such as banks to enter into the insurance business. At the moment, several banks in Puerto Rico have established subsidiaries that operate as insurance agencies.

The Corporation is the leader insurance group in Puerto Rico, as measured by the share of the total insurance premiums subscribed in Puerto Rico. The Corporation s health insurance company, TSI, is the leader of the health insurance industry. TSI s participation in the health insurance industry, considering both the Commercial and Reform segments, provide this subsidiary with a market share in terms of net premiums of approximately 33% as of December 31, 2005. Our property and casualty and life insurance subsidiaries also have important positions in their respective markets. As of December 31, 2005, STS had a market share in terms of net premiums of approximately 8% in the property and casualty insurance industry in Puerto Rico. During 2004 SVTS had a market share in terms of premiums written of approximately 25% in the group life insurance market in Puerto Rico.

Almost all of the Corporation s business is done within Puerto Rico and as such, it is subject to the risks associated with Puerto Rico s economy and its geographic location.

Health Insurance Commercial Segment

The Corporation participates in the commercial health insurance marketplace through TSI. Total premiums in the Commercial segment represented 56.2%, 55.4% and 55.0% of the Corporation s consolidated total premiums for the years 2005, 2004 and 2003, respectively.

TSI is a Blue Cross and Blue Shield Association large-affiliated licensee, which allows TSI to use the Blue Shield brand in Puerto Rico. TSI s participation in the health insurance industry with the Commercial segment provides this

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subsidiary with a market share in terms of premiums written of approximately 31% as of December 31, 2005. TSI offers a variety of health insurance products, and is the leader by market share in almost every health insurance market sector, as measured by the share of premiums subscribed. Its market share is more than double that of its nearest competitor (Medical Card Systems, which has a market share of approximately 14%). In addition to the Reform segment described below, TSI offers its products to five distinct market sectors in Puerto Rico. During 2005, TSI had the following market share within each sector: Corporate Accounts (groups), 44%; Federal Employees, 92%; Local Government Employees, 8%; Individual Accounts, 56%; and approximately 80% in the Medicare supplemental sector. Within the Corporate Accounts sector, employer groups may choose various funding options ranging from fully insured to self-funded financial arrangements. While self-funded clients participate in TSI s networks, the clients bear the claims risk. Through a contract with the United States Office of Personnel Management (OPM), TSI provides health benefits to federal employees in Puerto Rico under the Federal Employees Health Benefits Program. This contract is subject to termination in the event of noncompliance not corrected to the satisfaction of OPM. TSI also provides health insurance coverage to certain employees of the government of Puerto Rico and its instrumentalities. Earned premium revenue related to government of Puerto Rico health plans amounted to $64.6 million, $67.1 million and $65.9 million for the three years ended December 31, 2005, 2004 and 2003, respectively. In addition, TSI processes and pays claims as carrier for the Medicare Part B Program in Puerto Rico and the United States Virgin Islands. As a carrier for Medicare-Part B, TSI allocates operating expenses to determine reimbursement due for services rendered in accordance with the contract.

During 2005 TSI entered into the Medicare Advantage program under the provisions of the Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (MMA). As a preferred provider organization under the Medicare Advantage program, effective January 1, 2005 TSI launched *Medicare Optimo* , its PPO Medicare Advantage policy. With this policy TSI provides extended health coverage to Medicare beneficiaries. In addition, during the third quarter of 2005, TSI launched *Medicare Selecto* , its managed care Medicare Advantage policy. During this first year, premiums for the Medicare Advantage program amounted to $34.2 million. With the addition of expanded Medicare health plan options and enhanced benefits for 2006, this business is expected to have a significant growth in the coming years. In the Medicare Advantage sector, TSI had a market share of 5% as of December 31, 2006.

As set forth in the MMA, the Federal government, through the Centers for Medicare and Medicaid Services (CMS), will replace the current Title 18 fiscal intermediary (FI) and carrier contracts with competitively procured contracts that conform to the Federal Acquisition Regulation under the new Medicare Administrative Contractor (MAC) contracting authority. CMS has six years, between 2006 and 2011, to complete the transition of Medicare fee-for-service claims processing activities from the FI s and carriers to the MAC s. TSI is currently engaged in the analysis and evaluation of this transition process and the effect that it may have on its existing organizational structure as a Medicare carrier.

TSI s premiums are generated from customers within Puerto Rico. The premiums for the Commercial segment are mainly originated through TSI s internal sales force and a network of brokers and independent agents.

TSI s business is subject to changing federal and local legal, legislative and regulatory environments. Some of the more significant current issues that may affect TSI s business include:

- initiatives to increase healthcare regulation, including efforts to expand the tort liability of health plans,
- local government plans and initiatives, and
- Medicare reform legislation.

The U.S. Congress is continuing to develop legislation efforts directed toward patient protection, including proposed laws that could expose insurance companies to economic damages, and in some cases punitive damages, for making a determination denying benefits or for delaying members receipt of benefits as well as for other coverage determinations. Similar legislation has been proposed in Puerto Rico. Given the political process, it is not possible to determine whether any federal and/or local legislation or regulation will be enacted into law in 2006 or what form any such legislation might take.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA) authorizes the U.S. Department of Health and Human Services (HHS) to issue standards for administrative simplification, as well as privacy and security of medical records and other individually identifiable health information. The regulations under the HIPAA Administrative Simplification section impose a number of additional obligations on issuers of health insurance coverage and health benefit plan sponsors. HIPAA Administrative Simplification section requirements apply to self-funded group plans, health insurers and HMO s, health care clearinghouses and health care providers who transmit health information electronically (covered entities). Regulations adopted to implement HIPAA Administrative Simplification also require that business associates acting for or on behalf of HIPAA-covered entities be contractually obligated to meet HIPAA standards. The regulations of the Administrative Simplification section establish significant criminal penalties and civil sanctions for noncompliance.

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HHS has released rules mandating the use of new standard formats with respect to certain health care transactions (e.g. health care claims information, plan eligibility, referral certification and authorization, claims status, plan enrollment and disenrollment, payment and remittance advice, plan premium payments and coordination of benefits). HHS also has published rules requiring the use of standardized code sets and unique identifiers by employers and providers. TSI was required to comply with the transactions and code set standards by October 16, 2003 and with the employer identifier rules by July 2004 and believes that it is in material compliance with all relevant requirements. TSI is required to comply with provider identifier rules by May 2007 and currently expects to meet such deadline.

HHS also sets standards relating to the privacy of individually identifiable health information. In general, these regulations restrict the use and disclosure of medical records and other individually identifiable health information held by health plans and other affected entities in any form, whether communicated electronically, on paper or orally, subject only to limited exceptions. In addition, the regulations provide patients new rights to understand and control how their health information is used. HHS has also published security regulations designed to protect member health information from unauthorized use or disclosure. TSI is currently in material compliance with these security regulations.

The most significant challenge facing the healthcare industry continues to be the trend of rising healthcare costs, driven by the direct and indirect effect of legislative and regulatory actions. As such, the industry is becoming committed to a health care system that delivers efficient and high-quality care for insureds, as well as increased administrative efficiency for providers, payers and government. Insurance companies are focused on developing programs and new strategies that consider a combination of competitive premium pricing to sustain market share and cost reduction initiatives to achieve a satisfactory yield in the healthcare cost inflation scenario. Recently developed models strive for new products that essentially shift costs, and therefore the burden of decision making to the consumer. These new products, through higher deductible and co-payments, try to create consumer awareness and control the use of medical services. The development and consistent self-improvement of effectively-designed benefit management programs has become more relevant to the insurance industry profitability model. These trends have caused the health insurance industry to adopt strategies that emphasize benefits management (such as a defined contribution product) and to move away from more restrictive medical management strategies (such as the pre-authorization of certain procedures).

During past years, and as a result of increases in claims costs, TSI implemented procedures to seek to assure that all its businesses are priced with adequate premium rates that reflect the actual claims trend of each particular business. In spite of this, TSI has exceeded projected retention rates. The retention rate, which is the percentage of existing business retained in the renewal process, was 97.5% in 2005, 95.7% in 2004, and 95.0% in 2003. In addition, TSI has maintained its overall market share during the last three years.

TSI continues to enhance its management program strategies that seek to control claims costs while striving to fulfill the needs of highly informed and demanding healthcare consumers. Among these strategies is the reinforcement of disease and case management programs. These programs empower consumers by providing them with education and engaging them in actively maintaining or improving their own health. Early identification of patients and inter-program referrals are the milestones of these programs, which provide for integrated and optimal service. Other strategies include innovative partnerships and business alliances with other entities to provide new products and services such as: a 24-hour telephone based triage and health information service; an employee assistance program; and the promotion of evidence-based protocols and patient safety programs among our providers. TSI has also implemented a hospital concurrent review program, the goal of which is to monitor the appropriateness of high admission rate diagnoses and high cost stays. To stem the rising tide in pharmacy benefit costs, TSI has implemented a three-tier formulary product, which has proved to be very effective, an exclusive provider organization and benefits design changes.

Health Insurance Reform Segment

The Corporation participates in the medically indigent health insurance market through TSI. The Health Insurance Reform segment comprises TSI s participation in the Reform. The Reform segment premiums represented 36.6%, 37.1%, and 37.5% of the Corporation s consolidated total premiums for the years 2005, 2004 and 2003, respectively.

In 1994, the government of the Commonwealth of Puerto Rico (the government) privatized the delivery of services to the medically indigent population in Puerto Rico, as defined by the government, by contracting with private health insurance companies instead of providing health services directly to such population. Mental health benefits are currently offered to Reform beneficiaries by behavioral healthcare and mental healthcare companies and are therefore not part of the benefits covered by the health insurance companies. The government divided the Island into geographical areas. By December 31, 2001, the Reform had been fully implemented in each of the geographical areas. Each geographical area is awarded to a health insurer doing business in Puerto Rico through a competitive process

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requesting proposals from the industry. As of December 31, 2005, the Reform provides healthcare coverage to over 1.5 million lives.

The government has adopted measures to control the increase of Reform expenditures, which represent approximately 15.0% of total government expenditures. Several measures have been undertaken by the government to control Reform costs. Some of these measures include closer and continuous scrutiny of participant s (members) eligibility, decreasing the number of areas in order to take advantage of economies of scale and establishing disease management programs.

Effective July 1, 2003, the government began a pilot project whereby it contracts directly with a provider medical group, instead of through the health insurance companies. This project was not implemented in any of the areas served by TSI, but the government is not precluded from implementing a similar project in areas served by TSI in the future. In addition, the government has expressed its intention to evaluate different alternatives of providing health services to Reform beneficiaries.

TSI is the Reform insurance carrier for three of the eight geographical areas in Puerto Rico: North, Metro-North and Southwest. All Reform contracts contractually expired on June 30, 2005. However during February 2005, TSI was notified of the government interest in extending the contracts until December 31, 2005 or June 30, 2006. During April 2005, the government announced that each contract would be extended for a period of twelve (12) months, with an option to cancel on December 31, 2005, which was not exercised by the government. As a result of the negotiation of the contracts extension premium rates for the eleven-month contract period ending June 30, 2006 were increased by approximately 5.8%. The premium rates of each contract are negotiated annually. The contracts include a provision, however, that if the net income for any given contract year, as defined, resulting from the provision of services under the contract exceeds 2.5% of earned premiums, the insurance company is required to return 75.0% of the excess to the government. In case the contract renewal process is not completed by a contract s expiration date, the contract may be extended by the government, upon acceptance by TSI, for any subsequent period of time if deemed to be in the best interests of the beneficiaries and the government. The terms of a contract, including premiums, can be renegotiated if the term of the contract is extended.

The contract for each geographical area is subject to termination in the event of non-compliance by the insurance company not corrected or cured to the satisfaction of the government entity overseeing the Reform, or in the event that the government determines that there is an insufficiency of funds to finance the Reform. For additional information please see Item 1A. Risk Factors in the section Dependence on Large Contracts .

As of December 31, 2005, three insurance companies were participating in the Reform. The three insurance companies and their related market shares as of June 30, 2005 were the following: TSI (40.4%), Medical Card System (33.5%) and Humana (26.1%). Since the full implementation of the Reform, any participating insurance company s growth in this segment depends on winning a geographical area serviced by another insurance company or normal changes in membership. The health insurance companies that decide to participate in this business compete against each other during the contract adjudication process. Management believes that the Corporation s Reform segment s competitive strengths include TSI s highly efficient administrative structure and quality of services.

To provide services to its Reform membership, TSI established a managed care program, similar to a Health Maintenance Organization (HMO), which integrates both the financing and delivery of services in order to manage the accessibility, cost and quality of care. The established managed care model includes disease and demand management as well as preventive healthcare services. Management believes that all of these programs and TSI s effective administrative and pricing structure have made TSI one of the most attractive participants in the Reform.

TSI has established a network of Independent Practice Associations (IPAs) to provide service to its Reform beneficiaries in the Reform areas serviced by TSI. An IPA is a legal entity organized to provide health care services to members of a healthcare plan in return for a capitation fee. The risks covered by the Reform policy are divided among those assumed by the IPAs and those retained by TSI. The IPA receives an amount per capita, and it assumes the costs of primary care services provided and referred by its primary care physicians (PCPs), including procedures and in-patient services not related to risks assumed by TSI. As part of its services, TSI retains a portion of the capitation payments to the IPAs as a reserve to provide for incurred but not reported claims (IBNR) for services rendered by providers other than PCPs. TSI retains the risk associated with services provided to the beneficiaries with special

healthcare needs, such as: neonatal, obstetrical, AIDS, cancer, cardiovascular, and dental services, among others. Mental healthcare and drug abuse services to Reform participants are not part of the coverage; these services are contracted by the government with other companies.

The government of Puerto Rico has a plan to move the enrollees of the Reform with Medicare parts A and B from the Healthcare Reform to a Medicare Advantage plan (known as *Medicare Platino*) under which the government will assume the

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premiums rather than the insured. The government-sponsored Medicare Advantage plan will offer all of the Medicare benefits plus other benefits, as determined by the government. TSI was selected by the government to participate in this plan. All of the Healthcare Reform participants that qualify can begin moving to the government-sponsored plan beginning in January 2006. This situation could have the effect of increasing or decreasing the segment s membership; however the extent of any increase or decrease cannot be estimated at this time.

Premiums are determined taking into consideration future costs and utilization of services. Since premium levels for this significant block of business are determined on an annual basis, TSI is exposed to a significant underwriting risk. TSI entered into a service agreement with TCI for the administration of the Reform segment operations in exchange for a service fee that will cover TCI s operating expenses plus a profit.

Property and Casualty Insurance Segment

The Corporation participates in the property and casualty insurance market through STS. The property and casualty insurance segment premiums represented 6.2%, 6.6% and 6.2% of the Corporation s consolidated total premiums for the years 2005, 2004 and 2003, respectively.

STS is a multiple line insurer that underwrites substantially all lines of property and casualty insurance. Its predominant lines of business are commercial multiple peril, auto physical damage, auto liability and dwelling insurance. The underwriting of the segment s commercial lines targets small to medium size accounts with low to average exposures to catastrophe losses. The dwelling portfolio targets rate stability and a very low exposure to catastrophe losses. Business is exclusively subscribed in Puerto Rico through approximately twenty-two general agencies, including Signature Insurance Agency, Inc. (SIA), and independent insurance agents and brokers. SIA, which is STS s wholly-owned subsidiary, placed approximately 52%, 53% and 46% of STS s total premium volume during 2005, 2004 and 2003.

