TRIPLE-S MANAGEMENT CORP
Form 10-Q
November 13, 2006

Table of Contents

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

(Mark One)

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

For the quarterly period ended September 30, 2006

OR

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

(Exact name of registrant as specified in its charter)

Puerto Rico	**66-0555678**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
1441 F.D. Roosevelt Avenue San Juan, Puerto Rico	**00920**
(Address of principal executive offices)	(Zip code)

(787) 749-4949

(Registrant s telephone number, including area code)

Not applicable

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. þ Yes o No

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 Exchange Act). o Yes þ No

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

Title of each class	Outstanding at September 30, 2006
Common Stock, $40.00 par value	8,911

Triple-S Management Corporation
FORM 10-Q
For the Quarter Ended September 30, 2006
Table of Contents

Table of Contents

Part I Financial Information
Item 1. Financial Statements

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Balance Sheets

(Dollar amounts in thousands, except per share data)

	(Unaudited) September 30, 2006	December 31, 2005
ASSETS		
Investments and cash:		
Securities held for trading, at fair value:		
Equity securities	$ **82,460**	78,215
Securities available for sale, at fair value:		
Fixed maturities	**710,997**	515,174
Equity securities	**61,775**	51,810
Securities held to maturity, at amortized cost:		
Fixed maturities	**21,522**	21,129
Policy loans	**5,281**	
Cash and cash equivalents	**62,757**	48,978
Total investments, cash and cash equivalents	**944,792**	715,306
Premiums and other receivables, net	**187,459**	244,038
Deferred policy acquisition costs and value of business acquired	**107,607**	81,568
Property and equipment, net	**41,169**	34,709
Net deferred tax asset		2,151
Other assets	**57,979**	59,690
Total assets	$ **1,339,006**	1,137,462
LIABILITIES AND STOCKHOLDERS EQUITY		
Claim liabilities:		
Claims processed and incomplete	$ **163,379**	139,694
Unreported losses	**164,795**	143,224
Unpaid loss-adjustment expenses	**16,359**	14,645
Total claim liabilities	**344,533**	297,563
Future policy benefits	**176,652**	
Future policy benefits reserve related to funds withheld reinsurance		118,635
Unearned premiums	**94,171**	95,703
Policyholder deposits	**49,175**	41,738
Liability to Federal Employees Health Benefits Program	**2,544**	4,356
Accounts payable and accrued liabilities	**134,548**	106,468
Short-term borrowings		1,740

Long-term borrowings	**183,497**	150,590
Income tax payable	**4,677**	
Net deferred tax liability	**1,013**	
Additional minimum pension liability	**10,411**	11,966
Total liabilities	**1,001,221**	828,759
Stockholders equity:		
Common stock, $40 par value. Authorized 12,500 shares; issued and outstanding 8,911 at September 30, 2006 and 8,904 at December 31, 2005	**356**	356
Additional paid-in capital	**150,408**	150,408
Retained earnings	**195,563**	162,964
Accumulated other comprehensive loss	**(8,542)**	(5,025)
Total stockholders equity	**337,785**	308,703
Total liabilities and stockholders equity	$**1,339,006**	1,137,462

See accompanying notes to unaudited consolidated financial statements.

3

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Earnings (Unaudited)
For the three months and nine months ended September 30, 2006 and 2005
(Dollar amounts in thousands, except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
REVENUE:				
Premiums earned, net	**$392,004**	345,728	**1,163,318**	1,018,735
Net fee revenue	**3,725**	3,234	**10,356**	9,746
	395,729	348,962	**1,173,674**	1,028,481
Net investment income	**10,509**	7,158	**31,325**	21,439
Net realized investment gains	**363**	1,857	**1,324**	6,534
Net unrealized investment gain (loss) on trading securities	**3,407**	905	**3,718**	(5,522)
Other income, net	**1,295**	1,576	**1,208**	2,066
Total revenue	**411,303**	360,458	**1,211,249**	1,052,998
BENEFITS AND EXPENSES:				
Claims incurred	**319,365**	299,577	**980,235**	900,401
Operating expenses, net of reimbursement for services	**55,810**	44,568	**170,472**	133,787
Interest expense	**4,089**	1,880	**11,175**	5,524
Total benefits and expenses	**379,264**	346,025	**1,161,882**	1,039,712
Income before taxes	**32,039**	14,433	**49,367**	13,286
INCOME TAX EXPENSE (BENEFIT):				
Current	**6,130**	802	**9,545**	2,781
Deferred	**1,079**	1,758	**992**	(569)
Total income taxes	**7,209**	2,560	**10,537**	2,212
Net income	**$ 24,830**	11,873	**38,830**	11,074
Basic net income per share	**$ 2,786**	1,333	**4,359**	1,244

See accompanying notes to unaudited consolidated financial statements.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity and Comprehensive Income (Unaudited)

For the nine months ended September 30, 2006 and 2005

(Dollar amounts in thousands, except per share data)

	2006	2005
BALANCE AT JANUARY 1	$ **308,703**	301,433
Dividends	**(6,231)**	
Comprehensive income (loss):		
Net income	**38,830**	11,074
Net unrealized change in investment securities	**(3,487)**	(12,830)
Net change in minimum pension liability		(755)
Net change in fair value of cash flow hedges	**(30)**	390
Total comprehensive income (loss)	**35,313**	(2,121)
BALANCE AT SEPTEMBER 30	$ **337,785**	299,312

See accompanying notes to unaudited consolidated financial statements.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Consolidated Statements of Cash Flows (Unaudited)

For the nine months ended September 30, 2006 and 2005

(Dollar amounts in thousands, except per share data)

	Nine months ended September 30,	
	2006	**2005**
Net income	**$ 38,830**	11,074
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	**4,486**	4,001
Amortization of investment discounts	**927**	400
Accretion in value of securities	**(570)**	(474)
Increase in provision for doubtful receivables	**1,588**	455
Increase (decrease) in net deferred taxes	**776**	(339)
Gain on sale of securities	**(1,324)**	(6,534)
Unrealized (gain) loss of trading securities	**(3,718)**	5,522
Proceeds from trading securities sold:		
Fixed maturities		102,667
Equity securities	**14,137**	19,692
Acquisition of securities in trading portfolio:		
Fixed maturities		(30,502)
Equity securities	**(14,599)**	(17,749)
Loss (gain) on sale of property and equipment	**22**	(1)
(Increase) decrease in assets:		
Premiums receivable	**(34,552)**	(8,124)
Accrued interest receivable	**41**	(676)
Agents balances	**(528)**	
Reinsurance receivable	**(3,637)**	(2,343)
Other receivables	**(2,843)**	4,185
Deferred policy acquisition costs	**(4,066)**	(1,186)
Prepaid income tax	**3,353**	(4,254)
Other assets	**(1,142)**	(6,881)
Increase (decrease) in liabilities:		
Claims processed and incomplete	**18,971**	(3,726)
Unreported losses	**17,402**	18,573
Unpaid loss-adjustment expenses	**1,414**	(110)
Future policy benefits	**10,254**	
Unearned premiums	**(3,832)**	7,986
Policyholder deposits	**1,356**	900
Liability to FEHBP	**(1,812)**	(1,643)
Accounts payable and accrued liabilities	**3,970**	(5,814)
Income tax payable	**4,677**	(1,827)
Net cash provided by operating activities	**$ 49,581**	83,272

(Continued)

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows (Unaudited)
For the nine months ended September 30, 2006 and 2005
(Dollar amounts in thousands, except per share data)

	Nine months ended September 30, 2006	2005
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from investments sold or matured:		
Securities available for sale:		
Fixed maturities sold	$ **16,151**	5,373
Fixed maturities matured	**30,895**	17,847
Equity securities	**1,209**	3,487
Securities held to maturity:		
Fixed maturities matured	**342**	721
Acquisitions of investments:		
Securities available for sale:		
Fixed maturities	**(54,221)**	(97,818)
Equity securities	**(11,517)**	(6,821)
Securities held to maturity:		
Fixed maturities	**(500)**	(8,499)
Acquisition of business, net of $10,403 of cash acquired	**(27,793)**	
Net disbursements for policy loans	**(502)**	
Capital expenditures	**(9,468)**	(5,031)
Net cash used in investing activities	**(55,404)**	(90,741)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in outstanding checks in excess of bank balances	**490**	1,151
Payments of short-term borrowings	**(119,547)**	(104,635)
Proceeds from short-term borrowings	**117,807**	107,540
Payments of long-term borrowings	**(2,093)**	(4,730)
Proceeds from long-term borrowings	**35,000**	
Dividends	**(6,231)**	
Proceeds from policyholder deposits	**4,389**	9,315
Surrenders of policyholder deposits	**(10,213)**	(4,079)
Net cash provided by financing activities	**19,602**	4,562
Net increase (decrease) in cash and cash equivalents	**13,779**	(2,907)
Cash and cash equivalents at beginning of the period	**48,978**	35,115
Cash and cash equivalents at end of the period	$ **62,757**	32,208

See accompanying notes to unaudited consolidated financial statements.

7

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

(1) Basis of Presentation

The accompanying consolidated interim financial statements prepared by Triple-S Management Corporation (TSM) and its subsidiaries (the Corporation) are unaudited, except for the balance sheet information as of December 31, 2005, which is derived from the Corporation s audited consolidated financial statements, pursuant to the rules and regulations of the United States Securities and Exchange Commission. The consolidated interim financial statements do not include all of the information and the footnotes required by U.S. generally accepted accounting principles for complete financial statements. These consolidated interim financial statements should be read in conjunction with the audited consolidated financial statements included in the Corporation s Annual Report on Form 10-K for the year ended December 31, 2005.

In the opinion of management, all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of such consolidated interim financial statements have been included. The results of operations for the three months and nine months ended September 30, 2006 are not necessarily indicative of the results for the full year. Certain amounts in the 2005 financial statements were reclassified to conform with the 2006 presentation.