In 2005, STS s was in the fifth position in the property and casualty market in Puerto Rico, as measured by net premiums, with a market share of approximately 8.0%. The segment s nearest competitors and their market share of the property and casualty insurance market in Puerto Rico were: National Insurance Company (5.0%) and Integrand Assurance Company (5.0%). The market leaders in the property and casualty insurance industry in Puerto Rico are the Cooperativa de Seguros Múltiples Group and Universal Insurance Group, with market shares of 18.0% and 17.0% in 2005, respectively.

The property and casualty insurance market in Puerto Rico is extremely competitive. In addition, soft market conditions prevailed during 2005 in the region, including the United States, Puerto Rico and Latin America. In the local market, such conditions mostly affected the commercial risks, precluding rate increases and even provoking lower premiums on both renewals and new business. Due to the slow growth in the economy, there are no new sources that provide continued growth; thus, property and casualty insurance companies tend to compete for the same accounts through price and/or more favorable policy terms and better quality of services. STS competes by reasonably pricing its products and providing efficient services to producers, agents and clients. Management believes that the knowledgeable, experienced personnel employed by the segment is also an incentive for professional producers to conduct business with STS.

The auto insurance market has also been affected by government regulation, with the Compulsory Auto Insurance Law, which was passed in 1995. This law requires vehicle owners to maintain a minimum of $3,000 in public liability insurance.

The property and casualty insurance market has been affected by increased costs of reinsurance. The international reinsurance market, although affected by catastrophes each year, has experienced stability on reinsurance premium rates in recent years. The year 2005 was severe for catastrophe losses that impacted the entire international reinsurance market. It is expected that reinsurance costs will increase in the near future.

Due to its geographical location, property and casualty insurance operations in Puerto Rico are subject to natural catastrophic activity. Puerto Rico is exposed to two major natural perils (hurricanes and earthquakes), which lead local insurers to rely on the international reinsurance market in order to provide sufficient capacity. Accordingly, the Puerto Rico property and casualty insurance market is significantly affected by reinsurance cost and must seek to pass on these additional costs to its customers. Other issues that have plagued the industry over the years, such as asbestos and pollution, have not affected the segment s portfolio since STS is a young organization and existing policies exclude

such hazards. STS maintains a comprehensive reinsurance program as a means of protecting its surplus in the event of a catastrophe.

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Natural disasters, which have affected Puerto Rico greatly over the past ten years, have prompted local government to create property and casualty insurance reserves through legislation in order to provide coverage for catastrophic events. In addition to its catastrophic reinsurance coverage, STS is required by local regulatory authorities to establish and maintain a trust fund (the Trust) to protect STS from its dual exposure to hurricanes and earthquakes. The Trust is intended to be used as STS s first layer of catastrophe protection whenever qualifying catastrophe losses exceed 5% of catastrophe premiums or when authorized by the Commissioner of Insurance. Contributions to the Trust are determined by a rate (1% in 2005 and 2004), imposed by the Commissioner of Insurance on the catastrophe premiums written in that year. As of December 31, 2005 and 2004, STS had $25.1 million and $23.4 million, respectively, invested in securities deposited in the Trust. The income generated by investment securities deposited in the Trust becomes part of the Trust fund balance. For additional details see note 19 of the audited consolidated financial statements.

Considering the significance of reinsurance in protecting its capital base and ensuring ongoing operations, STS is aware of the need to exercise careful business judgment in the selection and approval of its reinsurers. Management believes that a comprehensive and sound reinsurance program has been established to provide the level of protection that STS desires. These reinsurance arrangements do not relieve STS from its direct obligations to its insureds. However, STS believes that the credit risk arising from recoverable balances of reinsurance, if any, is low. STS policy is to enter into reinsurance agreements only with reinsurers considered to be financially sound, which STS considers to be those reinsurers with an A.M. Best rating of A- or better or an equivalent rating from other rating agencies. Management believes that STS commitment to sound underwriting practices, efficient claims reserve monitoring, extensive catastrophe reinsurance program, and underwriting expense controls, have enabled it to maintain one of the best combined ratios in the local industry. STS, as well as most of its property and casualty peers, uses the loss ratio, the expense ratio and the combined ratio as measures of performance. A controlled business expansion in the commercial market and better underwriting performance of its auto business, evidenced by declining loss ratios, have also contributed to such favorable results. In addition, prudent reinsurance utilization through a sound strategy to control exposures by means of a strict underwriting criteria and protection of retained exposures have also enhanced underwriting results.

Life and Disability Insurance Segment

The Corporation participates in the life and disability insurance market through SVTS. The property life and disability insurance segment premiums represented 1.2%, 1.3% and 1.2% of the Corporation s consolidated total premiums for the years 2005, 2004 and 2003, respectively.

SVTS offers a wide variety of life, disability and investment products. Among these are group life insurance, group long and short-term disability insurance, credit life insurance, and the administration of individual retirement accounts and flexible premium deferred annuities. The group life insurance and the long-term disability businesses represent 36% and 33% of the segment s business during the year 2005, respectively. SVTS offers its insurance products to consumers in Puerto Rico through its own network of brokers and independent agents. Also, the segment markets its group life coverage through TSI s network of exclusive agents. Approximately 22%, 24% and 27% of the segment s premiums during the years 2005, 2004 and 2003, respectively, was subscribed through TSI s agents.

SVTS insures approximately 1,600 groups which represent approximately 286,000 lives. This makes SVTS the second largest provider of group life insurance in Puerto Rico, with a market share of approximately 24.7% in 2004, as measured by premiums written. The segment s nearest competitors in the group life insurance market in Puerto Rico and their related market share as of December 31, 2004 are Cooperativa de Seguros de Vida de Puerto Rico (35.2%) and AIG Life Insurance Company of Puerto Rico (12.6%).

On December 22, 2005, SVTS entered into a coinsurance funds withheld reinsurance agreement with GA Life. Under the terms of this agreement SVTS will assume 69% of all the business written as of and after the effective date of the agreement. On the effective date of the agreement, SVTS paid an initial ceding commission of $60.0 million for its participation in the business written by GA Life as of and after the effective date of the agreement. The initial ceding commission paid by SVTS is considered a policy acquisition cost and was deferred and will amortize over time accordingly.

As previously mentioned, effective January 31, 2006, TSM acquired 100% of the common stock of GA Life. During the year 2006, TSM expects to merge the operations of GA Life with those of SVTS; both companies will compose the Corporation s life and disability insurance segment. GA Life is one of the premier companies in life insurance products for individual consumers in Puerto Rico. As a result of this acquisition, the Corporation expects to position

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this segment as one of the leading providers of life insurance policies in Puerto Rico, in the individual and group life insurance businesses, and solidifies the Corporation as the leading insurance group in Puerto Rico.

Financial Information About Segments

Total revenue (with intersegment premiums/service revenues shown separately), net income and total assets attributable to the reportable segments are set forth in note 3 to the audited consolidated financial statements for the years ended December 31, 2005, 2004 and 2003.

Trademarks

The Corporation considers its trademarks of Triple-S and SSS very important and material to all segments in which it is engaged. In addition to these, other trademarks used by TSM s subsidiaries that are considered important have been duly registered with the Department of State of Puerto Rico and the United States Patent and Trademark Office. It is the Corporation s policy to register all its important and material trademarks in order to protect its rights under applicable corporate and intellectual property laws.

Human Resources and Labor Matters

As of February 28, 2006, the Corporation had 1,499 full-time employees and 361 temporary employees. TSI has a collective bargaining agreement with the Unión General de Trabajadores, which represents 373 of TSI s 801 regular employees. The collective bargaining agreement expires on July 31, 2006. The Corporation considers its relations with employees to be good.

Item 1A. Risk Factors

The Corporation must deal with several risk factors in its normal course of business. The following risk factors and other information included in this Annual Report on Form 10-K should be carefully considered. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to the Corporation or that are currently deemed immaterial also may impair our business operations. If any of the following risks occur, the business, financial condition, operating results, and cash flows of the Corporation could be materially affected.

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Reinsurance

The Corporation s insurance segments 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. The availability, amount and cost of reinsurance depend on market conditions and may vary significantly. Any decrease in the amount of reinsurance will increase the segment s exposure to risk of loss and could materially affect the operations of the insurance segments, particularly the Property and Casualty Insurance segment. In addition, the Corporation, through its insurance segments, is subject to credit risk with respect to reinsurers. Reinsurance contracts do not relieve any of the insurance segments 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 insurance segments would be liable for such defaulted amounts. The insurance segments mitigate the credit risk related to reinsurers by reinsuring its business only with reinsurers considered financially sound.

Dependence on Large Contracts

The Health Insurance segments participate in government contracts that generate a significant amount of the Corporation s consolidated premiums earned, net as follows:

Through TSI, the Corporation participates in the government s Healthcare Reform to provide health coverage to medically indigent citizens in Puerto Rico. As of December 31, 2005 TSI has contracts to serve three of the eight geographical areas in which the medically indigent population was divided for purposes of the Healthcare Reform. The contract for each geographical area is subject to termination in the event of non-compliance by the insurance company not corrected or cured to the satisfaction of the government entity overseeing the Reform, or in the event that the government determines that there is an insufficiency of funds to finance the Reform. This last event will require prior written notice of at least ninety days. For the three year period ended December 31, 2005 total premiums generated from the Reform contracts represent 36.6%, 37.1% and 37.5%, respectively, of the Corporation s consolidated total premiums. The loss of any or all of TSI s three Reform contracts would have a material adverse effect on the Corporation s operating results. This could include the downsizing of certain personnel, the cancellation of lease agreements of certain premises and of certain contracts, and severance payments, among others. Also, this would result in a significant decrease in TSI s volume of premiums, claims and operating expenses.

TSI is a qualified contractor to provide health insurance coverage to federal government employees within Puerto Rico. Premiums generated under this contract represent 8.1%, 8.3% and 8.2% of the Corporation s consolidated total premiums for the three year period ended December 31, 2005. The contract with the U.S. Office of Personnel Management (OPM) is subject to termination in the event of noncompliance not corrected to the satisfaction of the OPM. Since the operations of the Federal Employees Health Benefits Program (FEHBP) do not result in any excess or deficiency of revenue or expense, the loss of this contract does not have a significant effect in the operating results of the Corporation. However, the volume of premiums and claims and operating expenses of the segment would experience a significant decrease. In addition the segment would need to adjust its operations since the FEHBP would no longer participate in its fixed costs. Additional details on the operations and accounting of the FEHBP are included in note 9 to the audited consolidated financial statements.

TSI has a contract with the Centers for Medicare and Medicaid Services (CMS) to offer coordinated care plans to Medicare beneficiaries, as described in a plan benefit package bid submission proposal as approved by CMS. TSI began offering Medicare Advantage policies during 2005. Premiums generated from this business during the year 2005

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amounted to $34.2 million, or 2.5% of the Corporation s consolidated total premiums. As part of this contract TSI must comply with regulations established by CMS for the provision of benefits, enrollment requirements, beneficiary protection, provider protection, quality improvement program, compliance plan, program integrity, reporting requirements and marketing, among others. The contract provides for immediate termination by CMS in the event TSI is involved in false, fraudulent or abusive activities affecting the Medicare program. CMS and TSI may cancel the contract for other reasons specified in the contract; contract cancellation must be notified 90 days before the intended cancellation date. CMS and TSI have the right to appeal cancellations however; TSI cannot appeal cancellations due to its involvement in false, fraudulent or abusive activities. As of December 31, 2005, the loss of this contract would not have a material adverse effect in the Corporation s operating results. However, TSI expects to increase its participation in the Medicare Advantage business; should this business grow as expected the loss of the contract could have a material adverse effect in the Corporation s financial statements.

License Agreement with the Blue Cross Blue Shield Association

TSM and TSI are a party to license agreements with the Blue Cross Blue Shield Association that entitle us to the exclusive use of the Blue Shield name and mark in our geographic territories. The termination of these license agreements or changes in the terms and conditions of these license agreements could adversely affect our business, financial condition and results of operations.

We use the Blue Shield name and mark as an identifier for our products and services under licenses from the Blue Cross Blue Shield Association. Our license agreements with the Blue Cross Blue Shield Association contain certain requirements and restrictions regarding our operations and our use of the Blue Shield name and mark. Failure to comply with any of these requirements and restrictions could result in a termination of the license agreements.

The standards under the license agreements may be modified in certain instances by the Blue Cross Blue Shield Association. For example, from time to time there have been proposals considered by the Blue Cross Blue Shield Association to modify the terms of the license agreements to restrict various potential business activities of licensees. These proposals have included, among other things, a limitation on the ability of a licensee to make its provider networks available to insurance carriers or other entities not holding a Blue Cross or Blue Shield license. To the extent that such amendments to the license agreements are adopted in the future, they could have a material adverse effect on our future expansion plans or results of operations.

Upon the occurrence of an event causing termination of the license agreements, we would no longer have the right to use the Blue Cross and Blue Shield names and marks in one or more of our geographic territories. Furthermore, the Blue Cross Blue Shield Association would be free to issue a license to use the Blue Cross and Blue Shield names and marks in these states to another entity. Events that could cause the termination of a license agreement with the Blue Cross Blue Shield Association include failure to comply with minimum capital requirements imposed by the Blue Cross Blue Shield Association, a change of control or violation of the Blue Cross Blue Shield Association ownership limitations on our capital stock, impending financial insolvency and the appointment of a trustee or receiver or the commencement of any action against a licensee seeking its dissolution. We believe that the Blue Cross and Blue Shield names and marks are valuable identifiers of our products and services in the marketplace. Accordingly, termination of the license agreements could have a material adverse effect on our business, financial condition and results of operations

Geographical Concentration

A substantial majority of the Corporation s business activity is with insureds located throughout Puerto Rico, and as such, the Corporation is subject to the risks associated with the Puerto Rico economy. If economic conditions in Puerto

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Rico deteriorate, we may experience a reduction in existing and new business, which could have a material adverse effect the Corporation s business, financial position and results of operations.

Litigation

The Corporation is a defendant in various lawsuits, some of which involve claims for substantial and/or indeterminate amounts and the outcome of which is unpredictable. The Corporation intends to defend these suits vigorously. A description of the legal proceeding in which the Corporation in which the Corporation is involved is included in Item 3. Legal Proceedings of this Annual Report on Form 10-K. Because of the nature of the business, the Corporation may be subject to a variety of legal actions relating to its business operations, including the design, management and offering of products and services, among others.

Competition

The insurance industry in Puerto Rico is very competitive. If the insurance subsidiaries are unable to compete effectively while appropriately pricing the business subscribed, the Corporation s business and financial condition could be materially affected. Competition in the insurance industry is based on many factors, including premiums charges, services provided, speed of claim payments and reputation.

Regulations

The Corporation is subject to general business regulations and laws (at the local and Federal level) and the insurance subsidiaries are also subject to the regulations of the Commissioner of Insurance of Puerto Rico. General business regulations and laws may cover taxation, privacy, data protection, pricing, among others. The regulations imposed by the Commissioner of Insurance, among other things, influence how the insurance subsidiaries conduct business and place limitations on investments and dividends.