The Corporation has several significant accounting policies that are disclosed in note 2 of the notes to the audited consolidated financial statements included in the Annual Report on Form 10-K for the year ended December 31, 2005. These significant accounting policies have not changed from those previously disclosed, except for the addition of the following significant accounting policies related to the liability for future policy benefits and the value of business acquired resulting from the acquisition of Great American Life Assurance Company of Puerto Rico (GA Life):

Future Policy Benefits

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

Value of Business Acquired

The value assigned to the insurance in-force at the date of the acquisition is amortized using methods similar to those used to amortize the deferred policy acquisition costs as disclosed in the Corporation s Annual Report on Form 10-K as of December 31, 2005.

(2) Recent Accounting Standards

In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin (SAB) No. 108 addressing how the effects of prior-year uncorrected financial statement misstatements should be considered in current year financial statements. SAB No. 108 requires registrants to quantify misstatements using both balance sheet and income statement approaches in evaluating whether or not a

Table of Contents

misstatement is material. SAB No. 108 is effective for fiscal years ending after November 15, 2006. The adoption of this SAB is not expected to have a material impact on the Corporation s financial statements.

Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, was issued in September 2006. This statement changes financial reporting by requiring employers to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income. This statement also changes financial reporting by requiring employers to measure the funded status of a plan as of the date of its year-end statement of financial position. An employer with publicly traded equity securities is required to initially recognize the funded status of a defined benefit postretirement plan and to provide required disclosures as of the end of the fiscal year ending after December 15, 2006. An employer without publicly traded equity is required to recognize the funded status of a defined benefit pension plan and to provide required disclosures as of the end of the fiscal year ending after June 15, 2007. The requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The Corporation expects to adopt the provisions of this statement in the financial statements for the year ending December 31, 2006. The application of this statement is estimated to increase the Corporation s accumulated other comprehensive loss by approximately $14.0 million, net of tax.

SFAS No. 157, *Fair Value Measurements*, was issued in September 2006. This statement defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. This statement does not require any new fair value measurements; it applies under other accounting statements that require or permit fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. Except for certain exceptions, the provisions of this statement are to be applied prospectively as of the beginning of the fiscal year in which it is initially applied. The Corporation is currently evaluating the effect of this statement on its financial statements.

FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109*, was issued in June 2006. This Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. This interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This Interpretation is effective for fiscal years beginning after December 15, 2006. The adoption of this Interpretation is not expected to have a material impact on the Corporation s financial statements.

SFAS No. 156, *Accounting for Servicing of Financial Assets*, an amendment of SFAS No. 140, was issued in March 2006. This statement amends SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,* with respect to the accounting for separately recognized servicing assets and servicing liabilities. This Statement is effective as of the beginning of the first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 156 is not expected to have an impact on the Corporation s financial statements.

SFAS No. 155, *Accounting for Certain Hybrid Financial Instruments*, an amendment of FASB Statements No. 133 and 140, was issued in February 2006. This statement amends SFAS No. 133, *Accounting for Derivatives and Hedging Activities*, and SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*, and allows an entity to remeasure at fair value a hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation from the host, if the holder irrevocably elects to account for the whole instrument on a fair value basis. Subsequent changes in the fair value of the instrument would be recognized in earnings. This statement also clarifies certain issues included in the amended SFAS No. 133 and SFAS No. 140. SFAS No. 155 is effective for all financial instruments acquired and issued after the beginning of an entity s first fiscal year that begins after September 15, 2006. The adoption of SFAS No. 155 is not expected to have an impact on the Corporation s financial statements.

Table of Contents

(3) Segment Information

The operations of the Corporation are conducted principally through three business segments: Managed Care, Property and Casualty Insurance and Life and Disability Insurance. In prior periods we presented the Managed Care segment segregated in two segments: Health Insurance Commercial and Health Insurance Reform. Both of these segments are now aggregated under the caption of Managed Care segment in accordance with the aggregation criteria established by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. The segment information included in this Quarterly Report on Form 10-Q corresponding the 2005 periods has been restated to present the Health Insurance Commercial and Health Insurance Reform segments under the caption Managed Care segment.

On January 31, 2006 the Corporation completed the acquisition of 100% of the common stock of GA Life. The results of operations and financial position of GA Life are included in the Corporation s consolidated financial statements for the period following January 31, 2006. The operations of GA Life are included in the Corporation s Life and Disability Insurance segment along with the operations of Seguros de Vida Triple-S, Inc. (SVTS). Effective June 30, 2006, the Corporation merged the operations of GA Life and SVTS after receiving required regulatory approvals. GA Life is the surviving entity. Prior to completing the acquisition of GA Life, the operations of SVTS were the only component of the Corporation s Life and Disability Insurance segment.

The following tables summarize the operations by major operating segment for the three months and nine months ended September 30, 2006 and 2005:

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Operating Segments				
	Managed Care	Property and Casualty Insurance	Life and Disability Insurance	Other *	Total
THREE MONTHS ENDED SEPTEMBER 30, 2006					
Premiums earned, net	$346,667	21,827	23,510		392,004
Net fee revenue	3,725				3,725
Intersegment premiums earned/service revenues	1,336	154	78	12,855	14,423
	351,728	21,981	23,588	12,855	410,152
Net investment income	4,770	2,340	3,285		10,395
Realized gain on sale of securities	(466)	828	1		363
Unrealized loss on trading securities	2,537	759	111		3,407
Other income, net	1,003	66	208		1,277
Total revenue	$359,572	25,974	27,193	12,855	425,594
Net income	$ 17,780	4,672	1,499	326	24,277
Claims incurred	$295,604	10,554	13,207		319,365
Operating expenses	$ 38,517	10,011	10,981	12,350	71,859
Depreciation expense, included in operating expenses	$ 977	101	195		1,273
Interest expense	$ 1,755		1,656		3,411
Income tax expense (benefit)	$ 5,916	737	(150)	179	6,682

* Includes segments which are not required to be reported separately. These segments include the data processing

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

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Operating Segments				
	Managed Care	Property and Casualty Insurance	Life and Disability Insurance	Other *	Total
THREE MONTHS ENDED SEPTEMBER 30, 2005					
Premiums earned, net	$320,052	21,762	3,914		345,728
Net fee revenue	3,234				3,234
Intersegment premiums earned/service revenues	1,080			12,473	13,553
	324,366	21,762	3,914	12,473	362,515
Net investment income	4,092	2,176	772		7,040
Realized gain (loss) on sale of securities	1,761	128	(32)		1,857
Unrealized gain on trading securities	556	295	54		905
Other income, net	1,382	160	17		1,559
Total revenue	$332,157	24,521	4,725	12,473	373,876
Net income (loss)	$ 8,427	2,807	(16)	355	11,573
Claims incurred	$286,332	10,826	2,419		299,577
Operating expenses	$ 33,997	10,479	2,011	12,077	58,564
Depreciation expense, included in operating expenses	$ 1,103	105	34		1,242
Interest expense	$ 1,383		320		1,703
Income tax expense (benefit)	$ 2,018	409	(9)	41	2,459

* Includes segments which are not required to be reported separately. These segments include the data

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

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Operating Segments				
	Managed Care	Property and Casualty Insurance	Life and Disability Insurance	Other *	Total
NINE MONTHS ENDED SEPTEMBER 30, 2006					
Premiums earned, net	$ 1,028,451	65,713	69,154		1,163,318
Net fee revenue	10,356				10,356
Intersegment premiums earned/service revenues	4,225	438	234	38,320	43,217
	1,043,032	66,151	69,388	38,320	1,216,891
Net investment income	13,842	7,020	10,117		30,979
Realized gain on sale of securities	443	858	23		1,324
Unrealized gain on trading securities	2,545	1,012	161		3,718
Other income, net	628	174	353		1,155
Total revenue	$ 1,060,490	75,215	80,042	38,320	1,254,067
Net income	$ 23,862	8,945	4,271	350	37,428
Claims incurred	$ 909,436	32,496	38,303		980,235
Operating expenses	$ 114,273	32,729	33,345	37,311	217,658
Depreciation expense, included in operating expenses	$ 2,786	340	512		3,638
Interest expense	$ 5,004		4,258		9,262
Income tax expense (benefit)	$ 7,915	1,045	(135)	659	9,484

* Includes segments which are not required to be reported separately. These segments include the data

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

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Operating Segments				
	Managed Care	Property and Casualty Insurance	Life and Disability Insurance	Other *	Total
NINE MONTHS ENDED SEPTEMBER 30, 2005					
Premiums earned, net	$941,827	64,960	11,948		1,018,735
Net fee revenue	9,746				9,746
Intersegment premiums earned/service revenues	3,185			37,550	40,735
	954,758	64,960	11,948	37,550	1,069,216
Net investment income	12,405	6,461	2,244		21,110
Realized gain on sale of securities	5,284	1,199	51		6,534
Unrealized loss on trading securities	(4,990)	(482)	(50)		(5,522)
Other income, net	1,480	330	137		1,947
Total revenue	$968,937	72,468	14,330	37,550	1,093,285
Net income	$ 1,709	8,409	44	382	10,544
Claims incurred	$860,392	32,446	7,563		900,401
Operating expenses	$102,772	29,928	5,970	36,795	175,465
Depreciation expense, included in operating expenses	$ 2,786	302	93		3,181
Interest expense	$ 3,991		899		4,890
Income tax expense	$ 73	1,685	(146)	373	1,985

* Includes segments which are not required to be reported separately. These segments include the data processing

services
organization as
well as the
third-party
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managed care
services.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Operating Segments				
	Managed Care	Property and Casualty Insurance	Life and Disability Insurance	Other *	Total
AS OF SEPTEMBER 30, 2006					
Segment assets	$616,151	316,184	406,166	5,363	1,343,864
Significant noncash item:					
Net change in unrealized gain on securities available for sale	$ (1,412)	(798)	(1,254)		(3,464)
AS OF DECEMBER 31, 2005					
Segment assets	$541,973	307,228	271,615	4,310	1,125,126
Significant noncash item:					
Net change in unrealized gain on securities available for sale	$ (13,733)	(3,090)	(1,844)		(18,667)
Net change in minimum pension liability	(2,048)	(142)	(76)	(453)	(2,719)

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

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
TOTAL REVENUE				
Total revenues for reportable segments	$412,739	361,403	1,215,747	1,055,735
Total revenues for other segments	12,855	12,473	38,320	37,550
	425,594	373,876	1,254,067	1,093,285
Elimination of intersegment premiums earned	(1,568)	(1,080)	(4,897)	(3,185)
Elimination of intersegment service revenues	(12,855)	(12,473)	(38,320)	(37,550)
Unallocated amount revenues from external sources	132	135	399	448
	(14,291)	(13,418)	(42,818)	(40,287)
Consolidated total revenue	$411,303	360,458	1,211,249	1,052,998
NET INCOME				
Net income for reportable segments	$ 23,951	11,218	37,078	10,162
Net income for other segments	326	355	350	382
	24,277	11,573	37,428	10,544
Elimination of TSM charges:				
Rent expense	1,726	1,666	5,101	4,907
Interest expense	1,420	330	4,164	886
Management fees	1,020		2,630	
	4,166	1,996	11,895	5,793
Unallocated amounts related to TSM:				
General and administrative expenses	(1,120)	(1,223)	(3,762)	(3,964)
Income tax expense	(527)	(101)	(1,053)	(227)
Interest expense	(2,098)	(507)	(6,077)	(1,520)
Other revenues from external sources	132	135	399	448
	(3,613)	(1,696)	(10,493)	(5,263)

Consolidated net income	$ 24,830	11,873	38,830	11,074

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS

	Three months ended September 30, 2006		
	Segment Totals	Adjustments *	Consolidated Totals
Claims incurred	$319,365		319,365
Operating expenses	71,859	(16,049)	55,810
Depreciation expense	1,273	283	1,556
Interest expense	3,411	678	4,089
Income tax expense	6,682	527	7,209

	Three months ended September 30, 2005		
	Segment Totals	Adjustments *	Consolidated Totals
Claims incurred	$299,577		299,577
Operating expenses	58,564	(13,996)	44,568
Depreciation expense	1,242	271	1,513
Interest expense	1,703	177	1,880
Income tax expense	2,459	101	2,560

	Nine months ended September 30, 2006		
	Segment Totals	Adjustments *	Consolidated Totals
Claims incurred	$980,235		980,235
Operating expenses	217,658	(47,186)	170,472
Depreciation expense	3,638	1,121	4,759
Interest expense	9,262	1,913	11,175
Income tax expense	9,484	1,053	10,537

	Nine months ended September 30, 2005		
	Segment Totals	Adjustments *	Consolidated Totals
Claims incurred	$900,401		900,401
Operating expenses	175,465	(41,678)	133,787
Depreciation expense	3,181	820	4,001
Interest expense	4,890	634	5,524

Income tax expense	1,985	227	2,212

* Adjustments represent TSM operations and the elimination of intersegment charges.

17

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

RECONCILIATION OF REPORTABLE SEGMENT TOTALS WITH FINANCIAL STATEMENTS

	September 30, 2006	December 31, 2005
ASSETS		
Total assets for reportable segments	$ 1,338,501	1,120,816
Total assets for other segments	5,363	4,310
	1,343,864	1,125,126
Elimination entries intersegment receivables and others	(46,947)	(28,705)
Unallocated amounts related to TSM:		
Parent cash, cash equivalents and investments	11,750	11,054
Parent net property and equipment	23,999	24,760
Parent other assets	6,340	5,227
	42,089	41,041
Consolidated assets	$ 1,339,006	1,137,462

OTHER SIGNIFICANT ITEMS

	As of September 30, 2006		
	Segment Totals	Adjustments *	Consolidated Totals
Significant noncash item net change in unrealized gain on securities available for sale	$(3,464)	(23)	(3,487)

	As of December 31, 2005		
	Segment Totals	Adjustments *	Consolidated Totals
Significant noncash items:			
Net change in unrealized gain on securities available for sale	$(18,667)	(165)	(18,832)
Net change in minimum pension liability	(2,719)	(69)	(2,788)

* Adjustments represent

principally TSM operations and the elimination of intersegment charges.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

(4) Investment in Securities

The amortized cost for debt securities and equity securities, gross unrealized gains, gross unrealized losses, and estimated fair value for trading, available-for-sale and held-to-maturity securities by major security type and class of security at September 30, 2006 and December 31, 2005, were as follows:

	September 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Trading securities:				
Equity securities	$69,924	14,166	(1,630)	82,460

	September 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities	$722,335	654	(11,992)	710,997
Equity securities	51,700	13,086	(3,011)	61,775
	$774,035	13,740	(15,003)	772,772

	September 30, 2006			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Fixed maturities	$21,522	343	(760)	21,105

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value

Trading securities:				
Equity securities	$69,397	11,378	(2,560)	78,215

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities available for sale:				
Fixed maturities	$524,287	694	(9,807)	515,174
Equity securities	38,675	14,550	(1,415)	51,810
	$562,962	15,244	(11,222)	566,984

19

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	December 31, 2005			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Estimated fair value
Securities held to maturity:				
Fixed maturities	**$21,129**	**254**	**(623)**	**20,760**

Investment in securities at September 30, 2006 are mostly comprised of U.S. Treasury securities, obligations of U.S. government sponsored agencies and obligations of U.S. government instrumentalities (61.9%), mortgage backed and collateralized mortgage obligations that are U.S. agency-backed (9%) and obligations of the government of Puerto Rico and its instrumentalities (5.7%). The remaining 23.4% of the investment portfolio is comprised of equity securities and mutual funds.

The Corporation regularly monitors the difference between the cost and estimated fair value of investments. For investments with a fair value below cost, the process includes evaluating the length of time and the extent to which cost exceeds fair value, the prospects and financial condition of the issuer, and the Corporation s intent and ability to retain the investment to allow for recovery in fair value, among other factors. This process is not exact and further requires consideration of risks such as credit and interest rate risks. Consequently, if an investment s cost exceeds its fair value solely due to changes in interest rates, impairment may not be appropriate. If after monitoring and analyzing, the Corporation determines that a decline in the estimated fair value of any available-for-sale or held-to-maturity security below cost is other than temporary, the carrying amount of the security is reduced to its fair value. The impairment is charged to operations and a new cost basis for the security is established. During the nine months ended September 30, 2006 the Corporation recognized an other-than-temporary impairment amounting to $1,350 on one of its equity securities classified as available for sale.

The unrealized losses on investments were mainly caused by interest rate increases and market fluctuations. Because the Corporation has the ability and intent to hold these investments until a market price recovery or maturity, these investments are not considered other-than-temporarily impaired.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

(5) Premiums and Other Receivables

Premiums and other receivables as of September 30, 2006 and December 31, 2005 were as follows:

	September 30, 2006	December 31, 2005
Premiums	$ **86,195**	53,391
Self-funded group receivables	**25,052**	21,620
FEHBP	**9,025**	9,491
Accrued interest	**8,359**	5,074
Agents balances	**3,483**	
Funds withheld reinsurance receivable		118,635
Reinsurance recoverable	**38,375**	33,915
Other	**31,663**	14,152
	202,152	256,278
Less allowance for doubtful receivables:		
Premiums	**9,909**	7,792
Other	**4,784**	4,448
	14,693	12,240
Total premiums and other receivables	$ **187,459**	244,038

(6) Claim Liabilities

The activity in the total claim liabilities for the three months and nine months ended September 30, 2006 and 2005 is as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Claim liabilities at beginning of period	$ **341,598**	300,697	**297,563**	279,325
Reinsurance recoverable on claim liabilities	**(29,173)**	(26,597)	**(28,720)**	(26,555)
Net claim liabilities at beginning of period	**312,425**	274,100	**268,843**	252,770
Claim liabilities acquired from GA Life			**8,771**	
Incurred claims and loss-adjustment expenses:				
Current period insured events	**317,413**	296,815	**975,170**	897,434
Prior period insured events	**(6,163)**	2,762	**(12,471)**	2,967

Total	**311,250**	299,577	**962,699**	900,401
Payments of losses and loss-adjustment expenses:				
Current period insured events	**289,548**	287,921	**748,093**	703,068
Prior period insured events	**20,010**	18,728	**178,103**	183,075
Total	**309,558**	306,649	**926,196**	886,143
Net claim liabilities at end of period	**314,117**	267,028	**314,117**	267,028
Reinsurance recoverable on claim liabilities	**30,416**	27,034	**30,416**	27,034
Claim liabilities at end of period	$**344,533**	294,062	**344,533**	294,062

As a result of changes in estimates of insured events in prior periods, the amounts included as incurred claims for prior period insured events differ from anticipated claims incurred. The amount in the incurred

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

claims and loss-adjustment expenses for prior period insured events for the three months and nine months ended September 30, 2006 is due to a favorable development of the claim liabilities attributed to lower than expected utilization trends. The amount in the incurred claims and loss-adjustment expenses for prior period insured events for the three months and nine months ended September 30, 2005 is due to an unfavorable development of the claim liabilities attributed to higher than expected cost per service and utilization trends.

(7) Long-term Borrowings

A summary of the Corporation s long-term borrowings at September 30, 2006 and December 31, 2005 is as follows:

	September 30, 2006	December 31, 2005
Secured loan payable of $20,000, payable in various different installments up to August 31, 2007, with interest payable on a monthly basis at a rate reset periodically of 130 basis points over LIBOR selected (which was 6.73% and 5.71% at September 30, 2006 and December 31, 2005, respectively)	$ **10,500**	11,500
Senior unsecured notes payable of $50,000 due September 2019. Interest is payable semiannually at a fixed rate of 6.30%.	**50,000**	50,000
Senior unsecured notes payable of $60,000 due December 2020. Interest is payable monthly at a fixed rate of 6.60%.	**60,000**	60,000
Senior unsecured notes payable of $35,000 due January 2021. Interest is payable monthly at a fixed rate of 6.70%.	**35,000**	
Secured loan payable of $41,000, payable in monthly installments of $137 up to July 1, 2024, plus interest at a rate reset periodically of 100 basis points over LIBOR selected (which was 6.33% and 5.29% at September 30, 2006 and December 31, 2005, respectively)	**27,997**	29,090
Total long-term borrowings	$ **183,497**	150,590

On January 23, 2006 the Corporation issued and sold $35,000 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. Debt issuance costs amounting to $306 were deferred and will be amortized over the term of the notes and are reported as other assets in the accompanying consolidated balance sheets.