The regulatory powers of the Commissioner of Insurance of Puerto Rico are designed to protect policyholders, not stockholders. While we cannot predict the terms of future regulation, the enactment of new legislation could affect the cost or demand of insurance policies and may limit the segments ability to obtain rate increases in those cases where rates are regulated or expose the Corporation to expanded liability. In addition, the Corporation may incur in additional operating expenses in order to comply with new legislation and may be required to revise the way in which it conducts business.

The Corporation cannot assure that future regulatory action by the Commissioner of Insurance or other governmental agencies will not have a material adverse effect on the profitability or marketability of its business, financial condition and results of operations.

Dependence on Information Systems

The Corporation s business depends significantly on effective information systems, and we have many different information systems for our various businesses. Information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and develop new systems in order to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. In addition, the Corporation may from time to time obtain significant portions of our systems-related or other services or facilities from independent third parties, which may make our operations vulnerable to such third parties failure to perform adequately. As a result of the acquisition of GA Life, the Corporation has acquired an additional system. The Corporation s failure to maintain effective and efficient information systems, or the failure to efficiently and effectively consolidate information systems to eliminate redundant or obsolete applications, could have a material adverse effect on its business, financial condition and results of operations.

Business Acquisitions

In 2006 the Corporation acquired 100% of the common stock of GA Life and plans to merge the operations of SVTS with those of the acquired company. In addition, the Corporation may acquire additional companies if consistent with its strategic plan for growth. Acquisitions may create risks such as the following:

- Disruption of on-going business operations, distraction of management, diversion of resources and difficulty in maintaining current business standards, controls and procedures.
- Difficulty in integrating information technology of acquired entity and unanticipated expenses related to such integration.

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Difficulty in the integration of the new company s accounting, financial reporting, management, information, human resources and other administrative systems and the lack of control if such integration is delayed or not implemented.

Difficulty in the implementation of controls, procedures and policies appropriate for filers with the Securities and Exchange Commission at companies that prior to acquisition lacked such controls, policies and procedures.

Potential unknown liabilities associated with the acquired company or under-estimating know liabilities.

Failure of acquired business to achieve anticipated revenues, earnings or cash flow.

Incurrence of additional debt related to future acquisitions.

Competition with other entities, some of which may have greater financial and other resources, to acquire attractive companies.

Item 1B. Unresolved Staff Comments

There are no unresolved Commission staff comments that remain unresolved at the time of filing.

Item 2. Properties

TSM owns a seven story (including the basement floor) building located at 1441 F.D. Roosevelt Avenue, in San Juan, Puerto Rico where the main offices of TSM, TSI and ISI are located, and two adjacent buildings that house TCI and certain offices of TSI, as well as the adjoining parking lot. In addition, TSM is the owner of five floors of a fifteen-story building located at 1510 F.D. Roosevelt Avenue, in Guaynabo, Puerto Rico. These floors house the Internal Auditing Office of TSM, the main offices of SVTS and STS and some divisions of TSI. The Corporation is currently renovating the facilities in one of the two buildings adjacent to its main offices to house the operations of ISI, including its mainframe facilities, and some divisions of TSI. ISI s mainframe facilities are currently located in a leased property that will be vacated once the renovation project is completed.

In addition to the properties described above, TSM or its subsidiaries are parties to operating leases that are entered into in the ordinary course of business.

TSM believes that the facilities of the Corporation are in good condition and that the facilities, together with capital improvements and additions currently underway, are adequate to meet its operating needs for the foreseeable future. The need for expansion, upgrading and refurbishment of facilities is continually evaluated in order to keep facilities aligned with planned business growth and corporate strategy.

Item 3. Legal Proceedings.

(a) As of December 31, 2005, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. Management believes, based on the opinion of legal counsel, that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the Corporation s consolidated financial position or results of operations.

(b) Drs. Carlyle Benavent and Ibrahim Pérez (the plaintiffs) caused the initiation of an administrative proceeding before the Puerto Rico Insurance Commissioner against TSI and TSM alleging the illegality of the repurchase and subsequent sale of 1,582 shares of TSI s common stock due to the fact that the ultimate purchasers of said shares were selected on an improper and selective basis by the Corporation in violation of the Puerto Rico Insurance Code. The plaintiffs alleged that they were illegally excluded from participation in the sale of shares by TSI due to the illegally selective nature of the sale of shares and that, consequently, the sale of shares should be eliminated.

In December 1996, the Commissioner of Insurance issued an order to annul the sale of the 1,582 shares that TSI had repurchased from the estate of deceased stockholders. TSI contested such order through an administrative and judicial review process. Consequently, the sale of 1,582 shares was cancelled and the purchase price was returned to each former stockholder. In the year 2000, the Commissioner of Insurance

issued a pronouncement providing further clarification of the content and effect of the order. This order also required that all corporate decisions undertaken by TSI through the vote of its stockholders of record, be ratified in a stockholders meeting or in a subsequent referendum. In November 2000, TSM, as the sole stockholder of TSI, ratified all such decisions. Furthermore, on November 19, 2000, TSM held a special

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stockholders meeting, where a ratification of these decisions was undertaken except for the resolution related to the approval of the reorganization of TSI and its subsidiaries. This resolution did not reach the two thirds majority required by the order because the number of shares that were present and represented at the meeting was below such amount (total shares present and represented in the stockholders meeting was 64%). As stipulated in the order, TSM began the process to conduct a referendum among its stockholders in order to ratify such resolution. The process was later suspended because upon further review of the scope of the order, the Commissioner of Insurance issued an opinion in a letter dated January 8, 2002 which indicated that the ratification of the corporate reorganization was not required.

In another letter dated March 14, 2002, the Commissioner of Insurance stated that the ratification of the corporate reorganization was not required and that TSI had complied with the Commissioner s order of December 6, 1996 related to the corporate reorganization. Thereafter, the plaintiffs filed a petition for review of the Commissioner s determination before the Puerto Rico Circuit Court of Appeals. Such petition was opposed by TSI and by the Commissioner of Insurance.

Pursuant to that review, on September 24, 2002, the Puerto Rico Circuit Court of Appeals issued an order requiring the Commissioner of Insurance to order that a meeting of shareholders be held to ratify TSI s corporate reorganization and the change of name of TSI from Seguros de Servicios de Salud de Puerto Rico, Inc. to Triple-S, Inc. The Puerto Rico Circuit Court of Appeals based its decision on administrative and procedural issues directed at the Commissioner of Insurance. The Commissioner of Insurance filed a motion of reconsideration with the Puerto Rico Circuit Court of Appeals on October 11, 2002. TSM and TSI also filed a motion of reconsideration.

On October 25, 2002, the Puerto Rico Circuit Court of Appeals dismissed the Commissioner of Insurance s Motion for Reconsideration and ordered the plaintiffs to reply to TSI s Motion of Reconsideration.

On May 18, 2003, the Puerto Rico Circuit Court of Appeals granted TSI s and TSM s Motion of Reconsideration. The Puerto Rico Circuit Court of Appeals held that the Commissioner of Insurance had the authority to waive the celebration of a referendum to ratify TSI s reorganization and that therefore the reorganization of TSI, inasmuch as the 1,582 shares annulled were not decisive, was approved by the stockholders.

On June 26, 2003, the plaintiffs presented a writ of certiorari before the Supreme Court of Puerto Rico. TSI and TSM filed a motion opposing the issuance of the writ. The writ was issued by the Supreme Court on August 22, 2003 when it ordered the Puerto Rico Circuit Court of Appeals to transmit the record of the case. On December 1, 2003, the plaintiffs filed a motion submitting their case on the basis of their original petition. TSI and TSM filed its brief on December 30, 2003, while the Commissioner of Insurance, in turn, filed a separate brief on December 31, 2003. On June 24, 2004 the Supreme Court of Puerto Rico ordered the plaintiffs to file a brief in support of their allegations. The case is still pending before the Supreme Court of Puerto Rico. It is the opinion of the management and its legal counsels that the corporate reorganization as approved is in full force and effect.

(c) On September 4, 2003, José Sánchez and others filed a putative class action complaint against the Corporation, present and former directors of TSM and TSI, and others, in the United States District Court for the District of Puerto Rico, alleging violations under the Racketeer Influenced and Corrupt Organizations Act, better known as the RICO Act. The suit, among other allegations, alleges a scheme to defraud the plaintiffs by acquiring control of TSI through illegally capitalizing TSI and later converting it to a for-profit corporation and depriving the stockholders of their ownership rights. The plaintiffs base their later allegations on the supposed decisions of TSI s board of directors and stockholders, allegedly made in 1979, to operate with certain restrictions in

order to turn TSI into a charitable corporation, basically forever. On March 4, 2005 the Court issued an Opinion and Order. In this Opinion and Order, of the twelve counts included in the complaint, eight counts were dismissed for failing to assert an actionable injury; six of them for lack of standing and two for failing to plead with sufficient particularity in compliance with the Rules. All shareholder allegations, including those described above, were dismissed in the Opinion and Order. The remaining four counts were found standing, in a limited way, in the Opinion and Order. Finally, the Court ordered that by March 24, 2005 one of the counts left standing be replead to conform to the Rules and that by March 28, 2005 a proposed schedule for discovery and other submissions be filed. The count was amended and accepted by the Court and the discovery schedule was submitted. The parties have finished class certification discovery. The parties fully briefed the issue of class certification and are awaiting the Court s decision. In addition, the defendants are evaluating the dismissal of the surviving claims. This case is still pending before the United States District Court for the District of Puerto Rico.

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(d) On April 24, 2002, Octavio Jordán, Agripino Lugo, Ramón Vidal, and others filed a suit against TSM, TSI and others in the Court of First Instance for San Juan, Superior Section, alleging, among other things, violations by the defendants of provisions of the Puerto Rico Insurance Code, anti-monopolistic practices, unfair business practices and damages in the amount of $12.0 million. They also requested that TSM sell shares to them. After a preliminary review of the complaint, it appears that many of the allegations brought by the plaintiffs have been resolved in favor of TSM and TSI in previous cases brought by the same plaintiffs in the United States District Court for the District of Puerto Rico and by most of the plaintiffs in the local courts. The defendants, including TSM and TSI answered the complaint, filed a counterclaim and filed several motions to dismiss this claim. On February 18, 2005 the plaintiffs informed their intention to amend the complaint and the Court granted them 45 days to do so and 90 days to the defendants to file the corresponding motion to dismiss. On May 9, 2005 the plaintiffs amended the complaint and the defendants are preparing the corresponding motions to dismiss this amended complaint. The plaintiffs amended the complaint to allege causes of action similar to those dismissed by the United States District Court for the District of Puerto Rico in the Sánchez case. Defendants moved to dismiss the amended complaint. Plaintiffs have notified their opposition to some of the defendants motion to dismiss, and the defendants filed the corresponding replies. On January 25, 2006, the court held a hearing to argue the dispositive motions.

(e) On May 22, 2003 a putative class action suit was filed by Kenneth A. Thomas, M.D. and Michael Kutell, M.D., on behalf of themselves and all others similarly situated and the Connecticut State Medical Society against the Blue Cross and Blue Shield Association (BCBSA) and multiple other insurance companies including TSI. The case is pending before the U.S. District Court for the Southern District of Florida, Miami District.

The individual plaintiffs bring this action on behalf of themselves and a class of similarly situated physicians seeking redress for alleged illegal acts of the defendants, which they allege have resulted in a loss of their property and a detriment to their business, and for declaratory and injunctive relief to end those practices and prevent further losses. Plaintiffs alleged that the defendants, on their own and as part of a common scheme, systematically deny, delay and diminish the payments due to doctors so that they are not paid in a timely manner for the covered, medically necessary services they render.

The class action complaint alleges that the health care plans are the agents of BCBSA licensed entities, and as such have committed the acts alleged above and acted within the scope of their agency, with the consent, permission, authorization and knowledge of the others, and in furtherance of both their interest and the interests of other defendants.

Management believes that TSI was brought to this litigation for the sole reason of being associated with the BCBSA. However, on June 18, 2004 the plaintiffs moved to amend the complaint to include the Colegio de Médicos y Cirujanos de Puerto Rico (a compulsory association grouping all physicians in Puerto Rico), Marissel Velázquez, MD, President of the Colegio de Médicos y Cirujanos de Puerto Rico, and Andrés Meléndez, MD, as plaintiffs against TSI. Later Marissel Velázquez, MD voluntarily dismissed her complaint against TSI.

TSI, along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act.

The Court issued a 90-day stay to allow the parties to discuss their differences and come to amicable agreement. The stay expired on March 7, 2006. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006.

(f) On December 8, 2003 a putative class action was filed by Jeffrey Solomon, MD and Orlando Armstrong, MD, on behalf of themselves and all other similarly situated and the American Podiatric Medical Association, Florida Chiropractic Association, California Podiatric Medical Association, Florida Podiatric Medical Association, Texas Podiatric Medical Association, and Independent Chiropractic Physicians, against the BCBSA and multiple other insurance companies, including TSI and all members of the BCBSA. The case is still pending before the United States District Court for the Southern District of Florida, Miami District.

The lawsuit challenges many of the same practices as the litigation described in the immediately preceding item.

Management believes that TSI was made a party to this litigation for the sole reason that TSI is associated with the BCBSA.

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On June 25, 2004, plaintiffs amended the complaint but the allegations against TSI did not vary. TSI along with the other defendants, moved to dismiss the complaint on multiple grounds, including but not limited to arbitration and applicability of the McCarran Ferguson Act.

The Court issued a 90-day stay to allow the parties to discuss their differences and come to an amicable agreement. The stay expired on March 7, 2006. Although the parties are still in the process of discussing their differences, they have not moved the Court to extend the stay. The defendants suggested that plaintiffs join in a request to extend the stay, but the plaintiffs have not reacted to the defendants invitation.

Item 4. Submissions of Matters to a Vote of Security Holders.

Not applicable.

Part II

Item 5. Market for Registrant s Common Equity, Related Stockholders Matters and Issuer Purchases of Equity Securities.

Market Information

There is no established public trading market for TSM s common stock. Sporadic transfers of TSM s common stock have been limited to redemptions to TSM at the greater of the shares $40.00 par value or at the amount originally paid for the stock, since the common stock of TSM is not transferable to the general public. In determining the market value of common stock disclosed in the facing page of this Annual Report on Form 10-K, the Corporation used the shares $40.00 par value, which is the per share amount at which the last sales of common stock have been made. TSM s Articles of Incorporation and By-Laws establish that only physicians, dentists and certain specified healthcare organizations shall be shareholders of the Corporation. In addition, the Articles of Incorporation and By-Laws establish that no person may own more than 21 shares, or five percent (5%) or more, of the Corporation s Voting Shares issued and outstanding.

Holders

The only outstanding voting securities of TSM are shares of its common stock, par value $40.00 per share. As of March 15, 2006, there were 8,904 shares of Common Stock outstanding. The number of holders of TSM s common stock as of March 15, 2006 was 1,766.

Dividends

The Company did not declare any dividends during the years 2005 and 2004.

Recent Sales of Unregistered Securities

Not applicable.

Purchases of Equity Securities by the Issuer

Not applicable.

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Item 6. Selected Financial Data.