(8) Comprehensive Income

The accumulated balances for each classification of comprehensive income, net of taxes are as follows:

	Unrealized gain (loss) on securities	Minimum pension liability	Cash flow hedges	Accumulated other comprehensive income

BALANCE AT JANUARY 1	$ **3,217**	**(8,613)**	**371**	**(5,025)**
Net current period change	**(3,487)**		**(30)**	**(3,517)**
BALANCE AT SEPTEMBER 30	$ **(270)**	**(8,613)**	**341**	**(8,542)**

22

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands)
(Unaudited)

(9) Income Taxes

Under Puerto Rico income tax law, the Corporation is not allowed to file consolidated tax returns with its subsidiaries. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statements carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the consolidated statements of earnings in the period that includes the enactment date. Quarterly income taxes are calculated using the effective tax rate determined based on the income forecasted for the full fiscal year.

(10) Pension Plan

The components of net periodic benefit cost for the three months and nine months ended September 30, 2006 and 2005 were as follows:

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Components of net periodic benefit cost:				
Service cost	$ **1,350**	1,186	**4,042**	3,516
Interest cost	**1,151**	1,038	**3,454**	3,106
Expected return on assets	**(954)**	(868)	**(2,880)**	(2,579)
Amortization of prior service cost	**12**	12	**36**	36
Amortization of actuarial loss	**602**	505	**1,794**	1,500
Net periodic benefit cost	$ **2,161**	1,873	**6,446**	5,579

Employer contributions

The Corporation disclosed in its audited consolidated financial statements for the year ended December 31, 2005 that it expected to contribute $6,000 to its pension program in 2006. As of September 30, 2006, the corporation has contributed $8,000 to the pension program.

(11) Net Income Available to Stockholders and Net Income per Share

The Corporation presents only basic earnings per share, which amount consists of the net income that is available to common stockholders divided by the weighted-average number of common shares outstanding for the period.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30, 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

The following table sets forth the computation of basic net income per share for the three months and nine months ended September 30, 2006 and 2005:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Numerator for basic earnings per share:				
Net income available to stockholders	$**24,830**	11,873	**38,830**	11,074
Denominator for basic earnings per share:				
Weighted average of outstanding common shares	**8,911**	8,904	**8,909**	8,904
Basic net income per share	$ **2,786**	1,333	**4,359**	1,244

(12) Contingencies

(a) As of September 30, 2006, the Corporation is a defendant in various lawsuits arising in the ordinary course of business. Management believes, based on the opinion of its legal counsel, that the aggregate liabilities, if any, arising from such actions would not have a material adverse effect on the consolidated financial position and results of operations of the Corporation. Where the Corporation believes that a loss is both probable and estimable, such amounts have been recorded. In other cases, it is at least reasonably possible that the Corporation may have incurred a loss related to one or more of the pending lawsuits or investigations disclosed above, but the Corporation is unable to estimate the range of possible loss which may be ultimately realized, either individually or in the aggregate, upon their resolution.

(b) Drs. Carlyle Benavent and Ibrahim Pérez (the plaintiffs) caused the initiation of an administrative proceeding before the Puerto Rico Insurance Commissioner (the 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.

On May 26, 2006, Plaintiff Ibrahim Pérez filed a motion requesting a voluntary dismissal of the case with prejudice arguing that the controversy had become moot. The Supreme Court granted the motion, and on June 30, 2006 issued a Judgment dismissing this case as requested by Plaintiff Pérez.

(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. On May 4, 2006, the Court issued an Opinion and Order, which entered a summary judgment in favor of all the defendants, and dismissing the case. Plaintiffs filed a notice of appeal before the United States Court of Appeals for the First Circuit. The Appeals Court notified the briefing schedule, and Plaintiffs filed their brief on August 21, 2006. Respondent filed theirs on September 30, 2006. The Court has yet to notify the date for the hearing to argue the case.

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES

Notes to Consolidated Financial Statements

September 30. 2006

(Dollar amounts in thousands, except per share data)

(Unaudited)

(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 May 9, 2005 the plaintiffs amended the complaint and the defendants prepared 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 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. On March 16, 2006 the Court held another hearing to hear additional arguments on the same motions. On July 6, 2006 the Court held the last of three hearings to hear arguments on the defendants dispositive motions. The Court stayed all discovery until the motions are resolved. The Corporation is unable to estimate the range of possible loss which may be ultimately realized upon the resolution of this case.

(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.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30. 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

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. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.

During September 2006, the Court, sua sponte, ordered the parties to engage in Mediation with former US District Judge, Edward Davis. Judge Davis divided the group of plans into smaller groups to facilitate the process. Since September the parties have been engaged in Mediation, which is slated to end by December 2006.

The Corporation is unable to estimate the range of possible loss which may be ultimately realized upon the resolution of this case.

(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.

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. Upon the expiration of the stay, both plaintiffs and defendants agreed to request the Court to extend the stay until April 21, 2006. The stay expired and the parties informed the Court that they need additional time to iron out the details of an amicable solution. The Court has not reacted to the parties joint request. If the Court denies another stay, the parties will have to continue the proceedings where they were left before the issuance of the first stay. In the meantime, the Court issued an Agreed Order on the Preservation of Records. This order supersedes the parties existing record-keeping policies in regards to the documents and materials specified in the order. The purpose of the order is to avoid the disposition of documents that might be relevant for the case.

During September 2006, the Court, sua sponte, ordered the parties to engage in Mediation with former US District Judge, Edward Davis. Judge Davis divided the group of plans into smaller

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30. 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

groups to facilitate the process. Since September the parties have been engaged in Mediation, which is slated to end by December 2006.

The Corporation is unable to estimate the range of possible loss which may be ultimately realized upon the resolution of this case.

(13) Acquisition

Effective January 31, 2006, the Corporation acquired 100% of the common stock of Great American Life Assurance Company of Puerto Rico (GA Life). As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. The acquisition was accounted by the Corporation in accordance with the provisions of SFAS No. 141, *Business Combinations*. The results of operations and financial condition of GA Life are included in the accompanying unaudited consolidated financial statements for the period following the effective date of the acquisition. The aggregate purchase price of the acquired entity amounted to $38,196; of this amount $37,500 was paid in cash on January 31, 2006 and $696 are direct costs related to the acquisition.

The following table summarizes the estimated fair value of the assets acquired and liabilities assumed at the date of acquisition. The Corporation is still in the process of evaluating the net assets acquired and of obtaining third-party valuations of certain intangible assets. Consequently, the allocation of the purchase price is preliminary and subject to revision based on the outcome of the ongoing evaluation of these assets and liabilities.

Current assets	$219,747
Property and equipment	1,500
Value of business acquired	21,973
Total assets acquired	243,220
Total liabilities assumed	205,024
Net assets acquired	$ 38,196

The estimated fair value of the value of business acquired was actuarially determined by discounting after-tax profits at a risk rate of return equal to approximately 12%. After-tax profits were forecasted based upon models of the in force, actual invested assets as of acquisition date and best-estimate actuarial assumptions regarding premium income, claims, persistency, expenses and investment income accruing from invested assets plus reinvestment of positive cash flows. The best-estimate actuarial assumptions were based upon GA Life s recent experience in each of its major life and health insurance product lines. The amount of value of business acquired is to be amortized, considering interest, over the anticipated premium-paying period of the related policies in proportion to the ratio of annual premium revenue to the expected total premium revenue to be received over the life of the policies.

The following unaudited pro forma financial information presents the combined results of operations of the Corporation and GA Life as if the acquisition had occurred at January 1, 2006 and 2005. The pro forma results of operations for 2006 combine the results of the Corporation for 2006 and the historical results of GA Life for the one month period ended January 31, 2006. The unaudited pro forma financial information is not intended to represent or be indicative of the Corporation s consolidated results of operations that would have been reported had the acquisition been completed as of the beginning of the periods presented and should not be taken as indicative of the Corporation s future consolidated results of operations.

Table of Contents

TRIPLE-S MANAGEMENT CORPORATION AND SUBSIDIARIES
Notes to Consolidated Financial Statements
September 30. 2006
(Dollar amounts in thousands, except per share data)
(Unaudited)

	Three months ended September 30,		Nine months ended September 30,	
	2006	**2005**	**2006**	**2005**
Total revenue	$**411,303**	381,716	**1,218,532**	1,122,147
Net income	$ **24,830**	15,001	**39,147**	24,579
Basic net income per share	$ **2,786**	1,685	**4,394**	2,760

28

Table of Contents

Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations

The Management s Discussion and Analysis of Financial Condition and Results of Operations included in this Quarterly Report on Form 10-Q is intended to update the reader on matters affecting the financial condition and results of operations of Triple-S Management Corporation (TSM) and its subsidiaries (the Corporation) for the three months and nine months ended September 30, 2006. Therefore, the following discussion should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Annual Report on Form 10-K filed with the United States Securities and Exchange Commission as of and for the year ended December 31, 2005.

Cautionary Statement Regarding Forward-Looking Information

This Quarterly Report on Form 10-Q and other publicly available documents of the Corporation 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 the Corporation s belief regarding future events, any 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. The Corporation is not under any obligation to update or alter any forward-looking statement (and expressly disclaims any such obligations), whether as a result of new information, future events or otherwise. Factors that may cause actual results to differ materially from those contemplated by such forward looking statements include, but are not limited to, rising healthcare costs, business conditions and competition in the different insurance segments, government action and other regulatory issues.