(Dollar amounts in thousands, except per share data)	**2005**	**2004**	**2003**	**2002**	**2001**
Statement of Earnings Data					
Years ended December 31,					
Premiums earned, net	$1,380,204	1,298,959	1,264,395	1,236,647	1,155,399
Amounts attributable to self-funded arrangements	210,905	179,166	160,127	150,684	134,374
Less amounts attributable to claims under self-funded arrangements	(196,460)	(169,924)	(151,806)	(141,138)	(126,295)
Premiums earned, net and fee revenue	1,394,649	1,308,201	1,272,716	1,246,193	1,163,478
Net investment income	29,029	26,499	24,679	24,778	25,405
Net realized investments gains	7,161	10,968	8,365	185	4,655
Net unrealized investment gain (loss) on trading securities	(4,709)	3,042	14,893	(8,322)	(3,625)
Other income, net	3,732	3,360	4,703	2,075	483
Total revenue	$1,429,862	1,352,070	1,325,356	1,264,909	1,190,396
Net income	$ 28,433	45,803	26,229	48,249	21,715
Basic net income per share (1):	$ 3,193	5,135	2,857	1,085	1,052
Balance Sheet Data					
December 31,					
Total assets	$1,137,462	919,657	834,623	721,892	656,058
Long-term borrowings	$ 150,590	95,730	48,375	50,015	55,650
Total stockholders equity	$ 308,703	301,433	254,255	231,664	186,028

(1) Further details of the calculation of basic earnings per share are set forth in notes 2 and 22 of the audited consolidated financial statements for the years ended

December 31, 2005, 2004 and 2003.

Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations.

This financial discussion contains an analysis of the consolidated financial position and financial performance as of December 31, 2005 and 2004, and consolidated results of operations for 2005, 2004 and 2003. 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 on Form 10-K.

General

The Corporation (on a consolidated basis and for each reportable segment), similar to most insurance entities, uses the loss ratio, the expense ratio and the combined ratio as measures of performance. The loss ratio is the claims incurred divided by the premiums earned, net and fee revenue multiplied by 100. The expense ratio is the operating expenses divided by the premiums earned, net and fee revenue multiplied by 100. The combined ratio is the sum of the loss ratio and the expense ratio. These ratios are relative measurements that describe for every $100 of premiums earned, net and fee revenue, the costs of claims and operating expenses, respectively. The combined ratio represents the total cost per $100 of premium production. A combined ratio below 100 demonstrates underwriting profit; a combined ratio above 100 demonstrates underwriting loss.

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Consolidated Operating Results

The analysis in this section is included to provide an overall view of certain information, the consolidated statements of operations, and key financial information. Further details of the results of operations of each reportable segment are included in the respective segment s section.

(Dollar amounts in thousands)	**2005**	**2004**	**2003**
Years ended December 31,			
Consolidated premiums earned, net and fee revenue:			
Health insurance Commercial Program	$ 779,913	720,789	699,365
Health insurance Reform Program	510,839	484,742	477,614
Property and casualty	86,767	86,228	78,334
Life and disability	17,130	16,442	17,403
Consolidated premiums earned, net and fee revenue	$1,394,649	1,308,201	1,272,716
Consolidated claims incurred	$1,208,367	1,115,793	1,065,350
Consolidated operating expenses	181,703	171,879	165,149
Consolidated underwriting costs	$1,390,070	1,287,672	1,230,499
Consolidated loss ratio	86.6%	85.3%	83.7%
Consolidated expense ratio	13.0%	13.1%	13.0%
Consolidated combined ratio	99.6%	98.4%	96.7%
Consolidated net investment income	$ 29,029	26,499	24,679
Consolidated net realized gain on sale of securities	7,161	10,968	8,365
Consolidated net unrealized gain (loss) on trading securities	(4,709)	3,042	14,893
Consolidated net investment income	$ 31,481	40,509	47,937
Consolidated income tax expense	$ 3,764	14,014	65,397
Net income (loss) per segment:			
Health insurance Commercial Program	$ 15,384	23,757	49,071
Health insurance Reform Program	(43)	9,250	14,034
Property and casualty	9,863	11,085	9,677
Life and disability	2,098	996	3,716
Other operating segments and TSM	1,131	715	(50,269)
Consolidated net income	$ 28,433	45,803	26,229

Year ended December 31, 2005 compared with the year ended December 31, 2004

Consolidated premiums earned, net and fee revenue during the year 2005 increased by $86.4 million, or 6.6 %, when compared to the premiums earned, net and fee revenue during 2004. This increase is mostly due to the fluctuation in premiums earned, net of both Health Insurance segments.

The premiums earned, net and fee revenue corresponding to the Health Insurance Commercial Program presented an increase of $59.1 million, or 8.2%, during this period. The increase in premiums earned, net of this segment is due to a 1.2% increase in average enrollment together with a 6.0% increase in average premium rates in 2005.

The premiums earned, net of the Health Insurance Reform segment presented an increase of $26.1 million, or 5.4%, in 2005, as compared to the premiums earned, net in 2004. This increase is the result of a 4.5% increase in average premium rates together with a 0.9% increase in the average membership of the segment.

Consolidated claims incurred during the year 2005 reflected an increase of $92.6 million, or 8.3%, when compared to the consolidated claims incurred for the year 2004. The loss ratio reflects an increase of 1.3 percentage points during the same period. This increase is mostly driven by the fluctuations in the claims incurred and the loss ratio of the Health Insurance Commercial Program and Reform segments, which are attributable primarily to the following:

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During 2005, the claims incurred of the Health Insurance Commercial segment increase of $57.1 million, or 9.2%, is primarily attributed to an increase in utilization and costs of services as well as to an increase in average enrollment.

The claims incurred of the Health Insurance Reform segment increased $40.2 million, or 9.2%, when comparing the amounts incurred in the years 2005 and 2004. The increase in the claims incurred of this segment results mostly from higher utilization trends and costs, particularly in the risks assumed by the segment, such as cardiovascular services, dialysis and obstetrics and HIV, among others. In addition, this segment also experienced an increase in claims incurred that is attributed to the increase in its average enrollment.

The amount of claims incurred in the Property and Casualty Insurance segment decreased $2.4 million, or 5.2%, during the year 2005. This decrease is primarily due to incurred losses from Tropical Storm Jeanne in September 2004, which resulted in net losses of $2.1 million.

Consolidated operating expenses increased $9.8 million, or 5.7%, during the year 2005. The increase in the operating expenses is basically attributed to the increased volume of business of its reportable segments. The consolidated expense ratio decreased 0.1 percentage points during the year 2005, from 13.1% in 2004 to 13.0% in 2005.

The consolidated realized gain on sale of securities is the result of the management of the investment portfolio in accordance with corporate investment policies and from normal portfolio turnover of the trading and available-for-sale securities. The decrease of $3.8 million in the realized gain during 2005 when compared to the year 2004 is mostly due to the sale of common stock of Popular, Inc. during 2004, which generated a realized gain of approximately $6.2 million. In addition, in the year 2005 the Corporation realized gains of $1.7 million in the sale of its corporate bonds trading portfolio.

The unrealized (loss) gain on trading securities is related to investments held by segments in corporate bonds and equity securities. The unrealized loss experienced during the year 2005 is mostly attributed to losses in the portfolios held by segments in equity securities that seek to replicate the Standard & Poor s 500 Index, the Russell 1000 Growth Index and the Russell 1000 Value Index. These Indexes experienced positive returns in 2005, however; the Corporation has recognized unrealized losses since during the second quarter of the year 2005 certain investments with unrealized gains within the equity securities portfolio were sold. This caused the realization of such gains, thus reducing the unrealized gains of the portfolios.

The consolidated income tax expense during the year 2005 decreased by $10.2 million when compared to the year 2004. This decrease is mostly due to a decrease in the taxable income when comparing the years 2005 and 2004. This was offset in part by an increase in the Property and Casualty Insurance segment s deferred tax expense of approximately $1.6 million in 2005. This increase was the result of an update by the segment of the tax rate at which certain deferred taxes were accounted for in order to reflect the tax rate at which deferred taxes are expected to reverse.

Year ended December 31, 2004 compared with the year ended December 31, 2003

Consolidated premiums earned, net and fee revenue increased by $35.5 million, or 2.8 %, during the year 2004 when compared to the premiums earned, net and fee revenue during 2003. This increase is mostly due to the fluctuation in premiums earned, net of both Health Insurance segments and the property and casualty insurance segment.

The premiums earned, net and fee revenue corresponding to the Health Insurance Commercial Program increased $21.4 million, or 3.1%, during this period. The increase in premiums earned, net of this segment is due to increases in premium rates and an increase in the average enrollment of Self-funded Employers accounts.

The premiums earned of the property and casualty insurance segment increased by $7.9 million, or 10.1%, during the year 2004. This increase is mostly the result of the segment s increased volume of business, particularly in the Dwelling and Auto Physical Damage lines of business.

The premiums earned, net of the Health Insurance Reform segment increased $7.1 million, or 1.5%, in 2004, as compared to the premiums earned, net in 2003. The increase in the premiums earned, net of this segment is

due to increases in premium rates during the contract renegotiation process, net of a decrease in membership. The consolidated claims incurred during the year 2004 were $50.4 million, or 4.7%, higher than the consolidated claims incurred for the year 2003. The loss ratio reflects an increase of 1.6 percentage points during the same period. This increase is mostly driven by the fluctuations in the claims incurred and the loss ratio of the Health Insurance Commercial Program and Reform segments. During 2004, the Health Insurance Commercial and Reform segments

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experienced higher costs per service and utilization trends when compared to the prior period. The increase was mainly noted in the cost and utilization of prescription drugs, X-rays, and emergency room services as well as to an increase in the cost of surgical procedures and laboratory services.

In addition, claims incurred in the Property and Casualty Insurance segment also increased during 2004. The increase in the claims incurred of this segment is mostly due to an increase in its volume of business and to approximately $2.0 million of net losses from claims incurred related to the passage of Tropical Storm Jeanne through Puerto Rico.

Consolidated operating expenses increased $6.7 million, or 4.1%, during 2004 when compared to 2003, which is primarily attributable to the increased volume of business of its reportable segments. The consolidated expense ratio increased 0.1 percentage points during the year 2004, from 13.0% in 2003 to 13.1% in 2004.

The consolidated realized gain on sale of securities is the result of the management of the investment portfolio in accordance with corporate investment policies and from normal portfolio turnover of the trading and available-for-sale securities. The consolidated realized gain during 2004 is mostly due to the sale of common stock of Popular, Inc., which generated a realized gain of approximately $6.2 million and also to normal portfolio turnover of the trading and available for sale securities.

The unrealized gain on trading securities is related to investments held by segments in corporate bonds and equity securities. The unrealized gain experienced during the year 2004 is mostly attributed to gains in the portfolios held by segments in equity securities that replicate the Standard & Poor s 500 Index, the Russell 1000 Growth Index and the Russell 1000 Value Index. All Indexes experienced positive returns in 2004.

The consolidated income tax expense during the year 2004 decreased $51.4 million when compared to 2003 primarily as a result of the termination of TSI s tax ruling in July 2003. As a result, TSM recognized an income tax expense in 2003 amounting to $51.8 million.

Health Insurance Commercial Program Operating Results

(Dollar amounts in thousands)	**2005**	**2004**	**2003**
Years ended December 31,			
Average enrollment:			
Corporate accounts	305,362	302,634	305,100
Self-funded employers	152,194	141,009	128,803
Individual accounts	86,628	84,807	84,407
Federal employees	49,244	51,917	53,993
Local government employees	34,910	40,257	43,177
Total average enrollment	628,338	620,624	615,480
Premiums earned, net	$ 768,672	714,442	693,645
Amount attributable to self-funded arrangements	211,975	180,216	161,014
Less amounts attributable to claims under self-funded arrangements	(196,460)	(169,924)	(151,806)
Premiums earned, net and fee revenue	$ 784,187	724,734	702,853
Claims incurred	$ 677,870	620,751	584,448
Operating expenses	103,562	94,930	92,264
Total underwriting costs	$ 781,432	715,681	676,712

Underwriting income	$ 2,755	9,053	26,141
Loss ratio	86.4%	85.7%	83.2%
Expense ratio	13.2%	13.1%	13.1%
Combined ratio	99.6%	98.8%	96.3%

General

The Health Insurance Commercial Program segment s total revenues are primarily generated from premiums earned for risk-based healthcare services provided to its members, revenues generated from self-funded arrangements and investment income. Claims incurred include healthcare services and other benefit expenses consisting primarily of

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payments to physicians, hospitals and other service providers. A portion of the claims incurred for each period consists of an actuarial estimate of claims incurred but not reported to the segment during the period. Operating expenses are comprised of general, selling, commissions, depreciation, payroll and other related expenses. The segment s results of operations depend largely on its ability to accurately predict and effectively manage healthcare costs.

Year ended December 31, 2005 compared with the year ended December 31, 2004

During 2005, the Health Insurance Commercial Program segment reported an increase of $59.5 million, or 8.2%, in the amount of premiums earned, net and fee revenue. This increase in the amount of premiums earned, net and fee revenue is the result of the following:

Premiums for the segment s Medicare Advantage program, which was launched in the year 2005, amounted to $34.2 million. No Medicare Advantage premiums were reflected in the 2004 period.

In 2005, the segment s average enrollment increased 7,714 members, or 1.2%, when compared to the year 2004. The increase in the average enrollment is mostly reflected in the self-funded employers and corporate accounts businesses, which membership increased by 11,185, or 7.9%, and 2,728, or 0.9%, during this period, respectively. This increase in average enrollment is mostly attributed to new groups acquired throughout 2005. The average enrollment of the local government employees and Federal employees businesses, on the other hand, decreased by 5,347, or 13.3%, and 2,673, or 5.1%, during this year, respectively.

On average, this segment increased premium rates by approximately 6% during the year 2005. Approximately 84% of the increase in total premiums is due to increases in premium rates. The remaining 16% is attributable to an increase in the segment s volume of business.

The claims incurred for the year 2005 were $57.1 million, or 9.2%, higher than 2004. The segment s loss ratio reflects an increase of 0.7 percentage points during the same period. The increase in the loss ratio is attributed to an increase in claims experience trends from 5.7% in 2004 to 6.7% in 2005, mostly due to higher utilization levels and higher costs per service. The segment experienced an increase in utilization and costs of service for office visits, prescription drugs, laboratory services and specialized procedures, such as MRIs and CT scans, which contributed to the increased loss ratio for the period.

The segment continues to enhance cost containment initiatives that control claims trends and maintains them at levels consistent with pricing and margin objectives.

Operating expenses increased by $8.6 million, or 9.1%, during 2005 when compared to the 2004 period. This increase is principally attributed to expenses amounting to $9.4 million related to the launching of the new Medicare Advantage program and approximately $1.0 million of commission expense related to the new business generated during the year. On the other hand, the segment experienced a reduction of approximately $3.0 million in the amount expensed related to several operating projects. The expense ratio experienced an increase of 0.1 percentage points during the year 2005.

Year ended December 31, 2004 compared with the year ended December 31, 2003

The Health Insurance Commercial Program segment reported an increase of 3.1% in the amount of premiums earned, net and fee revenue during the year 2004. This increase is due to the following:

The segment constantly monitors claims trends, particularly in the rated corporate accounts and Individual lines of business. This practice assures adequate premium rates that reflect the actual claims trend of each particular business. On average, this segment increased premium rates by 4.5% during the year 2004.