Overview

We are the leading managed care company in Puerto Rico, with over 45 years of experience in the managed care industry. We offer a broad portfolio of managed care and other health insurance products in the commercial, Reform, Medicare Advantage and Part D stand-alone prescription drug plan (PDP) markets. The Reform is a Puerto Rico government-funded managed care program for the medically indigent, similar to Medicaid. We have the exclusive right to use the Blue Shield name and mark throughout Puerto Rico, serve over one million members across all regions of Puerto Rico and hold a leading market position covering approximately 30% of the population. We also have significant positions in the life and property and casualty insurance markets, with market shares of 25% (in terms of premiums written, in pro forma considering the acquisition of GA Life) and 8% (in terms of net premiums), respectively, as of December 31, 2005. For the nine months ended September 30, 2006, our Managed Care segment represented 88.5% of our total consolidated premiums and 66.8% of our operating income.

We participate in the managed care market through our subsidiary, TSI. TSI is a Blue Cross and Blue Shield Association licensee, which provides TSI with exclusive use of the Blue Shield brand in Puerto Rico. TSI offers products to the commercial, Reform, Medicare Advantage and PDP market sectors. The commercial sector includes corporate accounts, self-funded employers, federal employees, local government employees, individual accounts and Medicare supplemental.

We participate in the life and disability insurance market through our subsidiary, GA Life, and in the property casualty insurance market through our subsidiary, Seguros Triple-S, Inc. (STS), which represented 5.9% and 5.6%, respectively, of our consolidated total premiums for the nine months ended September 30, 2006 and 15.7% and 17.5%, respectively of our operating income for the period.

Table of Contents

Our revenue primarily consists of premiums earned and administrative service fees derived from the sale of managed care products in the commercial market to employer groups and to individuals and government-sponsored programs, principally Medicare and the Reform. Premiums are derived from insured contracts and administrative service fees are derived from self-funded contracts, under which we provide a range of customer services, including claims administration, billing and membership services, among others. Revenue also includes premiums earned from the sale of property and casualty and life insurance contracts, and investment income. Substantially all of our earnings are generated in Puerto Rico.

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

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

Recent Developments

Puerto Rico s Economy

The Commonwealth of Puerto Rico announced the possibility of a lack of current budgetary funds to close the fiscal year ended June 30, 2006 with a balanced budget if the legislative branch did not authorize a budget loan from the Government Development Bank for Puerto Rico (a government-sponsored bank). This situation was resolved prior to June 30, 2006 when the legislative and executive branches of the government approved a loan to provide funding for the budget related to the fiscal year ended June 30, 2006. Also, the legislative and executive branches approved a fiscal reform and a tax reform, which becomes effective November 15, 2006, that would raise additional funds in future fiscal years. The approved tax reform imposes a tax based upon the consumption of certain goods and services and repeals the excise tax regime currently in place. The Corporation s business with the Government was not significantly affected with this situation.

Healthcare Reform Business

All of the Reform contract s extension expired on June 30, 2006. During July 2006, the Commonwealth of Puerto Rico (the government) extended the contracts for all regions until September 30, 2006 with rates pending to be negotiated retroactively to July 1, 2006. It was later extended to October 31, 2006. In November 2006 we agreed to an average rate increase of 2.0% for the four months period ended October 31, 2006. In addition, the contract for the North and Southwest regions currently served by TSI were renewed for a one year term, from October 1, 2006 to September 30, 2007, with the applicable rates pending to be negotiated among the parties. It was later amended to be effective from November 1, 2006 for a period of 11 months. The government requested proposals to serve the Metro-North region under a Third Party Administrator pilot program. During the month of October 2006, the government informed TSI that the Metro-North region pilot program was awarded to another company. The Corporation is contesting the government s decision. The premiums earned, net and net income related to the operations of the Metro-North region for the nine-month period ended September 30, 2006 amounted to $145.8 million and $3.3 million, respectively.

Table of Contents

Recent Accounting Standards

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

Significant Transactions

Effective January 31, 2006, TSM completed the acquisition of 100% of the common stock of GA Life for $37.5 million. As a result of this acquisition, the Corporation became one of the leading providers of life insurance policies in Puerto Rico. After its acquisition, GA Life and SVTS form the Corporation s Life and Disability Insurance segment. Effective June 30, 2006, TSM merged the operations of GA Life with those of SVTS after receiving required regulatory approvals. GA Life is the surviving entity. GA Life s results of operations and financial condition are included in the Corporation s consolidated financial statements included in this Quarterly Report on Form 10-Q for the period following January 31, 2006.

The historical results of operations of the entities pre-acquisition and comparable basis information for the three months and nine months ended September 30, 2005 are included in the following tables. Comparable basis information was determined by adding the historical statements of earnings for the Corporation and GA Life. Comparable basis information is presented in order to provide a more meaningful comparison to the current period due to the acquisition of GA Life. Comparable basis is not calculated in accordance with U.S. generally accepted accounting principles and is not intended to represent or be indicative of the results of operations of the Corporation that would have been reported had the acquisition been completed as of January 31, 2005.

Consolidated

	Three months ended September 30, 2005		
(Dollar amounts in thousands)	**TSM**	**GA Life**	**Comparable Basis**
REVENUE:			
Premiums earned, net	$345,728	18,555	364,283
Amounts attributable to self-funded arrangements	53,424		53,424
Less amounts attributable to claims under self-funded arrangements	(50,190)		(50,190)
	348,962	18,555	367,517
Net investment income	7,158	2,779	9,937
Net realized investment gains	1,857	32	1,889
Net unrealized investment loss on trading securities	905		905
Other income, net	1,576		1,576
Total revenue	360,458	21,366	381,824
BENEFITS AND EXPENSES:			
Claims incurred	299,577	10,247	309,824
Operating expenses, net of reimbursement for services	44,568	7,948	52,516
Interest expense	1,880		1,880
Total benefits and expenses	346,025	18,195	364,220
Income before taxes	14,433	3,171	17,604
INCOME TAX EXPENSE (BENEFIT):			
Current	802		802

Deferred	1,758	(395)	1,363
Total income taxes	2,560	(395)	2,165
Net income	$ 11,873	3,566	15,439
Basic net income per share	$ 1,333		1,734

Table of Contents

	Nine months ended September 30, 2005		
(Dollar amounts in thousands)	**TSM**	**GA Life**	**Comparable Basis**
REVENUE:			
Premiums earned, net	$1,018,735	49,797	1,068,532
Amounts attributable to self-funded arrangements	157,778		157,778
Less amounts attributable to claims under self-funded arrangements	(148,032)		(148,032)
	1,028,481	49,797	1,078,278
Net investment income	21,439	7,791	29,230
Net realized investment gains	6,534	4,770	11,304
Net unrealized investment loss on trading securities	(5,522)		(5,522)
Other income, net	2,066		2,066
Total revenue	1,052,998	62,358	1,115,356
BENEFITS AND EXPENSES:			
Claims incurred	900,401	27,605	928,006
Operating expenses, net of reimbursement for services	133,787	22,137	155,924
Interest expense	5,524		5,524
Total benefits and expenses	1,039,712	49,742	1,089,454
Income before taxes	13,286	12,616	25,902
INCOME TAX EXPENSE (BENEFIT):			
Current	2,781	626	3,407
Deferred	(569)	(1,187)	(1,756)
Total income taxes	2,212	(561)	1,651
Net income	$ 11,074	13,177	24,251
Basic net income per share	$ 1,244		2,724

Life and Disability Insurance Segment

	Three months ended September 30, 2005		
(Dollar amounts in thousands)	**SVTS**	**GA Life**	**Comparable Basis**
Operating revenues:			
Net premiums earned:			
Earned premiums	$ 5,814	19,088	24,902
Earned premiums ceded	(1,977)	(533)	(2,510)

Net earned premiums	3,837	18,555	22,392
Commission income on reinsurance	77		77
Net premiums earned	3,914	18,555	22,469
Net investment income	772	2,779	3,551
Net realized investment gains (losses)	(32)	32	
Total	4,654	21,366	26,020
Operating costs:			
Policy benefits and claims incurred	2,419	10,247	12,666
Underwriting and other expenses	2,011	7,948	9,959
Total	4,430	18,195	22,625
Operating income	$ 224	3,171	3,395

Table of Contents

	Nine months ended September 30, 2005		
(Dollar amounts in thousands)	SVTS	GA Life	Comparable Basis
Operating revenues:			
Net premiums earned:			
Earned premiums	$17,601	51,040	68,641
Earned premiums ceded	(6,003)	(1,243)	(7,246)
Net earned premiums	11,598	49,797	61,395
Commission income on reinsurance	350		350
Net premiums earned	11,948	49,797	61,745
Net investment income	2,244	7,791	10,035
Net realized investment gains	51	4,770	4,821
Total	14,243	62,358	76,601
Operating costs:			
Policy benefits and claims incurred	7,563	27,605	35,168
Underwriting and other expenses	5,970	22,137	28,107
Total	13,533	49,742	63,275
Operating income	$ 710	12,616	13,326

Selected Membership Data

	As of September 30,	
	2006	2005
Managed care enrollment:		
Commercial [1]	**589,785**	618,603
Reform	**554,996**	626,977
Medicare Advantage	**26,843**	8,461
Stand-alone PDP	**17,582**	
Total	**1,189,206**	1,254,041
Managed care enrollment by funding arrangement:		
Fully-insured	**1,032,083**	1,099,473
Self-insured	**157,123**	154,568
Total	**1,189,206**	1,254,041

[1] Commercial membership includes corporate accounts, self-funded employers, individual accounts, Medicare supplemental, Federal employees and local government employees.

Table of Contents

Consolidated Operating Results

The analysis in this section provides an overall view of the consolidated statements of operations and key financial information. Further details of the results of operations of each reportable segment are included in the analysis of operating results for the respective segments.

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

	Three months ended September 30,		
(dollar amounts in thousands)	2006	2005	Comparable Basis 2005
Operating revenues:			
Premiums earned, net	**$392,004**	345,728	364,283
Fee revenue	**3,725**	3,234	3,234
Net investment income	**10,509**	7,158	9,937
Net realized investment gains	**363**	1,857	1,889
Total	**406,601**	357,977	379,343
Operating costs:			
Claims incurred	**319,365**	299,577	309,824
Operating expenses	**55,810**	44,568	52,516
Total	**375,175**	344,145	362,340
Operating income	**31,426**	13,832	17,003
Net unrealized gains on trading securities	**3,407**	905	905
Interest expense	**(4,089)**	(1,880)	(1,880)
Other income, net	**1,295**	1,576	1,576
Income before taxes	**32,039**	14,433	17,604
Income tax expense	**7,209**	2,560	2,165
Net income	**$ 24,830**	11,873	15,439

Operating revenues

Premiums earned, net presented an increase of $46.3 million, or 13.4%, to $392.0 million in 2006. On a comparable basis the consolidated earned premiums, net increased by $27.7 million, or 7.6%. This increase is primarily due to an increase in the premiums earned, net of the managed care segment, principally due to a strong growth from our Medicare Advantage and PDP products.

Net investment income increased by $3.4 million, or 46.9%, to $10.5 million in 2006. On a comparable basis the increase of $572 thousand, or 5.8%, is primarily due to a higher balance of invested assets, as well as an increase in yield during 2006.

Operating costs

Claims incurred increased by $19.8 million, or 6.6%, to $319.4 million in 2006. On a comparable basis, the consolidated claims incurred increased by $9.5 million, or 3.1%, mostly due to the increase of $9.3 million in the claims incurred of the managed care segment as a result of the increased enrollment in the Medicare Advantage and PDP business.

Operating expenses increased by $11.2 million, or 25.2%, to $55.8 million in 2006. On a comparable basis, the consolidated operating expenses increased by $3.3 million, or 6.3%, which is primarily attributed to the normal inflationary effect in operating expenses.

Net unrealized investment gains

The net unrealized gain of $3.4 million experienced in 2006 is attributed to gains in the portfolios held by the segments in equity securities attributed to the positive returns in equity markets during the 2006 quarter.

Table of Contents

Interest expense

The interest expense of $4.1 million presented an increase of $2.2 million on both an actual and comparable basis, primarily due to the interest expense corresponding to the new debt incurred during the fourth quarter of the year 2005 and during the first quarter of 2006.

Income tax expense

The effective tax rate presented an increase of 4.8 percentage points, from 17.7% in 2005 to 22.5% in 2006. On a comparable basis, the 2005 effective tax rate was 12.3%, reflecting an increase in 2006 of 10.2 percentage points that is primarily due to higher non-deductible expenses in 2006 and an increase in taxable income related to the life segment, which has a lower effective taxable rate than our other businesses.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

	Nine months ended September 30,		
(dollar amounts in thousands)	**2006**	**2005**	**Comparable Basis 2005**
Operating revenues:			
Premiums earned, net	$**1,163,318**	1,018,735	1,068,532
Fee revenue	**10,356**	9,746	9,746
Net investment income	**31,325**	21,439	29,230
Net realized investment gains	**1,324**	6,534	11,304
Total	**1,206,323**	1,056,454	1,118,812
Operating costs:			
Claims incurred	**980,235**	900,401	928,006
Operating expenses	**170,472**	133,787	155,924
Total	**1,150,707**	1,034,188	1,083,930
Operating income	**55,616**	22,266	34,882
Net unrealized gains on trading securities	**3,718**	(5,522)	(5,522)
Interest expense	**(11,175)**	(5,524)	(5,524)
Other income, net	**1,208**	2,066	2,066
Income before taxes	**49,367**	13,286	25,902
Income tax expense	**10,537**	2,212	1,651
Net income	$ **38,830**	11,074	24,251

Operating revenues

Premiums earned, net presented an increase of $144.6 million, or 14.2%, to $1,163.3 million in 2006. On a comparable basis the consolidated earned premiums, net increased by $94.8 million, or 8.9%. This increase is primarily due to an increase in the premiums earned, net of the managed care segment, principally due to a strong growth from our Medicare Advantage and PDP products.

Fee revenue increased by $610 thousand, or 6.2%, to $10.5 million in 2006 that is mostly due the increased enrollment in the managed care segment s self-funded employers business and increases in fee rates.

Net investment income increased by $9.9 million, or 46.1%, during 2006. The increase in net investment income on a comparable basis of $2.1 million, or 7.2%, reflects our higher balance of invested assets as well as an increase in yield during 2006.

Net realized investment gains decreased by $5.2 million, or 79.7%, to $1.3 million in 2006. On a comparable basis, net realized gain on sale of securities decreased by $10.0 million, or 88.3%. This decrease is primarily the result of sales of certain investments in 2005 in order to take advantage of a temporary reduction in the capital gains tax rate by 6.25 percentage points for sales of long-term capital assets, thus causing gains to be realized in the 2005 period and decreasing unrealized gains during such period.

Table of Contents

Operating costs

Claims incurred increased by $79.8 million, or 8.9%, to $980.2 million in 2006. On a comparable basis, claims incurred increased by $52.2 million, or 5.6%, principally due to increased claims in the managed care segment as a result of increased enrollment in the Medicare Advantage and PDP businesses.

Operating expenses increased by $36.7 million, or 27.4%, to $170.5 million in 2006. On a comparable basis, the operating expenses increased by $14.5 million, or 9.3%, attributed primarily to the increased volume of business across all our segments during 2006. In addition, we experienced increases in payroll and related expenses, commission expenses and information technology related costs.

The net unrealized gain on trading securities was $3.7 million during 2006, presenting an increase of $9.2 million, on both an actual and comparable basis. This increase is attributable to gains in the portfolios held by the segments in equity securities. The unrealized loss in the 2005 period is attributable to the realization of gains in that period, as previously discussed.

Interest expense

The interest expense presented an increase of $5.7 million on both an actual and comparable basis primarily due to the interest expense corresponding to the new debt incurred by during the fourth quarter of the year 2005 and during the first quarter of 2006.

Income tax expense

The effective tax rate presented an increase of 4.7 percentage points, from 16.6% in 2005 to 21.3% in 2006. On a comparable basis, the 2005 effective tax rate was 6.4%, reflecting an increase in 2006 of 15.0 percentage points that is primarily due to higher non-deductible expenses in 2006 and an increase in taxable income related to the life segment, which has a lower effective taxable rate than our other businesses.

Table of Contents

Managed Care Operating Results

	Three months ended September 30,		Nine months ended September 30,	
(dollar amounts in thousands)	**2006**	**2005**	**2006**	**2005**
Operating revenues:				
Medical premiums earned:				
Commercial	$ **179,922**	182,134	**540,677**	549,516
Reform	**118,920**	129,933	**366,683**	377,270
Medicare Advantage	**43,606**	8,856	**111,630**	17,438
PDP	**4,904**		**11,593**	
Medical earned premiums	**347,352**	320,923	**1,030,583**	944,224
Fee revenue	**4,376**	3,443	**12,449**	10,534
Net investment income	**4,770**	4,092	**13,842**	12,405
Net realized investment gains (losses)	**(466)**	1,761	**443**	5,284
Total	**356,032**	330,219	**1,057,317**	972,447
Operating costs:				
Medical claims incurred	**295,604**	286,332	**909,436**	860,392
Operating expenses	**38,517**	33,997	**114,273**	102,772
Total	**334,121**	320,329	**1,023,709**	963,164
Operating income	$ **21,911**	9,890	**33,608**	9,283
Member months enrollment:				
Commercial	**1,304,709**	1,402,758	**3,995,532**	4,250,772
Reform	**1,673,229**	1,871,709	**5,211,531**	5,575,698
Self-funded employers	**469,320**	466,728	**1,387,341**	1,379,187
Medicare Advantage	**78,435**	18,831	**193,239**	37,530
PDP	**53,772**		**134,046**	
Member months enrollment	**3,579,465**	3,760,026	**10,921,689**	11,243,187
Additional data:				
Medical loss ratio	**85.1%**	89.2%	**88.2%**	91.1%
Operating expense ratio	**11.0%**	10.5%	**11.0%**	10.8%

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Operating revenues

Medical earned premiums increased by $26.4 million, or 8.2%, to $347.4 million in 2006. This increase in medical earned premiums is the result of the following:

Medical premiums generated by the segment s Medicare Advantage business increased by $34.8 million, or 392.4%, to $43.6 million in 2006 primarily due to the increase in the member months enrollment of 59,604 members, or 316.5%. This increase reflects the initial ramp-up of this business, which commenced in 2005, as well as the introduction of additional Medicare Advantage policies during this year. In January 2006 we expanded our Medicare Advantage business with the introduction of *Medicare Platino* for the dual-eligible population. We expect the Medicare Advantage enrollment will continue to grow, but not at the same pace as in this initial period.

In January 2006, we introduced a new stand-alone PDP, called *FarmaMed* that had 53,772 member months and medical premiums earned of $4.9 million.

The medical premiums earned of the Reform business decreased by $11.0 million, or 8.5%, to $118.9 million, principally attributed to a reduction in the member months enrollment of this

Table of Contents

business by 198,480 members, or 10.6%. This business has experienced a decrease in its enrollment as a result of a shift in membership by the dual eligibles to Medicare Advantage policies offered by us and our competitors and a tightening of eligibility requirements by the Puerto Rico government. The effect of the decrease in member months enrollment was mitigated by an increase in average premium rates by approximately 5%.

Medical premiums generated by the commercial business presented a decrease of $2.2 million, or 1.2%, to $179.9 million in 2006. This decrease is due to a decrease in the member months enrollment of 98,049 members, or 7.0%. The decrease in member months enrollment is primarily the result of the loss of several fully-insured accounts due to aggressive marketing and pricing by our competitors as well as qualified enrollees transferring to our or our competitors Medicare Advantage policies and fully-insured groups changing to self-funded arrangements. The decrease in enrollment was partially offset by an average increase in premium rates of approximately 4.1%.