The increase in total average enrollment of 5,144 members, or 0.8%, during the year 2004 when compared to 2003 is mainly the result of flat employment levels in Puerto Rico during the last three years. The most significant increase in enrollment is in the Self-funded Employers, which presents an increase of 12,206 members, or 9.5%, since during this period certain large corporate accounts groups shifted from the rated business to self-funded arrangements, assuming the risk associated with insuring their employees. The increase experienced in this business is mitigated by the decrease experienced in 2004 in the Local government

employees and Federal employees businesses, which present a decrease of 2,920 members, or 6.8%, and 2,076, or 3.8%, respectively.

Approximately 73% of the increase in total premiums is due to increases in premium rates. The remaining 27% is attributable to an increase in the segment s volume of business.

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The claims incurred for the year 2004 were $36.3 million, or 6.2%, higher than 2003, mostly as a consequence of an increase in claims experience trends. The claims experience trends increased 5.7% and 3.9% during 2004 and 2003, respectively, mostly due to higher costs per service and higher utilization levels. The segment s loss ratio reflects an increase of 2.5 percentage points during the same period. The increase in the loss ratio is the result of increases in the cost and utilization of prescription drugs, emergency room services, X-ray services and major medical services experienced by the segment in the 2004 period. Total claims paid during 2004 for both medical services and prescription drug coverage increased by 8.6% and 8.2%, respectively, when compared to 2003. Claims paid during 2004 on major medical services present an increase $11.3 million, or 55.0%, when compared to 2003.
Operating expenses increased by $2.7 million, or 2.9%, during 2004, sustaining an expense ratio of 13.1% in 2004. The increase in operating expenses is mostly due to the effect of the following:

The business growth experienced in 2004 resulted in an increase of $2.3 million in payroll expenses and commissions due to agents and brokers.

The increase in technology related expenses of $1.5 million is directly related to the segment s commitment to continuously enhance services to its members and service providers.

During 2004, the segment experienced an increase in legal expenses of $1.3 million and an increase in professional services and consulting fees of $1.5 million mostly as a result of assistance related to legal, governmental and regulatory matters related to its business.

All of these increases in 2004 were offset by a reduction in pension expense due to non-recurring pension settlements of $4.6 million in 2003, resulting from the number of retirees selecting lump-sum benefits instead of annuities.

Health Insurance Reform Program Operating Results

(Dollar amounts in thousands)	**2005**	**2004**	**2003**
Years ended December 31,			
Average enrollment:			
North Area	235,738	232,956	236,766
Metro-North Area	220,517	217,441	224,903
Southwest Area	163,807	164,357	168,109
Total average enrollment	620,062	614,754	629,778
Premiums earned, net	$510,839	484,742	477,614
Claims incurred	$478,008	437,834	428,045
Operating expenses	36,432	35,777	34,637
Total underwriting costs	$514,440	473,611	462,682
Underwriting (loss) income	$ (3,601)	11,131	14,932

Loss ratio	93.6%	90.3%	89.6%
Expense ratio	7.1%	7.4%	7.3%
Combined ratio	100.7%	97.7%	96.9%

General

The Health Insurance Reform segment s total revenues are primarily generated from premiums earned according to the provisions of the Government s Reform contracts and investment income. Claims incurred include health services and other benefit expenses consisting primarily of payments to physicians, hospitals and other service providers. A portion of the claims incurred for each period consists of an actuarial estimate of claims incurred but not reported during the period. Operating expenses consist of a disease management program and general, depreciation, payroll and other related expenses. The segment s results of operations depend largely on its ability to accurately predict and effectively manage healthcare costs.

Year ended December 31, 2005 compared with the year ended December 31, 2004

Premiums earned, net of the Reform segment increased $26.1 million, or 5.4%, during the year 2005. This increase is the result of the net effect of the following:

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Premium rates for this segment were increased, effective August 1st, 2005, by approximately 5.8% during the Healthcare Reform contract renegotiation process for the eleven-month period ending June 30, 2006. In addition, premium rates were increased by approximately 4.4% for the thirteen-month period ended July 31, 2005. On average the increase in premium rates during 2005 was 4.5%.

The average enrollment for this segment increased by 5,308 members, or 0.9%, when comparing the 2005 and 2004 periods.

Approximately 84% of the increase in total premiums is due to increases in premium rates. The remaining 16% is attributable to an increase in the segment s volume of business.

Claims incurred during the 2005 period increased by $40.2 million, or 9.2%, when compared to the 2004 period. The segment s loss ratio also experienced an increase (3.3 percentage points) when comparing the year 2005 with 2004. This increase results mostly from higher utilization trends and costs as well as to the segment s increased average enrollment during 2005. In the 2005 period the segment experienced higher utilization trends and costs, particularly in the risks assumed by the segment, such as cardiovascular services, dialysis and obstetrics and HIV, among others. In addition, the ultimate liability for the year 2004 exceeded the amount originally provided by the segment by approximately $7.0 million.

Operating expenses for the year 2005 were $655 thousand, or 1.8%, higher than the operating expenses for the year 2004. This increase is due to the normal inflationary effect of higher operational costs. The expense ratio decreased by 0.3 percentage points during the year 2005.

Year ended December 31, 2004 compared with the year ended December 31, 2003

The premiums earned, net of the Reform segment increased $7.1 million, or 1.5%, during the year 2004. This increase is the result of the following:

During the Reform contract renegotiation process, premium rates were increased by approximately 4.4% and 4.2% for the twelve-month periods ended June 30, 2005 and June 30, 2004, respectively. On average the increase in premium rates during 2004 was 4.4%.

The average enrollment for this segment decreased by 15,024 members, or 2.4%, during the year 2004. This decrease is attributed to the continuous review and screening performed by the Government of Puerto Rico over the lists of persons eligible to participate in the Reform.

The increase experienced in premiums earned, net is attributable primarily to increases in premium rates.

The increase of $9.8 million, or 2.3%, in claims incurred during the year 2004 is attributed to the higher utilization and costs experienced by the segment. The segment experienced an increase in utilization in some of the risks it assumes, particularly catastrophe risks such as cardiovascular services, dialysis and obstetrics, among others. Also, during 2004, the capitation payments to IPAs increased when compared to the prior year. The segment s loss ratio also experienced an increase (0.7 percentage points) when comparing the year 2004 with 2003.

Operating expenses for the year 2004 were $1.1 million, or 3.3%, higher than the operating expenses for the year 2003. The expense ratio also increased, from 7.3% during 2003 to 7.4% during 2004. This fluctuation is due to the normal inflationary effect of operational costs.

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Property and Casualty Insurance Operating Results

(Dollar amounts in thousands)	**2005**	**2004**	**2003**
Years ended December 31,			
Premiums written:			
Commercial multi-peril	$ 65,649	56,506	54,986
Dwelling	26,094	28,323	22,624
Auto physical damage	20,690	18,922	15,821
Commercial auto liability	14,520	14,082	12,753
Other liability	8,541	8,485	6,522
Medical malpractice	6,504	6,499	5,986
All other	9,129	9,057	9,435
Total premiums written	151,127	141,874	128,127
Premiums ceded	(59,244)	(52,215)	(43,771)
Change in unearned premiums	(5,116)	(3,431)	(6,022)
Net premiums earned	$ 86,767	86,228	78,334
Claims incurred	$ 43,587	45,977	43,390
Operating expenses	39,642	40,182	37,354
Total underwriting costs	$ 83,229	86,159	80,744
Underwriting income (loss)	$ 3,538	69	(2,410)
Loss ratio	50.2%	53.3%	55.4%
Expense ratio	45.7%	46.6%	47.7%
Combined ratio	95.9%	99.9%	103.1%

General

The property and casualty insurance segment s total revenues are primarily generated from net premiums earned and investment income. Claims incurred are composed of losses and loss-adjustment expenses. A portion of the claims incurred for each period consists of an estimate of unreported losses to the segment during the period. Operating expenses consist of general, commissions, depreciation, payroll and other related expenses.

Year ended December 31, 2005 compared with the year ended December 31, 2004

Total premiums written for the 2005 period increased by $9.3 million, or 6.5%, when compared to the total premiums written for the year 2004. This increase is mostly reflected in the premiums written for the commercial multi-peril package and auto physical damage lines of business, which experienced an increase in premiums of $9.1 million, or 16.2%, and $1.8 million, or 9.3%, during this period, respectively. Other lines of business reported modest increases in production, except for the dwelling business, which reported a decrease in premiums written of $2.2 million, or 7.9%, during the year 2005. The market in the year 2005 was characterized by strong and aggressive competition for commercial lines, with premiums rates at lower level than previous years. However, the segment s focus on business

retention and relationships with general agents resulted in growth in the premium volume of package policies. The reported decrease in premiums written for the dwelling business is attributed to policy retention efforts of competitors and lower originations of mortgage loans.

The increase experienced in net premiums earned is mainly attributable to an increase in the segment s volume of business since the segment has been successful in attracting new accounts and increasing insurance coverage for existing accounts. The property and casualty insurance market has been in soft market conditions since 2004; this soft market affects primarily the commercial lines. Premiums for commercial lines have been subject to strong competition and a reduction in premium rates. Personal lines premium rates have remained steady during the 2005 period.

Premiums ceded to reinsurers during the year 2005 increased by $7.0 million, or 13.5%, when compared to 2004. The increase noted in the premiums ceded is mostly due to the segment s increased volume of business. The ratio of premiums ceded to total premiums written reflects an increase of 2.4 percentage points, from 36.8% in 2004 to 39.2% in 2005. The ceding risk transfer percentages in the commercial and personal lines quota share arrangements increased from 37.5% to 42.5% and from 7.5% to 10.0%, respectively. In addition, the catastrophe coverage was increased during the 2005 period.

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Claims incurred decreased by $2.4 million, or 5.2%, when comparing the claims incurred during 2005 with the claims incurred in the year 2004. The loss ratio experienced a decrease of 3.1 percentage points during the year 2005 as compared to the prior year. This decrease is primarily due to incurred losses from the passing of Tropical Storm Jeanne in September 2004. Net incurred losses reported for Tropical Storm Jeanne amounted to $2.1 million. In addition, the segment s focus on quality underwriting has also resulted in an improvement in loss experience, particularly in the auto and medical malpractice lines of business.

The operating expenses for the year 2005 decreased by $540 thousand, or 1.3%, when compared to the operating expenses for the year 2004. The expense ratio decreased by 0.9 percentage points during the year 2005.

Year ended December 31, 2004 compared with the year ended December 31, 2003

Total premiums written during 2004 increased by $13.7 million, or 10.7%, when compared to the total premiums written for the year 2003. This increase is mostly reflected in the premiums written for the dwelling, auto physical damage and other liability lines of business, which experienced an increase in premiums of $5.7 million, or 25.2%, $3.1 million, or 19.6%, and $2.0 million, or 30.1%, during this period, respectively. The strengthening of business relationships with financial institutions has resulted in additional growth in the dwelling line of business. The commercial auto, including auto physical damage coverage, and other liability lines of business have been targeted for growth through new business.

The increase experienced in net premiums earned is mainly attributable to an increase in the segment s volume of business.

Premiums ceded to reinsurers during the year 2004 increased by $8.4 million, or 19.3%, when compared to 2003. The ratio of premiums ceded to total premiums written reflects an increase of 2.6 percentage points, from 34.2% in 2003 to 36.8% in 2004. The increase in the ratio of premiums ceded to total premiums written is the net result of several factors:

In 2004, the segment experienced increased costs for catastrophe coverage as well as the need to compensate for the coverage increase in the property business.

The amount of premiums ceded in the 2003 period was reduced as a result of the cancellation of the property surplus treaty. This cancellation resulted in a reinsurance portfolio transfer resulting in net incoming business and a reduction in the amount of premiums ceded.

During 2003 the segment increased its retention in the personal lines quota share treaty from 70% to 95%. In addition, as a result of the increased retention, the segment received an incoming reinsurance portfolio transfer causing a reduction in the premiums ceded in the 2003 period.

The decrease in the change in unearned premiums of $2.6 million is also primarily due to the effect of the reinsurance portfolio transfers done during the year 2003 as well as to the changes in the mix of the business subscribed.

Claims incurred increased by $2.6 million, or 6.0%, when comparing the claims incurred during 2004 with the claims incurred in the year 2003. This increase is primarily due to incurred losses from the passing of Tropical Storm Jeanne in September 2004, which amounted to $2.1 million. The loss ratio, on the other hand, experienced a decrease of 2.1 percentage points during the year 2004 as compared to the prior year since the segment s loss experience was lower in the commercial multi-peril and auto insurance lines of business. The auto insurance lines of business experienced an improvement in its loss ratio in both the physical damage and liability business.

The operating expenses for the year 2004 increased by $2.8 million, or 7.6%, when compared to the operating expenses for the year 2003. The expense ratio, however, experienced a decrease of 1.1 percentage points during the year 2004. The increase in the operating expenses and the decrease in the expense ratio is due to, among other things:

The effect of an increase in commission expense due to the segment s increased volume of business

During 2004, the segment recorded a guaranty fund assessment to cover liabilities of insolvent companies. This assessment, which amounted to $871 thousand, was charged to operations during 2004.

The experience refund received from the Compulsory Vehicle Liability Insurance Joint Underwriting Association increased by $202 thousand, from $633 thousand during 2003 to $840 thousand during 2004. This refund is recorded as a decrease to the operating expenses for the period.

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Life and Disability Insurance Operating Results

(Dollar amounts in thousands)	**2005**	**2004**	**2003**
Years ended December 31,			
Net earned premiums and commission income:			
Earned premiums:			
Group disability	$13,681	13,392	14,115
Group life	8,768	10,138	10,588
Cancer and other dreaded diseases	1,746	179	
Total earned premiums	24,195	23,709	24,703
Earned premiums ceded	(8,006)	(7,966)	(7,816)
Assumed earned premiums	400		
Net earned premiums	16,589	15,743	16,887
Commission income on reinsurance	541	699	516
Net premiums earned	$17,130	16,442	17,403
Claims incurred	$ 8,902	11,231	9,467
Operating expenses	8,201	7,347	6,036
Total underwriting costs	$17,103	18,578	15,503
Underwriting income (loss)	$ 27	(2,136)	1,900
Loss ratio	52.0%	68.3%	54.4%
Expense ratio	47.9%	44.7%	34.7%
Combined ratio	99.9%	113.0%	89.1%

General

The life and disability insurance segment s total revenues are primarily generated from net premiums earned and investment income. Claims incurred are composed of losses and loss-adjustment expenses. A portion of the claims incurred for each period consists of an estimate of unreported losses to the segment during the period. Operating expenses consist of general, commissions, depreciation, payroll and other related expenses.

Year ended December 31, 2005 compared with the year ended December 31, 2004

Earned premiums during the year 2005 presented an increase of $486 thousand, or 2.0%, when compared to the earned premiums for 2004. The increase in earned premiums during this year is the result of the following factors:

The earned premiums of the cancer and other dreaded diseases line of business increased by $1.6 million during the year 2005. This fluctuation is attributed to an increase in the average certificates in force of this business by 8,221 during this year. This line of business was introduced during the latter part of the year 2004.

The earned premiums of the group life line of business decreased by $1.4 million, or 13.5%, during the year 2005. This fluctuation is attributed to the loss of one major group in the group life business, effective December 31, 2004. This particular group had annualized premiums of $1.4 million and an average loss ratio of 92.0%. The segment is closely monitoring claims experience and considering this experience upon each group s renewal process. This practice has resulted in the loss during the renewal process of several groups with higher than expected claims experience once the premiums were adjusted to reflect actual claims experience.

The increase experienced in earned premiums is primarily attributed to the increase in volume in the cancer and other dreaded diseases line of business.

On December 22, 2005, SVTS entered into a coinsurance funds withheld reinsurance agreement with GA Life. Under the terms of this agreement SVTS will assume 69% of all the business written as of and after the effective date of the agreement. During December 2005 the segment recorded assumed premiums related to this agreement amounting to $400 thousand.

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Claims incurred during the year 2005 decreased by $2.3 million, or 20.7%, when compared to the claims incurred during 2004. The loss ratio decreased by 16.3 percentage points during 2005. The fluctuation in the amount of claims incurred and in the loss ratio is the direct result of the segment s strategy to concentrate on the profitability of the business rather than on its volume. As previously mentioned, the segment close monitoring of claims experience upon each group s renewal process has resulted in the loss in the renewal process of several groups with higher than expected claims experience, thus improving the profitability of the segment.

Operating expenses increased by $854 thousand, or 11.6% during the year 2005. The expense ratio increased by 3.2 percentage points during this period, from 44.7% in 2004 to 47.9% in 2005. This increase is mostly expenses related to the cancer and other dreaded diseases line of business, which was launched during the year 2004.

Year ended December 31, 2004 compared with the year ended December 31, 2003

Total earned premiums in the 2004 period presented a decrease of $994 thousand, or 4.0%, when compared to the 2003 period. This decrease is the result of the following:

- The earned premiums of the group disability line of business decreased by $723 thousand, or 5.1%, during the year 2004. This decrease is mostly attributed to the fact that during the first quarter of 2003, the segment revised its methodology for estimating the premiums of its short-term disability business. This revision resulted in a non-recurring adjustment increasing earned premiums of this line of business by approximately $1.1 million during the year 2003. The average certificates in force of the group disability line of business increased by 3,996 certificates, or 2.3%, during the year 2004.
- The earned premiums of the group life line of business decreased by $450 thousand, or 4.3%, during the 2004 period is attributed to a decrease in the average certificates in force of 9,802, or 6.6%. This decrease is attributed to the loss of several groups with higher than expected claims experience since the segment is closely monitoring claims experience and considering this experience upon each group s renewal process.

Excluding the effect of the above mentioned adjustment to the 2003 earned premiums, premiums increased by $139 thousand in 2004 as compared to 2003, approximately 98% of which is attributed to increased volume of business. The remaining 2% of the increase experienced is attributed to increased premium rates.

The claims incurred during the year 2004 presented an increase of $1.8 million, or 18.6%, when compared to the claims incurred during the year 2003. The loss ratio presented an increase of 13.9 percentage points during this period. This increase is attributed to the segment s continued growth in the disability line of business since this particular line of business has a higher loss ratio than the life business. In addition, the segment has experienced an increased claims trend in the disability and group life lines of business when compared to the 2003 period. These factors contributed to the increased claims incurred and loss ratio in the 2004 period. During the year 2004, the segment implemented several corrective measures in order to improve its loss ratio, such as adjusting premiums to reflect each group s actual claims experience during the group s renewal process.

Operating expenses increased by $1.3 million, or 21.7%, during the 2004 period. The expense ratio increased by 10.0 percentage points during the same period. This increase is mostly the result of an increase in legal and professional services, commissions and advertising expenses. Most of these expenses are related to corporate projects in the area of technology and compliance.

Liquidity and Capital Resources

Cash Flows

The Corporation maintains good liquidity measures due to the quality of its assets, the predictability of its liabilities, and the duration of its contracts. The liquidity of the Corporation is primarily derived from the operating cash flows of its insurance subsidiaries.

As of December 31, 2005 and 2004, the Corporation s cash and cash equivalents amounted to $49.0 million and $35.1 million, respectively. Sources of funds considered in meeting the objectives of the Corporation s operations include cash provided from operations, maturities and sales of securities classified within the trading and available-for-sale portfolios, securities sold under repurchase agreements, and issuance of long and short-term debt. Net cash flows from operations are expected to sustain operations for the next year and thereafter, as long as the operations continue showing positive results. In addition, the Corporation monitors its premium rates and its claims

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incurred to ascertain proper cash flows and has the ability to increase premium rates throughout the year in the monthly renewal process.

Cash Flows from Operations

Most of the cash flows from operating activities are generated from the insurance subsidiaries. The basic components of the cash flows from operations are premium collections, claims payments less reinsurance premiums, maturities or sales and purchases of trading securities, and payment of operating expenses.

Net cash flows provided by operating activities amounted to $49.1 million, $8.8 million and $10.1 million for the years ended December 31, 2005, 2004 and 2003, respectively, an increase (decrease) of $40.3 million and $(1.3) million in 2005 and 2004, respectively. The fluctuation in cash flows provided by operating activities is mainly attributed to the net effect of the following:

Increase in collections of premiums of $86.2 million in 2005 and $35.3 million in 2004. The increase in premium collections is the result of the increased premium rates and increased volume of business of the operating segments.

Increase of $75.5 million in 2005 and $13.2 million in 2004 in the amount of cash paid to suppliers and employees. This increase is principally attributed to the initial ceding commission of $60.0 million paid by SVTS to GA Life on the effective date of the coinsurance funds withheld agreement (described in Item 1. Business of this Annual Report on Form 10-K in the section corresponding to the Life and Disability Insurance segment). The initial ceding commission was recorded by the Corporation within the deferred policy acquisition costs. Also, the Corporation has incurred additional commission expense generated from the acquisition of new business and general operating expenses.

Increase of $100.7 million and $26.3 million in 2005 and 2004, respectively, in the amount of claims losses and benefits paid. In both years the increase in the amount of claims losses and benefits paid is mostly the result of the segment s increased volume of business as well as to increased utilization trends in both Health Insurance segments.

Decrease in income taxes paid of $35.6 million in 2005 and an increase in income taxes paid of $5.4 million in 2004. The decrease in the amount of income taxes paid in 2005 is mostly due to the fact that the 2004 period includes the payment of $14.8 million of the last installment of the $51.8 million income tax liability related to the closing agreement with the PRTD upon the termination of TSI s tax exemption. In addition, on April 15, 2004 TSI paid $22.1 million corresponding to its income tax liability for the year 2003 and the first installment of the estimated tax corresponding to the year 2004. In the 2005 period, the Corporation paid its regular estimated income tax installments.

The net proceeds of investments in the trading portfolio increased by $98.9 million during the 2005 period. This fluctuation during 2005 is due to the sale of the corporate bonds portfolio, which was considered as a trading portfolio. In addition, in 2004, the amount of net acquisitions of investments in the trading portfolio decreased by $12.3 million.

The amount of interest paid increased by $1.8 million in 2005 and $712 thousand in 2004. This increase is principally attributed to the interest paid related to the 6.3% senior unsecured notes issued and sold by TSI in September 2004.

The contingency reserve funds payment from the Federal Employee Health Benefit Plan decreased by $4.1 million in 2005 and $7.8 million in 2004. The amount collected from the contingency reserve funds of the FEHBP was $1.1 million, $5.2 million and $13.0 million during 2005, 2004 and 2003, respectively. This fluctuation is related to the results of operations of the program during each particular year.

This excess liquidity is available, among other things, to invest in high quality and diversified fixed income securities and, to a lesser degree, to invest in marketable equity securities.

Cash Flows from Investing Activities

The basic components of the cash flows from investing activities is derived from acquisitions and proceeds from investments in the available-for-sale and held-to-maturity portfolios, and capital expenditures. The Corporation monitors the duration of its investment portfolio and executes purchases and sales of these investments with the objective of having adequate asset allocation within different sectors and to have funds available, when necessary, to satisfy any maturing liability.

Net cash flows used in investing activities amounted to $100.5 million, $45.0 million and $90.6 million for the years ended December 31, 2005, 2004 and 2003, respectively. The cash flows used in investing activities during these years were mainly due to the investment of the excess cash generated from the operations and reinvestment of securities sold, called or matured during the same period. Also, in 2005 the proceeds from sale of the corporate bonds trading portfolio

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were invested in fixed income securities, which are accounted for as available-for-sale securities. Total acquisition of investments exceeded the proceeds from investments sold or matured by $92.9 million and $41.5 million during the years 2005 and 2004, respectively. In addition, capital expenditures increased by $4.1 million during the year 2005. The increase in capital expenditures is basically attributed to the following:

The Corporation is currently rehabilitating facilities in one of the two buildings adjacent to the Corporation s main offices, on which the Corporation incurred costs of approximately $1.6 million during the year 2005 (see Item 2. Properties and section Planned Capital Expenditures for additional details).

In 2005, TSI acquired approximately $1.0 million of telephone equipment and services for the operation of the Medicare business call center.

During the year 2005, STS has incurred expenses of approximately $1.0 million related to the acquisition of a new computer system to manage its insurance operations (see section Planned Capital Expenditures for additional details.

Cash Flows from Financing Activities

Net cash flows provided by financing activities amounted to $65.3 million, $23.5 million and $45.5 million for the years ended December 31, 2005, 2004 and 2003, respectively. The increase of $42.0 million during the year 2005 and the decrease of $22.0 million during the year 2004 in the cash flows from financing activities are due to the effect of the following fluctuations:

The change in outstanding checks in excess of bank balances decreased by $2.8 million during the year 2005 and increased by $9.5 during the year 2004. This represents a timing difference between the issuance of checks and the cash balance in the bank account at one point in time.

In the 2005 period the proceeds from short-term borrowings exceeded payments of short-term borrowings by $40 thousand. On the other hand, in the year 2004 the payment of short-term borrowings exceeded the proceeds of short-term borrowings by $37.0 million. Short-term borrowings are used to address timing differences between cash receipts and disbursements.

The repayments of long-term borrowings increased by $2.5 million during the year 2005 and by $1.0 million in the year 2004. The fluctuations in the repayments of long-term borrowings are due to additional repayments to one of the Corporation s credit agreements amounting to $3.5 in 2005 and $1.0 million in 2004.

Total long-term borrowings proceeds amounted to $60.0 million and $50.0 million during the years 2005 and 2004. There were no long-term borrowings proceeds during the year 2003. In 2005, the Corporation received proceeds from the 6.6% senior unsecured notes amounting to $60.0 million. In 2004, the Corporation received proceeds from the 6.3% senior unsecured notes amounting to $50.0 million. This represents an increase of $10.0 million in the amount of proceeds received from the issuance of long-term borrowings during the year 2005.

The amount of net proceeds from annuity contracts during the years 2005, 2004 and 2003 amounted to $6.4 million, $6.4 million and $11.2 million, respectively. This fluctuation noted between the years 2004 and 2003 is primarily due to the Corporation s new deferred annuity product introduced in late 2002.

Financing and Financing Capacity

The Corporation has significant short-term liquidity supporting its businesses. It also has available short-term borrowings that from time to time address timing differences between cash receipts and disbursements. These short-term borrowings are mostly in the form of securities sold under repurchase agreements. As of December 31, 2005, the Corporation had $227.5 million in available credit on these agreements. Outstanding short-term borrowings as of December 31, 2005 amount to $1.7 million. The amount due under outstanding short-term borrowings is expected to be paid out of the operating and investing cash flows of the Corporation.

As of December 31, 2005 the Corporation has the following senior unsecured notes payable:

On September 30, 2004 TSI issued and sold $50.0 million of its 6.3% senior unsecured notes due September 2019 (the 6.3% notes). The 6.3% notes are unconditionally guaranteed as to payment of principal, premium, if any, and interest by the Corporation. The notes were privately placed to various institutional accredited investors. The notes pay interest semiannually beginning on March 2005, until such principal becomes due and payable. These notes can be prepaid after five years at par, in total or partially, as determined by the Corporation. Most of the proceeds obtained from this issuance were used to repay $37.0 million of short-term borrowings made by TSI. The remaining proceeds were used for general business purposes.

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On December 21, 2005 TSM issued and sold $60.0 of its 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 beginning on January 2006, until such principal becomes due and payable. These notes can be prepaid after five years at par, in full or in part, as determined by the Corporation. The proceeds obtained from this issuance were used to pay the initial ceding commission to GA Life on the effective date of the coinsurance funds withheld reinsurance agreement (described in Item 1. Business of this Annual Report on Form 10-K in the section corresponding to the Life and Disability Insurance segment).

Both the 6.3% and the 6.6% notes contain certain covenants with which TSI and the Corporation have complied with at December 31, 2005.

In addition to the two senior unsecured notes described above, on January 31, 2006 the Corporation issued and sold $35.0 million of its 6.7% senior unsecured notes payable due January 2021 (the 6.7% notes). The 6.7% notes were privately placed to various accredited institutional investors. The notes pay interest each month beginning on March 1, 2006, until such principal becomes due and payable. These notes can be prepaid after five years at par, in full or in part, as determined by the Corporation. 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.

In addition, the Corporation has two credit agreements with a commercial bank, FirstBank Puerto Rico. These credit agreements bear interest rates determined by the London Interbank Offered Rate (LIBOR) plus a margin specified at the time of the agreement. As of December 31, 2005, the two credit agreements have outstanding balances of $29.1 million and $11.5 million and average annual interest rates of 4.36% and 4.65%, respectively. The first agreement stipulates monthly principal repayment of $137 thousand. The second agreement stipulates repayments of principal amounts of not less than $250 thousand and in integral multiples of $50 thousand. The aggregate principal amounts of this credit agreement shall be reduced annually to the amounts specified on or before the dates described below:

Date	Required Principal Outstanding Balance (amounts in thousands)
August 1, 2006	$ 12,000
August 1, 2007	

These credit agreements are guaranteed by a first position on the Corporation land, building, and substantially all leasehold improvements, as collateral for the term of the agreements under a continuing general security agreement. These credit facilities contain certain covenants which are normal in this type of facility. As of December 31, 2005, management believes the Corporation is in compliance with these covenants. Failure to meet these covenants may trigger the accelerated payment of the credit agreements outstanding balances. Principal repayments on these loans are expected to be paid out from the operating and investing cash flows of the Corporation.

The Corporation has an interest-rate swap agreement which changes the variable rate of one of its credit agreements and fixes the rate at 4.72%. For additional details regarding the interest rate swap agreement refer to note 12 of the audited consolidated financial statements and to Item 7A. Quantitative and Qualitative Disclosures About Market Risk in the section Other Risk Measurement .

The Corporation continually monitors existing and alternative financing sources to support its capital and liquidity needs.

Planned Capital Expenditures

The Corporation is currently renovating the facilities in one of the two buildings adjacent to its main offices to house the operations of ISI, including its mainframe facilities, and some divisions of TSI. ISI s mainframe facilities are currently located in a leased property that will be vacated once the renovation project is completed. During the year 2005 the Corporation incurred costs of approximately $1.6 million in the renovation of these facilities. Estimated costs to complete the renovation of these facilities amount to $3.8 million and are expected to be paid out of the available cash of the Corporation. The Corporation expects to complete the re-habilitation of these facilities by November 2006.

In addition, STS is currently in the process of changing the computer system that manages its insurance operations. During the year 2005, STS incurred costs of approximately $1.0 million on the software and hardware related to

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this new system. STS estimates that it will incur additional costs of approximately $1.3 million dollars before the expected completion date; this amount is expected to be paid out of excess operating cash flows of the Corporation. STS expects to complete the installation of the new system during the year 2006.