Operating costs

Medical claims incurred presented an increase of $9.3 million, or 3.2%, to $295.6 million in 2006. This increase is mostly related to the medical claims incurred of the Medicare Advantage and PDP businesses, which increased by $28.5 million during the 2006 period due to the increase in member months enrollment mitigated by a reduction of $15.2 million in medical claims incurred related to the decreased member months enrollment of the Reform business. The segment s medical loss ratio decreased 4.1 percentage points due to the increased contribution in the 2006 period of the Medicare Advantage business, which has a lower medical loss ratio than the segment s other businesses as well as due to lower utilization trends in the Reform business. The decrease in the medical loss ratio of the Reform business is attributed to lower utilization trends, particularly in the cardiovascular services, dialysis and obstetrics, among others.

Operating expenses increased by $4.5 million, or 13.3%, to $38.5 million in 2006. This increase is primarily attributed to $1.5 million of additional operating expenses related to the Medicare Advantage and PDP businesses. In addition, the operating expenses present an increase of $2.4 million that is primarily related to technology-related costs consistent with corporate business initiatives and to ordinary course payroll increases. The operating expense ratio increased by 0.5 percentage points.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Operating revenues

Medical earned premiums increased by $86.4 million, or 9.1%, to $1,030.6 million in 2006. This increase is primarily the result of the following:

Medical premiums generated by the segment s Medicare Advantage business, increased by $94.2 million, or 540.2%, primarily due to an increase in member months enrollment of 155,709, or 414.9%, reflecting the initial ramp-up of this business, which commenced in 2005, and the introduction of additional Medicare Advantage policies during this year. In January 2006, we expanded our Medicare Advantage business with the introduction of *Medicare Platino* for the dual-eligible population. We expect that the Medicare Advantage enrollment will continue to grow, but not at the same pace as in this initial period.

In January 2006 we introduced a new stand-alone prescription drug plan, called *FarmaMed,* that had 134,046 member months and medical premiums earned amounting to $11.6 million.

In 2006 member months of the Reform business decreased by 364,167, or 6.5%, and medical earned premiums decreased by $10.6 million, or 2.8%, to $366.7 million in 2006. This business has experienced a decrease in its member months enrollment as a result of a shift in membership by the dual eligibles to Medicare Advantage policies offered by us and our competitors and tightening of eligibility requirements by the Puerto Rico government. The effect of this decrease in member months enrollment was mitigated by an average increase in premium rates, effective August 1, 2005, of approximately 5%.

Medical premiums earned generated by the commercial business decreased by $8.8 million, or 1.6%, to $540.7 million in 2006 due to a decrease in member months. This decrease is the result of a decrease in the member months enrollment by 255,240 members that is primarily due to the loss of several full-risk accounts due to aggressive marketing and pricing by our competitors as well as to qualified enrollees transferring to our or our competitors Medicare Advantage policies and full-risk accounts changing to self-funded arrangements. The decrease in enrollment is partially offset by an average increase in premium rates of 3.7%.

Net realized investment gains decreased by $2.2 million, to $1.4 million in 2006. This decrease is primarily the result of sales of certain investments in 2005 in order to take advantage of a temporary reduction in the capital gains tax rate by 6.25 percentage points for sales of long-term capital assets, thus causing gains to be realized in the 2005 period and decreasing unrealized gains during such period.

Operating costs

Medical claims incurred increased by $49.0 million, or 5.7%. This increase is principally due to the medical claims incurred related to the Medicare Advantage and PDP businesses, which presented an increase of $75.0 million attributed to its increased member months enrollment. This increase is mitigated by a decrease of $29.3 million in the medical claims incurred of the Reform business that is attributed to its decreased member months enrollment.

The segment s medical loss ratio decreased by 2.9 percentage points mostly driven by lower utilization trends in the Reform business and by the increased contribution in the 2006 period of the Medicare Advantage business, which has a lower medical loss ratio than the segment s other businesses. The medical loss ratio of the Reform business decreased due to lower utilization trends in cardiovascular services, dialysis and obstetrics.

Operating expenses increased by $11.5 million, or 11.2%, to $114.3 million in 2006. This increase is primarily attributed to increased administrative costs related to the Medicare Advantage and PDP businesses of approximately $6.1 million due to the introduction of our PDP product and the increased Medicare Advantage volume of business. In addition, there was an increase of $5.4 million that was primarily related to technology-related costs consistent with corporate business initiatives and to ordinary course payroll increases. The segment s operating expense increased by 0.2 percentage points during the 2006.

Table of Contents

Life and Disability Insurance Operating Results

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

	Three months ended September 30,		
(dollar amounts in thousands)	**2006**	**2005**	**Comparable Basis 2005**
Operating revenues:			
Net premiums earned			
Premiums earned	$**25,923**	5,814	24,902
Premiums earned ceded	**(2,230)**	(1,977)	(2,510)
Net premiums earned	**23,693**	3,837	22,392
Commission income on reinsurance	**(105)**	77	77
Net premiums earned	**23,588**	3,914	22,469
Net investment income	**3,285**	772	3,551
Net realized investment gains (losses)	**1**	(32)	
Total	**26,874**	4,654	26,020
Operating costs:			
Policy benefits and claims incurred	**13,207**	2,419	12,666
Underwriting and other expenses	**10,981**	2,011	9,959
Total	**24,188**	4,430	22,625
Operating income	$ **2,686**	224	3,395
Additional data:			
Loss ratio	**56.0%**	61.8%	56.4%
Operating expense ratio	**46.6%**	51.4%	44.3%

Operating revenues

Premiums earned for the segment increased by $20.1 million, or 345.9%, to 25.9 million in 2006. On a comparable basis premiums earned increased by $1.0 million, or 4.1%. This increase is primarily the result of new sales of ordinary life and monthly debit ordinary (MDO) policies, as well as an increase in the cancer and other dreaded diseases attributed to the growth in sales of our cancer product.

Operating costs

Policy benefits and claims incurred for the segment increased by $10.8 million, or 446.0%, to 13.2 million in 2006. On a comparable basis the policy benefits and claims incurred increased by $541 thousand, or 4.3%, primarily due to the increases in volume of ordinary life and MDO life products and to the natural growth of the life portfolio policy reserves. The loss ratio on a comparable basis decreased by 0.4 percentage points, from 56.4% in the 2005 comparable period to 56.0% in 2006, as a result of termination or non-renewal of unprofitable groups.

Underwriting and other expenses for the segment increased by $9.0 million, or 446.0%, to $11.0 million in 2006. On a comparable basis underwriting and other expenses increased $1.0 million, or 10.3%. The operating expense ratio in a comparable basis increased by 2.3 percentage points, from 44.3% in the 2005 comparable period to 46.6% in 2006, that is primarily due to the combined effect of the management fees charged by TSM and increases in the amortization of deferred policy acquisition costs and the value of business acquired created upon the acquisition of GA Life.

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

	Nine months ended September 30,		
(dollar amounts in thousands)	**2006**	**2005**	**Comparable Basis 2005**
Operating revenues:			
Net premiums earned:			
Premiums earned	$**71,884**	17,601	68,641
Premiums earned ceded	**(7,053)**	(6,003)	(7,246)
Assumed premiums earned	**4,413**		
Net premiums earned	**69,244**	11,598	61,395
Commission income on reinsuarance	**144**	350	350
Net premiums earned	**69,388**	11,948	61,745
Net investment income	**10,117**	2,244	10,035
Net realized investement gains	**23**	51	4,821
Total	**79,528**	14,243	76,601
Operating costs:			
Policy benefits and claims incurred	**38,303**	7,563	35,168
Underwriting and other expenses	**33,345**	5,970	28,107
Total	**71,648**	13,533	63,275
Operating income	$ **7,880**	710	13,326
Additional data:			
Loss ratio	**55.2%**	63.3%	57.0%
Operating expense ratio	**48.1%**	50.0%	45.5%

Operating revenues

Premiums earned for the segment increased by $54.3 million, or 308.4%, to $71.9 million in 2006. On a comparable basis premiums earned increased by $3.2 million, or 4.7%. This increase is primarily the result of an increase in the life business attributed to new sales of ordinary life and MDO policies, as well as to an increase in the cancer and other dreaded diseases business attributed to the growth in sales of a new cancer product.

The 2006 period reflects $4.4 million of assumed premiums related to the coinsurance agreement with GA Life.

Net realized investment gains decreased by $28 thousand, or 54.9%, in 2006. On a comparable basis net realized investment gains decreased by $4.8 million, or 99.5%, principally due to sales realized by GA Life in 2005, prior to the effective date of our acquisition.

Operating costs

Policy benefits and claims incurred increased by $30.7 million, or 406.5%, to $38.3 million in 2006. On a comparable basis, the policy benefits and claims incurred increased by $3.1 million, or 8.9%, primarily due to our share of policy benefits and claims incurred related to the coinsurance agreement with GA Life, amounting to $2.3 million. The loss ratio on a comparable basis decreased by 1.8 percentage points, from 57.0% in the 2005 comparable period to 55.2%

in 2006, as a result of the termination or non-renewal of unprofitable groups.

Underwriting and other expenses for the segment increased by $27.4 million, or 458.5%, to $33.3 million in 2006. On a comparable basis, underwriting and other expenses increased by $5.2 million, or 18.6%. The operating expense ratio on a comparable basis presents an increase of 2.6 percentage points, from 45.5% in the 2005 comparable period to 48.1% in 2006. The increase in underwriting and other expenses includes $1.8 million related to our share of the commissions and other operating expenses pursuant to the

Table of Contents

coinsurance agreement with GA Life. The remaining increase in operating expenses is mostly related to management fees charged by TSM and the increase in the amortization expense of the deferred policy acquisition costs and value of business acquired resulting from the acquisition of GA Life.