Contractual Obligations

The Corporation s contractual obligations impact its short and long-term liquidity and capital resource needs. However, the Corporation s future cash flow prospects cannot be reasonably assessed based 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 following table includes the aggregated information about the Corporation s contractual obligations. The information presented in the table includes payments due under specified contractual obligations, aggregated by type of contractual obligation, including the maturity profile of the Corporation s debt, operating leases and other long-term liabilities. The table below excludes an estimate of the future cash outflows related to the following long-term liabilities:

Annuity contracts The cash outflows related to these instruments are not included since these annuities do not have defined maturities, such that the timing of payments and withdrawals is uncertain. There are currently no annuities in paying status. As of December 31, 2005, the Corporation has $41.7 million in annuity contracts.

Other long-term liabilities Due to the indeterminate nature of their cash outflows, certain categories of other long-term liabilities are not included in the following table. These include miscellaneous long-term liabilities amounting to $22.4 million.

		Contractual obligations by year					
(Dollar amounts in thousands)	**Total**	**2006**	**2007**	**2008**	**2009**	**2010**	**Thereafter**
Long-term borrowings (1)	$267,991	10,900	22,094	10,069	9,982	9,896	205,050
Operating leases	4,717	1,600	1,370	771	415	371	190
Purchase obligations (2)	23,646	22,433	1,030	183			
Claim liabilities (3)	268,843	198,939	32,398	12,117	8,898	7,558	8,933
	$565,197	233,872	56,892	23,140	19,295	17,825	214,173

(1) As of December 31, 2005, the Corporation s long-term borrowings consist of $50.0 million of the 6.3% senior unsecured notes payable, $60.0 million of the 6.6% senior unsecured notes payable and $40.6 million of loans payable to a commercial

bank. Total contractual obligations for long-term borrowings include the current maturities of long term debt. For the $50.0 million 6.3% senior unsecured notes; scheduled interest payments (amounting to $43.3 million) were included in the total contractual obligations for long-term borrowings until the maturity date of the notes in 2019. For the $60.0 million 6.6% senior unsecured notes, scheduled interest payments (amounting to $59.4 million) were included in the total contractual obligations for long-term borrowings until the maturity date of the notes in 2020. According to the terms of the senior notes, prepayments can be made five years after issuance;

however no prepayment is considered in this schedule. The interest payments related to the Corporation s loans payable were estimated using the interest rate outstanding as of December 31, 2005 for each of the loans. The actual amount of interest payments of the loans payable will differ from the amount included in this schedule due to the loans variable interest rate structure. See the Financing and Financing Capacity section for additional information regarding the Corporation s long-term borrowings.

(2) Purchase obligations represent payments required by the Corporation 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 are excluded from the table above. Any amounts for which the Corporation is liable under purchase orders are reflected in the audited consolidated balance sheets as accounts payable and accrued liabilities. Estimated pension plan contributions amounting to $6.0 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 claims processed and incomplete of the Corporation 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, 2005. The expected claims payments of

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the health insurance, property and casualty insurance and group life insurance were estimated using claims payment experience. The expected claims payments of the long-term disability insurance were estimated using actuarial estimates of expected pay-outs of those policies on which we are currently making periodic payments. The expected claims payments are an estimate and may not necessarily present the actual claims payments to be made by the Corporation. Also, the estimated claims payments included in the table above do not include $28.7 million of reserves ceded under reinsurance contracts. As of December 31, 2005, the Corporation s

ceded reserves are included within the reinsurance recoverable balance in the audited consolidated financial statements. Since reinsurance contracts do not relieve the Corporation from its obligations to policyholders, in the event that any of the reinsurance companies is unable to meet its obligations under the existing reinsurance agreements, the Corporation would be liable for such defaulted amounts. The Corporation monitors the solvency of its reinsurance carriers and does not believe the risk of insolvency is significant.

As of December 31, 2005, the Corporation had $227.5 million in available credit from various financial institutions, all of which expire within one year. These arrangements mainly provide for borrowings in the form of securities sold under repurchase agreements. As of December 31, 2005, outstanding short-term borrowings under these agreements amounted to $1.7 million and are expected to be paid out of the operating and investing cash flows of the Corporation.

Off-Balance Sheet Arrangements

The Corporation does not have any material off-balance sheet arrangements, trading activities involving non-exchange related contracts accounted for at fair value or relationships with persons or entities that derive benefits from a non-independent relationship with the Corporation or the Corporation s related parties.

Restriction on Certain Payments by the Corporation s Subsidiaries

TSM s insurance subsidiaries are subject to the regulations of the Commissioner of Insurance of the Commonwealth 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. As of December 31, 2005, the insurance subsidiaries were in compliance with such minimum capital requirements. These regulations are not directly applicable to TSM, as a holding company, since it is not an insurance company. The regulations applicable to insurance subsidiaries are not currently expected to affect their ability to distribute dividends to TSM.

The credit agreements restrict the amount of dividends that TSM and its subsidiaries can declare or pay to stockholders. According to the credit agreements, the dividend payment cannot exceed the accumulated retained earnings of the paying entity.

None of the previously described dividend restrictions are expected to have a significant effect on TSM s ability to meet its cash obligations.

Solvency Regulation

To monitor the solvency of the operations, the Blue Cross and Blue Shield Association (BCBSA) requires TSM and TSI to comply with certain specified levels of Risk Based Capital (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, 2005, both entities had an RBC ratio above the level required by BCBSA.

Other Contingencies

(1) Legal Proceedings Various litigation claims and assessments against the Corporation have arisen in the course of the Corporation s business, including but not limited to, its activities as an insurer and employer. Furthermore, the Commissioner of Insurance of the Commonwealth of Puerto Rico, 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.

Based on the information currently known by the Corporation s management, in its opinion, the outcomes of such pending investigations and legal proceedings are not likely to have a material adverse effect on the Corporation s 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 the Corporation s operating results and/or cash flows (see Item 3. Legal Proceedings of this Annual Report on Form 10-K).

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(2) Guarantee Association To operate in Puerto Rico, insurance companies, such as TSM s 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 2005, 2004 and 2003, the Corporation paid assessments in connection with insurance companies declared insolvent in the amount of $965 thousand, $1.1 million and $500 thousand, respectively. It is the opinion of management that any possible future guarantee association assessments will not have a material effect on the Corporation s operating results and/or cash flows.

Pursuant to the Puerto Rico Insurance Code, the property and casualty insurance segment is a member of Sindicato de Aseguradores para la Suscripción Conjunta de Seguros de Responsabilidad Profesional Médico-Hospitalaria (SIMED) and of the Sindicato de Aseguradores de Responsabilidad Profesional para Médicos. Both syndicates were organized for the purpose of underwriting medical-hospital professional liability insurance. As a member, the segment shares risks with other member companies and, accordingly, is contingently liable in the event the previously mentioned syndicates cannot meet their obligations. During 2005, 2004 and 2003, no assessment or payment was made for this contingency.

In addition, pursuant to Article 12 of Rule LXIX of the Insurance Code, the property and casualty insurance segment 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 three-year period ended December 31, 2005, the Association distributed good experience refunds. The segment received refunds amounting to $918, $840, and $638 in 2005, 2004, and 2003, respectively.

Critical Accounting Estimates

The Corporation s audited consolidated financial statements and accompanying notes have been prepared in accordance with generally accepted accounting principles applied on consistent basis. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

The Corporation continually evaluates the accounting policies and estimates it uses to prepare the consolidated financial statements. In general, management s estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates made by management.

The policies discussed below are considered by management to be critical to an understanding of the Corporation s 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

The detail of the claim liabilities as of December 31, 2005 by subsidiary is as follows:

(Dollar amounts in thousands)	**TSI**	**STS**	**SVTS**	**Consolidated**
Claims processed and incomplete	$ 74,654	47,416	17,624	139,694
Unreported losses	101,184	37,186	4,854	143,224
Unpaid loss-adjustment expenses	3,140	11,505		14,645

	$178,978	96,107	22,478	297,563

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Management continually evaluates the potential for changes in its claim liabilities estimates, both positive and negative, and uses the results of these evaluations both to adjust recorded claim liabilities and to adjust underwriting criteria. The Corporation s profitability depends in large part on accurately predicting and effectively managing the amount of claims incurred, particularly those of the health insurance segments and the losses arising from the property and casualty insurance segment. Management regularly reviews its premiums and benefits structure to reflect the Corporation s underlying claims experience and revised actuarial data; however, several factors could adversely affect the Corporation s underwriting. Some of these factors are beyond management 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 the Corporation s results of operations.

The Corporation recognizes claim liabilities as follows:

Health Insurance segments

At December 31, 2005, claim liabilities for the Health Insurance segments amounted to $179.0 million and represented 60% of the total consolidated claim liabilities and 22% of the total consolidated liabilities.

Liabilities for unreported losses are determined employing actuarial methods that are commonly used by health insurance actuaries and meet Actuarial Standards of Practice. Actuarial Standards of Practice require that the claim liabilities be adequate under moderately adverse circumstances. The segment determines the amount of the liability for unreported losses 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 data of paid claims is formatted into claim triangles which compare claim incurred dates to the dates of claim payments. 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 claims unpaid are related to the most recent incurred months. Since the percentage of claims paid for claims incurred in those months is generally very low, the completion factor methodology is less reliable for such months. Therefore, historical completion and payment patterns are applied to incurred and paid claims for the most recent twelve months and each prior twelve month period. Incurred claims for the most recent twelve months are also projected by estimating the claims expense for those months based on recent claims expense levels and health care trend levels, or trend factors .

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 the 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 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 of 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. To the extent appropriate, 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 75% of the claims are paid the first quarter following incurrence date and about 10% are paid during the second quarter, for a total of 85% paid during the first six months following the incurrence date. This is the principal information used to re-evaluate reserve estimates with a higher degree of accuracy.

Management regularly reviews its assumptions regarding the claim liabilities and makes adjustments to claims incurred when necessary. If it is determined that 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 of 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 occur 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

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anticipate future changes in health care cost or utilization. Thus, the segments incorporate those trends as part of the development of premium rates to keep premium rating trends in line with claims trends. In general, management s policy has been to use conservative rating trends trying to avoid negative impacts to capital from changes in health care cost or utilization.

As described above, the completion factors and trend factors can have a significant impact on the claim liabilities. The following example provides the estimated impact to our December 31, 2005 claim liabilities assuming hypothetical changes in the completion and trend factors:

(Dollar amounts in thousands)

Completion Factor [1] (Decrease) Increase		**Claims Trend Factor [2] (Decrease) Increase**	
In completion factor	**In unpaid claim liabilities**	**In claims trend factor**	**In unpaid claim liabilities**
(0.6)%	$ 7,147	(0.6)%	$ 5,797
(0.4)%	4,754	(0.4)%	3,864
(0.2)%	2,371	(0.2)%	1,932
0.2%	(2,361)	0.2%	(1,932)
0.4%	(4,711)	0.4%	(3,864)
0.6%	(7,050)	0.6%	(5,797)

[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 in 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. In 2004, the segments claim payment patterns were affected by a slowdown in claims submission from providers due to HIPAA coding changes that occurred during the latter half of 2003 and by the effect of tropical storm Jeanne, which limited access to providers during the months of September and October 2004. The first event affects

historical completion factors while the second event changed utilization trends. Management has not noted any significant emerging trends in claim frequency and severity, other than those described above, and the normal fluctuation in utilization trends from year to year.

The following table shows the variance between the segments total incurred claims as reported and the incurred claims for such years had it 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). This table shows that the segments estimates of this liability have approximated the actual development.

(Dollar amounts in thousands)	**2004**	**2003**	**2002**
Total incurred claims:			
As reported	$1,054,575	1,026,000	1,032,200
On a retrospective basis	1,070,145	1,030,010	1,018,700
Variance	$ (15,570)	(4,010)	13,500
Variance to total incurred claims as reported	-1.5%	-0.4%	1.3%

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Management expects that substantially all of the development of the 2005 estimate of medical claims payable will be known during 2006 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 these segments (or any of the other segments described in the following sections) experience an unexpected increase in health care cost or utilization trends, the Corporation has the following options to cover claim payments:

Through the management of its cash flows and the investment portfolio.

The Corporation has the ability to increase 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. The Corporation considers the actual claims trend of each group when determining the premium rates for the following contract year.

The Corporation has available short-term borrowing facilities that from time to time address differences between cash receipts and disbursements. For additional information on the Corporation s credit facilities, see section Financing and Financing Capacity of this Item.

Property and Casualty Insurance Segment

At December 31, 2005, claim liabilities for the Property and Casualty Insurance segment amounted to $96.1 million and represented 32% of the total consolidated claim liabilities and 12% of the total consolidated liabilities.

Estimating the ultimate cost of claims and loss-adjustment expenses of this segment is an uncertain and complex process. This estimation process is based largely on the assumption that past developments, with appropriate adjustments due to known or unexpected changes, are a reasonable base in which to predict future events and trends, and involves 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 , such as commercial multi-peril package business, property, auto physical damage, auto liability, general liability and medical malpractice. 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) generally emerge (i.e. are reported) quickly.

Claim reserve reviews are generally conducted on a quarterly basis, in light of continually updated information, and include participation of the segment s external actuaries. Our actuaries review 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, 2005, the actuarial reserve range determined by the actuaries was from $88.4 million to $99.9 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% for the segment s three most significant lines of business (commercial multi-peril, medical malpractice

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and auto liability) for the six most recent accident years, will increase/decrease the claims incurred by approximately $2.5 million

Life and Disability Insurance Segment

At December 31, 2005, claim liabilities for the Life and Disability Insurance segment amounted to $22.5 million and represented 8% of the total consolidated claim liabilities and 3% of the total consolidated liabilities.

The claim liabilities related to the Life and Disability Insurance segment are based on methods and underlying assumptions in accordance with U.S. 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 quarterly basis, in light of continually updated information, and include participation of the segment s external actuaries. Our actuaries review reserves using the current inventory of policies and claims data. These reviews incorporate a variety of actuarial methods, judgments, and analysis.

Impairment of Investments

Impairment of an investment exists if a decline in the estimated fair value below the amortized cost of the security is deemed to be other than temporary. An impairment review of securities to determine if impairment exists is subjective and requires a high degree of judgment. Management regularly reviews each investment security for impairment based on criteria that include the extent to which cost exceeds estimated fair value, general market conditions (like changes in interest rates), the Corporation s ability and intent to hold the security until recovery in estimated fair value, the duration of the estimated fair value decline and the financial condition and specific prospects for the issuer. Management regularly performs market research and monitors market conditions to evaluate impairment risk. A decline in the estimated fair value of any available for sale or held to maturity security below cost, which is deemed to be other than temporary, results in a reduction of the carrying amount to its fair value. The impairment is charged to operations when that determination is made and a new cost basis for the security is established.

During the year 2005, the Corporation recognized an other-than-temporary impairment on one of its available for sale equity securities amounting to $1.0 million. No other-than-temporary impairment was recognized during the years 2004 and 2003. As of December 31, 2005, of the total amount of investments in securities of $666.3 million, $78.2 million, or 12%, are classified as trading securities, and thus are recorded at fair value with changes estimated fair value recognized in the statement of operations. The difference of $588.1 million is classified as either available for sale or held to maturity. The available for sale and held to maturity portfolios are made up of high-quality investments. Of the total amount of securities available-for-sale and held-to-maturity, $518.7 million, or 88%, are securities in U.S. Treasury securities, obligations of U.S. government sponsored agencies, obligations of the Commonwealth of Puerto Rico, mortgage backed and collateralized mortgage obligations that are U.S. agency-backed, and obligations of U.S. and P.R. government instrumentalities. Thus, the remaining $69.4 million, or 12%, are from corporate fixed and equity securities. Gross unrealized losses as of December 31, 2005 of the available for sale and held to maturity portfolios amounted to $11.8 million.