Property and Casualty Insurance Operating Results

(dollar amounts in thousands)	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Operating revenues:				
Net premiums earned:				
Premiums written	$ **41,494**	40,705	**112,672**	110,516
Premiums ceded	**(17,330)**	(14,831)	**(46,709)**	(43,896)
Change in unearned premiums	**(2,183)**	(4,112)	**188**	(1,660)
Net premiums earned	**21,981**	21,762	**66,151**	64,960
Net investment income	**2,340**	2,176	**7,020**	6,461
Net realized investment gains	**828**	128	**858**	1,199
Total	**25,149**	24,066	**74,029**	72,620
Operating costs:				
Claims incurred	**10,554**	10,826	**32,496**	32,446
Operating expenses	**10,011**	10,479	**32,729**	29,928
Total	**20,565**	21,305	**65,225**	62,374
Operating income	$ **4,584**	2,761	**8,804**	10,246
Additional data:				
Loss ratio	**48.0%**	49.7%	**49.1%**	49.9%
Operating expense ratio	**45.5%**	48.2%	**49.5%**	46.1%
Combined ratio	**93.5%**	97.9%	**98.6%**	96.0%

Three Months Ended September 30, 2006 Compared to Three Months Ended September 30, 2005

Operating revenues

Total premiums written increased by $789 thousand, or 1.9%, to $41.5 million in 2006, that is principally as a result on increases in the inland marine and surety business that are due to increases in volume. These increases are partially offset by a decrease in the premiums written of the commercial multi-peril business.

Premiums ceded to reinsurers increased by $2.5 million, or 16.8%, to $17.3 million in 2006, primarily as a result of an increase in the portion of risk ceded to reinsurers, particularly in the proportional and excess of loss reinsurance treaties, and to increases in the cost of reinsurance. The ratio of premiums ceded to premiums written increased by 5.4 percentage points, from 36.4% in 2005 to 41.8% in 2006.

Operating costs

Claims incurred reflect a decrease of $272 thousand, or 2.5%, to $10.6 million in 2006 and the loss ratio decreased by 1.7 percentage points during this period. These decreases are primarily due to the focus on quality underwriting.

The operating expenses decreased by $468 thousand, or 4.5%, to $10.0 million in 2006. The operating expense ratio decreased by 2.7 percentage points during this period. The decrease in operating expenses is mostly due to the experience refund received in 2006 from the Compulsory Vehicle Liability Insurance Joint Underwriting Association, which is recorded as a decrease to the operating expenses, net of an increase in commission expenses. No experience refund was received in the 2005 period.

Table of Contents

Nine Months Ended September 30, 2006 Compared to Nine Months Ended September 30, 2005

Operating revenues

Total premiums written increased by $2.2 million, or 2.0%, to $112.7 million in 2006, principally as a result of increases in the dwelling and commercial property mono-line, auto physical damage and commercial auto liability lines of business, partially offset by a decrease in the commercial multi-peril line of business.

Premiums ceded to reinsurers increased by $2.8 million, or 6.4%, to $46.7 million in 2006, as a result of an increase in the portion of risk ceded to reinsurers, particularly in the excess of loss reinsurance treaties, and to increases in the cost of reinsurance. The ratio of premiums ceded to premiums written increased by 1.8 percentage points, from 39.7% in 2005 to 41.5% in 2006.

Operating costs

Claims incurred increased by $50 thousand, or 0.2%, to $32.5 million in 2006. The loss ratio experienced a decrease of 0.8 percentage points during this period, from 49.9% in 2005 to 49.1% in 2006.

The operating expenses increased by $2.8 million, or 9.4%, to $32.7 million in 2006. The operating expense ratio increased by 3.4 percentage points during the same period, from 46.1% in 2005 to 49.5% in 2006. These increases are primarily attributable to increases in commission expenses and salaries and benefits expenses reflecting market conditions, as well as costs associated with the implementation of new IT systems.

Table of Contents

Liquidity and Capital Resources

Cash Flows

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

(dollar amounts in thousands)	**Nine months ended September 30, 2006**	**2005**
Sources of cash:		
Cash provided by operating activities	$ 49,581	83,272
Proceeds from long-term borrowings	35,000	
Net proceeds from short-term borrowings		2,905
Net proceeds from annuity contracts		5,236
Other	490	1,151
Total sources of cash	85,071	92,564
Uses of cash:		
Acquisition of GA Life, net of cash aquired	(27,793)	
Acquisition of investments, net of proceeds	(17,641)	(85,710)
Capital expenditures	(9,462)	(5,031)
Dividends	(6,231)	
Payments of long-term borrowings	(2,093)	(4,730)
Net payments of short-term borrowings	(1,740)	
Net surrenders of annuity contracts	(5,824)	
Other	(508)	
Total uses of cash	(71,292)	(95,471)
Net increase (decrease) in cash and cash equivalents	$ 13,779	(2,907)

Cash flows from operating activities decreased by $33.7 million, or 40.5%, to $49.6 million in 2006, primarily due to a decrease in net proceeds from sales of our corporate bonds trading portfolio of $72.2 million in 2005. The effect of this fluctuation is mitigated by the fact that in the 2006 period the amount of premiums collected increased by 10.6% and the amount of claims losses and benefits paid increased only by 5.7% primarily due to the lower utilization trends experienced by our managed care segment in 2006.

Cash flows from long term borrowings increased by $35.0 million during the 2006 period as a result of the issuance and sale of our 6.7% senior unsecured notes during the first quarter of 2006.

Net purchases of investment securities decreased by $40.3 million primarily as a result of $68.1 million invested in 2005 in available-for-sale securities with the proceeds received from the sale of our corporate bonds trading portfolio.

Capital expenditures increased by $4.4 million as a result of the renovation of a building adjacent to our corporate headquarters as well as costs related to the acquisition by our Property and Casualty Insurance segment of a computer system to manage its insurance operations.

In addition, on January 2006 we declared and paid a dividends amounting to $ 6.2 million.

The 2006 period reflects net surrenders of annuity contracts of $5.8 million while the 2005 period presents net proceeds from annuity contracts of $5.2 million. This fluctuation is principally due to an increase in the amount of annuity surrenders and a decrease in the proceeds received from the fixed deferred annuity product in the 2006 period.

Table of Contents

Financing and Financing Capacity

The Corporation has significant short-term liquidity supporting its businesses. It also has available short-term facilities to address timing differences between cash receipts and disbursements. These short-term facilities are mostly in the form of securities sold under repurchase agreements. As of September 30, 2006, the Corporation had available $227.5 million and there is no outstanding balance as of that date.

As of September 30, 2006 the Corporation has the following senior unsecured notes payable:

On January 23, 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.

On December 21, 2005, TSM issued and sold $60.0 million 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. Proceeds were used to enter into a modified coinsurance with funds withheld reinsurance agreement with GA Life.

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.

These notes contain certain covenants. At September 30, 2006, we are in compliance with these covenants.

In addition, we are a party to two secured loans with a commercial bank, FirstBank Puerto Rico. These secured loans bear interest rates based on the London Interbank Offered Rate (LIBOR) plus a margin specified by the commercial bank at the time of the agreement. As of September 30, 2006, the two secured loans had outstanding balances of $28.0 million and $10.5 million, respectively, and average annual interest rates of 6.0% and 6.3%, respectively. These secured loans contain restrictive covenants, including, but not limited to, the granting of certain liens, limitations on acquisitions and limitations on changes in control. At September 30, 2006, we are in compliance with these covenants. Further details regarding the senior unsecured notes and the secured loans are incorporated by reference to Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations of the Corporation s Annual Report on Form 10-K as of and for the year ended December 31, 2005.

Item 3. 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 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. No material changes have occurred in the Corporation s exposure to financial market risks since December 31, 2005. A discussion of the Corporation s market risk as of December 31, 2005 is incorporated by reference to Item 7A Quantitative and Qualitative Disclosures about Market Risk of the Corporation s Annual Report on Form 10-K.

Item 4. 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 September 30, 2006. 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 September 30, 2006. 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.

Part II Other Information

Item 1. Legal Proceedings

For a description of legal proceedings, see note 12 to the unaudited consolidated financial statements included in this quarterly report on Form 10-Q.

Item IA. Risk Factors

Other than as disclosed in Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations in the section Recent Developments , no material change has occurred from risk factors previously disclosed by the Corporation in its Annual Report on Form 10-K for December 31. 2005.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable.

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

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

(a) Exhibits:

Exhibit 11 Statement re computation of per share earnings; an exhibit describing the computation of the earnings per share for the three months and nine months ended September 30, 2006 and 2005 has been omitted as the detail necessary to determine the computation of earnings per share can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

Exhibit 12 Statements re computation of ratios; an exhibit describing the computation of the loss ratio, expense ratio and combined ratio for the three months and nine months ended September 30, 2006 and 2005 has been omitted as the detail necessary to determine the computation of the loss ratio, operating expense ratio and combined ratio can be clearly determined from the material contained in Part I of this Quarterly Report on Form 10-Q.

Exhibit 31.1 Certification of the President and Chief Executive Officer required by Rule 13a-14(a)/15d-14(a).

Exhibit 31.2 Certification of the Vice President of Finance and Chief Financial Officer required by Rule 13a-14(a)/15d-14(a).

Exhibit 32.1 Certification of the President and Chief Executive Officer required pursuant to 18 U.S.C Section 1350.

Exhibit 32.2 Certification of the Vice President of Finance and Chief Financial Officer required pursuant to 18 U.S.C Section 1350.

Table of Contents

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

SIGNATURES

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

	Triple-S Management Corporation Registrant
Date: November 13, 2006	By: /s/ Ramón M. Ruiz-Comas
	Ramón M. Ruiz-Comas, CPA *President and* *Chief Executive Officer*
Date: November 13, 2006	By: /s/ Juan J. Román
	Juan J. Román, CPA *Vice President of Finance* *and Chief Financial Officer*