The impairment analysis as of December 31, 2005 indicated that, other than the equity security for which an other-than-temporary impairment was recognized, none of the securities whose carrying amount exceeded its estimated fair value were 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. Considering the quality of the securities in the investment portfolio, the amount of unrealized losses within the available-for-sale and held-to-maturity portfolios, and past experience, management believes that, even when difficult to determine, the amount of possible future impairments in the next year should not be material.

The Corporation s fixed maturity securities are sensitive to interest rate fluctuations, which impact the fair value of individual securities. The Corporation s equity securities are sensitive to equity price risks, for which potential losses could arise from adverse changes in the value of equity securities. Additional information on the sensitivity of the Corporation s investments is included in Part II, Item 7A of this Annual Report on Form 10-K, Quantitative and Qualitative Disclosures About Market Risk .

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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, 2005 and 2004 is included in note 3 to the audited consolidated financial statements.

Allowance for Doubtful Receivables

The Corporation estimates the amount of uncollectible receivables in each period and establishes an allowance for doubtful receivables. The allowance for doubtful receivables amounted to $12.2 million and $11.2 million as of December 31, 2005 and 2004, 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 the Corporation uses predetermined percentages applied to aged account balances. These percentages are based on the Corporation s collection experience and are periodically evaluated. A significant change in the level of uncollectible accounts would have a material effect on the Corporation s results of operations.

In addition to premium related receivables, the Corporation evaluates 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.

The Corporation considers this allowance adequate to cover potential losses that may result from its inability to subsequently collect the amounts reported as accounts receivable. Notwithstanding, such estimates may be significantly affected in the event that unforeseen economic conditions adversely impact the ability of third parties to fulfill their responsibility to the Corporation and fully repay the amounts due.

Other Significant Accounting Policies

The Corporation has other significant accounting policies that do not involve the same degree of measurement uncertainty as those discussed above, that are nevertheless important to an understanding of the financial statements. These significant accounting policies are disclosed in note 2 of the notes to the audited consolidated financial statements.

Recently Issued Accounting Standards

In December 2004, the Financial Accounting Standards Board (FASB) issued SFAS No. 153, *Exchange of Nonmonetary Assets*, which eliminates an exception in APB 29 for recognizing nonmonetary exchanges of similar productive assets at fair value and replaces it with an exception for recognizing exchanges of nonmonetary assets at fair value that do not have commercial substance. This Statement will be effective for the Corporation for nonmonetary asset exchanges occurring on or after January 1, 2006. The adoption of this Statement is not expected to have any impact on the Corporation s consolidated financial statements.

In May 2005, the FASB issued SFAS No. 154, *Accounting Changes and Error Corrections*. SFAS No. 154 establishes, unless impracticable, retrospective application as the required method for reporting a change in accounting principle in the absence of explicit transition requirements specific to a newly adopted accounting principle. This statement will be effective for the Corporation for any accounting changes and error corrections occurring after January 1, 2006.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

The Corporation is exposed to certain market risks that are inherent in the Corporation s financial instruments, which arise from transactions entered into in the normal course of business. The Corporation is also subject to market risk on certain of its financial instruments. The Corporation must effectively manage, measure, and monitor the market risk associated with its invested assets and interest rate sensitive liabilities. It has established and implemented comprehensive policies and procedures to minimize the effects of potential market volatility.

Market Risk Exposure

The Corporation has exposure to market risk mostly in its 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.

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As in other insurance companies, investment activities are an integral part of the Corporation s 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. The Corporation has a diversified investment portfolio with a large portion invested in investment-grade, fixed income securities.

The Corporation s 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.

The Corporation evaluates the interest rate risk of its assets and liabilities regularly, as well as the appropriateness of investments relative to its internal investment guidelines. The Corporation operates within these guidelines by maintaining a well-diversified portfolio, both across and within asset classes. Investment decisions are centrally managed by investment professionals based on the guidelines established by management. The Corporation has a Finance Committee, composed of members of the Board of Directors, which monitors and approves investment policies and procedures. The investment portfolio is managed following those policies and procedures.

The Corporation s investment portfolio is predominantly comprised of U.S. treasury securities, obligations of U.S. government instrumentalities, obligations of U.S. government sponsored agencies, obligations of state and political subdivisions, and obligations of the Commonwealth of Puerto Rico and its instrumentalities, which comprise approximately 78% of the total portfolio value in the year 2005. Of this 78% of total portfolio value, approximately 8% is composed of U. S. agency-backed mortgage backed securities and collateralized mortgage obligations. The remaining balance of the investment portfolio consists of an equity securities portfolio that replicates the S&P 500 Index, a large-cap growth index, a large-cap value index, mutual funds, and investments in local stocks from well-known financial institutions.

The Corporation measures market risk related to its holdings of invested assets and other financial instruments utilizing a sensitivity analysis. This analysis estimates the potential changes in fair value of the instruments subject to market risk. The sensitivity analysis was performed separately for each of the Corporation s market risk exposures related to its trading and other than trading portfolios. This sensitivity analysis is an estimate and should not be viewed as predictive of the Corporation s future financial performance. The Corporation cannot assure that its actual losses in any particular year will not 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;
- The model assumes that the composition of assets and liabilities remains unchanged throughout the year.

Accordingly, the Corporation uses such models as tools and not as a substitute for the experience and judgment of its management and Board of Directors.

Interest Rate Risk

The Corporation s exposure to interest rate changes results from its significant holdings of fixed maturity securities. Investments subject to interest rate risk are located within the Corporation s trading and other-than-trading portfolios. The Corporation is also exposed to interest rate risk from its two variable interest credit agreements and from its annuity contracts.

Equity Price Risk

The Corporation s investments in equity securities expose it 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 located within the Corporation s trading and other-than-trading portfolios.

Risk Measurement

Trading Portfolio

The Corporation s trading securities are a source of market risk. As of December 31, 2005, the Corporation s trading portfolio was composed of investments in publicly traded common stocks. The securities in the trading portfolio are

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high quality, diversified across industries and readily marketable. Trading securities are recorded at fair value; changes in the fair value of these securities 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, 2005 and 2004, the hypothetical loss in the fair value of these investments is estimated to be approximately $7.8 million and $8.7 million, respectively.

Other than Trading Portfolio

The Corporation s available-for-sale and held-to-maturity securities are also a source of market risk. As of December 31, 2005 approximately 91% and 100% of the Corporation s 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 market 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 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.

(1) Interest Rate Risk The Corporation has evaluated the net impact to the fair value of its fixed income investments 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 bp 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 under the aforementioned scenarios include, as it relates to the Corporation, 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, 2005 and 2004.

(Dollar amounts in thousands)

Change in Interest Rates	Expected Fair Value	Amount of Decrease	% Change
December 31, 2005:			
Base Scenario	$560,146		
+100 bp	$532,372	(27,774)	(4.96)%
+200 bp	$512,003	(48,143)	(8.59)%
+300 bp	$492,776	(67,370)	(12.03)%
December 31, 2004:			
Base Scenario	$482,019		
+100 bp	$465,335	(16,684)	(3.46)%
+200 bp	$446,588	(35,431)	(7.35)%
+300 bp	$428,419	(53,600)	(11.12)%

The Corporation believes that an interest rate shift in a 12-month period of 100 bp represents a moderately adverse outcome, while a 200 bp shift is significantly adverse and a 300 bp shift is unlikely given historical precedents. Although the Corporation classifies 96% of its fixed income securities as available-for-sale, the Corporation s cash flows and the intermediate duration of its investment portfolio should allow it to hold securities until their maturity, thereby avoiding the recognition of losses, should interest rates rise significantly.

(2) Equity Price Risk The Corporation s equity securities in the available-for-sale portfolio are comprised primarily of stock of several Puerto Rico financial institutions and mutual funds. Assuming an immediate decrease of 10% in the market value of these securities as of December 31, 2005 and 2004, the hypothetical loss in the fair value of these investments is estimated to be approximately $5.2 million and $5.9 million, respectively.

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Other Risk Measurement

The Corporation is subject to interest rate risk on its two variable interest credit agreements, its annuity contracts and on its short-term borrowings. Shifting interest rates do not have a material effect on the fair value of these instruments. The two credit agreements have a variable interest rate structure, which reduces the potential exposure to interest rate risk. The annuity contracts have short-term interest rate guarantees, which also reduce the accounts exposure to interest rate risk. In addition, the brief maturity of the Corporation s short-term borrowings reduces the instrument s exposure to interest rate risk.

The Corporation has an interest-rate related derivative instrument to manage the variability caused by interest rate changes in the cash flows of one of its credit agreements. This swap changes the variable-rate cash flow exposure on the debt obligations to fixed-rate cash flows. Shifting interest rates have an effect in the fair value of the interest rate swap agreement. The Corporation assesses interest rate risk by monitoring changes in interest rate exposures that may adversely impact the fair value of the interest rate swap agreement. The Corporation monitors interest rate risk attributable to both the Corporation s outstanding or forecasted debt obligations as well as the Corporation s offsetting hedge position. As of December 31, 2005, the estimated fair value of the interest rate swap amounted to $607 thousand and was included within the other assets in the consolidated balance sheets. As of December 31, 2004, the estimated fair value of the interest rate swap amounted to $(142) thousand and was included within the accounts payable and accrued liabilities in the consolidated balance sheets. Assuming an immediate decrease of 10% in period end rates as of December 31, 2005 and 2004, the hypothetical loss in the estimated fair value of the interest rate swap is estimated to approximate $61 thousand and $14 thousand, respectively.

The Corporation has invested in other derivative instruments in order to diversify its investment in securities and participate in foreign stock markets. During the year 2005, the Corporation has invested in two structured note agreements amounting to $5.0 million each, 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 Corporation 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 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 the provisions of SFAS No. 133, Accounting for Derivative Instruments and Certain Hedging Activities, as amended, 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 the Corporation to credit risk and market risk. The Corporation minimizes credit risk by entering into transactions with high-quality counterparties. 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, 2005, the fair value of the derivative component of the structured notes amounted to $5.3 million and is included within the other assets in the consolidated balance sheets. Assuming an immediate decrease of 10% in the period end Indexes as of December 31, 2005, the hypothetical loss in the estimated fair value of the derivative component of the structured notes is estimated to be approximately $533 thousand. The investment component of the structured notes, which fair value amounted to $7.3 million as of December 31, 2005, is accounted for as a held-to-maturity debt security and is included within the investment in securities in the consolidated balance sheet and its risk measurement is evaluated along the other investments in the Other Than Trading section of this item.

Item 8. Financial Statements and Supplementary Data.

Financial Statements

For the audited consolidated financial statements as of December 31, 2005 and 2004 for the three years ended December 31, 2005 see Index to financial statements in Item 15. Exhibits and Financial Statement Schedules to this Annual Report on Form 10-K.

Selected Quarterly Financial Data

For the selected quarterly financial data corresponding to the years 2005 and 2004, see note 26 of the audited consolidated financial statements as of December 31, 2005, 2004 and 2003.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures.

None.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

The Corporation s management, with the participation of the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the Corporation s disclosure controls and procedures as of December 31, 2005. Based on that evaluation, the Corporation s Chief Executive Officer and Chief Financial Officer concluded that the Corporation s disclosure controls and procedures were effective as of December 31, 2005.

Changes in Internal Controls

There were no significant changes in the Corporation s disclosure controls and procedures, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed the evaluation referred to above.

Item 9B.Other Information.

Not applicable.

Part III

Item 10. Directors and Executive Officers of the Registrant.

For the Code of Ethics adopted by Corporation, see Exhibit 14.1 to this Annual Report on Form 10-K.

The remaining information required by this item is incorporated by reference to the sections Election of Directors, Section 16(a) Beneficial Ownership Reporting Compliance , Executive Officers , Other Relationships, Transactions and Events , Audit Committee Report and Audit Committed Financial Expert included in the Corporation s definitive Proxy Statement.

Item 11. Executive Compensation.

The information required by this item is incorporated by reference to the section Report of the Compensation Committee on Executive Compensation Executive Compensation, and Compensation Committee Interlocks and Insider Participation included in the Corporation s definitive Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this item is incorporated by reference to the section Shares Beneficially Owned by Directors and Executive Officers of the Corporation included in the Corporation s definitive Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

The information required by this item is incorporated by reference to the section Other Relationships, Transactions and Events included in the Corporation s definitive Proxy Statement.

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Item 14. Principal Accountant Fees and Services

The information required by this item is incorporated by reference to the section Disclosure of Audit Fees included in the Corporation s definitive Proxy Statement.

Item 15. Exhibits and Financial Statements Schedules.

Financial Statements and Schedules

Financial Statements	Description
F-1	Report of Independent Registered Public Accounting Firm
F-2	Consolidated Balance Sheets as of December 31, 2005 and 2004
F-3	Consolidated Statements of Earnings for the years ended December 31, 2005, 2004 and 2003
F-4	Consolidated Statements of Stockholders Equity and Comprehensive Income for the years ended December 31, 2005, 2004 and 2003
F-5	Consolidated Statements of Cash Flows for the years ended December 31, 2005, 2004 and 2003
F-7	Notes to Consolidated Financial Statements December 31, 2005, 2004 and 2003

Financial Statements Schedules	Description
S-1	Schedule II Condensed Financial Information of the Registrant
S-2	Schedule III Supplementary Insurance Information
S-3	Schedule IV Reinsurance
S-4	Schedule V Valuation and Qualifying Accounts

Schedule I Summary of Investments was omitted because the information is disclosed in the notes to the audited consolidated financial statements. Schedule VI Supplemental Information Concerning Property Casualty Insurance Operations was omitted because the schedule is not applicable to the Corporation.

Exhibits

Exhibits	Description
3(i)	Articles of Incorporation of Triple-S Management Corporation as amended (English Translation) (incorporated herein by reference to Exhibit 3(i) to TSM s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2002 (File No. 0-49762)).
3(ii)	By-Laws of Triple-S Management Corporation as amended (English Translation) (incorporated herein by reference to Exhibit 3(ii) to TSM s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2002 (File No. 0-49762)).
10.1	Puerto Rico Health Insurance Contract for the Metro-North Region (incorporated herein by reference to Exhibit 10.1 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2003 (File No. 0-49762)).
10.1 (a)	Extension to the Puerto Rico Health Insurance Contract for the Metro-North Region (incorporate herein by reference to Exhibit 10.1 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2005 (File No. 0-49762)).
10.2	Puerto Rico Health Insurance Contract for the North Region (incorporated herein by reference to Exhibit 10.2 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2003 (File No. 0-49762)).
10.2 (a)	Extension to the Puerto Rico Health Insurance Contract for the North Region (incorporate herein by reference to Exhibit 10.2 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended September 30, 2005 (File No. 0-49762)).
10.3	

Puerto Rico Health Insurance Contract for the South-West Region (incorporated herein by reference to Exhibit 10.3 to TSM s Quarterly Report on Form 10-Q for the Quarter Ended June 30, 2003 (File No. 0-49762)).